Clearwater Paper Corp
Form 10-Q
July 31, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
ý 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	99201
(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 ý 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 ý 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	ý	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 ý

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

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 June 30,		Six Months Ended June 30,	
	2014	2013	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.

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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.

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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.

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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.

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 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.

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.