Clearwater Paper Corp
Form 10-Q
July 27, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2016
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34146
CLEARWATER PAPER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	20-3594554
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
601 West Riverside, Suite 1100 Spokane, Washington	99201
(Address of principal executive offices)	(Zip Code)

(509) 344-5900
(Registrant’s telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý
The number of shares of common stock of the registrant outstanding as of July 22, 2016 was 16,992,902.

CLEARWATER PAPER CORPORATION
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Part I
ITEM 1.
Consolidated
Financial
Statements
Clearwater Paper Corporation
Consolidated Statements of Operations
Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net sales	$436,671	$444,558	$873,875	$878,584
Costs and expenses:				
Cost of sales	(361,851)	(384,347)	(730,498)	(774,179)
Selling, general and administrative expenses	(34,655)	(28,138)	(65,450)	(57,095)
Total operating costs and expenses	(396,506)	(412,485)	(795,948)	(831,274)
Income from operations	40,165	32,073	77,927	47,310
Interest expense, net	(7,396)	(7,774)	(15,039)	(15,556)
Earnings before income taxes	32,769	24,299	62,888	31,754
Income tax provision	(11,905)	(8,702)	(23,578)	(10,400)
Net earnings	$20,864	$15,597	$39,310	$21,354
Net earnings per common share:				
Basic	$1.22	$0.82	$2.27	$1.11
Diluted	1.21	0.81	2.26	1.10

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		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net earnings	$20,864	$15,597	$39,310	$21,354
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of $276, $1,261, $865, and $2,467	427	1,965	1,339	3,842
Amortization of prior service credit included in net periodic cost, net of tax of $(166), $(204), $(332), and $(411)	(256)	(321)	(513)	(641)
Other comprehensive income, net of tax	171	1,644	826	3,201
Comprehensive income	$21,035	$17,241	$40,136	$24,555

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

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

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$9,395	$5,610
Restricted cash	2,270	2,270
Short-term investments	—	250
Receivables, net	143,061	139,052
Taxes receivable	744	14,851
Inventories	248,934	255,573
Other current assets	7,659	9,331
Total current assets	412,063	426,937
Property, plant and equipment, net	881,975	866,538
Goodwill	209,087	209,087
Intangible assets, net	17,517	19,990
Pension assets	1,555	596
Other assets, net	4,535	4,221
TOTAL ASSETS	$1,526,732	$1,527,369
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$208,292	$220,368
Current liability for pensions and other postretirement employee benefits	7,559	7,559
Total current liabilities	215,851	227,927
Long-term debt	569,371	568,987
Liability for pensions and other postretirement employee benefits	86,465	89,057
Other long-term obligations	42,873	46,738
Accrued taxes	1,516	1,676
Deferred tax liabilities	127,762	118,118
Stockholders' equity:		
Preferred stock, par value $0.0001 per share, 5,000,000 authorized shares, no shares issued	—	—
Common stock, par value $0.0001 per share, 100,000,000 authorized shares-24,208,242 and 24,193,098 shares issued	2	2
Additional paid-in capital	343,155	340,095
Retained earnings	559,617	520,307
Treasury stock, at cost, common shares-7,215,340 and 6,380,309 shares repurchased	(365,158)	(329,990)
Accumulated other comprehensive loss, net of tax	(54,722)	(55,548)
Total stockholders' equity	482,894	474,866
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,526,732	$1,527,369

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

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

	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$39,310	$21,354
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	43,174	41,640
Equity-based compensation expense	7,716	2,019
Deferred tax provision (benefit)	8,674	(2,480)
Employee benefit plans	(2,561)	1,438
Deferred issuance costs on long-term debt	419	446
Disposal of plant and equipment, net	—	272
Non-cash adjustments to unrecognized taxes	(160)	(979)
Changes in working capital, net	(13,394)	29,309
Changes in taxes receivable, net	14,107	1,255
Excess tax benefits from equity-based payment arrangements	(148)	(1,459)
Funding of qualified pension plans	—	(3,179)
Other, net	(722)	(1,726)
Net cash flows from operating activities	96,415	87,910
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in short-term investments, net	250	(10,000)
Additions to plant and equipment	(57,394)	(55,538)
Proceeds from sale of assets	—	507
Net cash flows from investing activities	(57,144)	(65,031)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(35,168)	(37,148)
Borrowings on revolving credit facility	477,169	—
Repayments of revolving credit facility borrowings	(477,169)	—
Payment of tax withholdings on equity-based payment arrangements	(466)	(3,048)
Excess tax benefits from equity-based payment arrangements	148	1,459
Other, net	—	(8)
Net cash flows from financing activities	(35,486)	(38,745)
Increase (decrease) in cash and cash equivalents	3,785	(15,866)
Cash and cash equivalents at beginning of period	5,610	27,331
Cash and cash equivalents at end of period	$9,395	$11,465
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$13,368	$14,280
Cash paid for income taxes	10,885	8,030
Cash received from income tax refunds	10,506	2,029
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accrued plant and equipment	$(2,841)	$(5,187)

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

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Clearwater Paper Corporation
Condensed Notes to Consolidated Financial Statements
Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

Clearwater Paper manufactures quality consumer tissue, away-from-home tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. The company is a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchants and discount stores. In addition, the company produces bleached paperboard used by quality-conscious printers and packaging converters.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, the related Consolidated Statements of Operations and Comprehensive Income for the three and six months ended June 30, 2016 and 2015, and the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015, 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, 2015, as filed with the Securities and Exchange Commission, or SEC, on February 22, 2016.

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.

CASH AND CASH EQUIVALENTS

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

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 both June 30, 2016 and December 31, 2015, we had $2.3 million classified as current on our Consolidated Balance Sheet.

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 both June 30, 2016 and December 31, 2015, we had allowances for doubtful accounts of $1.4 million.

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 $1,552.4 million and $1,512.1 million at June 30, 2016 and December 31, 2015, respectively.

Consistent with authoritative guidance, we assess the carrying amount of long-lived assets with definite lives that are held-for-use and evaluate them for recoverability whenever events or changes in circumstances indicate that we may be unable to recover the carrying amount of the assets.

STOCKHOLDERS' EQUITY

On December 15, 2015, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time. In total, we have repurchased 835,031 shares of our outstanding common stock as of June 30, 2016, pursuant to this repurchase program, of which 125,665 shares were repurchased during the second quarter of 2016 at an average price of $59.75 per share. As of June 30, 2016, we had up to $64.8 million of authorization remaining pursuant to this stock repurchase program.

On December 15, 2014, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to $100 million of our common stock. We completed that program during the fourth quarter of 2015. In total, we repurchased 1,881,921 shares of our outstanding common stock under that program at an average price of $53.13 per share.

DERIVATIVES

We had no activity during the six months ended June 30, 2016 and 2015 that required hedge or derivative accounting treatment. However, to help mitigate our exposure to market risk for changes in utility commodity pricing, we use firm price contracts to supply a portion of the natural gas requirements for our manufacturing facilities. As of June 30, 2016, these contracts covered approximately 44% of our expected average monthly natural gas requirements for the remainder of 2016. 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 March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). ASU 2016-09 simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. The standard requires all excess tax benefits and deficiencies to be recognized as income tax expenses or benefits discretely in the reporting period in which they occur. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We will adopt ASU 2016-09 in the first quarter of 2017 and, based on our preliminary assessment, currently believe the most significant impact of our adoption of ASU 2016-09 to our consolidated financial statements will be to recognize in our provision for income taxes line of our consolidated statement of operations, instead of to consolidated equity, certain tax benefits or tax shortfalls upon a restricted stock award vesting, performance share award settlement, or stock option exercise relative to the deferred tax asset position established.

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

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, such as service revenue and contract modifications, and clarify guidance for multiple-element arrangements. This standard was originally issued as effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption prohibited. However, in July 2015, the FASB approved deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. In its approval, the FASB also permitted the early adoption of the standard, but not before the original effective date of fiscal years beginning after December 15, 2016. The standard may be applied under either a retrospective or cumulative effect adoption method. We plan on adopting the standard under the deferred effective date. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. Based on our preliminary assessment, we do not anticipate the adoption of this standard will have a material impact on our consolidated financial statements. We anticipate enhancing our disclosures upon the adoption of this standard. We plan to adopt this standard under the cumulative effect adoption method. We are continuing our assessment, which may identify other impacts.

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

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)	June 30, 2016	December 31, 2015
Pulp, paperboard and tissue products	$157,054	$156,055
Materials and supplies	79,782	80,020

Logs, pulpwood, chips and sawdust	12,098	19,498
	$248,934	$255,573

NOTE 4 Intangible Assets

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

	June 30, 2016			
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 41,001	$ (25,056)	$ 15,945
Trade names and trademarks	10.0	3,286	(1,807)	1,479
Non-compete agreements	5.0	574	(481)	93
		$ 44,861	$ (27,344)	$ 17,517

	December 31, 2015			
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 41,001	$ (22,778)	$ 18,223
Trade names and trademarks	10.0	3,286	(1,643)	1,643
Non-compete agreements	5.0	574	(450)	124
		$ 44,861	$ (24,871)	$ 19,990

For each of the three months ended June 30, 2016 and 2015, intangible assets amortization expense was $1.2 million. For each of the six months ended June 30, 2016 and 2015, intangible assets amortization expense was $2.5 million.

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

For the three and six months ended June 30, 2016 and 2015, the effective tax rates attributable to continuing operations were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %	35.0 %
State taxes, net of credits	3.6	2.2	3.6	2.2
Change in valuation allowances	(0.2)	0.9	0.1	0.9
Federal manufacturing deduction	(1.7)	(3.1)	(1.7)	(3.1)
Change in uncertain tax positions	0.2	—	1.2	(3.1)
Interest accrued on uncertain tax positions	—	—	—	0.1
Federal credits and audit adjustments	(0.7)	(0.4)	(0.7)	(0.4)
Return to provision adjustments	(0.2)	—	(0.1)	(0.1)
Other	0.3	1.2	—	1.3
Effective tax rate	36.3 %	35.8 %	37.4 %	32.8 %

Our estimated annual effective tax rate for 2016 is approximately 37%, compared with approximately 35% for 2015.

NOTE 6 Accounts Payable and Accrued Liabilities

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

(In thousands)	June 30, 2016	December 31, 2015
Trade accounts payable	$116,909	$ 128,045
Accrued wages, salaries and employee benefits	45,137	43,997
Accrued interest	11,930	11,981
Accrued discounts and allowances	9,819	8,954
Accrued taxes other than income taxes payable	6,282	5,112
Accrued utilities	6,202	7,536
Other	12,013	14,743
	$208,292	$ 220,368

NOTE 7 Debt

REVOLVING CREDIT FACILITY

As of June 30, 2016 and December 31, 2015, there were no borrowings outstanding under the credit facility. As of June 30, 2016, $4.8 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, at LIBOR plus between 1.25% and 1.75% and (ii) for base rate loans, a per annum rate equal to the greater of the following rates plus between 0.25% and 0.75%: (a) the rate of interest announced by Bank of America from time to time as its prime rate for such day; (b) the weighted average of interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers for such day, plus 0.50%; or (c) LIBOR for a 30-day interest period as determined on such day, plus 1.00%. The percentage margin on all loans is based on our fixed charge coverage ratio for the most recent four quarters. As of June 30, 2016, we would have been permitted to draw an additional $120.2 million under the credit facility at LIBOR plus 1.25%, or base rate plus 0.25%.

NOTE 8 Other Long-Term Obligations

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

(In thousands)	June 30, 2016	December 31, 2015
Long-term lease obligations, net of current portion	$23,636	$ 24,054
Deferred compensation	8,720	10,755
Deferred proceeds	8,235	9,386
Other	2,282	2,543
	$42,873	$ 46,738

NOTE 9 Accumulated Other Comprehensive Loss

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

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

(In thousands)	Pension and Other Post Retirement Employee Benefit Plan Adjustments	Total
Balance at December 31, 2014	$ (70,863)	$ (70,863)
Other comprehensive income, net of tax[1]	3,201	3,201
Balance at June 30, 2015	$ (67,662)	$ (67,662)

[1] For the six months ended June 30, 2016 and 2015, 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 included $2.2 million and $6.3 million, respectively, of actuarial loss amortization, as well as $0.8 million and $1.1 million, respectively, of prior service credit amortization, all net of tax totaling $0.5 million and $2.1 million, respectively. These accumulated other comprehensive loss components are included in the computation of net periodic pension and OPEB costs in Note 10, "Pension and Other Postretirement Employee Benefit Plans."

NOTE 10 Pension and Other Postretirement Employee Benefit Plans

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

	Three Months Ended June 30,			
(In thousands)	2016	2015	2016	2015
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$ 382	$ 307	$ 51	$ 33
Interest cost	3,633	3,475	810	892
Expected return on plan assets	(4,878)	(5,074)	(1)	—
Amortization of prior service cost (credit)	6	18	(428)	(543)
Amortization of actuarial loss (gain)	2,761	3,226	(2,058)	—
Net periodic cost	$ 1,904	$ 1,952	$ (1,626)	$ 382

	Six Months Ended June 30,			
(In thousands)	2016	2015	2016	2015
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$ 780	$ 623	$ 125	$ 181
Interest cost	7,261	6,965	1,576	1,940

Expected return on plan assets	(9,761)	(10,058)	(1)	—
Amortization of prior service cost (credit)	11	36	(856)	(1,088)
Amortization of actuarial loss (gain)	5,645	6,309	(3,441)	—
Net periodic cost	$3,936	$3,875	$(2,597)	$1,033

During the six months ended June 30, 2016, we made no contributions to our qualified pension plans. During the six months ended June 30, 2015, we made contributions of $3.2 million to our qualified pension plans. We do not expect to make contributions in 2016.

During the six months ended June 30, 2016, we made contributions of $0.2 million to our company-sponsored non-qualified pension plan. We estimate contributions will total $0.4 million in 2016. We do not anticipate funding our OPEB plans in 2016 except to pay benefit costs as incurred during the year by plan participants.

During the three and six months ended June 30, 2016, $0.1 million and $0.8 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales," and $0.1 million and $0.5 million, respectively, were charged to "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations. During the three and six months ended June 30, 2015, $1.6 million and $3.4 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales" and $0.7 million and $1.5 million, respectively, were charged to "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations.

NOTE 11 Earnings per Common Share

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic average common shares outstanding[1]	17,065,660	19,081,848	17,293,191	19,205,254
Incremental shares due to:				
Restricted stock units	53,108	93,459	32,355	74,324
Performance shares	89,783	118,868	60,617	104,330
Stock options	25,441	79	—	459
Diluted average common shares outstanding	17,233,992	19,294,254	17,386,163	19,384,367
Basic net earnings per common share	$1.22	$ 0.82	$2.27	$ 1.11
Diluted net earnings per common share	1.21	0.81	2.26	1.10
Anti-dilutive shares excluded from calculation	222,022	365,149	665,603	526,085

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

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NOTE 12 Equity-Based Compensation

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

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Restricted stock units	$367	$552	$660	$963
Performance shares	819	1,164	1,436	2,043
Stock options	748	592	1,284	941
Total employee equity-based compensation	$1,934	$2,308	$3,380	$3,947

During the first six months of 2016, 3,000 restricted stock units were settled and distributed in the first quarter, and an additional 20,000 restricted stock units were settled and distributed in the second quarter. After adjusting for minimum tax withholdings, a net 1,892 shares and 13,252 shares were issued during each respective period. For the six months ended June 30, 2016, the minimum tax withholding payments made totaled $0.5 million.

The following table summarizes the number of share-based awards granted under the Clearwater Paper Corporation 2008 Stock Incentive Plan during the six months ended June 30, 2016 and the grant-date fair value of the awards:

	Six Months Ended June 30, 2016	
	Number of Shares Subject to Award	Average Fair Value of Award Per Share
Restricted stock units	44,627	$ 39.10
Performance shares	93,397	39.70
Stock options	280,191	14.42

DIRECTOR AWARDS

Annually, each outside member of our Board of Directors receives deferred equity-based awards that are measured in units of our common stock and ultimately settled in cash at the time of payment. Accordingly, the compensation expense associated with these awards is subject to fluctuations each quarter based on mark-to-market adjustments at each reporting period in line with changes in the market price of our common stock. As a result of the mark-to-market adjustment, we recorded director equity-based compensation expense of $3.6 million and a benefit of $1.5 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, we recorded director equity-based compensation expense of $4.3 million and a benefit of $1.9 million, respectively.

As of June 30, 2016, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" on the accompanying Consolidated Balance Sheet were $7.5 million and $3.2 million, respectively. At December 31, 2015, liability amounts associated with director equity-based compensation included in "Other long-term obligations" totaled $9.4 million.

NOTE 13 Fair Value Measurements

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

(In thousands)	June 30, 2016 Carrying Amount	June 30, 2016 Fair Value	December 31, 2015 Carrying Amount	December 31, 2015 Fair Value
Cash and cash equivalents, restricted cash and short-term investments (Level 1)	$11,665	$11,665	$8,130	$8,130
Long-term debt (Level 1)	575,000	569,500	575,000	558,250

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

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

NOTE 14 Segment Information

The table below presents information about our reportable segments:

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Segment net sales:				
Consumer Products	$247,912	$239,391	$492,930	$474,567
Pulp and Paperboard	188,759	205,167	380,945	404,017
Total segment net sales	$436,671	$444,558	$873,875	$878,584
Operating income (loss):				
Consumer Products	$18,544	$17,032	$36,934	$29,427
Pulp and Paperboard	40,032	27,754	75,195	43,948
	58,576	44,786	112,129	73,375
Corporate	(18,411)	(12,713)	(34,202)	(26,065)
Income from operations	$40,165	$32,073	$77,927	$47,310
Depreciation and amortization:				
Consumer Products	$14,203	$13,438	$27,962	$26,415
Pulp and Paperboard	6,449	6,737	12,816	14,048
Corporate	1,372	457	2,396	1,177
Total depreciation and amortization	$22,024	$20,632	$43,174	$41,640

NOTE 15 Supplemental Guarantor Financial Information

All of our direct and indirect subsidiaries guarantee our $300 million aggregate principal amount of 5.375% senior notes issued in 2014 and due 2025, which we refer to as the 2014 Notes, and our $275 million aggregate principal amount of 4.5% senior notes issued in January 2013 and due 2023, which we refer to as the 2013 Notes, on a joint and several basis. There are no significant restrictions on the ability of the guarantor subsidiaries to make distributions to Clearwater Paper, the issuer of the 2014 Notes and 2013 Notes. The following tables present the results of operations, financial position and cash flows of Clearwater Paper and its subsidiaries, the guarantor and non-guarantor entities, and the eliminations necessary to arrive at the information for Clearwater Paper on a consolidated basis.

Clearwater Paper Corporation

Consolidating Statement of Operations and Comprehensive Income (Loss)

Three Months Ended June 30, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$425,637	$ 67,824	$ (56,790)	$436,671
Cost and expenses:				
Cost of sales	(356,698)	(61,943)	56,790	(361,851)
Selling, general and administrative expenses	(30,817)	(3,838)	—	(34,655)
Total operating costs and expenses	(387,515)	(65,781)	56,790	(396,506)
Income from operations	38,122	2,043	—	40,165
Interest expense, net	(7,373)	(23)	—	(7,396)
Earnings before income taxes	30,749	2,020	—	32,769
Income tax provision	(11,124)	(781)	—	(11,905)
Equity in income of subsidiary	1,239	—	(1,239)	—
Net earnings	$20,864	$ 1,239	$ (1,239)	$20,864
Other comprehensive income, net of tax	171	—	—	171
Comprehensive income	$21,035	$ 1,239	$ (1,239)	$21,035

Clearwater Paper Corporation

Consolidating Statement of Operations and Comprehensive Income (Loss)

Six Months Ended June 30, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$844,683	$ 145,449	$ (116,257)	$873,875
Cost and expenses:				
Cost of sales	(713,412)	(133,343)	116,257	(730,498)
Selling, general and administrative expenses	(57,654)	(7,796)	—	(65,450)
Total operating costs and expenses	(771,066)	(141,139)	116,257	(795,948)
Income from operations	73,617	4,310	—	77,927
Interest expense, net	(15,016)	(23)	—	(15,039)
Earnings before income taxes	58,601	4,287	—	62,888
Income tax provision	(21,594)	(1,984)	—	(23,578)
Equity in loss of subsidiary	2,303	—	(2,303)	—
Net earnings	$39,310	$ 2,303	$ (2,303)	$39,310
Other comprehensive income, net of tax	826	—	—	826
Comprehensive income	$40,136	$ 2,303	$ (2,303)	$40,136

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Three Months Ended June 30, 2015

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$401,444	$ 70,271	$ (27,157)	$444,558
Cost and expenses:				
Cost of sales	(342,714)	(68,790)	27,157	(384,347)
Selling, general and administrative expenses	(25,431)	(2,707)	—	(28,138)
Total operating costs and expenses	(368,145)	(71,497)	27,157	(412,485)
Income (loss) from operations	33,299	(1,226)	—	32,073
Interest expense, net	(7,715)	(59)	—	(7,774)
Earnings (loss) before income taxes	25,584	(1,285)	—	24,299
Income tax provision	(9,681)	(841)	1,820	(8,702)
Equity in income of subsidiary	(2,126)	—	2,126	—
Net earnings (loss)	$13,777	$ (2,126)	$ 3,946	$15,597
Other comprehensive income, net of tax	1,644	—	—	1,644
Comprehensive income (loss)	$15,421	$ (2,126)	$ 3,946	$17,241

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Six Months Ended June 30, 2015

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$796,831	$ 143,599	$ (61,846)	$878,584
Cost and expenses:				
Cost of sales	(693,760)	(142,265)	61,846	(774,179)
Selling, general and administrative expenses	(50,219)	(6,876)	—	(57,095)
Total operating costs and expenses	(743,979)	(149,141)	61,846	(831,274)
Income (loss) from operations	52,852	(5,542)	—	47,310
Interest expense, net	(15,482)	(74)	—	(15,556)
Earnings (loss) before income taxes	37,370	(5,616)	—	31,754
Income tax provision	(12,909)	(1,183)	3,692	(10,400)
Equity in loss of subsidiary	(6,799)	—	6,799	—
Net earnings (loss)	$17,662	$ (6,799)	$ 10,491	$21,354
Other comprehensive income, net of tax	3,201	—	—	3,201
Comprehensive income (loss)	$20,863	$ (6,799)	$ 10,491	$24,555

Clearwater Paper Corporation
Consolidating Balance Sheet
At June 30, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$9,395	$—	$—	$9,395
Restricted cash	2,270	—	—	2,270
Receivables, net	127,823	15,238	—	143,061
Taxes receivable	2,221	35	(1,512)	744
Inventories	216,891	32,043	—	248,934
Other current assets	7,196	463	—	7,659
Total current assets	365,796	47,779	(1,512)	412,063
Property, plant and equipment, net	740,687	141,288	—	881,975
Goodwill	209,087	—	—	209,087
Intangible assets, net	3,657	13,860	—	17,517
Intercompany receivable (payable)	(1,147)	1,147	—	—
Investment in subsidiary	142,061	—	(142,061)	—
Pension assets	1,555	—	—	1,555
Other assets, net	5,043	844	(1,352)	4,535
TOTAL ASSETS	$1,466,739	$ 204,918	$(144,925)	$1,526,732
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$185,769	$ 24,035	$(1,512)	$208,292
Current liability for pensions and other postretirement employee benefits	7,559	—	—	7,559
Total current liabilities	193,328	24,035	(1,512)	215,851
Long-term debt	569,371	—	—	569,371
Liability for pensions and other postretirement employee benefits	86,465	—	—	86,465
Other long-term obligations	42,458	415	—	42,873
Accrued taxes	705	811	—	1,516
Deferred tax liabilities	91,518	37,596	(1,352)	127,762
Stockholders' equity excluding accumulated other comprehensive loss	537,616	142,061	(142,061)	537,616
Accumulated other comprehensive loss, net of tax	(54,722)	—	—	(54,722)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,466,739	$ 204,918	$(144,925)	$1,526,732

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Clearwater Paper Corporation
Consolidating Balance Sheet
At December 31, 2015

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
ASSETS				
Current assets:				
Cash	$5,610	$—	$—	$5,610
Restricted cash	2,270	—	—	2,270
Short-term investments	250	—	—	250
Receivables, net	123,131	15,921	—	139,052
Taxes receivable	16,221	(1,370)	—	14,851
Inventories	219,130	36,443	—	255,573
Other current assets	8,838	493	—	9,331
Total current assets	375,450	51,487	—	426,937
Property, plant and equipment, net	719,436	147,102	—	866,538
Goodwill	209,087	—	—	209,087
Intangible assets, net	4,180	15,810	—	19,990
Intercompany receivable (payable)	14,013	(15,151)	1,138	—
Investment in subsidiary	139,758	—	(139,758)	—
Pension assets	596	—	—	596
Other assets, net	4,142	79	—	4,221
TOTAL ASSETS	$1,466,662	$199,327	$(138,620)	$1,527,369
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$196,891	$23,477	$—	$220,368
Current liability for pensions and other postretirement employee benefits	7,559	—	—	7,559
Total current liabilities	204,450	23,477	—	227,927
Long-term debt	568,987	—	—	568,987
Liability for pensions and other postretirement employee benefits	89,057	—	—	89,057
Other long-term obligations	46,182	556	—	46,738
Accrued taxes	874	802	—	1,676
Deferred tax liabilities	82,246	34,734	1,138	118,118
Stockholders' equity excluding accumulated other comprehensive loss	530,414	139,758	(139,758)	530,414
Accumulated other comprehensive loss, net of tax	(55,548)	—	—	(55,548)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,466,662	$199,327	$(138,620)	$1,527,369

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Six Months Ended June 30, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	$39,310	$ 2,303	$ (2,303)	$39,310
Adjustments to reconcile net earnings to net cash flows from operating activities:				
Depreciation and amortization	32,905	10,269	—	43,174
Equity-based compensation expense	7,716	—	—	7,716
Deferred tax provision	7,858	1,954	(1,138)	8,674
Employee benefit plans	(2,561)	—	—	(2,561)
Deferred issuance costs on long-term debt	419	—	—	419
Non-cash adjustments to unrecognized taxes	(169)	9	—	(160)
Changes in working capital, net	(18,437)	6,555	(1,512)	(13,394)
Changes in taxes receivable, net	14,000	(1,405)	1,512	14,107
Excess tax benefits from equity-based payment arrangements	(148)	—	—	(148)
Other, net	(706)	(16)	—	(722)
Net cash flows from operating activities	80,187	19,669	(3,441)	96,415
CASH FLOWS FROM INVESTING ACTIVITIES				
Changes in short-term investments, net	250	—	—	250
Additions to plant and equipment	(54,049)	(3,345)	—	(57,394)
Net cash flows from investing activities	(53,799)	(3,345)	—	(57,144)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	(35,168)	—	—	(35,168)
Investment from (to) parent	12,883	(16,324)	3,441	—
Borrowings on revolving credit facility	477,169	—	—	477,169
Repayments of revolving credit facility borrowings	(477,169)	—	—	(477,169)
Payment of tax withholdings on equity-based payment arrangements	(466)	—	—	(466)
Excess tax benefits from equity-based payment arrangements	148	—	—	148
Net cash flows from financing activities	(22,603)	(16,324)	3,441	(35,486)
Decrease in cash and cash equivalents	3,785	—	—	3,785
Cash and cash equivalents at beginning of period	5,610	—	—	5,610
Cash and cash equivalents at end of period	$9,395	$ —	$ —	$9,395

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Six Months Ended June 30, 2015

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	$17,662	$ (6,799)	$ 10,491	$21,354
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:				
Depreciation and amortization	31,792	9,848	—	41,640
Equity-based compensation expense	2,019	—	—	2,019
Deferred tax (benefit) provision	(4,751)	296	1,975	(2,480)
Employee benefit plans	1,438	—	—	1,438
Deferred issuance costs on long-term debt	446	—	—	446
Disposal of plant and equipment, net	303	(31)	—	272
Non-cash adjustments to unrecognized taxes	(977)	(2)	—	(979)
Changes in working capital, net	23,859	5,450	—	29,309
Changes in taxes receivable, net	6,760	(15,758)	10,253	1,255
Excess tax benefits from equity-based payment arrangements	(1,459)	—	—	(1,459)
Funding of qualified pension plans	(3,179)	—	—	(3,179)
Other, net	(703)	(1,023)	—	(1,726)
Net cash flows from operating activities	73,210	(8,019)	22,719	87,910
CASH FLOWS FROM INVESTING ACTIVITIES				
Changes in short-term investments, net	(10,000)	—	—	(10,000)
Additions to plant and equipment	(52,526)	(3,012)	—	(55,538)
Proceeds from sale of assets	—	507	—	507
Net cash flows from investing activities	(62,526)	(2,505)	—	(65,031)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	(37,148)	—	—	(37,148)
Investment from parent	12,195	10,524	(22,719)	—
Payment of tax withholdings on equity-based payment arrangements	(3,048)	—	—	(3,048)
Excess tax benefits from equity-based payment arrangements	1,459	—	—	1,459
Other, net	(8)	—	—	(8)
Net cash flows from financing activities	(26,550)	10,524	(22,719)	(38,745)
Decrease in cash	(15,866)	—	—	(15,866)
Cash at beginning of period	27,331	—	—	27,331
Cash at end of period	$11,465	$ —	$ —	$11,465

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 natural gas purchases and requirements, tax rates, benefit plan funding, the costs, timing and benefits associated with strategic capital investments including our continuous pulp digester project, our stock repurchase program, the timing of and costs related to major maintenance and repairs, input costs, and cash flows. Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “believe,” “schedule,” “estimate,” “may,” and similar expressions are intended to identify forward-looking 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 2015 Form 10-K, as well as the following:

- competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors in North America and abroad;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- changes in customer product preferences and competitors' product offerings;
- the loss of or changes in prices in regards to a significant customer;
- cyclical industry conditions;
- changes in the cost and availability of wood fiber and wood pulp;
- inability to successfully implement our operational efficiencies and expansion strategies;
- changes in transportation costs and disruptions in transportation services;
- customer acceptance, timing and quantity of purchases of our tissue products;
- changes in costs and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- environmental liabilities or expenditures;
- labor disruptions;
- manufacturing or operating disruptions, including IT system and IT system implementation failures, equipment malfunction and damage to our manufacturing facilities;
- changes in expenses and required contributions associated with our pension plans;
- reliance on a limited number of third-party suppliers for raw materials;
- 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 manufactures quality consumer tissue, away-from-home tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. The company is a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchant and discount stores. In addition, the company produces bleached paperboard used by quality-conscious printers and packaging converters. Clearwater Paper's employees build shareholder value by developing strong customer partnerships through quality and service.

Recent Events

Strategic Capital Projects

As part of our focus on strategic capital spending on projects that we expect to provide a positive return on investments, we announced on September 8, 2015 the construction of a continuous pulp digester project at our Lewiston, Idaho, pulp and paperboard facility. We estimate that the total cost for this pulp optimization project will be approximately $148-$158 million, excluding estimated capitalized interest. As of June 30, 2016, we have incurred a total of $50.1 million in total project costs, of which $9.6 million was incurred in the second quarter of 2016. We have also capitalized $1.3 million of interest related to the project, of which $0.5 million was incurred in the second quarter of 2016. We expect to spend an additional $42 million on this project in 2016 and the remaining balance thereafter. Construction on this project began in 2015 and is expected to be completed in the second half of 2017. We anticipate that this project will significantly reduce air emissions, result in operational improvements through increased pulp quality and production, and lower our costs through the more efficient utilization of wood chips.

Capital Allocation

On December 15, 2015, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time. In total, we have repurchased 835,031 shares of our outstanding common stock as of June 30, 2016, pursuant to this repurchase program, of which 125,665 shares were repurchased during the second quarter of 2016 at an average price of $59.75 per share. As of June 30, 2016, we had up to $64.8 million of authorization remaining pursuant to this stock repurchase program.

On December 15, 2014, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to $100 million of our common stock. We completed that program during the fourth quarter of 2015. In total, we repurchased 1,881,921 shares of our outstanding common stock under that program at an average price of $53.13 per share.

Lewiston Power Outage

Due to an electrical malfunction, on July 6, 2016, we experienced a power outage at our Lewiston, Idaho facility, which disrupted production as we brought the facility back on line in stages. We currently estimate that this disruption will reduce our third quarter operating income by approximately $4 million to $5 million, reflecting both repair costs and lost production.

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 be primarily 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 June 30,					
(Dollars in thousands)	2016			2015		
	Cost	Percentage of Cost of Sales		Cost	Percentage of Cost of Sales	
Purchased pulp	$46,513	12.9	%	$45,223	11.8	%
Transportation[1]	45,233	12.5		44,776	11.6	
Chemicals	40,676	11.2		43,528	11.3	
Chips, sawdust and logs	38,543	10.7		35,481	9.2	
Energy	18,787	5.2		26,188	6.8	
Packaging supplies	21,196	5.9		23,432	6.1	
Maintenance and repairs[2]	21,345	5.9		24,124	6.3	
Depreciation	19,294	5.3		18,731	4.9	
	$251,587	69.5	%	$261,483	68.0	%

	Six Months Ended June 30,					
(Dollars in thousands)	2016			2015		
	Cost	Percentage of Cost of Sales		Cost	Percentage of Cost of Sales	
Purchased pulp	$94,643	13.0	%	$92,951	12.0	%
Transportation[1]	89,846	12.3		88,578	11.4	
Chemicals	82,919	11.4		86,687	11.2	
Chips, sawdust and logs	75,608	10.4		70,757	9.1	
Energy	41,183	5.6		54,676	7.1	
Packaging supplies	42,365	5.8		47,601	6.2	
Maintenance and repairs[2]	39,650	5.4		53,580	6.9	