Clearwater Paper Corp
Form 10-Q
May 04, 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 March 31, 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 April 29, 2016 was 17,105,315.

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 March 31,	
	2016	2015
Net sales	$437,204	$434,026
Costs and expenses:		
Cost of sales	(368,647)	(389,832)
Selling, general and administrative expenses	(30,795)	(28,957)
Total operating costs and expenses	(399,442)	(418,789)
Income from operations	37,762	15,237
Interest expense, net	(7,643)	(7,782)
Earnings before income taxes	30,119	7,455
Income tax provision	(11,673)	(1,698)
Net earnings	$18,446	$5,757
Net earnings per common share:		
Basic	$1.05	$0.30
Diluted	1.05	0.30

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 March 31,	
	2016	2015
Net earnings	$18,446	$5,757
Other comprehensive income:		
Defined benefit pension and other postretirement employee benefits:		
Amortization of actuarial loss included in net periodic cost, net of tax of $589 and $1,206	912	1,877
Amortization of prior service credit included in net periodic cost, net of tax of $(166) and $(207)	(257)	(320)
Other comprehensive income, net of tax	655	1,557
Comprehensive income	$19,101	$7,314

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)

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$2,228	$5,610
Restricted cash	2,270	2,270
Short-term investments	—	250
Receivables, net	134,875	139,052
Taxes receivable	679	14,851
Inventories	243,419	255,573
Other current assets	9,376	9,331
Total current assets	392,847	426,937
Property, plant and equipment, net	873,112	866,538
Goodwill	209,087	209,087
Intangible assets, net	18,753	19,990
Pension assets	1,086	596
Other assets, net	4,329	4,221
TOTAL ASSETS	$1,499,214	$1,527,369
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility borrowings	$6,005	$—
Accounts payable and accrued liabilities	192,820	220,368
Current liability for pensions and other postretirement employee benefits	7,559	7,559
Total current liabilities	206,384	227,927
Long-term debt	569,179	568,987
Liability for pensions and other postretirement employee benefits	87,609	89,057
Other long-term obligations	43,779	46,738
Accrued taxes	1,525	1,676
Deferred tax liabilities	123,032	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-24,194,990 and 24,193,098 shares issued	2	2
Additional paid-in capital	341,493	340,095
Retained earnings	538,753	520,307
Treasury stock, at cost, common shares-7,089,675 and 6,380,309 shares repurchased	(357,649)	(329,990)
Accumulated other comprehensive loss, net of tax	(54,893)	(55,548)
Total stockholders' equity	467,706	474,866
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,499,214	$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)

	Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$18,446	$5,757
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	21,150	21,008
Equity-based compensation expense	2,172	1,169
Deferred tax provision (benefit)	4,365	(1,330)
Employee benefit plans	(1,389)	809
Deferred issuance costs on long-term debt	213	178
Disposal of plant and equipment, net	—	(30)
Non-cash adjustments to unrecognized taxes	(151)	(990)
Changes in working capital, net	(9,548)	3,457
Changes in taxes receivable, net	14,172	1,255
Excess tax benefits from equity-based payment arrangements	—	(343)
Funding of qualified pension plans	—	(1,561)
Other, net	(408)	(1,327)
Net cash flows from operating activities	49,022	28,052
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in short-term investments, net	250	39,000
Additions to plant and equipment	(30,955)	(25,240)
Proceeds from sale of assets	—	506
Net cash flows from investing activities	(30,705)	14,266
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(27,661)	(37,148)
Borrowings on revolving credit facility	123,287	—
Repayments of revolving credit facility borrowings	(117,282)	—
Payment of tax withholdings on equity-based payment arrangements	(43)	(3,048)
Excess tax benefits from equity-based payment arrangements	—	343
Net cash flows from financing activities	(21,699)	(39,853)
(Decrease) increase in cash and cash equivalents	(3,382)	2,465
Cash and cash equivalents at beginning of period	5,610	27,331
Cash and cash equivalents at end of period	$2,228	$29,796
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$13,871	$14,340
Cash paid for income taxes	742	2,518
Cash received from income tax refunds	10,334	479
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accrued plant and equipment	$(5,223)	$(4,434)

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 March 31, 2016 and December 31, 2015, the related Consolidated Statements of Operations and Comprehensive Income for the three months ended March 31, 2016 and 2015, and the Consolidated Statements of Cash Flows for the three months ended March 31, 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 March 31, 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 March 31, 2016 and December 31, 2015, we had allowances for doubtful accounts of $1.7 million and $1.4 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 $1,532.2 million and $1,512.1 million at March 31, 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. During the first quarter of 2016, we repurchased 709,366 shares of our outstanding common stock at an average price of $38.99 per share. As of March 31, 2016, we had up to $72.3 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 three months ended March 31, 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 March 31, 2016, these contracts covered approximately 43% 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 are currently evaluating the impact that the adoption of ASU 2016-09 will have on our consolidated financial statements.

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. We are currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

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. We are continuing to evaluate our method of adoption and the impact this guidance will have on our consolidated financial statements.

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

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)	March 31, 2016	December 31, 2015
Pulp, paperboard and tissue products	$149,636	$156,055
Materials and supplies	79,854	80,020
Logs, pulpwood, chips and sawdust	13,929	19,498
	$243,419	$255,573

NOTE 4 Intangible Assets

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

	March 31, 2016			
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 41,001	$ (23,917)	$ 17,084
Trade names and trademarks	10.0	3,286	(1,725)	1,561
Non-compete agreements	5.0	574	(466)	108
		$ 44,861	$ (26,108)	$ 18,753

	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

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 months ended March 31, 2016 and 2015, the effective tax rates attributable to continuing operations were as follows:

	Three Months Ended March 31,	
	2016	2015
Statutory federal income tax rate	35.0 %	35.0 %
State taxes, net of credits	3.6	2.3
Change in valuation allowances	0.4	1.0
Federal manufacturing deduction	(1.7)	(3.3)
Change in uncertain tax positions	2.3	(13.4)
Interest accrued on uncertain tax positions	0.1	0.1
Federal credits and audit adjustments	(0.7)	(0.4)
Return to provision adjustments	—	1.4
Other	(0.2)	0.1
Effective tax rate	38.8 %	22.8 %

Our estimated annual effective tax rate for the first quarter of 2016 is approximately 36%, compared with approximately 35% for the comparable interim period in 2015. The increase is due to changes in state tax rates. During the three months ended March 31, 2015, the Company reduced the reserve for uncertain tax positions due to statute expirations related to the research and development credit of approximately $1.0 million.

NOTE 6 Accounts Payable and Accrued Liabilities

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

(In thousands)	March 31, 2016	December 31, 2015
Trade accounts payable	$111,157	$ 128,045
Accrued wages, salaries and employee benefits	42,853	43,997
Accrued discounts and allowances	8,911	8,954
Accrued taxes other than income taxes payable	5,891	5,112
Accrued interest	4,848	11,981
Accrued utilities	4,659	7,536
Other	14,501	14,743
	$192,820	$ 220,368

NOTE 7 Debt

REVOLVING CREDIT FACILITY

As of March 31, 2016, $6.0 million was outstanding under the credit facility, and $5.8 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 March 31, 2016, we would have been permitted to draw an additional $113.2 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)	March 31, 2016	December 31, 2015
Long-term lease obligations, net of current portion	$ 23,850	$ 24,054
Deferred compensation	8,939	10,755
Deferred proceeds	8,811	9,386
Other	2,179	2,543
	$ 43,779	$ 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]	655	655
Balance at March 31, 2016	$ (54,893)	$ (54,893)

(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]	1,557	1,557
Balance at March 31, 2015	$ (69,306)	$ (69,306)

[1] For the three months ended March 31, 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 $1.5 million and $3.1 million, respectively, of actuarial loss amortization, as well as $0.4 million and $0.5 million, respectively, of prior service credit amortization, all net of tax totaling $0.4 million and $1.0 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 March 31,			
(In thousands)	2016	2015	2016	2015
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$ 398	$ 316	$ 74	$ 148
Interest cost	3,628	3,490	766	1,048
Expected return on plan assets	(4,883)	(4,984)	—	—
Amortization of prior service cost (credit)	5	18	(428)	(545)
Amortization of actuarial loss (gain)	2,884	3,083	(1,383)	—
Net periodic cost	$ 2,032	$ 1,923	$ (971)	$ 651

During the three months ended March 31, 2016, we made no contributions to our qualified pension plans. We do not expect to make contributions in 2016.

During the three months ended March 31, 2016, we made contributions of $0.1 million to our company-sponsored non-qualified pension plan, and 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 months ended March 31, 2016, $0.7 million of net periodic pension and OPEB costs were charged to "Cost of sales," and $0.4 million were charged to "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations. During the three months ended March 31, 2015, $1.8 million of net periodic pension and OPEB costs were charged to "Cost of sales" and $0.8 million 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 March 31,	
	2016	2015
Basic average common shares outstanding[1]	17,531,790	17,334,729
Incremental shares due to:		
Restricted stock units	48,033	55,734
Performance shares	23,396	74,306
Diluted average common shares outstanding	17,603,219	17,464,769
Basic net earnings per common share	$ 1.05	$ 0.30
Diluted net earnings per common share	1.05	0.30
Anti-dilutive shares excluded from calculation	710,062	399,452

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 March 31,	
(In thousands)	2016	2015
Restricted stock units	$293	$411
Performance shares	616	879
Stock options	537	349
Total employee equity-based compensation	$1,446	$1,639

During the first three months of 2016, 3,000 restricted stock units were settled and distributed. After adjusting for minimum tax withholdings, a net 1,892 shares were issued. The minimum tax withholdings payment made during the first quarter of 2016 was less than $0.1 million.

The following table summarizes the number of share-based awards granted under the Clearwater Paper Corporation 2008 Stock Incentive Plan during the three months ended March 31, 2016 and the grant-date fair value of the awards:

	Three Months Ended March 31, 2016	
	Number of Shares Subject to Award	Average Fair Value of Award Per Share
Restricted stock units	44,323	$ 38.98
Performance shares	92,944	39.70
Stock options	278,832	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 $0.7 million and a benefit of $0.5 million for the three months ended March 31, 2016 and 2015, respectively.

As of March 31, 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 $7.8 million and $2.4 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:

	March 31, 2016		December 31, 2015	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents, restricted cash and short-term investments (Level 1)	$5,298	$5,298	$8,130	$8,130
Revolving credit facility borrowings (Level 1)	6,005	6,005	—	—
Long-term debt (Level 1)	575,000	555,250	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:

	Three Months Ended March 31,	
(In thousands)	2016	2015
Segment net sales:		
Consumer Products	$245,018	$235,176
Pulp and Paperboard	192,186	198,850
Total segment net sales	$437,204	$434,026
Operating income (loss):		
Consumer Products	$18,390	$12,395
Pulp and Paperboard	35,163	16,194
	53,553	28,589
Corporate	(15,791)	(13,352)
Income from operations	$37,762	$15,237
Depreciation and amortization:		
Consumer Products	$13,759	$12,977
Pulp and Paperboard	6,367	7,311
Corporate	1,024	720
Total depreciation and amortization	$21,150	$21,008

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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 March 31, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$419,046	$ 77,625	$ (59,467)	$437,204
Cost and expenses:				
Cost of sales	(356,714)	(71,400)	59,467	(368,647)
Selling, general and administrative expenses	(26,837)	(3,958)	—	(30,795)
Total operating costs and expenses	(383,551)	(75,358)	59,467	(399,442)
Income from operations	35,495	2,267	—	37,762
Interest expense, net	(7,643)	—	—	(7,643)
Earnings before income taxes	27,852	2,267	—	30,119
Income tax provision	(10,470)	(1,203)	—	(11,673)
Equity in income of subsidiary	1,064	—	(1,064)	—
Net earnings	$18,446	$ 1,064	$ (1,064)	$18,446
Other comprehensive income, net of tax	655	—	—	655
Comprehensive income	$19,101	$ 1,064	$ (1,064)	$19,101

Clearwater Paper Corporation

Consolidating Statement of Operations and Comprehensive Income (Loss)

Three Months Ended March 31, 2015

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$395,387	$ 73,328	$ (34,689)	$434,026
Cost and expenses:				
Cost of sales	(351,046)	(73,475)	34,689	(389,832)
Selling, general and administrative expenses	(24,788)	(4,169)	—	(28,957)
Total operating costs and expenses	(375,834)	(77,644)	34,689	(418,789)
Income (loss) from operations	19,553	(4,316)	—	15,237
Interest expense, net	(7,767)	(15)	—	(7,782)
Earnings (loss) before income taxes	11,786	(4,331)	—	7,455
Income tax provision	(3,228)	(342)	1,872	(1,698)
Equity in loss of subsidiary	(4,673)	—	4,673	—
Net earnings (loss)	$3,885	$ (4,673)	$ 6,545	$5,757
Other comprehensive income, net of tax	1,557	—	—	1,557
Comprehensive income (loss)	$5,442	$ (4,673)	$ 6,545	$7,314

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Clearwater Paper Corporation
Consolidating Balance Sheet
At March 31, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$2,228	$—	$—	$2,228
Restricted cash	2,270	—	—	2,270
Receivables, net	119,319	15,556	—	134,875
Taxes receivable	646	33	—	679
Inventories	209,823	33,596	—	243,419
Other current assets	8,880	496	—	9,376
Total current assets	343,166	49,681	—	392,847
Property, plant and equipment, net	729,072	144,040	—	873,112
Goodwill	209,087	—	—	209,087
Intangible assets, net	3,918	14,835	—	18,753
Intercompany receivable (payable)	10,088	(10,088)	—	—
Investment in subsidiary	140,822	—	(140,822)	—
Pension assets	1,086	—	—	1,086
Other assets, net	4,680	977	(1,328)	4,329
TOTAL ASSETS	$1,441,919	$199,445	$(142,150)	$1,499,214
LIABILITIES AND STOCKHOLDERS’ EQUITY				
Current liabilities:				
Revolving credit facility borrowings	$6,005	$—	$—	$6,005
Accounts payable and accrued liabilities	173,306	19,514	—	192,820
Current liability for pensions and other postretirement employee benefits	7,559	—	—	7,559
Total current liabilities	186,870	19,514	—	206,384
Long-term debt	569,179	—	—	569,179
Liability for pensions and other postretirement employee benefits	87,609	—	—	87,609
Other long-term obligations	43,293	486	—	43,779
Accrued taxes	718	807	—	1,525
Deferred tax liabilities	86,544	37,816	(1,328)	123,032
Accumulated other comprehensive loss, net of tax	(54,893)	—	—	(54,893)
Stockholders' equity excluding accumulated other comprehensive loss	522,599	140,822	(140,822)	522,599
TOTAL LIABILITIES AND STOCKHOLDERS’ EQUITY	$1,441,919	$199,445	$(142,150)	$1,499,214

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
Accumulated other comprehensive loss, net of tax	(55,548)	—	—	(55,548)
Stockholders' equity excluding accumulated other comprehensive loss	530,414	139,758	(139,758)	530,414
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,466,662	$199,327	$(138,620)	$1,527,369

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Three Months Ended March 31, 2016

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	$18,446	$ 1,064	$ (1,064)	$18,446
Adjustments to reconcile net earnings to net cash flows from operating activities:				
Depreciation and amortization	16,061	5,089	—	21,150
Equity-based compensation expense	2,172	—	—	2,172
Deferred tax provision	3,329	2,174	(1,138)	4,365
Employee benefit plans	(1,389)	—	—	(1,389)
Deferred issuance costs on long-term debt	213	—	—	213
Non-cash adjustments to unrecognized taxes	(156)	5	—	(151)
Changes in working capital, net	(11,062)	1,514	—	(9,548)
Changes in taxes receivable, net	15,575	(1,403)	—	14,172
Other, net	(338)	(70)	—	(408)
Net cash flows from operating activities	42,851	8,373	(2,202)	49,022
CASH FLOWS FROM INVESTING ACTIVITIES				
Changes in short-term investments, net	250	—	—	250
Additions to plant and equipment	(27,475)	(3,480)	—	(30,955)
Net cash flows from investing activities	(27,225)	(3,480)	—	(30,705)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	(27,661)	—	—	(27,661)
Investment from (to) parent	2,691	(4,893)	2,202	—
Borrowings on revolving credit facility	123,287	—	—	123,287
Repayments of revolving credit facility borrowings	(117,282)	—	—	(117,282)
Payment of tax withholdings on equity-based payment arrangements	(43)	—	—	(43)
Net cash flows from financing activities	(19,008)	(4,893)	2,202	(21,699)
Decrease in cash and cash equivalents	(3,382)			