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Clearwater Paper Corp
Form 10-Q
August 04, 2017

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, 2017

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 20-3594554
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

601 West Riverside, Suite 1100 99201
Spokane, Washington
(Address of principal executive offices) (Zip Code)
(509) 344-5900
(Registrant's telephone number, including area 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth 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
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 August 1, 2017 was 16,433,415.

CLEARWATER PAPER CORPORATION

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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,		June 30,	
	2017	2016	2017	2016
Net sales	\$429,663	\$436,671	\$867,188	\$873,875
Costs and expenses:				
Cost of sales	(380,733)	(361,851)	(767,763)	(730,498)
Selling, general and administrative expenses	(29,265)	(34,655)	(59,202)	(65,450)
Total operating costs and expenses	(409,998)	(396,506)	(826,965)	(795,948)
Income from operations	19,665	40,165	40,223	77,927
Interest expense, net	(7,673)	(7,396)	(15,716)	(15,039)
Earnings before income taxes	11,992	32,769	24,507	62,888
Income tax provision	(3,955)	(11,905)	(8,955)	(23,578)
Net earnings	\$8,037	\$20,864	\$15,552	\$39,310
Net earnings per common share:				
Basic	\$0.49	\$1.22	\$0.94	\$2.27
Diluted	0.48	1.21	0.94	2.26

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,	
	2017	2016	2017	2016
Net earnings	\$8,037	\$20,864	\$15,552	\$39,310
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of \$234, \$276, \$648 and \$865	357	427	988	1,339
Amortization of prior service credit included in net periodic cost, net of tax of \$(151), \$(166), \$(302) and \$(332)	(231)	(256)	(461)	(513)
Other comprehensive income, net of tax	126	171	527	826
Comprehensive income	\$8,163	\$21,035	\$16,079	\$40,136

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, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$8,519	\$23,001
Receivables, net	130,805	147,074
Taxes receivable	5,479	9,709
Inventories	243,313	258,029
Other current assets	7,866	8,682
Total current assets	395,982	446,495
Property, plant and equipment, net	991,061	945,328
Goodwill	244,283	244,283
Intangible assets, net	36,513	40,485
Other assets, net	10,750	7,751
TOTAL ASSETS	\$1,678,589	\$1,684,342
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under revolving credit facilities	\$108,000	\$135,000
Accounts payable and accrued liabilities	224,177	223,699
Current liability for pensions and other postretirement employee benefits	7,821	7,821
Total current liabilities	339,998	366,520
Long-term debt	570,139	569,755
Liability for pensions and other postretirement employee benefits	79,442	81,812
Other long-term obligations	40,776	41,776
Accrued taxes	2,567	2,434
Deferred tax liabilities	162,081	152,172
TOTAL LIABILITIES	1,195,003	1,214,469
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-24,254,420 and 24,223,191 shares issued	2	2
Additional paid-in capital	349,589	347,080
Retained earnings	585,413	569,861
Treasury stock, at cost, common shares-7,821,005 and 7,736,255 shares repurchased	(400,192)	(395,317)
Accumulated other comprehensive loss, net of tax	(51,226)	(51,753)
TOTAL STOCKHOLDERS' EQUITY	483,586	469,873
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$1,678,589	\$1,684,342

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,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$15,552	\$39,310
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	53,612	43,174
Equity-based compensation expense	403	7,716
Deferred tax provision	7,891	8,674
Employee benefit plans	(2,183)	(2,561)
Other, net	1,267	259
Changes in working capital, net	23,742	(13,394)
Changes in taxes receivable, net	4,229	14,107
Other, net	(914)	(870)
Net cash flows from operating activities	103,599	96,415
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(85,709)	(57,394)
Other, net	417	250
Net cash flows from investing activities	(85,292)	(57,144)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(4,875)	(35,168)
Borrowings on revolving credit facilities	117,000	477,169
Repayments of borrowings on revolving credit facilities	(144,000)	(477,169)
Other, net	(914)	(318)
Net cash flows from financing activities	(32,789)	(35,486)
(Decrease) increase in cash and cash equivalents	(14,482)	3,785
Cash and cash equivalents at beginning of period	23,001	5,610
Cash and cash equivalents at end of period	\$8,519	\$9,395
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	\$14,310	\$13,368
Cash paid for income taxes	2,329	10,885
Cash received from income tax refunds	5,650	10,506
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accrued property, plant and equipment	\$3,845	\$(2,841)
Non-cash additions to property, plant and equipment	4,525	—
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 manufactures quality consumer tissue, away-from-home tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. The company is a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchants and discount stores. In addition, the company produces bleached paperboard used by quality-conscious printers and packaging converters, and offers services that include custom sheeting, slitting and cutting. Clearwater Paper's employees build shareholder value by developing strong customer relationships through quality and service.

On December 16, 2016, we acquired Manchester Industries, an independently-owned paperboard sales, sheeting and distribution supplier to the packaging and commercial print industries, for total consideration of \$71.7 million. The addition of Manchester Industries' customers to our paperboard business extends our reach and service platform to small and mid-sized folding carton plants, by offering a range of converting services that include custom sheeting, slitting, and cutting. These converting operations include five strategically located facilities in Virginia, Pennsylvania, Indiana, Texas, and Michigan. Goodwill was recorded in the acquisition of Manchester Industries based on the preliminary purchase price allocation. We are continuing to collect information to determine the fair values included in the purchase price in association with the final tax basis of acquired intangibles and fixed assets used in the determination of deferred tax liabilities at the acquisition date, which could affect our goodwill allocation for this transaction.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at June 30, 2017 and December 31, 2016, the related Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2017 and 2016, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016, 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, 2016, as filed with the Securities and Exchange Commission, or SEC, on February 22, 2017.

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 that may require 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.

CASH AND CASH EQUIVALENTS

We consider all highly liquid instruments with maturities of three months or less to be cash equivalents.

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, 2017 and December 31, 2016, we had allowances for doubtful accounts of \$1.3 million and \$1.5 million, respectively.

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 \$1,626.0 million and \$1,582.0 million at June 30, 2017 and December 31, 2016, respectively.

For the six months ended June 30, 2017, we capitalized \$1.8 million of interest expense associated with the construction of a continuous pulp digester at our Lewiston, Idaho pulp and paperboard facility and \$0.2 million associated with the construction of a paper machine at our Shelby, North Carolina consumer products facility. For the six months ended June 30, 2016, we capitalized \$0.9 million of interest expense associated with the continuous pulp digester project. During the three months ended June 30, 2017, we received land with a fair market value of \$4.2 million from the City of Shelby, North Carolina and Cleveland County. We must fulfill certain obligations within five years or repay the value of the land or return the title to the land. This balance is included in "Property, plant, and equipment, net," with a corresponding amount in "Other long-term obligations" on our Consolidated Balance Sheet as of June 30, 2017.

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.

STOCKHOLDERS' EQUITY

On December 15, 2015, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to \$100 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 1,440,696 shares of our outstanding common stock as of June 30, 2017, pursuant to this repurchase program, of which 84,750 shares were repurchased during the first quarter of 2017 at an average price of \$57.53 per share. We did not repurchase shares during the second quarter. As of June 30, 2017, we had up to \$29.8 million of authorization remaining pursuant to this stock repurchase program.

DERIVATIVES

We had no activity during the three and six months ended June 30, 2017 and 2016 that required hedge or derivative accounting treatment. However, to help mitigate our exposure to market risk for changes in utility commodity pricing, we use firm price contracts to supply a portion of the natural gas requirements for our manufacturing facilities. As of June 30, 2017, these contracts covered approximately 30% of our expected average monthly natural gas requirements for the remainder of 2017, and a lesser amount for 2018. 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

RECENTLY ADOPTED

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2017-04, Simplifying the Test for Goodwill Impairment (Topic 350). This ASU eliminates step two of the impairment test, the performance of a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. We adopted this standard on January 1, 2017 and will apply this standard during our annual impairment test as of November 1, 2017, if applicable. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. This ASU clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset is not a business. We adopted this standard on January 1, 2017. This standard did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718), (ASU 2016-09), which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement. The update also allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. In addition, when accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur. Lastly, the update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, consistent with our historical practice. We adopted ASU 2016-09 in the first quarter of 2017. We have not changed our method of estimating forfeitures as a result of our adoption of this standard, however, we are currently evaluating the possibility of changing our tax-withholding policy to allow for more withholding of employee shares for tax purposes. As a result of adopting this standard, excess tax benefits are classified along with other income tax cash flows as an operating activity on the statement of cash flows on a prospective basis and \$1.0 million was charged to our income tax provision in the first half of 2017, resulting in a \$0.06 earnings per share impact.

NEW ACCOUNTING STANDARDS

In May 2017, the FASB issued ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting to clarify when to account for a change to the terms or conditions of a share-based payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. The ASU will be effective prospectively for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We plan to adopt this standard on January 1, 2018. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this ASU require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This ASU will be effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We plan to adopt this standard on January 1, 2018. The amendments in this update require retrospective presentation in the income statement. Changes to the capitalized portion of both service cost and the other components of net benefit cost within inventory will be applied prospectively. For the full year of 2016, net periodic pension and other postretirement employee benefit cost reported within operating income totaled \$5.3 million, of which \$1.8 million represented service cost.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Based on our preliminary assessment, we determined the adoption will increase both our assets and liabilities presented on our Consolidated Balance Sheets to reflect the ROU assets and corresponding lease liabilities, as well as increase our leasing disclosures. We are continuing our assessment, which may identify other impacts, and are addressing necessary policy and process changes in preparation for adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new standard is for companies to recognize revenue in a manner that depicts 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 was originally issued as effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption prohibited. However, in July 2015, the FASB approved deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. In its approval, the FASB also permitted the early adoption of the standard, but not before the original effective date of fiscal years beginning after December 15, 2016. The standard may be applied under either a retrospective or cumulative effect adoption method. We plan on adopting the standard on the deferred effective date under the cumulative effect adoption method. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. Based on our assessments to-date, which have included review of our core revenue streams and contracts with key customers under the new standard, we do not anticipate the adoption of this standard will have a material impact on our consolidated financial statements. We anticipate enhancing our disclosures upon the adoption of this standard as well as certain of our internal controls and processes. We are continuing our assessment, which may identify other impacts. 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, 2017	December 31, 2016
Pulp, paperboard and tissue products	\$147,246	\$ 154,460
Materials and supplies	84,737	82,005
Logs, pulpwood, chips and sawdust	11,330	21,564
	\$243,313	\$ 258,029

NOTE 4 Intangible Assets

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

(Dollars in thousands, lives in years)	June 30, 2017			
	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.3	\$ 62,401	\$ (30,713)	\$31,688
Trade names and trademarks	7.4	6,786	(2,486)	4,300
Non-compete agreements	5.0	574	(543)	31
Other intangibles	6.0	572	(78)	494
		\$ 70,333	\$ (33,820)	\$36,513

(Dollars in thousands, lives in years)	December 31, 2016			
	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.3	\$ 62,401	\$ (27,364)	\$35,037
Trade names and trademarks	7.4	6,786	(1,972)	4,814
Non-compete agreements	5.0	574	(512)	62
Other intangibles	6.0	572	—	572
		\$ 70,333	\$ (29,848)	\$40,485

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For the three months ended June 30, 2017 and 2016, intangible assets amortization expense was \$2.1 million and \$1.2 million, respectively. For the six months ended June 30, 2017 and 2016, intangible assets amortization expense was \$4.0 million and \$2.5 million, respectively. The increase in the 2017 periods was due to the additional amortization expense attributable to intangible assets associated with the acquisition of Manchester Industries in December 2016.

NOTE 5 Income Taxes

Consistent with authoritative guidance, our estimated annual effective tax rate is used to allocate expected annual income tax expense to interim periods. The rate is the ratio of estimated annual income tax expense to 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 expense 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.

Our estimated annual effective tax rate for the second quarter of 2017 is approximately 33%, compared with approximately 37% for the same period in 2016. The decrease in the rate is due to an increase in the benefit from tax credits in the current year.

NOTE 6 Accounts Payable and Accrued Liabilities

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

(In thousands)	June 30, 2017	December 31, 2016
Trade accounts payable	\$ 139,833	\$ 128,106
Accrued wages, salaries and employee benefits	39,442	49,871
Accrued interest	12,297	12,149
Accrued discounts and allowances	10,714	10,291
Accrued taxes other than income taxes payable	7,287	6,946
Accrued utilities	6,474	6,712
Other	8,130	9,624
	\$ 224,177	\$ 223,699

NOTE 7 Debt**REVOLVING CREDIT FACILITIES**

As of June 30, 2017, there were \$108.0 million in borrowings outstanding under the credit facilities and \$6.8 million of the credit facilities was being used to support outstanding standby letters of credit. As of December 31, 2016, there were \$135.0 million in borrowings outstanding under the credit facilities.

Our two senior secured revolving credit facilities provide in the aggregate, on a combined basis, for the extension of up to \$300 million in revolving loans under: (i) a \$200 million credit agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto (the Commercial Credit Agreement); and (ii) a \$100 million credit agreement with Northwest Farm Credit Services, PCA, as administrative agent, and the lenders party thereto (the Farm Credit Agreement). We refer to both of these credit agreements collectively as the Credit Agreements. The revolving credit facilities provided under the Credit Agreements mature on October 31, 2021.

Revolving loans borrowed under the Commercial Credit Agreement bear interest, at our option, at a LIBOR rate or at a base rate, plus an applicable margin, which for LIBOR rate loans may range from 1.25% per annum to 2.00% per annum, based on the Company's consolidated total leverage ratio. The applicable margin for base rate loans under the Commercial Credit Agreement is 1.00% per annum less than for LIBOR rate loans. Revolving Loans borrowed under the Farm Credit Agreement are calculated in substantially the same manner as under the Commercial Credit Agreement, however, the applicable margin under the Farm Credit Agreement is 0.25% per annum higher than the Commercial Credit Agreement, and the prime rate used in the calculation of base rate loans is based upon the prime rate published by the Wall Street Journal. In addition, under the Farm Credit Agreement, we have the option to elect fixed rate periods of interest which bear interest at an applicable margin equal to the LIBOR rate. We also pay commitment fees on the unused portion of the revolving loan commitments under the Credit Agreements, which range from 0.20% per annum to 0.35% per annum.

We receive patronage refunds under the Farm Credit Agreement. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. Patronage refunds are accrued as earned and recorded as offsets to interest expense.

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The borrowings outstanding under the revolving credit facilities as of June 30, 2017, consisted of short-term base and LIBOR rate loans and are classified as current liabilities in our Consolidated Balance Sheet. As of June 30, 2017, we would have been permitted to draw an additional \$185.2 million under the credit facilities.

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NOTE 8 Other Long-Term Obligations

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

(In thousands)	June 30, December 31,	
	2017	2016
Long-term lease obligations, net of current portion	\$22,885	\$ 23,152
Deferred proceeds	6,357	9,013
Deferred compensation	4,781	7,219
Other	6,753	2,392
	\$40,776	\$ 41,776

NOTE 9 Accumulated Other Comprehensive Loss

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

(In thousands)	Pension and Other Post Retirement Employee Benefit Plan Adjustments	
	Balance at December 31, 2016	\$ (51,753
Other comprehensive income, net of tax ¹	527	
Balance at June 30, 2017	\$ (51,226)

(In thousands)	Pension and Other Post Retirement Employee Benefit Plan Adjustments	
	Balance at December 31, 2015	\$ (55,548
Other comprehensive income, net of tax ¹	826	
Balance at June 30, 2016	\$ (54,722)

For the six months ended June 30, 2017 and 2016, 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 were \$1.6 million and \$2.2 million, respectively, of actuarial loss amortization, as well as \$0.8 million and \$0.8 million, respectively, of prior service credit amortization, all net of tax totaling \$0.3 million and \$0.5 million, respectively. 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 of our company-sponsored pension and OPEB plans for the periods presented:

(In thousands)	Three Months Ended June 30,			
	2017	2016	2017	2016
			Other Postretirement Employee Benefit Plans	
Service cost	\$474	\$382	\$ 13	\$ 51
Interest cost	3,296	3,633	667	810
Expected return on plan assets	(4,688)	(4,878)	(1)	(1)
Amortization of prior service cost (credit)	2	6	(384)	(428)

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Amortization of actuarial loss (gain)	2,412	2,761	(1,821)	(2,058)
Net periodic cost	\$1,496	\$1,904	\$(1,526)	\$(1,626)

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(In thousands)	Six months ended June 30,			
	2017	2016	2017	2016
			Other Postretirement	
			Employee	
			Benefit Plans	
Service cost	\$1,034	\$780	\$81	\$125
Interest cost	6,574	7,261	1,371	1,576
Expected return on plan assets	(9,382)	(9,761)	(1)	(1)
Amortization of prior service cost (credit)	4	11	(767)	(856)
Amortization of actuarial loss (gain)	4,937	5,645	(3,301)	(3,441)
Net periodic cost	\$3,167	\$3,936	\$(2,617)	\$(2,597)

During the six months ended June 30, 2017 and 2016, we made no contributions to our qualified pension plans. We do not expect, nor are we required, to make contributions in 2017.

During the six months ended June 30, 2017, we made contributions of \$0.2 million to our company-sponsored non-qualified pension plan. We estimate contributions will total \$0.4 million in 2017. We do not anticipate funding our OPEB plans in 2017 except to pay benefit costs as incurred during the year by plan participants.

During the three and six months ended June 30, 2017, less than \$0.1 million and \$0.3 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales" and less than \$0.1 million and \$0.2 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, 2016, \$0.1 million and \$0.8 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales" and \$0.1 million and \$0.5 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		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Basic average common shares outstanding ¹	16,457,172	16,663,091	16,470,522	16,293,091
Incremental shares due to:				
Restricted stock units	37,703	35,108	35,922	32,355
Performance shares	78,351	89,783	74,975	60,617
Stock options	16,868	25,441	30,636	—
Diluted average common shares outstanding	16,590,178	17,833,995	16,612,105	16,886,063
Basic net earnings per common share	\$0.49	\$ 1.22	\$0.94	\$ 2.27
Diluted net earnings per common share	0.48	1.21	0.94	2.26

Anti-dilutive shares excluded from calculation 515,322 22,026 493,150 65,605

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

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, or RSUs, performance shares and stock options, based on estimated fair values.

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Restricted stock units	\$503	\$367	\$795	\$660
Performance shares	630	819	1,226	1,436
Stock options	736	748	1,315	1,284
Total employee equity-based compensation expense	\$1,869	\$1,934	\$3,336	\$3,380

As provided in the Clearwater Paper Corporation 2008 Stock Incentive Plan, the performance measure used to determine the number of performance shares ultimately issuable for awards granted in 2016 and 2015, and for 40% of performance shares granted in 2017, is a comparison of the percentile ranking of our total stockholder return compared to the stockholder return of a selected peer group. In 2017, for 60% of the performance share awards granted, a return on invested capital performance measure is used to determine the number of performance shares ultimately issuable. The number of shares actually issued, as a percentage of the amount subject to the performance share award, could range from 0%-200%.

On December 31, 2016, the service and performance period for 45,953 outstanding shares granted in 2014 ended. Those performance shares were settled and distributed in the first quarter of 2017. The number of shares actually settled, as a percentage of the outstanding amount, was 89.0%. After adjusting for the related minimum tax withholdings, a net 27,878 shares were issued in the first quarter of 2017.

During the first six months of 2017, 5,000 RSUs were settled and distributed. After adjusting for minimum tax withholdings, a net 3,351 shares were issued. In connection with the issued performance shares and RSUs, the minimum tax withholding payments made during the six months ended June 30, 2017 totaled \$0.8 million.

During the six months ended June 30, 2017, we had 3,594 stock option awards expire with a weighted-average exercise price of \$66.97. At June 30, 2017, we had 134,266 stock option awards that were exercisable with a weighted-average exercise price of \$66.85.

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, 2017 and the grant-date fair value of the awards:

	Six Months Ended	
	June 30, 2017	
	Number of	Average Fair
	Shares	Value of
	Subject	Award Per
	to	Share
	Award	
Restricted stock units	66,774	\$ 56.45
Performance shares	33,907	58.58
Stock options	158,484	18.82

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 director equity-based compensation benefit of \$1.5 million and compensation expense of \$3.6 million for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017

and 2016, we recorded director equity-based compensation benefit of \$2.9 million and compensation expense of \$4.3 million, respectively.

As of June 30, 2017, 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 Sheet were \$3.5 million and \$2.4 million, respectively. At December 31, 2016, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" totaled \$7.9 million and \$3.2 million, respectively.

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, 2017		December 31, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents (Level 1)	\$8,519	\$8,519	\$23,001	\$23,001
Borrowings under revolving credit facilities (Level 1)	108,000	108,000	135,000	135,000
Long-term debt (Level 2)	575,000	569,873	575,000	567,875

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 Business Interruption and Insurance Recovery

On November 14, 2016, there was a fire at our Las Vegas, Nevada facility. There was minimal disruption to the converting operations at that facility. However, certain components of our paper machine were damaged, and we incurred approximately 17 days of paper machine downtime while repairs were being made. We were unable to produce through-air-dried parent rolls during this period at the Las Vegas facility. We were able to replace a portion of this lost production capacity by shipping parent rolls from our Shelby, North Carolina facility, in addition to making open market purchases. We maintain property and business interruption insurance and filed a claim with our insurance provider in the fourth quarter of 2016 to recover the cost of repairs to the equipment and estimated lost profits due to the disruption of the operations during the repair period. The total insurance claim for this event, net of policy deductible, was \$3.3 million. In the fourth quarter of 2016, we recognized \$1.5 million of insurance recovery associated with this claim in "Cost of sales" in our Consolidated Statement of Operations, which represented the insurance recovery for the cost of equipment repairs performed in the fourth quarter of 2016. Upon final resolution of this claim in the first quarter of 2017, we recognized an additional \$1.4 million in "Cost of sales" in our Consolidated Statement of Operations, which represented insurance recovery for estimated lost profits due to the disruption of operations resulting from this event.

On January 28, 2017, there was a fire at our Shelby, North Carolina facility warehouse. Although the building sustained minimal damage, the smoke and water damage to raw material and finished goods inventory was more significant. Operations were impacted during the clean-up and repair period. We filed a claim with our peril and stock insurance providers to recover the cost of repairs to the equipment and estimated lost profits and inventory due to the disruption of the operations during the repair and cleanup period. Net of policy deductibles, the insurance claim for this event totaled \$2.9 million, and was settled in its entirety in the first quarter of 2017. These proceeds are included in "Cost of sales" in our consolidated Statement of Operations for the six months ended June 30, 2017.

NOTE 15 Segment Information

The table below presents information about our reportable segments:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2017	2016	June 30, 2017	2016
Segment net sales:				
Consumer Products	\$231,912	\$247,912	\$474,335	\$492,930
Pulp and Paperboard	197,751	188,759	392,853	380,945
Total segment net sales	\$429,663	\$436,671	\$867,188	\$873,875
Operating income (loss):				
Consumer Products ¹	\$10,534	\$18,544	\$16,723	\$36,934
Pulp and Paperboard	21,595	40,032	48,843	75,195
	32,129	58,576	65,566	112,129
Corporate ²	(12,464)	(18,411)	(25,343)	(34,202)