Clearwater Paper Corp
Form 10-Q
October 31, 2013

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 September 30, 2013
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<br>(State or other jurisdiction of<br>incorporation or organization) | 20-3594554<br>(I.R.S. Employer<br>Identification No.) |
| 601 West Riverside, Suite 1100<br>Spokane, Washington<br>(Address of principal executive offices) | 99201<br>(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 October 25, 2013 was 21,059,758.

CLEARWATER PAPER CORPORATION
Index to Form 10-Q

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net sales | $487,845 | $480,233 | $1,419,671 | $1,411,603 |
| Costs and expenses: | | | | |
| Cost of sales | (441,237) | (409,822) | (1,269,967) | (1,211,444) |
| Selling, general and administrative expenses | (27,766) | (30,649) | (88,665) | (90,252) |
| Total operating costs and expenses | (469,003) | (440,471) | (1,358,632) | (1,301,696) |
| Income from operations | 18,842 | 39,762 | 61,039 | 109,907 |
| Interest expense, net | (10,708) | (7,900) | (32,784) | (26,775) |
| Debt retirement costs | — | — | (17,058) | — |
| Earnings before income taxes | 8,134 | 31,862 | 11,197 | 83,132 |
| Income tax benefit (provision) | 5,183 | (12,798) | 12,896 | (38,853) |
| Net earnings | $13,317 | $19,064 | $24,093 | $44,279 |
| Net earnings per common share: | | | | |
| Basic | $0.60 | $0.82 | $1.08 | $1.90 |
| Diluted | 0.60 | 0.80 | 1.07 | 1.87 |

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net earnings | $13,317 | $19,064 | $24,093 | $44,279 |
| Other comprehensive income: | | | | |
| Defined benefit pension and other postretirement employee benefits: | | | | |
| Curtailments, net of tax of $ -, $ -, $303 and $ - | — | — | 466 | — |
| Amortization of actuarial loss included in net periodic cost, net of tax of $1,462, $1,190, $4,385 and $3,571 | 2,249 | 1,831 | 6,745 | 5,493 |
| Amortization of prior service credit included in net periodic cost, net of tax of $(17), $(202), $(49) and $(605) | (25) | (310) | (75) | (930) |
| Amortization of deferred taxes related to actuarial gain on other postretirement employee benefit obligations | 53 | — | 53 | — |
| Other comprehensive income, net of tax | 2,277 | 1,521 | 7,189 | 4,563 |
| Comprehensive income | $15,594 | $20,585 | $31,282 | $48,842 |

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

3

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

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash | $ 20,929 | $ 12,579 |
| Restricted cash | 1,500 | — |
| Short-term investments | 89,000 | 20,000 |
| Receivables, net | 168,519 | 154,143 |
| Taxes receivable | 8,380 | 20,828 |
| Inventories | 253,440 | 231,466 |
| Deferred tax assets | 28,356 | 17,136 |
| Prepaid expenses | 8,210 | 12,314 |
| Total current assets | 578,334 | 468,466 |
| Property, plant and equipment, net | 872,762 | 877,377 |
| Goodwill | 229,533 | 229,533 |
| Intangible assets, net | 42,467 | 47,753 |
| Other assets, net | 10,255 | 10,327 |
| TOTAL ASSETS | $ 1,733,351 | $ 1,633,456 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 204,081 | $ 165,596 |
| Current liability for pensions and other postretirement employee benefits | 9,137 | 9,137 |
| Total current liabilities | 213,218 | 174,733 |
| Long-term debt | 650,000 | 523,933 |
| Liability for pensions and other postretirement employee benefits | 187,410 | 204,163 |
| Other long-term obligations | 51,021 | 50,910 |
| Accrued taxes | 68,164 | 78,699 |
| Deferred tax liabilities | 66,253 | 60,124 |
| 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-23,983,398 and 23,840,683 shares issued | 2 | 2 |
| Additional paid-in capital | 327,793 | 326,901 |
| Retained earnings | 383,777 | 359,684 |
| Treasury stock, at cost, common shares-2,428,880 and 853,470 shares repurchased | (105,783) | (30,000) |
| Accumulated other comprehensive loss, net of tax | (108,504) | (115,693) |
| Total stockholders' equity | 497,285 | 540,894 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $ 1,733,351 | $ 1,633,456 |

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)

| | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | $24,093 | $44,279 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Depreciation and amortization | 67,584 | 58,477 |
| Deferred tax (benefit) provision | (9,678) | 13,257 |
| Equity-based compensation expense | 7,758 | 7,681 |
| Employee benefit plans | 7,801 | 6,697 |
| Deferred issuance costs and discounts on long-term debt | 4,490 | 1,508 |
| Disposal of plant and equipment, net | 35 | 1,501 |
| Changes in working capital, net | 47 | 51,434 |
| Changes in taxes receivable, net | 12,448 | (1,918) |
| Excess tax benefits from equity-based payment arrangements | — | (9,193) |
| Changes in non-current accrued taxes, net | (10,535) | 4,161 |
| Funding of qualified pension plans | (12,611) | (17,625) |
| Other, net | 108 | 324 |
| Net cash provided by operating activities | 91,540 | 160,583 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Changes in short-term investments, net | (69,000) | 18,001 |
| Additions to plant and equipment | (54,400) | (155,365) |
| Proceeds from sale of assets | — | 1,035 |
| Net cash used for investing activities | (123,400) | (136,329) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from long-term debt | 275,000 | — |
| Repayment of long-term debt | (150,000) | — |
| Purchase of treasury stock | (75,783) | (9,355) |
| Payments for long-term debt issuance costs | (4,834) | (2) |
| Payment of tax withholdings on equity-based payment arrangements | (4,173) | (12,965) |
| Excess tax benefits from equity-based payment arrangements | — | 9,193 |
| Net cash provided by (used for) financing activities | 40,210 | (13,129) |
| Increase in cash | 8,350 | 11,125 |
| Cash at beginning of period | 12,579 | 8,439 |
| Cash at end of period | $20,929 | $19,564 |
| | | |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION | | |
| Cash paid for interest, net of amounts capitalized | $22,788 | $12,366 |
| Cash paid for income taxes | 2,400 | 17,740 |
| Cash received from income tax refunds | 820 | 1,607 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES | | |
| Increase in accrued plant and equipment | $8,239 | $3,258 |

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 15 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. Our products are made primarily from wood fiber pulp.
On March 6, 2013, we announced the planned permanent closure of our Thomaston, Georgia converting and distribution facility. The shutdown is occurring gradually as converting lines are being relocated and installed at our other facilities, with all operations at Thomaston expected to cease by the end of 2013. As of September 30, 2013,we have incurred $2.9 million of costs associated with the closure, of which $1.7 million was incurred during the third quarter of 2013.
FINANCIAL STATEMENT PREPARATION AND PRESENTATION
The accompanying Consolidated Balance Sheets at September 30, 2013 and December 31, 2012, the related Consolidated Statements of Operations and Comprehensive Income for the three months and nine months ended September 30, 2013 and 2012, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2013 and 2012, 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, 2012, as filed with the Securities and Exchange Commission, or SEC, on February 22, 2013.
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 September 30, 2013, substantially all restricted cash balances were classified as current and included in "Restricted cash" on our Consolidated Balance Sheet, compared to approximately $1.5 million of restricted cash classified as non-current and included in "Other assets, net" as of December 31, 2012.
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 September 30, 2013 and

December 31, 2012, we had allowances for doubtful accounts of $1.7 million and $1.6 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 $1,461.6 million and $1,401.4 million at September 30, 2013 and December 31, 2012, respectively.

We did not capitalize interest for the three months and nine months ended September 30, 2013. For the three months and nine months ended September 30, 2012, we capitalized $4.1 million and $9.0 million, respectively, of interest expense associated with our through-air-dried, or TAD, tissue expansion project, which includes the construction of our new tissue manufacturing and converting facilities in Shelby, North Carolina, and upgrades to our tissue manufacturing facility in Las Vegas, Nevada.

STOCKHOLDERS’ EQUITY

On January 17, 2013, 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 repurchases were authorized to be carried out by the utilization of a number of different methods, including but not limited to, open market purchases, accelerated buybacks and negotiated block purchases, and were 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. The total aggregate number of shares repurchased pursuant to this agreement was determined by reference to our average stock prices, less a fixed discount, over the term of the agreement. During the first quarter of 2013, we received 826,617 shares of common stock, which was 80% of the total shares expected to be repurchased under the ASB agreement, and represented a total of approximately $40.8 million of the $50.0 million paid to the financial institution. During the third quarter of 2013, the ASB agreement was completed and we received an additional 212,896 shares of our outstanding common stock, which represented the remaining proceeds paid to the financial institution. 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.

We have also repurchased 535,897 shares of our outstanding common stock on the open market as of September 30, 2013, of which 327,315 shares were repurchased during the third quarter at an average price of $48.27 per share. As of September 30, 2013, $24.2 million of the authorized repurchase program remained. In October 2013, we repurchased an additional 494,760 shares of our outstanding common stock on the open market at an average price of $48.95 per share, which completed the remaining balance of our authorized stock repurchase program. We account for share repurchases under the program as treasury stock and record the amounts paid to repurchase shares at cost as a component of stockholders' equity. We have not retired any treasury shares and may choose to reissue shares held in treasury stock in a future period.

DERIVATIVES

We had no activity during the three months and nine months ended September 30, 2013 and 2012 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 September 30, 2013, these contracts covered approximately 33% of our expected average monthly natural gas requirements for the remainder of 2013, plus lesser amounts for 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 February 2013, the Financial Accounting Standards Board issued Accounting Standard Update, or ASU, 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which expands the disclosure requirements for amounts reclassified out of accumulated other comprehensive income. This ASU requires an entity to present, either parenthetically on the face of the financial statements where net income is presented or in the notes to the financial statements, the effect of significant items reclassified in their entirety from accumulated other comprehensive income and identification of the respective line items effecting net income for instances when reclassification is required under GAAP. For items that are not required by GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures as required by GAAP. This ASU does not change the current requirements for reporting net income or other comprehensive income in financial statements and is effective prospectively for annual and interim reporting periods beginning after December 15, 2012. We have adopted this ASU, which did not affect our Consolidated Financial Statements.

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

| (In thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Pulp, paperboard and tissue products | $167,154 | $147,627 |
| Materials and supplies | 68,769 | 67,889 |
| Logs, pulpwood, chips and sawdust | 17,517 | 15,950 |
| | $253,440 | $231,466 |

Inventories are stated at the lower of market or cost using the average cost method. The last-in, first-out, or LIFO, method was previously used to determine cost of logs, wood fiber and the majority of lumber until the sale of our Lewiston, Idaho sawmill in November 2011. During the three months ended March 31, 2012, the remaining lumber inventory from the sawmill was sold. The sale of this inventory, which was valued at costs prevailing in prior years under the LIFO method, had the effect of increasing earnings in the period ended March 31, 2012 by an immaterial amount.

NOTE 4 Intangible Assets

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

| | September 30, 2013 | | | |
|---|---|---|---|---|
| (Dollars in thousands, lives in years) | Useful Life | Historical Cost | Accumulated Amortization | Net Balance |
| Customer relationships | 9.0 | $53,957 | $(15,734) | $38,223 |
| Trade names and trademarks | 10.0 | 5,300 | (1,457) | 3,843 |
| Non-compete agreements | 2.5 - 5.0 | 1,674 | (1,273) | 401 |
| | | $60,931 | $(18,464) | $42,467 |

| | December 31, 2012 | | | |
|---|---|---|---|---|
| (Dollars in thousands, lives in years) | Useful Life | Historical Cost | Accumulated Amortization | Net Balance |
| Customer relationships | 9.0 | $53,957 | $(11,237) | $42,720 |
| Trade names and trademarks | 10.0 | 5,300 | (1,060) | 4,240 |
| Non-compete agreements | 2.5 - 5.0 | 1,674 | (881) | 793 |
| | | $60,931 | $(13,178) | $47,753 |

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 nine months ended September 30, 2013 and 2012, the effective tax rates attributable to continuing operations were as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Statutory federal income tax rate | 35.0 % | 35.0 % | 35.0 % | 35.0 % |
| State taxes, net of credits | 1.5 | 3.6 | 1.5 | 3.6 |
| Change in valuation allowances | 3.5 | — | 3.5 | — |
| Federal manufacturing deduction | — | (3.0 ) | — | (3.0 ) |
| Settlement of uncertain tax positions | (57.3 ) | — | (41.6 ) | — |
| Interest accrued on uncertain tax positions | 8.4 | 1.2 | 13.9 | 1.7 |
| Cellulosic Biofuel Producer Credit conversion | 0.2 | — | (36.8 ) | 3.7 |
| Additional Cellulosic Biofuel Producer Credits | (43.0 ) | 3.2 | (81.5 ) | 4.1 |
| State rate adjustment | (10.5 ) | — | (8.1 ) | — |
| Return to provision adjustments | (0.5 ) | 0.5 | (3.9 ) | 1.7 |
| Other | (1.0 ) | (0.3 ) | 2.8 | (0.1 ) |
| Effective tax rate | (63.7 )% | 40.2 % | (115.2 )% | 46.7 % |

Our estimated annual effective tax rate for the third quarter of 2013 is approximately 39%, compared with approximately 35% for the comparable interim period in 2012. The increase is due to a reduction of the domestic production activities deduction resulting from our election to adopt tax bonus depreciation in 2013 and an increase in the relative weighting of the other permanent items in relation to forecasted book income.

During the fourth quarter of 2012, the IRS commenced an audit of our tax returns for the tax years ending December 31, 2008 through December 31, 2012. The audit is ongoing, with no defined conclusion date as of September 30, 2013. As part of this process, we identified additional gallons that qualify for the Cellulosic Biofuel Producer Credit that were previously unaccounted for. During the third quarter of 2013, we recognized the benefit related to these gallons, resulting in a favorable adjustment. Also during the quarter, we closed a number of state income tax audits. Based upon the results of those audits, we have released a portion of the reserve for uncertain tax positions relating to certain state tax credits, which resulted in a benefit to income taxes.

NOTE 6 Accounts Payable and Accrued Liabilities

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

| (In thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Trade accounts payable | $111,898 | $75,949 |
| Accrued wages, salaries and employee benefits | 39,184 | 42,491 |
| Accrued interest | 13,250 | 5,242 |
| Accrued taxes other than income taxes payable | 9,307 | 6,993 |
| Accrued utilities | 6,839 | 8,205 |
| Accrued discounts and allowances | 6,838 | 4,785 |
| Accrued transportation | 3,011 | 4,417 |
| Other | 13,754 | 17,514 |

| | | |
|---|---|---|
| | $204,081 | $165,596 |

NOTE 7 Debt

$375 MILLION SENIOR NOTES DUE 2018

On October 22, 2010, we sold $375 million aggregate principal amount of senior notes, which we refer to as the 2010 Notes. The 2010 Notes mature on November 1, 2018, have an interest rate of 7.125% and were issued at their face value. The issuance of these notes generated net proceeds of $367.5 million after deducting offering expenses.

The 2010 Notes are guaranteed by all of our direct and indirect domestic subsidiaries. The 2010 Notes 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 the 2010 Notes. The 2010 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 2010 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 2010 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 assets.

Prior to November 1, 2013, we may redeem up to 35% of the 2010 Notes at a redemption price equal to 107.125% of the principal amount plus accrued and unpaid interest with the proceeds from one or more qualified equity offerings. We have the option to redeem all or a portion of the 2010 Notes at any time before November 1, 2014 at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest and a “make whole” premium. On or after November 1, 2014, we may redeem all or a portion of the 2010 Notes at specified redemption prices plus accrued and unpaid interest. In addition, we may be required to make an offer to purchase the 2010 Notes upon the sale of certain assets and upon a change of control.

REDEMPTION OF $150 MILLION SENIOR NOTES DUE 2016 AND ISSUANCE OF $275 MILLION SENIOR NOTES DUE 2023

In June 2009, we issued senior unsecured notes, which we refer to as the 2009 Notes, in the aggregate principal amount of $150 million. The 2009 Notes were due on June 15, 2016 and had an interest rate of 10.625%. The 2009 Notes were issued at a price equal to 98.792% of their face value.

We had the option to redeem all or a portion of the 2009 Notes at any time prior to June 15, 2013 at a redemption price equal to 100% of the principal amount thereof plus a “make whole” premium and accrued and unpaid interest. On February 22, 2013, we exercised our option to redeem all of the 2009 Notes at a redemption price equal to approximately $166 million, which consisted of 100% of the principal amount, plus a $12.6 million “make whole” premium and accrued and unpaid interest of approximately $3.0 million. The make whole premium and a portion of the unpaid interest, as well as an unamortized discount and deferred issuance costs associated with the 2009 Notes, were recorded as components of the debt retirement costs totaling $17.1 million in the first quarter of 2013, as included in the accompanying Consolidated Statement of Operations. Proceeds to fund the redemption of the 2009 Notes were made available through the sale of $275 million aggregate principal amount of senior notes on January 23, 2013, 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 issuance of these notes generated net proceeds of approximately $271 million after deducting offering expenses.

The 2013 Notes are guaranteed by all of our direct and indirect domestic subsidiaries. The 2013 Notes 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 the 2013 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. The 2013 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 2013 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 assets.

Prior to February 1, 2016, we may redeem up to 35% of the 2013 Notes at a redemption price equal to 104.5% of the principal amount plus accrued and unpaid interest with the proceeds from one or more qualified equity offerings. We have the option to redeem all or a portion of the 2013 Notes at any time before February 1, 2018 at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest and a “make whole” premium. On or after February 1, 2018, we may redeem all or a portion of the 2013 Notes at specified redemption prices plus accrued and unpaid interest. In addition, we may be required to make an offer to purchase the 2013 Notes upon the sale of certain assets and upon a change of control.

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 September 30, 2013, there were no borrowings outstanding under the credit facility, but approximately $6.6 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 September 30, 2013, we would have been permitted to draw approximately $118.4 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 September 30, 2013, the fixed charge coverage ratio for the most recent four quarters was 2.6-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) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Long-term lease obligations, net of current portion | $24,959 | $25,240 |
| Director and other deferred compensation | 12,731 | 9,939 |
| Deferred proceeds | 10,712 | 11,668 |
| Other | 2,619 | 4,063 |
| | $51,021 | $50,910 |

NOTE 9 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss, net of tax, at the balance sheet dates 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, 2012 | $ (874) | $(114,819) | $(115,693) |
| Other comprehensive income, net of tax[2] | — | 7,189 | 7,189 |
| Balance at September 30, 2013 | $ (874) | $(107,630) | $(108,504) |

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.

2

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 $11.1 million of actuarial loss amortization, $0.8 million of curtailments, $0.1 million of deferred tax amortization related to actuarial gains and $0.1 million related to prior service credit, net of tax of $4.6 million. These accumulated other comprehensive loss components, with the exception of the deferred tax amortization related to actuarial gains, 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:

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| | Pension Benefit Plans | | Other Postretirement Employee Benefit Plans | |
| Service cost | $435 | $622 | $138 | $173 |
| Interest cost | 3,343 | 3,673 | 1,182 | 1,454 |
| Expected return on plan assets | (4,588) | (4,921) | — | — |
| Amortization of prior service cost (credit) | 83 | 158 | (125) | (670) |
| Amortization of actuarial loss | 3,711 | 3,021 | — | — |
| Net periodic cost | $2,984 | $2,553 | $1,195 | $957 |

| | Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| | Pension Benefit Plans | | Other Postretirement Employee Benefit Plans | |
| Service cost | $1,304 | $1,864 | $414 | $520 |
| Interest cost | 10,031 | 11,020 | 3,547 | 4,361 |
| Expected return on plan assets | (13,764) | (14,764) | — | — |
| Amortization of prior service cost (credit) | 252 | 475 | (376) | (2,010) |
| Amortization of actuarial loss | 11,130 | 9,064 | — | — |
| Curtailments | 769 | — | — | — |
| Net periodic cost | $9,722 | $7,659 | $3,585 | $2,871 |

As discussed in the notes to our Consolidated Financial Statements in our 2012 Form 10-K, our company-sponsored defined benefit pension plans were underfunded by $78.7 million at December 31, 2012. As a result of being underfunded, we are required to make contributions to our qualified pension plans. During the nine months ended September 30, 2013, we contributed $12.6 million to these pension plans. In October 2013, we contributed an additional $2.4 million and we expect to contribute an additional $1.9 million in the remainder of 2013.

During the nine months ended September 30, 2013, we made contributions of approximately $0.2 million to our company-sponsored non-qualified pension plan, and we estimate contributions will total approximately $0.3 million in 2013. We do not anticipate funding our OPEB plans in 2013 except to pay benefit costs as incurred during the year by plan participants.

During the three and nine months ended September 30, 2013, $3.4 million and $10.9 million, respectively, of net periodic pension and OPEB costs were charged to cost of sales, and $0.8 million and $2.4 million, respectively, were charged to selling, general and administrative expenses in the accompanying Consolidated Statements of Operations

During the second quarter of 2013, we recorded a curtailment loss of $0.8 million in net periodic cost, and a corresponding change in other comprehensive income, net of tax, due to the freezing of pension benefits for certain employees at our Lewiston, Idaho pulp and paperboard facility, effective June 30, 2013.

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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Basic average common shares outstanding[1] | 22,026,879 | 23,360,967 | 22,388,930 | 23,337,323 |
| Incremental shares due to: | | | | |
| Restricted stock units | 69,902 | 51,230 | 61,956 | 43,580 |
| Performance shares | 131,092 | 287,491 | 114,369 | 264,021 |
| Diluted average common shares outstanding | 22,227,873 | 23,699,688 | 22,565,255 | 23,644,924 |
| | | | | |
| Basic net earnings per common share | $0.60 | $0.82 | $1.08 | $1.90 |
| Diluted net earnings per common share | 0.60 | 0.80 | 1.07 | 1.87 |
| | | | | |
| Anti-dilutive shares excluded from calculation | 1,434 | 29,382 | 106,265 | 132,273 |

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 and performance shares, based on estimated fair values.

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Restricted stock units | $462 | $297 | $1,326 | $693 |
| Performance shares | 1,354 | 1,953 | 3,741 | 5,284 |
| Total employee equity-based compensation | $1,816 | $2,250 | $5,067 | $5,977 |

As provided for in the Clearwater Paper Corporation 2008 Stock Incentive Plan, the performance measure used to determine the number of performance shares ultimately issued is a comparison of the percentile ranking of our total stockholder return compared to the total stockholder return of a selected peer group. 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, 2012, the service and performance period for 138,226 outstanding performance shares granted in 2010 ended. Those performance shares were settled and distributed in the first quarter of 2013. The number of shares actually settled, as a percentage of the outstanding amount, was 101.4%. After adjusting for the related minimum tax withholdings, a net 93,744 shares were issued in the first quarter of 2013. The related minimum tax withholdings payment made in the first quarter of 2013 in connection with issued shares was $2.2 million.

During the third quarter of 2013, we distributed a portion of restricted stock units related to certain executive compensation that was deferred in 2012 to preserve tax deductibility for certain compensation that was above the Internal Revenue Code section 162(m) threshold. After adjusting for minimum tax withholdings of the deferred shares, a net 48,971 shares were distributed during the third quarter of 2013. The minimum tax withholdings payment made in 2013 in connection with the issued shares was $2.0 million.

The following table summarizes the number of share-based awards granted under our 2008 Stock Incentive Plan during the nine months ended September 30, 2013 and the grant-date fair value of the awards:

| | Nine Months Ended September 30, 2013 | |
|---|---|---|
| | Number of Awards | Average Fair Value of Award Per Share |
| Restricted stock units | 72,702 | $ 43.44 |
| Performance shares | 124,513 | 63.46 |

DIRECTOR AWARDS

Each year, 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 expense of $0.4 million and $2.7 million for the three and nine months ended September 30, 2013, respectively, compared to equity-based compensation expense of $1.8 million and $1.7 million, for the same periods in 2012. At September 30, 2013 and December 31, 2012, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" on the accompanying Consolidated Balance Sheets were $11.8 million and $9.1 million, respectively.

NOTE 13 Fair Value Measurements

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

| | September 30, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (In thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash, restricted cash and short-term investments (Level 1) | $111,460 | $111,460 | $34,079 | $34,079 |
| Long-term debt (Level 1) | 650,000 | 651,550 | 523,933 | 572,625 |

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:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Segment net sales: | | | | |
| Consumer Products | $292,935 | $292,959 | $867,545 | $853,911 |
| Pulp and Paperboard[1] | 194,910 | 187,274 | 552,126 | 557,692 |
| Total segment net sales | $487,845 | $480,233 | $1,419,671 | $1,411,603 |
| | | | | |
| Operating income: | | | | |
| Consumer Products | $13,445 | $18,453 | $38,384 | $70,420 |
| Pulp and Paperboard[1] | 16,289 | 34,449 | 58,614 | 78,108 |
| | 29,734 | 52,902 | 96,998 | 148,528 |
| Corporate | (10,892) | (13,140) | (35,959) | (38,621) |
| Income from operations | $18,842 | $39,762 | $61,039 | $109,907 |
| | | | | |
| Depreciation and amortization: | | | | |
| Consumer Products | $16,002 | $13,275 | $49,124 | $39,692 |
| Pulp and Paperboard | 5,758 | 5,525 | 17,195 | 17,547 |
| Corporate | 420 | 399 | 1,265 | 1,238 |
| Total depreciation and amortization | $22,180 | $19,199 | $67,584 | $58,477 |

1 Results for Pulp and Paperboard for the nine months ended September 30, 2012 include income and expenses associated with the November 2011 sale of the Lewiston, Idaho sawmill, the effects of which were immaterial in the aggregate.

15

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 September 30, 2013, 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 September 30, 2013

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $356,549 | $128,115 | $ 8,176 | $(4,995) | $487,845 |
| Cost and expenses: | | | | | |
| Cost of sales | (314,509) | (123,418) | (8,305) | 4,995 | (441,237) |
| Selling, general and administrative expenses | (24,983) | (2,468) | (315) | — | (27,766) |
| Total operating costs and expenses | (339,492) | (125,886) | (8,620) | 4,995 | (469,003) |
| Income (loss) from operations | 17,057 | 2,229 | (444) | — | 18,842 |
| Interest expense, net | (10,708) | — | — | — | (10,708) |
| Earnings (loss) before income taxes | 6,349 | 2,229 | (444) | — | 8,134 |
| Income tax benefit (provision) | 5,233 | (2,513) | 109 | 2,354 | 5,183 |
| Equity in loss of subsidiary | (619) | (335) | — | 954 | — |
| Net earnings (loss) | $10,963 | $(619) | $ (335) | $3,308 | $13,317 |
| Other comprehensive income, net of tax | 2,277 | — | — | — | 2,277 |
| Comprehensive income (loss) | $13,240 | $(619) | $ (335) | $3,308 | $15,594 |

Clearwater Paper Corporation

Consolidating Statement of Operations and Comprehensive Income (Loss)

Nine Months Ended September 30, 2013

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $1,048,872 | $363,467 | $ 22,317 | $(14,985) | $1,419,671 |
| Cost and expenses: | | | | | |
| Cost of sales | (912,449) | (351,493) | (21,010) | 14,985 | (1,269,967) |
| Selling, general and administrative expenses | (70,102) | (17,092) | (1,471) | — | (88,665) |
| Total operating costs and expenses | (982,551) | (368,585) | (22,481) | 14,985 | (1,358,632) |
| Income (loss) from operations | 66,321 | (5,118) | (164) | — | 61,039 |
| Interest expense, net | (32,784) | — | — | — | (32,784) |
| Debt retirement costs | (17,058) | — | — | — | (17,058) |
| Earnings (loss) before income taxes | 16,479 | (5,118) | (164) | — | 11,197 |
| Income tax benefit (provision) | 10,388 | (3,821) | 75 | 6,254 | 12,896 |
| Equity in loss of subsidiary | (9,028) | (89) | — | 9,117 | — |
| Net earnings (loss) | $17,839 | $(9,028) | $ (89) | $15,371 | $24,093 |
| Other comprehensive income, net of tax | 7,189 | — | — | — | 7,189 |
| Comprehensive income (loss) | $25,028 | $(9,028) | $ (89) | $15,371 | $31,282 |

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Three Months Ended September 30, 2012

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $350,988 | $127,742 | $ 6,500 | $(4,997) | $480,233 |
| Cost and expenses: | | | | | |
| Cost of sales | (288,150) | (120,908) | (5,761) | 4,997 | (409,822) |
| Selling, general and administrative expenses | (24,592) | (5,567) | (490) | — | (30,649) |
| Total operating costs and expenses | (312,742) | (126,475) | (6,251) | 4,997 | (440,471) |
| Income from operations | 38,246 | 1,267 | 249 | — | 39,762 |
| Interest expense, net | (7,900) | — | — | — | (7,900) |
| Earnings before income taxes | 30,346 | 1,267 | 249 | — | 31,862 |
| Income tax (provision) benefit | (20,364) | 3,123 | 334 | 4,109 | (12,798) |
| Equity in income of subsidiary | 4,973 | 583 | — | (5,556) | — |
| Net earnings | $14,955 | $4,973 | $ 583 | $(1,447) | $19,064 |
| Other comprehensive income, net of tax | 1,521 | — | — | — | 1,521 |
| Comprehensive income | $16,476 | $4,973 | $ 583 | $(1,447) | $20,585 |

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Nine Months Ended September 30, 2012

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|---|
| Net sales | $1,035,433 | $371,351 | $ 19,804 | $(14,985) | $1,411,603 |
| Cost and expenses: | | | | | |
| Cost of sales | (865,092) | (343,637) | (17,700) | 14,985 | (1,211,444) |
| Selling, general and administrative expenses | (72,081) | (16,700) | (1,471) | — | (90,252) |
| Total operating costs and expenses | (937,173) | (360,337) | (19,171) | 14,985 | (1,301,696) |
| Income from operations | 98,260 | 11,014 | 633 | — | 109,907 |
| Interest expense, net | (26,775) | — | — | — | (26,775) |
| Earnings before income taxes | 71,485 | 11,014 | 633 | — | 83,132 |
| Income tax provision | (37,002) | (1,999) | (68) | 216 | (38,853) |
| Equity in income of subsidiary | 9,580 | 565 | — | (10,145) | — |
| Net earnings | $44,063 | $9,580 | $ 565 | $(9,929) | $44,279 |
| Other comprehensive income, net of tax | 4,563 | — | — | — | 4,563 |
| Comprehensive income | $48,626 | $9,580 | $ 565 | $(9,929) | $48,842 |

Clearwater Paper Corporation
Consolidating Balance Sheet
At September 30, 2013

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash | $19,400 | $1 | $ 1,528 | $— | $20,929 |
| Restricted cash | 1,500 | — | — | — | 1,500 |
| Short-term investments | 89,000 | — | — | — | 89,000 |
| Receivables, net | 121,636 | 45,546 | 3,365 | (2,028) | 168,519 |
| Taxes receivable | 9,069 | (9,037) | 83 | 8,265 | 8,380 |
| Inventories | 190,760 | 58,469 | 4,211 | — | 253,440 |
| Deferred tax assets | 22,453 | 7,980 | — | (2,077) | 28,356 |
| Prepaid expenses | 7,382 | 685 | 143 | — | 8,210 |
| Total current assets | 461,200 | 103,644 | 9,330 | 4,160 | 578,334 |
| Property, plant and equipment, net | 620,802 | 235,039 | 16,921 | — | 872,762 |
| Goodwill | 229,533 | — | — | — | 229,533 |
| Intangible assets, net | — | 41,254 | 1,213 | — | 42,467 |
| Intercompany receivable (payable) | 54,106 | (36,816) | (11,035) | (6,255) | — |
| Investment in subsidiary | 251,199 | 10,141 | — | (261,340) | — |
| Other assets, net | 9,367 | 888 | — | — | 10,255 |
| TOTAL ASSETS | $1,626,207 | $354,150 | $ 16,429 | $(263,435) | $1,733,351 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $164,144 | $38,183 | $ 3,782 | $(2,028) | $204,081 |
| Current liability for pensions and other postretirement employee benefits | 9,137 | — | — | — | 9,137 |
| Total current liabilities | 173,281 | 38,183 | 3,782 | (2,028) | 213,218 |
| Long-term debt | 650,000 | — | — | — | 650,000 |
| Liability for pensions and other postretirement employee benefits | 187,410 | — | — | — | 187,410 |
| Other long-term obligations | 50,787 | 234 | — | — | 51,021 |
| Accrued taxes | 66,059 | 1,790 | 315 | — | 68,164 |
| Deferred tax liabilities | 1,385 | 62,744 | 2,191 | (67) | 66,253 |
| Accumulated other comprehensive loss, net of tax | (108,504) | — | — | — | (108,504) |
| Stockholders' equity excluding accumulated other comprehensive loss | 605,789 | 251,199 | 10,141 | (261,340) | 605,789 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,626,207 | $354,150 | $ 16,429 | $(263,435) | $1,733,351 |

Clearwater Paper Corporation
Consolidating Balance Sheet
At December 31, 2012

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash | $11,105 | $5 | $ 1,469 | $— | $12,579 |
| Short-term investments | 20,000 | — | — | — | 20,000 |
| Receivables, net | 109,129 | 41,431 | 5,612 | (2,029 ) | 154,143 |
| Taxes receivable | 20,712 | 116 | — | — | 20,828 |
| Inventories | 163,422 | 63,476 | 4,568 | — | 231,466 |
| Deferred tax assets | 11,750 | 4,595 | — | 791 | 17,136 |
| Prepaid expenses | 11,441 | 708 | 165 | — | 12,314 |
| Total current assets | 347,559 | 110,331 | 11,814 | (1,238 ) | 468,466 |
| Property, plant and equipment, net | 618,076 | 242,818 | 16,483 | — | 877,377 |
| Goodwill | 229,533 | — | — | — | 229,533 |
| Intangible assets, net | — | 46,379 | 1,374 | — | 47,753 |
| Intercompany receivable (payable) | 68,951 | (56,153 ) | (12,007 ) | (791 ) | — |
| Investment in subsidiary | 249,010 | 10,055 | — | (259,065 ) | — |
| Other assets, net | 9,948 | 379 | — | — | 10,327 |
| TOTAL ASSETS | $1,523,077 | $353,809 | $ 17,664 | $(261,094 ) | $1,633,456 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | $132,360 | $30,630 | $ 4,635 | $(2,029 ) | $165,596 |
| Current liability for pensions and other postretirement employee benefits | 9,137 | — | — | — | 9,137 |
| Total current liabilities | 141,497 | 30,630 | 4,635 | (2,029 ) | 174,733 |
| Long-term debt | 523,933 | — | — | — | 523,933 |
| Liability for pensions and other postretirement employee benefits | 204,163 | — | — | — | 204,163 |
| Other long-term obligations | 49,102 | 1,808 | — | — | 50,910 |
| Accrued taxes | 76,617 | 1,771 | 311 | — | 78,699 |
| Deferred tax liabilities (assets) | (13,129 ) | 70,590 | 2,663 | — | 60,124 |
| Accumulated other comprehensive loss, net of tax | (115,693 ) | — | — | — | (115,693 ) |
| Stockholders' equity excluding accumulated other comprehensive loss | 656,587 | 249,010 | 10,055 | (259,065 ) | 656,587 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,523,077 | $353,809 | $ 17,664 | $(261,094 ) | $1,633,456 |

19

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2013

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Net earnings (loss) | $17,839 | $(9,028) | $ (89) | $15,371 | $24,093 |
| Adjustments to reconcile net earnings (loss) to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 40,337 | 25,590 | 1,657 | — | 67,584 |
| Deferred tax benefit | (776) | (11,231) | (472) | 2,801 | (9,678) |
| Equity-based compensation expense | 7,758 | — | — | — | 7,758 |
| Employee benefit plans | 7,801 | — | — | — | 7,801 |
| Deferred issuance costs and discounts on long-term debt | 4,490 | — | — | — | 4,490 |
| Disposal of plant and equipment, net | — | 34 | 1 | — | 35 |
| Changes in working capital, net | (7,488) | 5,748 | 1,787 | — | 47 |
| Changes in taxes receivable, net | 11,643 | 9,153 | (83) | (8,265) | 12,448 |
| Changes in non-current accrued taxes, net | (10,558) | 19 | 4 | — | (10,535) |
| Funding of qualified pension plans | (12,611) | — | — | — | (12,611) |
| Other, net | 209 | (101) | — | — | 108 |
| Net cash provided by operating activities | 58,644 | 20,184 | 2,805 | 9,907 | 91,540 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Changes in short-term investments, net | (69,000) | — | — | — | (69,000) |
| Additions to plant and equipment | (40,598) | (11,854) | (1,948) | — | (54,400) |
| Net cash used for investing activities | (109,598) | (11,854) | (1,948) | — | (123,400) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from long-term debt | 275,000 | — | — | — | 275,000 |
| Repayment of long-term debt | (150,000) | — | — | — | (150,000) |
| Purchase of treasury stock | (75,783) | — | — | — | (75,783) |
| Investment (to) from parent | 19,039 | (8,334) | (798) | (9,907) | — |
| Payment of long-term debt issuance costs | (4,834) | — | — | — | (4,834) |
| Payment of tax withholdings on equity-based payment arrangements | (4,173) | — | — | — | (4,173) |
| Net cash provided by (used for) financing activities | 59,249 | (8,334) | (798) | (9,907) | 40,210 |
| Increase (decrease) in cash | 8,295 | (4) | 59 | — | 8,350 |
| Cash at beginning of period | 11,105 | 5 | 1,469 | — | 12,579 |
| Cash at end of period | $19,400 | $1 | $ 1,528 | $— | $20,929 |

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2012

| (In thousands) | Issuer | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Total |
|---|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Net earnings | $44,063 | $9,580 | $ 565 | $(9,929) | $44,279 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 35,244 | 21,654 | 1,579 | — | 58,477 |
| Deferred tax (benefit) provision | (6,040) | (3,913) | 248 | 22,962 | 13,257 |
| Equity-based compensation expense | 7,681 | — | — | — | 7,681 |
| Employee benefit plans | 6,697 | — | — | — | 6,697 |
| Deferred issuance costs and discounts on long-term debt | 1,508 | — | — | — | 1,508 |
| Disposal of plant and equipment, net | 487 | 1,014 | — | — | 1,501 |
| Changes in working capital, net | 16,641 | 35,456 | (663) | — | 51,434 |
| Changes in taxes receivable, net | (3,121) | 1,701 | (65) | (433) | (1,918) |
| Excess tax benefit from equity-based payment arrangements | (9,193) | — | — | — | (9,193) |
| Changes in non-current accrued taxes, net | 4,631 | 59 | (529) | — | 4,161 |
| Funding of qualified pension plans | (17,625) | — | — | — | (17,625) |
| Other, net | 531 | (207) | — | — | 324 |
| Net cash provided by operating activities | 81,504 | 65,344 | 1,135 | 12,600 | 160,583 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Changes in short-term investments, net | 18,001 | — | — | — | 18,001 |
| Additions to plant and equipment | (146,256) | (8,721) | (388) | — | (155,365) |
| Proceeds from sale of assets | — | 1,035 | — | — | 1,035 |
| Net cash used for investing activities | (128,255) | (7,686) | (388) | — | (136,329) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Purchase of treasury stock | (9,355) | — | — | — | (9,355) |
| Payments for long-term debt issuance costs | (2) | — | — | — | (2) |
| Investment from (to) parent | 70,454 | (53,194) | (4,660) | (12,600) | — |
| Payment of tax withholdings on equity-based payment arrangements | (12,965) | — | — | — | (12,965) |
| Excess tax benefit from equity-based payment arrangements | 9,193 | — | — | — | 9,193 |
| Net cash provided by (used for) financing activities | 57,325 | (53,194) | (4,660) | (12,600) | (13,129) |
| Increase (decrease) in cash | 10,574 | 4,464 | (3,913) | — | 11,125 |
| Cash at beginning of period | 2,146 | 901 | 5,392 | — | 8,439 |
| Cash at end of period | 12,720 | 5,365 | 1,479 | — | 19,564 |

ITEM 2.

Management’s Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the costs and benefits associated with the closure of our Thomaston, Georgia facility, cash flows, capital expenditures, tax rates, operating costs, including energy costs, selling, general and administrative expenses, timing of major maintenance and repairs, liquidity, benefit plan funding levels, capitalized interest, interest expenses, and the tax treatment of the alternative fuels and cellulosic biofuels tax credits. Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “believe,” “schedule,” “estimate,” “may,” and similar expressions are intended to identify such forward-loo statements. These forward-looking statements are based on management’s current expectations, estimates, assumptions and projections that are subject to change. Our actual results of operations may differ materially from those expressed or implied by the forward-looking statements contained in this report. Important factors that could cause or contribute to such differences include those risks discussed in the section entitled “Risk Factors” in our 2012 Form 10-K, as well as the following:

- customer acceptance and timing of purchases of our new through-air-dried, or TAD, products and capacity;
- competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors;
- manufacturing or operating disruptions, including equipment malfunction and damage to our manufacturing facilities caused by fire or weather-related events and IT system failures;
- difficulties with the optimization and realization of the benefits expected from our new TAD paper machine and converting lines in Shelby, North Carolina;
- the loss of business from a significant customer;
- increased dependence on wood pulp;
- changes in transportation costs and disruptions in transportation services;
- changes in the cost and availability of wood fiber and wood pulp;
- changes in costs for and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- changes in customer product preferences and competitors' product offerings;
- our qualification to retain, or ability to utilize, tax credits associated with alternative fuels or cellulosic biofuels and the tax treatment associated with receipt of such credits;
- environmental liabilities or expenditures;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- increased supply and pricing pressures resulting from increasing Asian paper production capabilities;
- changes in expenses and required contributions associated with our pension plans;
- cyclical industry conditions;
- reliance on a limited number of third-party suppliers for raw materials;
- labor disruptions;
- inability to successfully implement our expansion strategies;
- inability to fund our debt obligations;
- restrictions on our business from debt covenants and terms; and
- changes in laws, regulations or industry standards affecting our business.

Forward-looking statements contained in this report present management’s views only as of the date of this report. Except as required under applicable law, we do not intend to issue updates concerning any future revisions of management’s views to reflect events or circumstances occurring after the date of this report.

OVERVIEW

Background

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 15 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. Our products are made primarily from wood fiber pulp.

Recent Developments

Thomaston Closure

On March 6, 2013, we announced the planned permanent closure of our Thomaston, Georgia converting and distribution facility. The shutdown is occurring gradually as converting lines are being relocated and installed at our other facilities, with all operations at Thomaston expected to cease by the end of 2013. We expect the exit related costs to be approximately $6 million to $7 million, substantially all of which are expected to be incurred in 2013. The exit costs are primarily converting line relocation costs and labor costs. The cost savings benefits resulting from the equipment relocation and converting facility optimization, which are part of our previously announced cost savings programs, are expected to be fully realized beginning in the fourth quarter of 2014. We have incurred $2.9 million of costs associated with this closure to date, of which $1.7 million was incurred during the three months ended September 30, 2013.

Capital Allocation

On January 23, 2013, we issued $275 million aggregate principal amount of 4.5% senior notes, which we refer to as the 2013 Notes. Approximately $166 million of the net proceeds from the issuance was used to redeem all of our $150 million aggregate principal amount of 10.625% senior notes due 2016, which we refer to as the 2009 Notes.

In January 2013, we announced that our Board of Directors approved a common stock repurchase program authorizing the repurchase of up to $100.0 million of our common stock, to be funded by a portion of the proceeds from the issuance of the 2013 Notes. In connection with this program, on March 1, 2013, we entered into a $50.0 million accelerated stock buyback, or ASB, agreement with a major financial institution, which was completed in the third quarter of 2013. See Note 1 to the Consolidated Financial Statements, under the subheading "Stockholders' Equity," for additional discussion of the ASB agreement.

We have also repurchased 535,897 shares of our outstanding common stock as of September 30, 2013 through open market transactions, of which 327,315 shares were repurchased at an average price of $48.27 per share during the third quarter. As of September 30, 2013, we had repurchased 1,575,410 total shares of our outstanding common stock, which includes 1,039,513 shares repurchased under the recently completed ASB agreement. In October, 2013, we repurchased an additional 494,760 shares of our outstanding common stock on the open market at an average price of $48.95 per share, which completed the remaining balance of our authorized stock repurchase program.

Components and Trends in our Business

Net sales

Net sales predominantly consist of sales of consumer tissue and paperboard products, net of discounts, returns and allowances and any sales taxes collected. Prices for our consumer tissue products tend to primarily be driven by the value of our products to our customers, and are generally priced relative to the prices of branded tissue products. Demand and pricing for our pulp and paperboard products are largely determined by general global market conditions and the demand for high quality paperboard.

Operating costs

| | Three Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | | 2012 | | |
| | Cost | Percentage of Cost of Sales | | Cost | Percentage of Cost of Sales | |
| Purchased pulp | $77,952 | 17.7 | % | $61,785 | 15.1 | % |
| Chemicals | 47,900 | 10.9 | | 45,546 | 11.1 | |
| Transportation[1] | 46,049 | 10.4 | | 43,348 | 10.6 | |
| Maintenance and repairs[2] | 33,840 | 7.7 | | 20,597 | 5.0 | |
| Chips, sawdust and logs | 32,614 | 7.4 | | 40,856 | 10.0 | |
| Energy | 31,431 | 7.1 | | 27,658 | 6.7 | |
| Packaging supplies | 26,885 | 6.1 | | 20,644 | 5.0 | |
| Depreciation | 19,915 | 4.5 | | 16,852 | 4.2 | |
| | $316,586 | 71.8 | % | $277,286 | 67.7 | % |

| | Nine Months Ended September 30, | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | | 2012 | | |
| | Cost | Percentage of Cost of Sales | | Cost | Percentage of Cost of Sales | |
| Purchased pulp | $222,636 | 17.5 | % | $184,181 | 15.2 | % |
| Chemicals | 143,991 | 11.3 | | 138,410 | 11.4 | |
| Transportation[1] | 137,308 | 10.8 | | 126,859 | 10.5 | |
| Chips, sawdust and logs | 105,368 | 8.3 | | 124,777 | 10.3 | |
| Energy | 94,737 | 7.5 | | 81,013 | 6.7 | |
| Maintenance and repairs[2] | 77,575 | 6.1 | | 77,706 | 6.4 | |
| Packaging supplies | 77,360 | 6.1 | | 63,981 | 5.3 | |
| Depreciation | 60,457 | 4.8 | | 51,405 | 4.2 | |
| | $919,432 | 72.4 | % | $848,332 | 70.0 | % |

1 Includes internal and external transportation costs.

2 Excluding related labor costs.

Purchased pulp. We purchase a significant amount of the pulp needed to manufacture our consumer products, and to a lesser extent our paperboard, from external suppliers. For the three and nine months ended September 30, 2013, total purchased pulp costs were 17.7% and 17.5% of our cost of sales, respectively, representing 2.6 and 2.3 percentage point increases compared to the same periods in 2012. The higher purchased pulp costs were due primarily to increased usage associated with the ramp up of our North Carolina TAD paper machine. In addition, higher purchased pulp costs were also driven by increased pricing, as well as the need to purchase additional pulp from external suppliers to offset the reduction from internal sources resulting from the planned major maintenance at our Idaho pulp and paperboard facility during the third quarter of 2013 and the machine downtime taken at our Arkansas pulp and paperboard facility in the first quarter of 2013.

Chemicals. We consume a substantial amount of chemicals in the production of pulp and paperboard, as well as in the production of TAD tissue. The chemicals we generally use include polyethylene, caustic, starch, sodium chlorate, latex and specialty paper process chemicals. A large portion of the chemicals used in our manufacturing processes,

particularly in the pulp-making process, are petroleum-based and are impacted by petroleum prices.
Our chemical costs increased $2.4 million and $5.6 million, respectively, for the three and nine months ended September 30, 2013, compared to the same periods in 2012, due to increased pricing for polyethylene and other processing chemicals, as well as higher chemical consumption resulting from the first three quarters of production on our North Carolina TAD paper machine. In addition, for the nine months ended September 30, 2013, chemical consumption increased at our Arkansas pulp and paperboard facility due to recovery boiler operational issues in the second quarter of 2013.

Transportation. Fuel prices largely impact transportation costs related to delivery of raw materials to our manufacturing facilities, internal inventory transfers and delivery of our finished products to customers. Changing fuel prices particularly affect our margins for consumer products because we supply customers throughout the U.S. and transport unconverted parent rolls from our tissue mills to our tissue converting facilities. Our transportation costs for the three and nine months ended September 30, 2013, compared to the same periods in 2012, were higher as a result of increased shipping costs related to an increase in average miles shipped and increased shipments of converted TAD products, as well as lower first quarter inventory levels for our Consumer Products segment related to our TAD transition. The reduced inventory levels required multiple shifts in regional distributions for our tissue product lines, and as a result we incurred an overall increase of internal tons shipped.
Chips, sawdust and logs. We purchase chips, sawdust and logs used to manufacture pulp. We source residual wood fibers under both long-term and short-term supply agreements, as well as in the spot market. Overall costs decreased by $8.2 million and $19.4 million, respectively, for chips, sawdust and logs for the three and nine months ended September 30, 2013, compared to the same 2012 periods. The overall decline in the 2013 periods was primarily attributable to lower overall pricing at our Idaho pulp and paperboard facility and decreased usage due to our planned major maintenance during the third quarter of 2013 at the same facility. In addition, we experienced decreased usage at our Arkansas pulp and paperboard facility in the second quarter of 2013 due to recovery boiler operational issues, which were partially offset by higher overall pricing at our Arkansas facility due primarily to supply limitations caused by wet weather conditions in the region.
Energy. We use energy in the form of electricity, hog fuel, steam and natural gas to operate our mills. Energy prices have fluctuated widely over the past decade. We have taken steps, and intend to continue to take steps, to reduce our exposure to volatile energy prices through conservation. In addition, cogeneration facilities that produce steam and electricity at our East Hartford, Connecticut, Lewiston, Idaho and Menominee, Michigan manufacturing sites help to lower our energy costs. TAD tissue production, however, involves greater natural gas usage than conventional tissue manufacturing and, as a result, we expect our natural gas requirements will increase as we continue to ramp up our North Carolina TAD paper machine. Energy costs for the three and nine months ended September 30, 2013 were higher than the prior year comparable periods due to the first three quarters of production on our North Carolina TAD paper machine, as well as increased market pricing for natural gas. To help mitigate our exposure to changes in natural gas prices, from time to time we have used firm-price contracts to supply a portion of our natural gas requirements. As of September 30, 2013, these contracts covered approximately 33% of our expected average monthly natural gas requirements for the remainder of 2013, plus lesser amounts for 2014. Our energy costs in future periods will depend principally on our ability to produce a substantial portion of our electricity needs internally, on changes in market prices for natural gas and on our ability to reduce our energy usage through conservation.
Maintenance and repairs. We regularly incur significant costs to maintain our manufacturing equipment. We perform routine maintenance on our machines and periodically replace a variety of parts such as motors, pumps, pipes and electrical parts.
Major equipment maintenance and repairs in our Pulp and Paperboard segment also require maintenance shutdowns approximately every 18 months to 24 months, which increases costs and may reduce net sales in the quarters in which the major maintenance shutdowns occur. Our next planned major maintenance outage is scheduled for the spring of 2015. During the first quarter of 2013, we had four days of machine downtime costing $5.0 million, excluding labor, at our Arkansas facility, compared to major maintenance costs of $15.5 million incurred at our Idaho facility in the first quarter of 2012. There was no major maintenance in the second quarters of 2013 and 2012. During the third quarter of 2013, we incurred 11 days of paper machine downtime, costing $17.5 million, for the planned major maintenance at our Idaho facility.
In addition to ongoing maintenance and repair costs, we make capital expenditures to increase our operating capacity and efficiency, improve safety at our facilities and comply with environmental laws. Excluding $3.0 million and $9.3 million, respectively, of capital expenditures for our TAD tissue expansion project, we spent $21.0 million and $45.0 million on capital expenditures during the three and nine months ended September 30, 2013, respectively. During the three and nine months ended September 30, 2012, excluding $39.3 million and $121.9 million, respectively, of expenditures for our TAD project, we spent $16.1 million and $36.7 million on capital expenditures.

Packaging supplies. As a significant producer of private label consumer tissue products, we package to order for retail chains, wholesalers and cooperative buying organizations. Under our agreements with those customers, we are responsible for the expenses related to the unique packaging of our products for direct retail sale to consumers. For the three and nine months ended September 30, 2013, packaging costs were $6.2 million and $13.4 million higher, respectively, than the same periods in 2012 primarily due to higher retail case shipments of facial tissue and an increase in prices for poly wrapping and corrugated cardboard.

Depreciation. We record substantially all of our depreciation expense associated with our plant and equipment in "Cost of sales" on our Consolidated Statements of Operations. Depreciation expense for the three and nine months ended September 30, 2013 was $3.1 million and $9.1 million higher than the 2012 comparable periods, respectively, due primarily to additional depreciation expense associated with our North Carolina TAD paper machine, which started up in December 2012.

Other. Other costs not included in the above table primarily consist of wage and benefit expenses and miscellaneous operating costs. Although period cut-offs and inventory levels can impact cost of sales amounts, we would expect this impact to be relatively steady as a percentage of costs on a period-over-period basis. We experienced an increase in wage and benefit expenses in the first three quarters of 2013, compared to the first three quarters of 2012, due largely to the incremental costs associated with the startup of our North Carolina TAD facility, as well as higher overall employee costs.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of compensation and associated expenses for sales and administrative personnel, as well as commission expenses related to sales of our products. Our selling, general and administrative expenses for the three months ended September 30, 2013 and 2012 were $27.8 million and $30.6 million, respectively. The lower expense for the third quarter of 2013 was primarily a result of a $0.4 million mark-to-market expense in the third quarter of 2013, compared to a $1.8 million expense in the third quarter of 2012, related to our directors' common stock units, which will ultimately be settled in cash, as well as lower expense associated with profit-dependent compensation accruals. During the fourth quarter of 2013, we expect our selling, general and administrative expenses to be approximately $28.0 million.

Interest expense

Interest expense is mostly comprised of interest on the 2013 Notes and our $375 million aggregate principal amount of 7.125% senior notes due 2018 issued in October 2010, which we refer to as the 2010 Notes. Interest expense also includes amortization of deferred issuance costs associated with all of our notes and our revolving credit facility. As a result of the issuance of the 2013 Notes at an interest rate significantly lower than that of our former 2009 Notes, which were redeemed in the first quarter of 2013 using a portion of the proceeds from the 2013 Notes, our interest expense decreased by approximately $3.6 million on an annual basis. However, this favorable change in interest expense associated with our notes will be more than offset by a decrease in capitalized interest, as no capitalized interest is expected in 2013 compared to total capitalized interest in 2012 of $12.6 million.

Income taxes

Income taxes are based on reported earnings and tax rates in the jurisdictions in which our operations occur and offices are located, adjusted for available credits, changes in valuation allowances and differences between reported earnings and taxable income using current tax laws and rates. We generally expect our effective income tax rate, excluding discrete items, to remain fairly constant, but it could fluctuate due to changes in tax law.

We are registered with the Internal Revenue Service, or IRS, as both an alternative fuel mixer and a producer of cellulosic biofuel. During 2009, we received refundable tax credit payments in connection with our use of an alternative fuel mixture, commonly referred to as "black liquor," to produce energy at our pulp mills. The amount of the refundable tax credit is equal to $0.50 per gallon of alternative fuel mixture used. The Alternative Fuel Mixture Tax Credit, or AFMTC, expired on December 31, 2009.

The Cellulosic Biofuel Producer Credit, or CBPC, enables us to claim $1.01 per gallon in regards to black liquor produced and used as a fuel by us at our pulp mills in 2009. During 2010, the IRS issued guidance clarifying the treatment of the CBPC and the AFMTC in regards to the production or use of black liquor at the same facility, in the same tax year. Under the guidance provided, both credits may be claimed in the same year as long as the credits are not claimed for the same gallons of fuel. Furthermore, the IRS guidance clarified the ability to convert previously claimed gallons from the AFMTC to the CBPC. Our ability to convert previously claimed gallons from the AFMTC to the CBPC expired on March 15, 2013.

During the first quarter of 2012, we converted certain gallons claimed under the CBPC back to gallons claimed under the AFMTC, which resulted in a net discrete expense of $5.5 million, comprised of $2.5 million relating to the conversion back to the AFMTC and an additional $3.0 million increase in our liabilities for uncertain tax positions. During the first quarter of 2013, we reversed our position and converted certain gallons claimed under the AFMTC back to gallons claimed under the CBPC. This reversal allowed us to recognize a net discrete benefit for the quarter of $9.8 million, which was primarily comprised of a $5.6 million benefit relating to the conversion back to the CBPC and a $4.2 million decrease to our liabilities for uncertain tax positions, partially offset by interest accrued on uncertain tax positions. As of September 30, 2013, we have $3.5 million of remaining CBPC carryforwards.

There is relatively little guidance regarding the AFMTC and CBPC, and the laws governing these credits are complex. Accordingly, there remains uncertainty as to our qualification to receive the tax credit in 2009, as well as to whether we will be entitled to retain the amounts we received upon further review by the IRS. In addition, while it is our position that payments received or credits taken in relation to the AFMTC should not be subject to corporate income tax, there can be no assurance as to whether or not the amounts we have received will be subject to taxation.

During the fourth quarter of 2012, the IRS commenced an audit of our tax returns for the tax years ending December 31, 2008 through December 31, 2012. The audit is ongoing, with no defined conclusion date as of September 30, 2013. As part of this process, we identified additional gallons that qualify for the CBPC that were previously unaccounted for. During the third quarter of 2013, we recognized the benefit related to these gallons, resulting in a favorable adjustment. Also during the quarter, we closed a number of state income tax audits. Based upon the results of those audits, we have released a portion of the reserve for uncertain tax positions relating to certain state tax credits, which resulted in a benefit to income taxes.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

The following table sets forth data included in our Consolidated Statements of Operations as a percentage of net sales.

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | 2012 | |
| Net sales | $487,845 | 100.0 % | $480,233 | 100.0 % |
| Costs and expenses: | | | | |
| Cost of sales | (441,237 ) | 90.4 | (409,822 ) | 85.3 |
| Selling, general and administrative expenses | (27,766 ) | 5.7 | (30,649 ) | 6.4 |
| Total operating costs and expenses | (469,003 ) | 96.1 | (440,471 ) | 91.7 |
| Income from operations | 18,842 | 3.9 | 39,762 | 8.3 |
| Interest expense, net | (10,708 ) | 2.2 | (7,900 ) | 1.6 |
| Earnings before income taxes | 8,134 | 1.7 | 31,862 | 6.6 |
| Income tax benefit (provision) | 5,183 | 1.1 | (12,798 ) | 2.7 |
| Net earnings | $13,317 | 2.7 | $19,064 | 4.0 |

Net sales—Third quarter 2013 net sales increased by $7.6 million, or 1.6%, compared to the third quarter of 2012, primarily due to higher net selling prices for retail tissue, non-retail tissue and paperboard, as well as increased paperboard shipments. The favorable comparisons were partially offset by decreased shipments of non-retail tissue. These items are discussed below under “Discussion of Business Segments.”

Cost of sales—Cost of sales was 90.4% of net sales for the three months ended September 30, 2013 and 85.3% of net sales for the same period in 2012. The increase was primarily a result of planned major maintenance at our Idaho pulp and paperboard facility in the third quarter of 2013 costing $17.5 million, $2.2 million of TAD transition costs, $1.7 million of costs related to the Thomaston, Georgia facility closure and higher energy. packaging, employee and depreciation costs incurred during the third quarter of 2013.

Selling, general and administrative expenses—Selling, general and administrative expenses decreased $2.9 million primarily as a result of a $0.4 million mark-to-market expense adjustment in the third quarter of 2013, compared to a $1.8 million expense adjustment in the third quarter of 2012, related to our directors' common stock units, as well as lower expense associated with profit-dependent compensation accruals.

Interest expense—Interest expense increased $2.8 million during the three months ended September 30, 2013, compared to the same period of 2012. The increase was attributable to the absence of capitalized interest during the current year period, compared to $4.1 million of capitalized interest associated with our TAD tissue expansion project in the third quarter of 2012. The increase in interest expense was partially offset by the benefit of refinancing the 2009 Notes with proceeds from the issuance of the 2013 Notes, which carry a significantly lower interest rate.

Income tax provision—During the third quarters of 2013 and 2012, there were a number of items that were included in the calculation of our income tax provision that we do not believe were indicative of our core operating performance. Excluding these items, the adjusted tax rate for the three months ended September 30, 2013 would have been 37.0%, compared to an adjusted 37.3% in the third quarter of 2012. The following table details these items:

| | Three Months Ended September 30, | |
|---|---|---|
| (In thousands) | 2013 | 2012 |
| Income tax benefit (provision) | $5,183 | $(12,798 ) |
| Special items, tax impact: | | |
| Directors' equity-based compensation expense | (140 ) | (783 ) |
| Costs associated with announced Thomaston facility closure | (665 ) | — |
| Discrete tax items related to settlement of uncertain tax positions | (4,659 ) | — |
| Discrete tax items related to tax credit conversions | — | 1,008 |
| Discrete tax items related to additional CBPC | (3,495 ) | — |
| Adjusted income tax provision | $(3,776 ) | $(12,573 ) |

We recorded an income tax benefit of $5.2 million in the three months ended September 30, 2013, compared to a provision of $12.8 million in the three months ended September 30, 2012. The generally accepted accounting principles, or GAAP, rate for the three months ended September 30, 2013 was a benefit of 63.7%, compared to a provision of 40.2% for the same period of 2012. The lower rate was the result of the net impact of reporting discrete items, primarily relating to an additional benefit realized from certain additional gallons claimed under the CBPC and a release of uncertain tax positions relating to certain state tax credits.

Discussion of Business Segments

Consumer Products

| (Dollars in thousands - except per ton amounts) | Three Months Ended September 30, 2013 | 2012 |
|---|---|---|
| Net sales | $292,935 | $292,959 |
| Operating income | 13,445 | 18,453 |
| Percent of net sales | 4.6 % | 6.3 % |
| Shipments (short tons) | | |
| Non-retail | 61,222 | 64,731 |
| Retail | 72,427 | 74,117 |
| Total tissue tons | 133,649 | 138,848 |
| Converted products cases (in thousands) | 13,990 | 13,752 |
| Sales price (per short ton) | | |
| Non-retail | $1,504 | $1,450 |
| Retail | 2,773 | 2,687 |
| Total tissue | $2,192 | $2,110 |

Our Consumer Products segment net sales for the three months ended September 30, 2013 were consistent with the three months ended September 30, 2012. A 3.9% increase in total tissue net selling prices, due primarily to a higher proportion of higher-priced TAD product sales, improved product mix and increased pricing for parent rolls, was offset by a 5.4% decrease in shipments of non-retail tissue. Although retail tissue shipments in tons were also lower in the third quarter of 2013 compared to the third quarter of 2012, actual converted case shipments for the third quarter of 2013 were up 1.7% when compared to the same period in 2012 due to the increased proportion of lighter weight TAD product sales.

Segment operating income for the three months ended September 30, 2013 decreased by $5.0 million compared to the same period in 2012 due primarily to TAD transition costs of $2.2 million and $1.7 million of costs associated with the announced closure of our Thomaston, Georgia facility, as well as higher energy and packaging costs and increased depreciation costs associated with our North Carolina TAD paper machine. The TAD transition costs consisted primarily of increased transportation and manufacturing costs associated with the ramp up of our new Ultra TAD bathroom tissue product in 2013.

Pulp and Paperboard

| (Dollars in thousands - except per ton amounts) | Three Months Ended September 30, 2013 | 2012 |
|---|---|---|
| Net sales | $194,910 | $187,274 |
| Operating income | 16,289 | 34,449 |
| Percent of net sales | 8.4 % | 18.4 % |
| Paperboard shipments (short tons) | 199,408 | 195,097 |
| Paperboard sales price (per short ton) | $973 | $948 |

Net sales for the Pulp and Paperboard segment increased by $7.6 million, or 4.1%, in the three months ended September 30, 2013, compared to the three months ended September 30, 2012. The increase in net sales was primarily due to a 2.6% increase in paperboard net selling prices as a result of price increases, and a 2.2% increase in paperboard shipments driven by strong market demand.

Operating income for the segment decreased $18.2 million during the three months ended September 30, 2013, compared to the three months ended September 30, 2012, primarily due to $17.5 million of costs related to the planned major maintenance at our Idaho facility, as well as higher employee and energy costs.

28

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

The following table sets forth data included in our Consolidated Statements of Operations as a percentage of net sales.

| | Nine Months Ended September 30, | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | | | 2012 | | | |
| Net sales | $1,419,671 | 100.0 | % | $1,411,603 | | 100.0 | % |
| Costs and expenses: | | | | | | | |
| Cost of sales | (1,269,967 ) | 89.5 | | (1,211,444 ) | | 85.8 | |
| Selling, general and administrative expenses | (88,665 ) | 6.2 | | (90,252 ) | | 6.4 | |
| Total operating costs and expenses | (1,358,632 ) | 95.7 | | (1,301,696 ) | | 92.2 | |
| Income from operations | 61,039 | 4.3 | | 109,907 | | 7.8 | |
| Interest expense, net | (32,784 ) | 2.3 | | (26,775 ) | | 1.9 | |
| Debt retirement costs | (17,058 ) | 1.2 | | — | | — | |
| Earnings before income taxes | 11,197 | 0.8 | | 83,132 | | 5.9 | |
| Income tax benefit (provision) | 12,896 | 0.9 | | (38,853 ) | | 2.8 | |
| Net earnings | $24,093 | 1.7 | | $44,279 | | 3.1 | |

Net sales—Net sales for the nine months ended September 30, 2013 increased $8.1 million compared to the same period of 2012. Increased paperboard and retail tissue shipments and higher retail tissue net selling prices in the first three quarters of 2013 were partially offset by a 2.8% decrease in non-retail tissue shipments and a slight decrease in paperboard net selling prices. These items are discussed below under “Discussion of Business Segments.”

Cost of sales—Cost of sales was 89.5% of net sales for the nine months ended September 30, 2013 and 85.8% of net sales for the same period in 2012. The increase was primarily a result of $15.6 million in TAD transition costs incurred during the 2013 period, an increase in depreciation expense of $9.1 million primarily related to our North Carolina TAD machine, $2.9 million of incremental costs associated with an electrical disruption and operational issues with maintenance and repairs on the recovery boiler at our Arkansas pulp and paperboard facility, $2.9 million of costs related to the Thomaston, Georgia facility closure and an increase in major maintenance costs of $7.0 million, as well as higher energy, employee and packaging costs.

Selling, general and administrative expenses—Selling, general and administrative expenses decreased $1.6 million primarily due to a decrease in profit-dependent compensation accruals and lower legal expenses during the first three quarters of 2013, partially offset by a $2.7 million mark-to-market expense adjustment related to our directors' common stock units compared to $1.7 million of expense for the same period in 2012.

Interest expense—Interest expense increased $6.0 million during the nine months ended September 30, 2013, compared to the same period of 2012. The increase was largely attributable to the absence of capitalized interest during the current year period, compared to $9.0 million of capitalized interest associated with our TAD tissue expansion project in the first three quarters of 2012. The increase in interest expense was partially offset by the benefit of refinancing the 2009 Notes with proceeds from the issuance of the 2013 Notes, which carry a significantly lower interest rate.

Debt retirement costs—Debt retirement costs include a one-time charge in connection with the complete redemption of the 2009 Notes on February 22, 2013. Total costs of $17.1 million include cash charges of approximately $14 million related to a “make whole” premium plus accrued and unpaid interest and a non-cash charge of approximately $3 million related to the write off of deferred issuance costs and unamortized discounts.

Income tax provision—During the nine months ended September 30, 2013 and 2012, there were a number of items that were included in the calculation of our income tax provision that we do not believe were indicative of our core operating performance. Excluding these items, the adjusted tax rates would have been 39.6% and 38.7%, in the periods ended 2013 and 2012, respectively. The following table details these items:

| | Nine Months Ended September 30, | |
|---|---|---|
| (In thousands) | 2013 | 2012 |
| Income tax benefit (provision) | $12,896 | $(38,853) |
| Special items, tax impact: | | |
| Loss on sale of foam assets | — | (356) |
| Expense associated with Metso litigation | — | (679) |
| Debt retirement costs | (6,277) | — |
| Directors' equity-based compensation expense | (983) | (752) |
| Costs associated with announced Thomaston facility closure | (1,118) | — |
| Discrete tax items related to settlement of uncertain tax positions | (4,659) | — |
| Discrete tax items related to tax credit conversions | (9,766) | 6,704 |
| Discrete tax items related to additional CBPC | (3,495) | — |
| Adjusted income tax provision | $(13,402) | $(33,936) |

We recorded a GAAP income tax benefit of $12.9 million in the nine months ended September 30, 2013, compared to a provision of $38.9 million in the nine months ended September 30, 2012. The GAAP tax rate for the nine months ended September 30, 2013 was a benefit of 115.2%, compared to a provision of 46.7% for the same period of 2012. The net decrease to our tax provision and tax rate in the nine months ended September 30, 2013, was primarily the result of the release of uncertain tax positions related to certain state tax credits and $9.8 million in tax benefit related to our decision to reverse our 2012 conversion of certain gallons of fuel claimed as CBPC back to gallons claimed under the AFMTC. The gallons had been converted by us in 2010 to the CBPC and in 2012 converted back to the AFMTC. The net increase to our tax rate in the nine months ended September 30, 2012, was primarily the result of net discrete expense of $5.5 million resulting from our decision to convert certain gallons of alternative fuel originally claimed in 2009 under the AFMTC, which had been converted by us in 2010 to the CBPC, back to gallons under the AFMTC.

Discussion of Business Segments

Consumer Products

| (Dollars in thousands - except per ton amounts) | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| Net sales | $867,545 | $853,911 |
| Operating income | 38,384 | 70,420 |
| Percent of net sales | 4.4 % | 8.2 % |
| | | |
| Shipments (short tons) | | |
| Non-retail | 173,469 | 178,555 |
| Retail | 224,833 | 222,039 |
| Total tissue tons | 398,302 | 400,594 |
| Converted products cases (in thousands) | 41,792 | 40,374 |
| | | |
| Sales price (per short ton) | | |
| Non-retail | $1,472 | $1,468 |
| Retail | 2,723 | 2,666 |
| Total tissue | $2,178 | $2,132 |

Our Consumer Products segment reported an increase in net sales of $13.6 million, or 1.6%, for the nine months ended September 30, 2013, compared to the same period in 2012. The higher net sales were due primarily to a 2.1% increase in retail tissue net selling prices, largely attributable to a higher proportion of higher-priced TAD product sales, and a 1.3% increase in retail tissue shipments, partially offset by a 2.8% decrease in non-retail tissue shipments. Segment operating income for the nine months ended September 30, 2013 decreased by $32.0 million compared to the same period in 2012, primarily driven by TAD transition costs of $15.6 million, an increase in depreciation expense of $9.9 million primarily related to our North Carolina TAD machine, and higher energy and employee costs. In addition, operating income was also unfavorably affected by increased packaging costs, due to increased pricing for poly wrapping and corrugated cardboard, as well as $2.9 million of costs associated with the announced closure of our Thomaston, Georgia facility. The TAD transition costs consisted primarily of increased transportation, manufacturing and outside purchased paper costs associated with the increased conventional tissue sales we took on to help offset the displacement of conventional tissue sales expected by the ramp up of our new Ultra TAD bathroom tissue product in 2013.

Pulp and Paperboard

| (Dollars in thousands - except per ton amounts) | Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| Net sales | $552,126 | $557,692 |
| Operating income | 58,614 | 78,108 |
| Percent of net sales | 10.6 % | 14.0 % |
| | | |
| Paperboard shipments (short tons) | 576,276 | 570,580 |
| Paperboard sales price (per short ton) | $952 | $964 |

Net sales for the Pulp and Paperboard segment decreased by $5.6 million, or 1.0%, for the nine months ended September 30, 2013, compared to the same period ended September 30, 2012. The decrease was primarily due to a 1.2% decline in paperboard pricing caused by competitive pressures across most product segments during the first three quarters of 2013, although year-to-date paperboard pricing increased near the end of the third quarter due to a recent price increase. The overall lower pricing was partially offset by a 1.0% increase in paperboard shipments. Operating income for the segment decreased $19.5 million during the nine months ended September 30, 2013, compared to the same period in 2012. The lower operating income was primarily due to the lower net sales, $2.9

million of incremental costs associated with an electrical disruption and operational issues with maintenance and repairs on the recovery boiler at our Arkansas pulp and paperboard facility, a $7.0 million increase in major maintenance expense for the first three quarters of 2013 compared to the first three quarters of 2012, and higher employee and energy costs.

EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTIZATION (EBITDA) AND ADJUSTED EBITDA

We use earnings before interest (including debt retirement costs), tax, depreciation and amortization, or EBITDA, and EBITDA adjusted for certain items, or Adjusted EBITDA, as supplemental performance measures that are not required by, or presented in accordance with GAAP. EBITDA and Adjusted EBITDA should not be considered as alternatives to net earnings, operating income or any other performance measure derived in accordance with GAAP, or as alternatives to cash flows from operating activities or a measure of our liquidity or profitability. In addition, our calculation of EBITDA and Adjusted EBITDA may or may not be comparable to similarly titled measures of other companies.

We present EBITDA, Adjusted EBITDA and Adjusted income tax provision because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance. In addition, we use EBITDA and Adjusted EBITDA: (i) as factors in evaluating management’s performance when determining incentive compensation, (ii) to evaluate the effectiveness of our business strategies and (iii) because our credit agreement and the indentures governing the 2010 Notes and 2013 Notes use measures similar to EBITDA to measure our compliance with certain covenants.

The following table provides our EBITDA and Adjusted EBITDA for the periods presented, as well as a reconciliation to net earnings.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2013 | 2012 | 2013 | 2012 |
| Net earnings | $13,317 | $19,064 | $24,093 | $44,279 |
| Interest expense, net[1] | 10,708 | 7,900 | 49,842 | 26,775 |
| Income tax (benefit) provision | (5,183) | 12,798 | (12,896) | 38,853 |
| Depreciation and amortization expense | 22,180 | 19,199 | 67,584 | 58,477 |
| EBITDA | $41,022 | $58,961 | $128,623 | $168,384 |
| Directors' equity-based compensation expense | 361 | 1,801 | 2,692 | 1,706 |
| Costs associated with announced Thomaston facility closure | 1,717 | — | 2,913 | — |
| Expense associated with Metso litigation | — | — | — | 1,948 |
| Loss on sale of foam assets | — | — | — | 1,014 |
| Adjusted EBITDA | $43,100 | $60,762 | $134,228 | $173,052 |

[1] Interest expense, net for the nine months ended September 30, 2013 includes debt retirement costs of $17.1 million.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents information regarding our cash flows for the nine months ended September 30, 2013 and 2012:

| (In thousands) | 2013 | 2012 |
|---|---|---|
| Net cash provided by operating activities | $91,540 | $160,583 |
| Net cash used for investing activities | (123,400) | (136,329) |
| Net cash provided by (used for) financing activities | 40,210 | (13,129) |

Cash Flows Summary

Net cash provided by operating activities for the nine months ended September 30, 2013 decreased by $69.0 million compared to the same period in 2012. The decrease in cash provided by operating activities for the first nine months of 2013 was due primarily to a decrease of $51.4 million in cash provided from working capital and a decrease in non-current accrued taxes compared to the same period of 2012. The decrease in cash provided from working capital was primarily attributable to a build-up in inventory to support our TAD tissue program and increased accounts receivable due primarily to the timing of sales, partially offset by higher accounts payable and accrued liabilities primarily associated with the planned major maintenance at our Idaho pulp and paperboard facility in the third quarter of 2013 and increased accrued interest due to the timing of our interest payments on our debt.

32

The decrease in cash used for investing activities was largely due to a $69.0 million conversion of excess cash proceeds, primarily from the issuance of the 2013 Notes, into short-term investments, as compared to a $18.0 million conversion of short-term investments into cash during the first three quarters of 2012. This increase was partially offset by a $101.0 million decrease in capital spending for plant and equipment during the first nine months of 2013 compared to the first nine months of 2012. The lower capital spending was due to the substantial completion of our North Carolina TAD tissue facility in the fourth quarter of 2012.

Net cash provided by financing activities was $40.2 million for the nine months ended September 30, 2013, compared with $13.1 million of cash used for financing activities for the same period in 2012. Cash provided by financing activities during the first nine months of 2013 was primarily driven by the issuance of the 2013 Notes, partially offset by the retirement of the 2009 Notes and $75.8 million associated with repurchases of our outstanding common stock pursuant to our $100.0 million stock repurchase program, which was completed in October, 2013.

Capital Resources

Due to the competitive and cyclical nature of the markets in which we operate, as well as an uncertain economic environment, there is uncertainty regarding the amount of cash flows we will generate during the next twelve months. However, we believe that our cash flows from operations, our cash on hand and short-term investments, as well as available borrowing capacity under our revolving credit facility will be adequate to fund our debt service requirements and provide cash required to support our ongoing operations, capital expenditures and working capital needs for the next twelve months.

We may choose to refinance all or a portion of our indebtedness on or before maturity. We cannot be certain that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. As of September 30, 2013, our short-term investments were not restricted and were largely invested in demand deposits.

Debt Arrangements

Our annual debt service obligation, consisting of cash payments for interest on the 2010 Notes and the 2013 Notes, is estimated to be $33.2 million for 2013 and $39.1 million for 2014.

The terms of each of the 2010 Notes and the 2013 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 assets.

Credit Arrangements

As of September 30, 2013, there were no borrowings outstanding under our credit facility, but approximately $6.6 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 greatest 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 our most recent four quarters. As of September 30, 2013, we would have been permitted to draw approximately $118.4 million under the credit facility at LIBOR plus 1.75%, or base rate plus 1.25%.

CONTRACTUAL OBLIGATIONS

Due to the issuance of the 2013 Notes and the redemption of the 2009 Notes in the first quarter of 2013, the following table reflects our revised contractual obligations associated with our long-term debt as of September 30, 2013:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Long-term debt | $650,000 | $— | $— | $— | $650,000 |
| Interest on long-term debt | 264,512 | 39,093 | 78,186 | 78,186 | 69,047 |

As of September 30, 2013, there have been no additional significant changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

OFF- BALANCE SHEET ARRANGEMENTS

We currently are not a party to off-balance sheet arrangements that would require disclosure under this section.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires our management to select and apply accounting policies that best provide the framework to report the results of operations and financial position. The selection and application of those policies requires management to make difficult, subjective and complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, it is possible that materially different amounts would be reported under different conditions or using different assumptions.

As of September 30, 2013, there have been no significant changes with regard to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

See Note 2 "Recently Adopted and New Accounting Standards" to the Consolidated Financial Statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information regarding recently adopted and new accounting pronouncements.

ITEM 3.
Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Risk
Our exposure to market risks on financial instruments includes interest rate risk on our secured revolving credit facility. As of September 30, 2013, there were no borrowings outstanding under the credit facility. The interest rates applied to borrowings under the credit facility are adjusted often and therefore react quickly to any movement in the general trend of market interest rates. For example, a one percentage point increase or decrease in interest rates, based on assumed outstanding credit facility borrowings of $10.0 million, would have a $0.1 million annual effect on interest expense. We currently do not attempt to mitigate the effects of short-term interest rate fluctuations on our credit facility borrowings through the use of derivative financial instruments.
Commodity Risk
We are exposed to market risk for changes in natural gas commodity pricing, which we have from time-to-time partially mitigated through the use of firm price contracts for a portion of our natural gas requirements for our manufacturing facilities. As of September 30, 2013, these contracts covered approximately 33% of our expected average monthly natural gas requirements for the remainder of 2013, plus lesser amounts for 2014.
Foreign Currency Risk
We have minimal foreign currency exchange risk. Virtually all of our international sales are denominated in U.S. dollars.
Quantitative Information about Market Risks
Due to the issuance of the 2013 Notes and the redemption of the 2009 Notes in the first quarter of 2013, the following table reflects our revised quantitative information about market risks as of September 30, 2013:

| | Expected Maturity Date | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2013 | 2014 | 2015 | 2016 | 2017 | Thereafter | Total |
| Long-term debt: | | | | | | | |
| Fixed rate | $— | $— | $— | $— | $— | $650,000 | $650,000 |
| Average interest rate | — % | — % | — % | — % | — % | 6.01 % | 6.01 % |
| Fair value at September 30, 2013 | | | | | | | $651,550 |

As of September 30, 2013, there have been no other significant changes to our quantitative information about market risks as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

ITEM 4.
Controls and Procedures
We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.
Subject to the limitations noted above, our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the third quarter of 2013. Based on that evaluation, the CEO and CFO have concluded that, as of September 30, 2013, our disclosure controls and procedures were effective to meet the objective for which they were designed and operated at

the reasonable assurance level.

Changes in Internal Controls

There was no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

ITEM 1.

Legal Proceedings

On August 13, 2012, we were notified that the U.S. Environmental Protection Agency, or EPA, submitted a civil referral to the U.S. Department of Justice, or DOJ, alleging violations of the Clean Air Act stemming from an EPA investigation that included an inspection of our Lewiston, Idaho pulp facility in July 2009 and a subsequent information request dated February 24, 2011. Prior to the filing of any formal action, we and the DOJ agreed to discuss the resolution of the allegations. On March 19, 2013, the parties entered into a new agreement to toll the statute of limitations. The tolling period commenced as of September 14, 2012 and expires on February 28, 2014, unless further extended by the parties. On July 19, 2013, the EPA issued to us an additional information request. Discussions with the DOJ and EPA are ongoing.

In addition to the matters discussed above, we may from time to time be involved in claims, proceedings and litigation arising from our business and property ownership. We believe, based on currently available information, that the results of such proceedings, in the aggregate, will not have a material adverse effect on our financial condition.

ITEM 1A.

Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012. See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2012, entitled “Risk Factors.”

ITEM 2.
Unregistered Sales of Equity Securities and Uses of Proceeds
Issuer Purchases of Equity Securities
On January 17, 2013, 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 share repurchases were authorized to be carried out by the utilization of a number of different methods, including but not limited to, open market purchases, accelerated share buybacks and negotiated block purchases, and were 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. The total aggregate number of shares repurchased pursuant to this agreement was determined by reference to our average stock prices, less a fixed discount, over the term of the agreement. During the first quarter of 2013, we received 826,617 shares of common stock, which was 80% of the total shares expected to be repurchased under the ASB agreement, and represented a total of approximately $40.8 million of the $50.0 million paid to the financial institution. During the third quarter of 2013, the ASB agreement was completed and we received an additional 212,896 shares of our outstanding common stock, which represented the remaining proceeds paid to the financial institution. 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.
During the third quarter of 2013, we made total repurchases of 540,211 shares of our outstanding common stock at an average price of $46.21 per share, which consisted of 327,315 of open market share repurchases and the 212,896 shares received in association with the completion of the ASB agreement. In October, 2013, we repurchased an additional 494,760 shares of our outstanding common stock on the open market at an average price of $48.95 per share, which completed the remaining balance of our authorized stock repurchase program.
The following table provides information about share repurchases that we made during the three months ended September 30, 2013 (in thousands, except share and per share amounts):

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Program | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program |
|---|---|---|---|---|
| July 1, 2013 to July 31, 2013 | 70,861 | $49.27 | 70,861 | $45,690 |
| August 1, 2013 to August 31, 2013 | 54,696 | $48.39 | 54,696 | $43,043 |
| September 1, 2013 to September 30, 2013 | 414,654 | $45.40 | 414,654 | $24,218 |
| Total | 540,211 | $46.21 | 540,211 | |

ITEM 6.
Exhibits
The exhibit index is located on page 39 of this Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEARWATER PAPER CORPORATION
(Registrant)

| | | |
|---|---|---|
| Date: October 31, 2013 | By | /s/ JOHN D. HERTZ<br>John D. Hertz<br>Senior Vice President, Finance and Chief Financial Officer<br>(Duly Authorized Officer; Principal Financial Officer) |
| Date: October 31, 2013 | By | /s/ JOHNATHAN D. HUNTER<br>Johnathan D. Hunter<br>Vice President, Corporate Controller<br>(Duly Authorized Officer; Principal Accounting Officer) |

CLEARWATER PAPER CORPORATION
EXHIBIT INDEX

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| (31) | Rule 13a-14(a)/15d-14(a) Certifications. |
| (32)* | Furnished statements of the Chief Executive Officer and Chief Financial Officer under 18 U.S.C Section 1350. |
| 10.16(i)[1] | Amendment to the Clearwater Paper Corporation Benefits Protection Trust Agreement. |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase. |

* In accordance with Item 601(b)(32)(ii) of Regulation S-K and SEC Release No. 34-47986, the certifications furnished in Exhibit 32 hereto are deemed to accompany this Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Exchange Act. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act.

1 Management contract or compensatory plan, contract or arrangement.