MSC INDUSTRIAL DIRECT CO INC
Form SC 13G
February 11, 2019

United States
Securities and Exchange
Commission
Washington, D.C. 20549

SCHEDULE 13G

Under the Securities
Exchange Act of 1934

(Amendment No. )*

MSC INDUSTRIAL
DIRECT CO., INC.
(Name of Issuer)

CLASS A COMMON
STOCK
(Title of Class of
Securities)

553530106
(CUSIP Number)

DECEMBER 31, 2018
(Date of Event Which
Requires Filing of this
Statement)

Check the appropriate box
to designate the rule
pursuant to which this
Schedule is filed:

[ X ] Rule 13d-1(b)
[ ] Rule 13d-1(c)
[ ]

Rule
13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Page 1 of 8 Pages

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CUSIP No. 553530106

1. Names of Reporting Persons

   American Century Investment Management, Inc.

2. Check the Appropriate Box if a Member of a Group (See Instructions)

   (a) [ ]

   (b) [ ]

3. SEC Use Only

4. Citizenship or Place of Organization

   Delaware

| Number of Shares Beneficially Owned by Each Reporting Person With: | | |
|---|---|---|
| | 5. Sole Voting Power | 2,597,845 |
| | 6. Shared Voting Power | N/A |
| | 7. Sole Dispositive Power | 2,640,682 |
| | 8. Shared Dispositive Power | N/A |

9. Aggregate Amount Beneficially Owned by Each Reporting Person 2,640,682

| | | |
|---|---|---|
| 10. | Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) [ ] | |
| 11. | Percent of Class Represented by Amount in Row (9) | 5.85% |
| 12. | Type of Reporting Person (See Instructions) | IA |

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CUSIP No. 553530106

1. Names of Reporting Persons

   American Century Companies, Inc.

2. Check the Appropriate Box if a Member of a Group (See Instructions)

   (a) [ ]

   (b) [ ]

3. SEC Use Only

4. Citizenship or Place of Organization

   Delaware

| Number of Shares Beneficially Owned by Each Reporting Person With: | | |
|---|---|---|
| | 5. Sole Voting Power | 2,597,845 |
| | 6. Shared Voting Power | N/A |
| | 7. Sole Dispositive Power | 2,640,682 |
| | 8. Shared Dispositive Power | N/A |

9. Aggregate Amount Beneficially Owned by Each Reporting Person 2,640,682

10.

| | | |
|---|---|---|
| | Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) [ ] | |
| 11. | Percent of Class Represented by Amount in Row (9) | 5.85% |
| 12. | Type of Reporting Person (See Instructions) | HC |

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CUSIP No. 553530106

1. Names of Reporting Persons

   Stowers Institute for Medical Research

2. Check the Appropriate Box if a Member of a Group (See Instructions)

   (a) [ ]

   (b) [ ]

3. SEC Use Only

4. Citizenship or Place of Organization

   Delaware

| Number of Shares Beneficially Owned by Each Reporting Person With: | | |
|---|---|---|
| | 5. Sole Voting Power | 2,597,845 |
| | 6. Shared Voting Power | N/A |
| | 7. Sole Dispositive Power | 2,640,682 |
| | 8. Shared Dispositive Power | N/A |

9. Aggregate Amount Beneficially Owned by Each Reporting Person 2,640,682

10.

| | | |
|---|---|---|
| | Check if the Aggregate Amount in Row (9) Excludes Certain Shares (See Instructions) [ ] | |
| 11. | Percent of Class Represented by Amount in Row (9) | 5.85% |
| 12. | Type of Reporting Person (See Instructions) | HC |

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Item 1.

(a) Name of Issuer.

MSC Industrial Direct Co., Inc.

(b) Address of Issuer's Principal Executive Offices

75 Maxess Road
Melville, New York 11747

Item 2.

(a) Name of Person Filing.

(1) American Century Investment Management, Inc.

(2) American Century Companies, Inc.

(3) Stowers Institute for Medical Research

(b) Address of Principal Business Office or, if none, Residence.

4500 Main Street
9th Floor
Kansas City, Missouri 64111

(c) Citizenship.

(1) Delaware

(2) Delaware

(3) Delaware

(d) Title of Class of Securities.

Reference is made to the cover page of this filing.

(e) CUSIP Number.

Reference is made to the cover page of this filing.

Item 3. If this statement is filed pursuant to §§240.13d-1(b) or 240.13d-2(b) or (c), check whether the person filing is a:

(1) American Century Investment Management, Inc. is an investment adviser in accordance with §240.13d-1(b)(1)(ii)(E).

(2) American Century Companies, Inc. is a parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).

(3) Stowers Institute for Medical Research, is a parent holding company or control person in accordance with §240.13d-1(b)(1)(ii)(G).

Item 4. Ownership.

Reference is made to Items 5-9 and 11 on the cover page of this filing.

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following [ ].

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Various persons, including the investment companies and separate institutional investor accounts that American Century Investment Management, Inc. ("ACIM") serves as investment adviser, have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, the securities that are the subject of this schedule. Except as may be otherwise indicated if this is a joint filing, not more than 5% of the class of securities that is the subject of this schedule is owned by any one client advised by ACIM.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on By the Parent Holding Company or Control Person.

See attached Exhibit A.

Item 8. Identification and Classification of Members of the Group.

Not applicable.

Notice of Dissolution of Group.

Item
9.

Not applicable.



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Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated this 11th day of February, 2019.

AMERICAN CENTURY INVESTMENT MANAGEMENT, INC. ("ACIM")

AMERICAN CENTURY COMPANIES, INC. ("ACC")

By: Our near term strategy of improving our competitive position by investing to achieve increased operational efficiencies and implementing cost control measures may not be fully achieved. Those goals, along with the capital projects we have invested in or are investing in to help achieve these goals, including the continuous digester at our Lewiston facility and warehouse automation at several facilities, may not achieve expected operational or financial results in the time frames we anticipate, or at all. Such delays or failures could materially affect our business, cash flows and financial condition.

The expansion of our business through the construction of new tissue making and converting facilities may not proceed as anticipated.

In connection with our long-term expansion strategy, we are adding a paper machine capable of producing certain premium and ultra-quality tissue products, and converting facilities to our Shelby, North Carolina site. The tissue machine to be installed in North Carolina is highly complex and costly and it can be manufactured by only one company in the world. Installing this machine and building the supporting facilities entails numerous risks, including difficulties in completing the project on time due to construction or permitting issues, cost overruns, difficulties in integrating the new operations and personnel, and uncertainties regarding the existence of sufficient customer demand and acceptance of the quality of the tissue produced once the new paper machine becomes operational. Any of these risks, if realized, could have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, such events could also divert management's attention from other business concerns.

United States and global economic conditions could have adverse effects on the demand for our products and financial results.

U.S. and global economic conditions and currency exchange rates have a significant impact on our business and financial results. Recessed global economic conditions and a strong U.S. dollar can affect our business in a number of ways, including causing declines in global demand for consumer tissue and paperboard, which increases the likelihood or the pace of foreign manufacturers entering into or increasing sales into the U.S. market.

Increased competition and supply from foreign manufacturers could have adverse effects on the demand for our products and financial results.

Foreign manufacturers in Asia and Europe are currently in the process of increasing, and are expected to continue to increase, their paperboard production capabilities. This, in turn, may result in increased competition in the North American paperboard markets from direct sales by foreign competitors into these markets and/or increased

competition in the U.S. as domestic manufacturers seek increased U.S. sales to offset displaced overseas sales caused by increased sales by foreign suppliers into Asia and European markets. An increased supply of foreign paperboard products could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our results of operations and cash flows.

Our business and financial performance may be harmed by future labor disruptions.

As of December 31, 2017, approximately 49% of our full-time employees were represented by unions under collective bargaining agreements. As these agreements expire, we may not be able to negotiate extensions or replacement agreements on terms acceptable to us. In 2017, the collective bargaining agreements for hourly employees at our Lewiston, Idaho facility, which affects approximately 1,010 employees, expired and are currently being negotiated. Any failure to reach an agreement with one of the unions may result in strikes, lockouts, work slowdowns, stoppages or other labor actions, any of which could have a material adverse effect on our operations and financial results.

Disruptions in transportation services or increases in our transportation costs could have a material adverse effect on our business.

Our business, particularly our consumer products business, is dependent on transportation services to deliver our products to our customers and to deliver raw materials to us. Shipments of products and raw materials may be delayed or disrupted due to weather conditions, labor shortages or strikes, regulatory actions or other events. If our transportation providers are unavailable or fail to deliver our products in a timely manner, we may incur increased costs. If any

transportation providers are unavailable or fail to deliver raw materials to us in a timely manner, we may be unable to manufacture products on a timely basis.

The costs of these transportation services are also affected by geopolitical and economic events. In 2017, our transportation costs were 11.6% of our sales, with those costs spiking in the second half of 2017 as the result of higher line haul rates, diesel prices and weather related events. We have not been able in the past, and may not be able in the future, to pass along part or all of any fuel price increases to customers. If we are unable to increase our prices as a result of increased fuel or transportation costs, our gross margins may be materially adversely affected.

We depend on external sources of wood pulp and wood fiber for a significant portion of our tissue production, which subjects our business and results of operations to potentially significant fluctuations in the price of market pulp and wood fiber.

Our Consumer Products segment sources a significant portion of its wood pulp requirements from external suppliers, which exposes us to price fluctuation. In 2017, we sourced approximately 54% of our pulp requirements for tissue manufacturing externally, comprising approximately 11.2% of our sales.

Pulp prices can, and have, changed significantly from one period to the next. The volatility of pulp prices can adversely affect our earnings if we are unable to pass cost increases on to our customers or if the timing of any price increases for our products significantly trails the increases in pulp prices. In 2017, we were not able to pass on these pulp price increases to our customers due to competitive conditions.

Wood fiber is the principal raw material used to create wood pulp, which in turn is used to manufacture our pulp and paperboard products and consumer products. In 2017, our wood fiber costs were 7.8% of our sales. Much of the wood fiber we use in our pulp manufacturing process in Lewiston, Idaho, is the by-product of sawmill operations. As a result, the price of these residual wood fibers is affected by operating levels in the lumber industry. The significant reduction in home building over the past several years resulted in the closure or curtailment of operations at many sawmills and consolidation amongst suppliers. The expansion of operations and production of other paper mills and wood pellet manufacturers in the Inland Northwest region of the United States can, and has, increased the demand and price for wood fiber. Additionally, the ability of paper and wood pellet mills in British Columbia to acquire wood fiber from the Inland Northwest region with limited to no reciprocal ability by U.S. mills to acquire wood fiber from British Columbia, reduces the supply of and increases the costs for wood fiber. The price of wood fiber is expected to remain volatile.

The supply and price of wood fiber can also be negatively affected by weather and other events. For example, our Arkansas pulp and paperboard facility relies on whole log chips for a significant portion of its wood fiber, and in the past this facility has experienced increases in the costs for wood fiber due to extremely wet weather conditions in the Southeastern U.S. that limited accessibility and availability.

The effects on market prices for wood fiber resulting from various governmental programs involving tax credits or payments related to biomass and other renewable energy projects are uncertain and could result in a reduction in the supply of wood fiber available for our pulp and paperboard manufacturing operations. Additionally, wood pellet facilities or fluff pulp facilities, such as a fluff pulp facility recently announced in Arkansas, can increase demand and prices for wood fiber. If we and our pulp suppliers are unable to obtain wood fiber at favorable prices or at all, our costs will increase and our operations and financial results may be harmed.

We incur significant expenses to maintain our manufacturing equipment and any interruption in the operations of our facilities may harm our operating performance.

We regularly incur significant expenses to maintain our manufacturing equipment and facilities. The machines and equipment that we use to produce our products are complex, have many parts and some are run on a continuous basis. We must perform routine maintenance on our equipment and will have to periodically replace a variety of parts such as motors, pumps, pipes and electrical parts. In addition, our pulp and paperboard facilities require periodic shutdowns to perform major maintenance. These scheduled shutdowns of facilities result in decreased sales and increased costs in the periods in which they occur and could result in unexpected operational issues in future periods as a result of changes to equipment and operational and mechanical processes made during the shutdown period. We had two scheduled major maintenance shutdowns in 2017, which occurred during the second quarter at our Arkansas facility and the third quarter at our Lewiston, Idaho pulp and paperboard facility.

Unexpected production disruptions could cause us to shut down or curtail operations at any of our facilities. For example, we had a fire in the first quarter of 2017 at our Shelby, North Carolina facility. Disruptions could occur due to any number of circumstances, including prolonged power outages, mechanical or process failures, shortages of raw materials, natural catastrophes, disruptions in the availability of transportation, labor disputes, terrorism, changes in or non-compliance with environmental or safety laws and the lack of availability of services from any of our facilities' key suppliers. Any facility shutdowns may be followed by prolonged startup periods, regardless of the reason for the

shutdown. Those startup periods could range from several days to several weeks, depending on the reason for the shutdown and other factors. Any prolonged disruption in operations at any of our facilities could cause significant lost production, which would have a material adverse effect on our results of operations.

The cost of chemicals and energy needed for our manufacturing processes significantly affects our results of operations and cash flows.

We use a variety of chemicals in our manufacturing processes, including petroleum-based polyethylene and certain petroleum-based latex chemicals. In 2017, our chemical costs were 9.6% of our sales. Prices for these chemicals have been and are expected to remain volatile. In addition, chemical suppliers that use petroleum-based products in the manufacture of their chemicals may, due to supply shortages and cost increases, ration the amount of chemicals available to us, and therefore we may not be able to obtain at favorable prices the chemicals we need to operate our business, if we are able to obtain them at all.

Our manufacturing operations also utilize large amounts of electricity and natural gas. In 2017, our energy costs were 5.0% of our sales. Energy prices have fluctuated widely over the past decade, which in turn affects our cost of sales. We purchase on the open market a substantial portion of the natural gas necessary to produce our products, and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand, geopolitical events, government regulation, and natural disasters. 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 reducing energy usage. Any significant energy shortage or significant increase in our energy costs in circumstances where we cannot raise the price of our products could have a material adverse effect on our results of operations. Any disruption in the supply of energy could also affect our ability to meet customer demand in a timely manner and could harm our reputation.

Cyclical industry conditions have in the past affected and may continue to adversely affect the operating results and cash flows of our pulp and paperboard business.

Our pulp and paperboard business has historically been affected by cyclical market conditions. We may be unable to sustain pricing in the face of weaker demand, and weaker demand may in turn cause us to take production downtime. In addition to lost revenue from lower shipment volumes, production downtime causes unabsorbed fixed manufacturing costs due to lower production levels. Our results of operations and cash flows may be materially adversely affected in a period of prolonged and significant market weakness. We are not able to predict market conditions or our ability to sustain pricing and production levels during periods of weak demand.

We rely on information technology in critical areas of our operations, and a disruption relating to such technology could harm our financial condition.

We use information technology, or IT, systems in various aspects of our operations, including enterprise resource planning, or ERP, management of inventories and customer sales. Some of these systems have been in place for long periods of time. We have different legacy IT systems that we are continuing to integrate. If one of these systems was to fail or cause operational or reporting interruptions, or if we decide to change these systems or hire outside parties to provide these systems, we may suffer disruptions, which could have a material adverse effect on our manufacturing and sales operation, results of operations and financial condition. In addition, we may underestimate the costs and expenses of developing and implementing new systems.

We may be required to pay material amounts under multiemployer pension plans.

We contribute to two multiemployer pension plans. The amount of our annual contributions to each of these plans is negotiated with the plan and the bargaining unit representing our employees covered by the plan. In 2017, we contributed approximately $6 million to these plans, and in future years we may be required to make increased annual contributions, which would reduce the cash available for business and other needs. In addition, in the event of a partial or complete withdrawal by us from any multiemployer plan that is underfunded, we would be liable for a proportionate share of such multiemployer plan's unfunded vested benefits, referred to as a withdrawal liability. A withdrawal liability is considered a contingent liability. In the event that any other contributing employer withdraws from any multiemployer plan that is underfunded, and such employer cannot satisfy its obligations under the multiemployer plan at the time of withdrawal, then the proportionate share of the plan’s unfunded vested benefits that would be allocable to us and to the other remaining contributing employers would increase and there could be an increase to our required annual contributions. In renegotiations of collective bargaining agreements with labor unions

that participate in these multiemployer plans, we may decide to discontinue participation in these plans.

One of the multiemployer pension plans to which we contribute, the PACE Industry Union-Management Pension Fund, or PIUMPF, was certified to be in "critical status" for the plan year beginning January 1, 2010, and continued to be in critical status through the plan year beginning January 1, 2014. For the plan years beginning January 1, 2015 through

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January 1, 2017, PIUMPF was certified to be in "critical and declining status" under the Multiemployer Pension Plan Reform Act of 2014. In 2013, two large employers withdrew from PIUMPF and in 2015 the largest employer in PIUMPF also withdrew. Additional employers have continued to withdraw, or announced plans to withdraw, from the fund in 2016 and 2017, including the second largest remaining employer in early 2018. We believe that we are now the largest contributing employer. Further withdrawals by contributing employers could cause a “mass withdrawal” from, or effectively a termination of, PIUMPF or alternatively we could elect to withdraw. Although we have no current intention to withdraw from PIUMPF, if we were to withdraw, either completely or partially, we would incur a withdrawal liability based on our share of PIUMPF’s unfunded vested benefits. Based on our records as of December 31, 2017, as well as information provided by PIUMPF, and reviewed by our actuarial consultant, we estimate that, as of December 31, 2017, the payments that we would be required to make to PIUMPF in the event of our complete withdrawal would be approximately $5.7 million per year on a pre-tax basis. These payments would continue for 20 years, unless we were deemed to be included in a “mass withdrawal” from PIUMPF, in which case these payments would continue in perpetuity. PIUMPF's rehabilitation plan also purports to require additional accumulated funding deficiency amounts due upon a withdrawal that we believe to be unenforceable.
However, we are not able to determine the exact amount of our withdrawal liability because the amount could be higher or lower depending on the nature and timing of any triggering event, the funded status of the plan and our level of contributions to the plan prior to the triggering event. These withdrawal liability payments would be in addition to pension contributions to any new pension plan adopted or contributed to by us to replace PIUMPF, all of which would reduce the cash available for business and other needs. Adverse changes to or requirements under pension laws and regulations or adverse changes, requirements or claims pursuant to the fund's rehabilitation plan could increase the likelihood and amount of our liabilities arising under PIUMPF.
Our company-sponsored pension plans are currently underfunded, and we may be required to make cash payments to the plans, reducing cash available for our business.
We have company-sponsored pension plans covering certain of our salaried and hourly employees. The volatility in the value of equity and fixed income investments held by these plans, coupled with a low interest rate environment resulting in higher liability valuations, has caused these plans to be underfunded as the projected benefit obligation has exceeded the aggregate fair value of plan assets by varying year-end amounts since 2008. At December 31, 2017, and 2016, our company sponsored pension plans were underfunded in the aggregate by $6.8 million and $18.8 million, respectively. As a result of underfunding, we may be required to make contributions to our qualified pension plans in future years, which would reduce the cash available for business and other needs. In 2017, we made no contributions to these pension plans, and we are not required to make contributions in 2018.
We are subject to significant environmental regulation and environmental compliance expenditures, which could increase our costs and subject us to liabilities.
We are subject to various federal, state and foreign environmental laws and regulations concerning, among other things, water discharges, air emissions, hazardous material and waste management and environmental cleanup. Environmental laws and regulations continue to evolve and we may become subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws and standards related to climate change issues, such as reporting of greenhouse gas emissions. Increased regulatory activity at the state, federal and international level is possible regarding climate change as well as other emerging environmental issues associated with our manufacturing sites, such as water quality standards based on elevated fish consumption rates. Compliance with regulations that implement new public policy in these areas might require significant expenditures on our part or even the curtailment of certain of our manufacturing operations.
We are required to comply with environmental laws and the terms and conditions of multiple environmental permits. In particular, the pulp and paper industry in the United States is subject to several performance based rules associated with effluent and air emissions as a result of certain of its manufacturing processes. Federal, state and local laws and regulations require us to routinely obtain authorizations from and comply with the evolving standards of the appropriate governmental authorities, which have considerable discretion over the terms of permits. Failure to comply with environmental laws and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing our operations or requiring us to take corrective measures, install pollution control equipment, or take other remedial actions, such as product recalls or labeling

changes. We also may be required to make additional expenditures, which could be significant, relating to environmental matters on an ongoing basis. There can be no assurance that future environmental permits will be granted or that we will be able to maintain and renew existing permits, and the failure to do so could have a material adverse effect on our results of operations, financial condition and cash flows.



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We own properties, conduct or have conducted operations at properties, and have assumed indemnity obligations for properties or operations where hazardous materials have been or were used for many years, including during periods before careful management of these materials was required or generally believed to be necessary. Consequently, we will continue to be subject to risks under environmental laws that impose liability for historical releases of hazardous substances and to liability for other potential violations of environmental laws or permits at existing sites or ones for which we have indemnity obligations.

Larger competitors have operational and other advantages over our operations.

The markets for our products are highly competitive, and companies that have substantially greater financial resources compete with us in each market. Some of our competitors have advantages over us, including lower raw material and labor costs and better access to the inputs of our products.

Our consumer products business faces competition from companies that produce the same type of products that we produce or that produce alternative products that customers may use instead of our products. Our consumer products business competes with the branded tissue products producers, such as Procter & Gamble, and branded label producers who manufacture branded and private label products, such as Georgia-Pacific and Kimberly-Clark. These companies are far larger than us, have more sales, marketing and research and development resources than we do, and enjoy significant cost advantages due to economies of scale. In addition, because of their size and resources, these companies may foresee market trends more accurately than we do and develop new technologies that render our products less attractive or obsolete.

Our ability to successfully compete in the pulp and paperboard industry is influenced by a number of factors, including manufacturing capacity, general economic conditions and the availability and demand for paperboard substitutes. Our pulp and paperboard business competes with International Paper, WestRock, Georgia-Pacific, and international producers, most of whom are much larger than us. Any increase in manufacturing capacity by any of these or other producers could result in overcapacity in the pulp and paperboard industry, which could cause downward pressure on pricing. For example, several newer facilities in China have large paperboard manufacturing capacities, the output of which is expected to increase paperboard supplies on the international market. Also, a large European manufacturer has begun paperboard production at a new facility with products intended for the North American market. Furthermore, customers could choose to use types of paperboard that we do not produce or could rely on alternative materials, such as plastic, for their products. An increased supply of any of these products could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our results of operations and cash flows.

The consolidation of paperboard converting businesses, including through the acquisition and integration of such converting business by larger competitors of ours, could result in a loss of customers and sales on the part of our pulp and paperboard business. A loss of paperboard customers or sales as a result of consolidations and integrations could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our pension and health care costs are subject to numerous factors that could cause these costs to change.

In addition to our pension plans, we provide health care benefits to certain of our current and former salaried and hourly employees. There is a risk of increased costs due to the Affordable Care Act’s individual mandate and required coverage. Our health care costs vary with changes in health care costs generally, which have significantly exceeded general economic inflation rates for many years. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions about future investment returns. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates, expected rates of return on plan assets and mortality rates could also increase pension costs. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.

We face cyber-security risks.

Our business operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could result in lost sales, business delays, negative

publicity and could have a material adverse effect on our business, results of operations and financial condition.

We rely on a limited number of third-party suppliers for certain raw materials required for the production of our products.
Our dependence on a limited number of third-party suppliers, and the challenges we may face in obtaining adequate supplies of raw materials, involve several risks, including limited control over pricing, availability, quality, and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or will continue to satisfy our anticipated specifications and quality requirements. Any supply interruption in limited raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could interrupt production of our products, which would have a material adverse effect on our business.
Additional expansion of our business through construction of new facilities or acquisitions may not proceed as anticipated.
In the future, we may build other converting and papermaking facilities, pursue acquisitions of existing facilities, or both. We may be unable to identify future suitable building locations or acquisition targets. In addition, we may be unable to achieve anticipated benefits or cost savings from construction projects or acquisitions in the timeframe we anticipate, or at all. Any inability by us to integrate and manage any new or acquired facilities or businesses in a timely and efficient manner, any inability to achieve anticipated cost savings or other anticipated benefits from these projects or acquisitions in the time frame we anticipate or any unanticipated required increases in promotional or capital spending could adversely affect our business, financial condition, results of operations or liquidity. Large construction projects or acquisitions can result in a decrease in our cash and short-term investments, an increase in our indebtedness, or both, and also may limit our ability to access additional capital when needed and divert management's attention from other business concerns.
To service our substantial indebtedness, we must generate significant cash flows. Our ability to generate cash depends on many factors beyond our control.
As of December 31, 2017, we had $730 million of outstanding indebtedness, and we could incur substantial additional indebtedness in the future. Our ability to make payments on and to refinance our indebtedness, including our outstanding notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future. This, to a significant extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.
We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured revolving credit facilities in an amount sufficient to enable us to pay our indebtedness, including our outstanding notes, or to fund our other liquidity needs. We cannot assure you that we will be able to refinance any of our indebtedness, including our senior secured revolving credit facilities and our outstanding notes, on commercially reasonable terms or at all.
The indenture for our outstanding notes that we issued in 2013 and the credit agreements governing our senior secured revolving credit facilities, contain various covenants that limit our discretion in the operation of our business.
The indenture governing our outstanding notes that we issued in 2013 and the credit agreements governing our senior secured revolving credit facilities, contain various provisions that limit our discretion in the operation of our business by restricting our ability to:

- undergo a change in control;
- sell assets;
- pay dividends and make other distributions;
- make investments and other restricted payments;
- redeem or repurchase our capital stock;
- incur additional debt and issue preferred stock;
- create liens;
- consolidate, merge, or sell substantially all of our assets;
- enter into certain transactions with our affiliates;
- engage in new lines of business; and

- enter into sale and lease-back transactions.

These restrictions on our ability to operate our business at our discretion could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities, or to borrow in order to fund further capital expenditures. In addition, our senior secured revolving credit facilities

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require, among other things, that we maintain a consolidated total leverage ratio in an amount not to exceed 4.50 to 1.00 in 2018, 4.25 to 1.00 in 2019 and 4.00 to 1.00 thereafter (subject to certain exceptions with respect to acquisitions in excess of an agreed threshold amount) and a consolidated interest coverage ratio in an amount not less than 1.75 to 1.00 through 2020 and 2.25 to 1.00 thereafter. Events beyond our control could affect our ability to meet these financial tests, and we cannot assure you that we will meet them.

Our failure to comply with the covenants contained in our senior secured revolving credit facilities or the indentures governing our outstanding notes, including as a result of events beyond our control, could result in an event of default that could cause repayment of the debt to be accelerated.

If we are not able to comply with the covenants and other requirements contained in the indentures governing our outstanding notes, our senior secured revolving credit facilities or our other debt instruments, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a default under our other debt instruments, prohibit us from accessing additional borrowings, and permit the holders of the defaulted debt to declare amounts outstanding with respect to that debt to be immediately due and payable. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments. In addition, we may not be able to refinance or restructure the payments on the applicable debt. Even if we were able to secure additional financing, it may not be available on favorable terms.

Certain provisions of our certificate of incorporation and bylaws and Delaware law may make it difficult for stockholders to change the composition of our Board of Directors and may discourage hostile takeover attempts that some of our stockholders may consider to be beneficial.

Certain provisions of our certificate of incorporation and bylaws and Delaware law may have the effect of delaying or preventing changes in control if our Board of Directors determines that such changes in control are not in the best interests of the company and our stockholders. The provisions in our certificate of incorporation and bylaws include, among other things, the following:

- a classified Board of Directors with three-year staggered terms;
- the ability of our Board of Directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval;
- stockholder action can only be taken at a special or regular meeting and not by written consent;
- advance notice procedures for nominating candidates to our Board of Directors or presenting matters at stockholder meetings;
- removal of directors only for cause;
- allowing only our Board of Directors to fill vacancies on our Board of Directors; and
- supermajority voting requirements to amend our bylaws and certain provisions of our certificate of incorporation.

While these provisions have the effect of encouraging persons seeking to acquire control of the company to negotiate with our Board of Directors, they could enable the Board of Directors to hinder or frustrate a transaction that some, or a majority, of the stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. We are also subject to Delaware laws that could have similar effects. One of these laws prohibits us from engaging in a business combination with a significant stockholder unless specific conditions are met.

ITEM 1B.
Unresolved
Staff
Comments

None.

ITEM 2.
Properties
FACILITIES
We own and operate facilities located throughout the United States. The following table lists each of our facilities and its location, use, and 2017 capacity and production:

| | USE | LEASED OR OWNED | CAPACITY[1] | | PRODUCTION[1] | |
|---|---|---|---|---|---|---|
| CONSUMER PRODUCTS | | | | | | |
| Tissue Manufacturing Facilities: | | | | | | |
| Ladysmith, Wisconsin | Tissue | Owned | 56,000 | tons | 50,000 | tons |
| Las Vegas, Nevada | TAD tissue | Owned | 38,000 | tons | 34,000 | tons |
| Lewiston, Idaho | Tissue | Owned | 190,000 | tons | 190,000 | tons |
| Neenah, Wisconsin | Tissue | Owned | 54,000 | tons | 53,000 | tons |
| Shelby, North Carolina[2] | TAD tissue | Owned/Leased | 77,000 | tons | 76,000 | tons |
| | | | 415,000 | tons | 403,000 | tons |
| Tissue Converting Facilities: | | | | | | |
| Elwood, Illinois[2] | Tissue converting | Owned/Leased | 73,000 | tons | 64,000 | tons |
| Las Vegas, Nevada | Tissue converting | Owned | 64,000 | tons | 61,000 | tons |
| Lewiston, Idaho | Tissue converting | Owned | 90,000 | tons | 81,000 | tons |
| Neenah, Wisconsin | Tissue converting | Owned | 70,000 | tons | 55,000 | tons |
| Oklahoma City, Oklahoma[4] | Tissue converting | Leased | — | tons | 2,000 | tons |
| Shelby, North Carolina[2] | Tissue converting | Owned/Leased | 73,000 | tons | 72,000 | tons |
| | | | 370,000 | tons | 335,000 | tons |
| PULP AND PAPERBOARD | | | | | | |
| Pulp Mills: | | | | | | |
| Cypress Bend, Arkansas | Pulp | Owned | 318,000 | tons | 302,000 | tons |
| Lewiston, Idaho[3] | Pulp | Owned | 590,000 | tons | 505,000 | tons |
| | | | 908,000 | tons | 807,000 | tons |
| Bleached Paperboard Mills: | | | | | | |
| Cypress Bend, Arkansas | Paperboard | Owned | 360,000 | tons | 337,000 | tons |
| Lewiston, Idaho | Paperboard | Owned | 465,000 | tons | 457,000 | tons |
| | | | 825,000 | tons | 794,000 | tons |
| Sheeted Paperboard Facilities: | | | | | | |
| Mendon, Michigan[2] | Paperboard sheeting | Owned/Leased | 50,000 | tons | 40,000 | tons |
| Wilkes-Barre, Pennsylvania[2] | Paperboard sheeting | Owned/Leased | 40,000 | tons | 23,000 | tons |
| Dallas, Texas[2] | Paperboard sheeting | Owned/Leased | 36,000 | tons | 20,000 | tons |
| Richmond, Virginia[2] | Paperboard sheeting | Owned/Leased | 35,000 | tons | 23,000 | tons |
| Hagerstown, Indiana[2] | Paperboard sheeting | Owned/Leased | 32,000 | tons | 25,000 | tons |
| | | | 193,000 | tons | 131,000 | tons |
| Columbia City, Oregon | Chip shipment | Leased | | N/A | | N/A |
| Clarkston, Washington | Wood chipping | Owned | | N/A | | N/A |
| CORPORATE | | | | | | |
| Alpharetta, Georgia | Operations and administration | Leased | | N/A | | N/A |
| Spokane, Washington | Corporate headquarters | Leased | | N/A | | N/A |

1 Production amounts are approximations for full year 2017. Annual capacity is an estimate based on assumptions and judgments concerning, among other things, both market demand and product mix, which change from time-to-time.

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The buildings located at these facilities are leased by Clearwater Paper or a subsidiary, and the operating equipment located within the buildings are owned by Clearwater Paper or a subsidiary.

[3] In 2017, we completed the installation of our continuous pulp digester. Given this digester was only in-service for approximately the last three months of the year, production figures do not reflect what we anticipate full annual production to be once the digester has been in-service for a full annual period. We anticipate it to be at full production by the end of the first quarter of 2018.

[4] On March 31, 2017 we closed our Oklahoma City converting facility. As of December 31, 2017, the facility is subleased.

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ITEM 3.
Legal
Proceedings

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, results of operations and cash flows.

ITEM 4.
Mine Safety
Disclosures

Not applicable.

Part II
ITEM 5.
Market for Registrant's
Common Equity,
Related Stockholder
Matters
and Issuer Purchases of
Equity Securities

MARKET FOR OUR COMMON STOCK

Our common stock is traded on the New York Stock Exchange. The following table sets forth, for each period indicated, the high and low sales prices of our common stock during our two most recent years.

| | Common Stock Price | |
|---|---|---|
| | High | Low |
| Year Ended December 31, 2017: | | |
| Fourth Quarter | $50.45 | $42.20 |
| Third Quarter | 50.10 | 44.05 |
| Second Quarter | 57.40 | 43.60 |
| First Quarter | 67.45 | 51.75 |
| Year Ended December 31, 2016: | | |
| Fourth Quarter | $68.40 | $50.30 |
| Third Quarter | 69.75 | 59.18 |
| Second Quarter | 66.65 | 47.55 |
| First Quarter | 49.58 | 32.00 |

HOLDERS

On February 16, 2018, the last reported sale price for our common stock on the New York Stock Exchange was $37.05 per share. As of February 16, 2018, there were approximately 775 registered holders of our common stock.

DIVIDENDS

We have not paid any cash dividends and do not anticipate paying a cash dividend in 2018. We will continue to review whether payment of a cash dividend on our common stock in the future best serves the company and our stockholders. The declaration and amount of any dividends, however, would be determined by our Board of Directors and would depend on our earnings, our compliance with the terms of our notes and revolving credit facilities that contain certain restrictions on our ability to pay dividends, and any other factors that our Board of Directors believes are relevant.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

Please see Part III, Item 12 of this report for information relating to our equity compensation plans.

ISSUER PURCHASES OF EQUITY SECURITIES

Please see Part II, Note 2, "Summary of Significant Accounting Policies" of this report for information relating to our purchases of equity securities.

ITEM 6.
Selected
Financial
Data

All of the data listed below has been derived from our audited financial statements. Our historical financial and other data is not necessarily indicative of our future performance. Amounts for 2014 forward reflect the sale of our specialty business and mills on December 30, 2014.

| (In thousands, except net earnings (loss) per share amounts) | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Net sales | $1,730,408 | $1,734,763 | $1,752,401 | $1,967,139 | $1,889,830 |
| Income from operations | 72,328 | 111,317 | 123,670 | 79,811 | 99,328 |
| Net earnings (loss)[1] | 97,339 | 49,554 | 55,983 | (2,315) | 106,955 |
| Working capital[2] | 33,537 | 79,975 | 199,010 | 302,069 | 374,416 |
| Long-term debt, net of current portion | 570,524 | 569,755 | 568,987 | 568,221 | 640,410 |
| Stockholders’ equity | 575,434 | 469,873 | 474,866 | 497,537 | 605,094 |
| Capital expenditures | 198,685 | 155,677 | 134,104 | 99,600 | 86,508 |
| Property, plant and equipment, net | 1,050,982 | 945,328 | 866,538 | 810,987 | 884,698 |
| Total assets | 1,802,252 | 1,684,342 | 1,527,369 | 1,579,149 | 1,735,235 |
| Net earnings (loss) per basic common share[1] | $5.91 | $2.91 | $2.98 | $(0.11) | $4.84 |
| Average basic common shares outstanding | 16,464 | 17,001 | 18,762 | 20,130 | 22,081 |
| Net earnings (loss) per diluted common share[1] | $5.88 | $2.90 | $2.97 | $(0.11) | $4.80 |
| Average diluted common shares outstanding | 16,556 | 17,106 | 18,820 | 20,130 | 22,264 |

1 Net earnings and net earnings per basic and diluted common share for the twelve months ended December 31, 2017 reflect a $70 million tax benefit resulting from the remeasurement of the company's net deferred tax liabilities following passage of the Tax Cuts and Jobs Act signed into law on December 22, 2017.

2 Working capital is defined as our current assets less our current liabilities, as presented on our Consolidated Balance Sheets.

ITEM 7.
Management's Discussion
and Analysis
of Financial Condition and
Results of Operations

The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto that appear elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this report.

Unless the context otherwise requires or unless otherwise indicates, references in this report to "Clearwater Paper Corporation," "we," "our," "the company" and "us" refer to Clearwater Paper Corporation and its subsidiaries.

OVERVIEW

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 in September 2015 the construction of a continuous pulp digester project at our Lewiston, Idaho, pulp and paperboard facility. Construction of the pulp digester was completed and start-up began at the end of the third quarter of 2017. As of December 31, 2017, we have incurred a total of $139.7 million in total project costs, of which $48.9 million was incurred in 2017. We have also capitalized $6.2 million of interest related to the project to date, of which $3.5 million was capitalized in 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.

On February 8, 2017, we announced plans to build a new tissue machine and related converting equipment at a site adjacent to our existing facility in Shelby, North Carolina. The new tissue machine will produce a variety of high-quality private label premium and ultra-premium bath, paper towel and napkin products. At full production capacity, the new tissue machine is expected to produce approximately 70,000 tons of tissue products annually. The estimated cost for the project includes approximately $280 million for the tissue machine, converting equipment and buildings, and approximately $60 million for the purchase and expansion of an existing warehouse that will consolidate all southeastern warehousing in Shelby. We project that the construction of the new facility will be completed in early 2019 and will be at full production capabilities in 2020. During the year ended December 31, 2017, we spent $76.1 million on construction related activities and the new tissue machine in Shelby. We also capitalized $1.1 million of interest related to the Shelby expansion in 2017.

Facility Closure

Due to expected productivity gains from cost and optimization programs across the company, we announced the closure of our Oklahoma City, Oklahoma converting facility on November 29, 2016. The facility was closed on March 31, 2017. The prior production from this facility is now being supplied by our other facilities. We incurred $16.4 million of costs related to this closure, of which $14.7 million was incurred in 2017.

Notwithstanding the closure, we remain subject to the terms of a long-term master lease applicable to the facility, which expires in May 2023. In October 2017, as a means to significantly reduce our expected cash requirements under the master lease, we transferred to a third party substantially all of the remaining fixed assets and supplies inventory located at this facility and subleased the facility to the third party for the remaining term of the master lease. In connection with the transfer of fixed assets and execution of the sublease agreement, we recorded a loss of $4.3 million in the third quarter of 2017 related primarily to the write-down of the transferred assets to their held-for-sale value and a loss of $3.2 million in the fourth quarter of 2017 related to the execution of the sublease agreement.

Acquisition of Manchester Industries

On December 16, 2016, we acquired Manchester Industries, or Manchester, an independently-owned paperboard sales, sheeting and distribution supplier to the packaging and commercial print industries, for total consideration of $71.7 million. The addition of Manchester Industries' customers to our paperboard business extends our reach and service platform to small and mid-sized folding carton plants, by offering a range of converting services that include

custom sheeting, slitting, and cutting. These converting operations include five strategically located facilities in Virginia, Pennsylvania, Indiana, Texas, and Michigan.



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Selling, General and Administrative Cost Structure Changes
In the second half of 2017, we began a review of our selling, general and administrative cost structure as part of our effort to maintain our longer-term competitiveness. As a result of this review, in the fourth quarter of 2017 we began executing on a plan that is expected to result in lower selling, general and administrative expenses beginning in 2018. In 2017, we incurred $2.3 million of expenses associated with these efforts, which consisted primarily of professional services and severance expenses.

Developments and Trends in our Business

Net Sales

Prices for our consumer tissue products are affected by competitive conditions and the prices of branded tissue products. Tissue has historically been one of the strongest segments of the paper and forest products industry due to its steady demand growth. In recent years, the industry has seen an increase in ultra tissue products as industry participants have added or improved through-air-dried, or TAD, or equivalent production capacity. Our Consumer Products segment competes based on product quality, customer service and price. We deliver customer-focused business solutions by assisting in managing product assortment, category management, and pricing and promotion optimization.

Demand and pricing for consumer tissue products is currently being affected by increased supply as a result of new tissue machines that have been added or publicly announced in North America, as well as changing dynamics in the at-home tissue segment as a result of changing consumer purchasing habits, consolidations and new entrants in the consumer retail channel, and new and evolving sales and distribution channels. These changing conditions contribute to a very competitive environment for consumer tissue. We expect a reduction in our overall tissue volume sales in 2018 as a result of the loss of a portion of sales to our largest tissue customer.

Our pulp and paperboard business is affected by macro-economic conditions around the world and has historically experienced cyclical market conditions. As a result, historical prices for our products and sales volumes have been volatile. Product pricing is significantly affected by the relationship between supply and demand for our products. Product supply in the industry is influenced primarily by fluctuations in available manufacturing production, which tends to increase during periods when prices remain strong. In addition, currency exchange rates affect U.S. supplies of paperboard, as non-U.S. manufacturers are more attracted to the U.S. market when the dollar is relatively strong. Paperboard pricing increased in 2017 compared to 2016.

The markets for our products are highly competitive. Our business is capital intensive, which leads to high fixed costs and large capital outlays and generally results in continued production as long as prices are sufficient to cover variable costs. These conditions have contributed to substantial price competition, particularly during periods of reduced demand. Some of our competitors have lower production costs, greater buying power and are integrated, and, as a result, may be less adversely affected than we are by price decreases.

Net sales consist of sales of consumer tissue, paperboard, and to a lessor extent pulp, net of discounts, returns and allowances and any sales taxes collected.

Operating Costs

Prices for our principal operating cost items are variable and directly affect our results of operations. For example, as economic conditions improve, we normally would expect at least some upward pressure on our operating costs. Competitive market conditions can limit our ability to pass cost increases through to our customers. The following table shows our principal operating cost items and associated percentage of net sales for each of the past three years:

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | | 2015 | | |
| (Dollars in thousands) | Cost[3] | Percentage of Sales | | Cost[3] | Percentage of Sales | | Cost | Percentage of Sales | |
| Wages and benefits | $277,902 | 16.1 | % | $297,277 | 17.1 | % | $291,736 | 16.6 | % |
| Transportation[1] | 200,177 | 11.6 | | 182,145 | 10.5 | | 184,824 | 10.5 | |
| Purchased pulp | 193,358 | 11.2 | | 196,848 | 11.3 | | 186,065 | 10.6 | |
| Chemicals | 165,328 | 9.6 | | 166,954 | 9.6 | | 179,812 | 10.3 | |
| Chips, sawdust and logs | 135,802 | 7.8 | | 148,583 | 8.6 | | 147,498 | 8.4 | |
| Depreciation | 91,312 | 5.3 | | 80,652 | 4.6 | | 76,379 | 4.4 | |
| Packaging supplies | 88,245 | 5.1 | | 86,273 | 5.0 | | 90,696 | 5.2 | |
| Maintenance and repairs[2] | 88,221 | 5.1 | | 95,800 | 5.5 | | 90,709 | 5.2 | |
| Energy | 87,287 | 5.0 | | 87,163 | 5.0 | | 100,322 | 5.7 | |
| | 1,327,632 | 76.7 | | 1,341,695 | 77.3 | | 1,348,041 | 76.9 | |
| Other operating costs | 201,989 | 11.7 | | 153,932 | 8.9 | | 164,808 | 9.4 | |
| Total cost of sales | $1,529,621 | 88.4 | % | $1,495,627 | 86.2 | % | $1,512,849 | 86.3 | % |

[1] Includes internal and external transportation costs.

[2] Excluding related labor costs.

[3] Costs for Manchester are included from the December 16, 2016 acquisition date forward.

Wages and benefits. Costs related to our employees primarily consist of wages and related benefit costs and payroll taxes. Wage and benefit costs for 2017 decreased compared to 2016 primarily due to decreased labor costs resulting from the implementation of our warehouse automation project at several of our Consumer Products segment's facilities, the closure of our Oklahoma City facility and the December 2016 shutdown of two paper machines at our Neenah, Wisconsin facility, partially offset by annual wage increases and the inclusion of Manchester.

Transportation. Fuel prices, mileage driven and line-haul rates largely impact transportation costs for the 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 2017 increased compared to 2016 due primarily to increased fuel prices, increased internal case shipments as a result of the closure of our Oklahoma City facility, location of inventory and customer demand, higher shipping rates due to inclement weather as a result of hurricanes in the Southeast in the third quarter of 2017, and the inclusion of Manchester.

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 2017, total purchased pulp costs decreased compared to 2016, due primarily to reduced tissue shipments and the shutdown of two higher cost paper machines at our Neenah facility, partially offset by increased purchased pulp usage because of major maintenance outages at our Idaho and Arkansas pulp and paperboard facilities and elevated pulp prices resulting from robust market demand.

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 paper processing chemicals. A portion of the chemicals used in our manufacturing processes, particularly in the paperboard extrusion process, are petroleum-based and are impacted by petroleum prices.

In 2017, our chemical costs remained relatively flat compared to 2016.

Chips, sawdust and logs. We purchase chips, sawdust and logs that we use to manufacture pulp. We source residual wood fibers under both long-term and short-term supply agreements, as well as in the spot market. Chips, sawdust

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and log costs decreased in 2017 compared to 2016 due to favorable pricing, lower pulp production and improved pulping yields.

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 2017 increased compared to 2016, primarily as a result of higher depreciation related to capital spending during recent periods, accelerating depreciation on certain Oklahoma City assets in association with the March 2017 facility closure, and the inclusion of depreciation related to Manchester.

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 their consumers. For 2017, packaging costs increased slightly compared to 2016 due to higher poly and corrugate pricing, which was partially offset by reduced tissue shipments.

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 to 24 months at both our Idaho and Arkansas facilities, which increase costs and may reduce net sales in the quarters in which the major maintenance shutdowns occur. In 2017, maintenance costs decreased compared to 2016 due to reduced maintenance spending in our Consumer Products segment, primarily at our Neenah, Ladysmith, Lewiston and Oklahoma City facilities, partially offset by increased major maintenance spending in our Pulp and Paperboard segment. We do not expect any planned major maintenance activities in 2018.

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. In 2017, we spent $194.0 million on capital expenditures, excluding capitalized interest of $4.6 million, which included $152.6 million of capital spending on strategic projects and other projects designed to reduce future manufacturing costs and provide a positive return on investment. These strategic projects in 2017 and 2016 consist primarily of the continuous pulp digester at our Idaho pulp and paperboard facility, the expansion of our Shelby, North Carolina facility, and the warehouse automation projects at several of our Consumer Products segment's facilities. During 2016, excluding capitalized interest of $2.3 million, we spent $153.4 million on capital expenditures, which included $93.9 million of strategic capital spending.

Energy. We use energy in the form of electricity, hog fuel, steam and natural gas to operate our mills. Energy prices may fluctuate widely from period-to-period due primarily to volatility in weather and electricity and natural gas rates. We generally strive to reduce our exposure to volatile energy prices through conservation. In addition, a cogeneration facility that produces steam and electricity at our Lewiston, Idaho manufacturing site helps to lower our energy costs. Energy costs for 2017 were flat compared to 2016 as increased usage at our Arkansas and Idaho Pulp and Paperboard facilities, due to extended turbine generator outages and higher natural gas prices, were offset by reduced usage as a result of shutdowns of two paper machines at Neenah and the Oklahoma City closure. To help mitigate our exposure to changes in natural gas prices, we use firm-price contracts to supply a portion of our natural gas requirements. As of December 31, 2017, these contracts covered approximately 17% of our expected average monthly natural gas requirements for 2018, which includes approximately 30% of the expected average monthly requirements for the first quarter. 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.

Other. Other costs consist of miscellaneous operating costs, which increased for the year ended December 31, 2017 compared to 2016 primarily due to the inclusion of Manchester, in addition to increases in certain other costs, most notably higher inventory costs recognized in the first quarter of 2017 resulting from planned production curtailments at the end of the fourth quarter of 2016. These increases were partially offset by insurance recoveries primarily related to claim settlements at our Las Vegas and Shelby facilities, as discussed in Note 18, "Business Interruption and Insurance Recovery."

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.

Interest expense

Interest expense is primarily comprised of interest on our $275 million aggregate principal amount of 4.5% senior notes issued January 2013 and due 2023, which we refer to as the 2013 Notes, and interest on our $300 million aggregate principal amount of 5.375% senior notes issued in 2014 and due in 2025, which we refer to as the 2014 notes. Interest expense also includes interest on the amount drawn under our revolving credit facilities and amortization of deferred issuance costs associated with all of our notes and revolving credit facilities.

Income taxes

Income taxes are based on reported earnings and tax rates in 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.

The following table details our tax provision and effective tax rates for the years ended December 31, 2017, 2016 and 2015:

| (Dollars in thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Income tax (benefit) provision | $(56,385) | $31,112 | $36,505 |
| Effective tax rate | (137.7)% | 38.6% | 39.5% |

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act, or the Act, which made significant changes to U.S. federal income tax law. We expect that certain aspects of these changes will positively impact our future earnings primarily due to the lower federal statutory tax rate. The benefit for 2017 was primarily driven by a $70 million tax benefit resulting from the remeasurement of our net deferred tax liabilities following passage of the Act.

As a result of the Act, we anticipate our estimated annual effective tax rate for 2018 to be approximately 26%. Given the significant changes resulting from and complexities associated with the Act, the estimated impact on our 2018 estimated rate is subject to further analysis, interpretation and clarification of the Act, which could result in changes during 2018.

RESULTS OF OPERATIONS

Our business is organized into two reporting segments: Consumer Products and Pulp and Paperboard. Intersegment costs for pulp transferred from our Pulp and Paperboard segment to our Consumer Products segment are recorded at cost, and thus no intersegment sales or cost of sales for these transfers are included in our segments' results. Our financial and other data are not necessarily indicative of our future performance.

YEAR ENDED DECEMBER 31, 2017 COMPARED TO YEAR ENDED DECEMBER 31, 2016

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

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2017 | | 2016 | |
| Net sales | $1,730,408 | 100.0% | $1,734,763 | 100.0% |
| Costs and expenses: | | | | |
| Cost of sales | (1,529,621 ) | 88.4 | (1,495,627 ) | 86.2 |
| Selling, general and administrative expenses | (128,459 ) | 7.4 | (127,819 ) | 7.4 |
| Total operating costs and expenses | (1,658,080 ) | 95.8 | (1,623,446 ) | 93.6 |
| Income from operations | 72,328 | 4.2 | 111,317 | 6.4 |
| Interest expense, net | (31,374 ) | 1.8 | (30,651 ) | 1.8 |
| Earnings before income taxes | 40,954 | 2.4 | 80,666 | 4.6 |
| Income tax benefit (provision) | 56,385 | 3.3 | (31,112 ) | 1.8 |
| Net earnings | $97,339 | 5.6 % | $49,554 | 2.9 % |

Net sales—Net sales for 2017 decreased by $4.4 million, or less than 1.0%, compared to 2016, primarily due to decreased shipments during 2017 in our Consumer Products segment largely offset by increased shipments in our Pulp and Paperboard segment, as a result of the inclusion of Manchester, and a favorable sales mix in both segments. These items are further discussed below under “Discussion of Business Segments."

Cost of sales—Cost of sales was 88.4% of net sales for 2017 compared to 86.2% of net sales for 2016. Cost of sales was $34.0 million higher in 2017 due primarily to increased transportation costs caused by major weather related events, additional internal case shipments as a result of the closure of our Oklahoma City facility, and higher transportation rates. Furthermore, this increase in cost of sales was impacted by higher pulp pricing, higher depreciation expense, higher costs associated with the inclusion of Manchester, and higher inventory costs in the fourth quarter of 2016 that flowed through cost of sales in first quarter of 2017. These cost increases were partially offset by lower wage and benefit costs resulting from the implementation of our warehouse automation project at several of our Consumer Products segment's facilities, the shutdown of two paper machines at our Neenah facility and the closure of our Oklahoma City facility.

Selling, general and administrative expenses—Selling, general and administrative expenses increased $0.6 million during 2017 compared to 2016. The higher expense was primarily a result of $4.3 million of asset write-downs to their held for sale value on certain Oklahoma City assets, $3.2 million of expenses associated with the execution of a sublease for the Oklahoma City facility, $3.0 million of increased amortization of intangibles resulting from our acquisition of Manchester and $2.3 million of reorganization related expenses associated with cost control measures. Additionally, during 2016, we recognized a net gain of $1.8 million as a result of the release to us of $2.3 million from an indemnity escrow account related to the December 2014 sale of our former specialty business and mills, less $0.5 million of other related settlement costs. These cost increases were partially offset by $2.8 million of mark-to-market benefit in 2017 related to our directors' common stock units, which will ultimately be settled in cash, compared to $4.8 million of mark-to-market expense in 2016, lower profit dependent accruals, and a $1.6 million pension settlement charge in 2016.

Interest expense—Interest expense increased $0.7 million during 2017, compared to 2016. The increase was driven by a larger average balance on our revolving credit facilities during 2017 compared to 2016, partially offset by capitalized interest of $4.6 million in 2017 compared to $2.3 million in 2016.

Income tax provision—We recorded an income tax benefit of $56.4 million in 2017, compared to income tax expense of $31.1 million in 2016. The benefit in 2017 was primarily the result of a $70 million tax benefit resulting from the remeasurement of our net deferred tax liabilities following the passage of the Tax Cuts and Jobs Act.

During 2017 and 2016, there were a number of items that were included in the calculation of our income tax benefit and expense that we do not believe were indicative of our core operating performance. Excluding these items, the tax rates for 2017 and 2016 would have been approximately 34% and 38%, respectively. See the section entitled "Non-GAAP Measures" on pages 31-33 of this report for a reconciliation of these adjusted income tax benefit and provision amounts to the comparable income tax provision amounts.

DISCUSSION OF BUSINESS SEGMENTS

Consumer Products

| | Years Ended December 31, | |
|---|---|---|
| (Dollars in thousands - except per ton amounts) | 2017 | 2016 |
| Net sales | $941,907 | $988,380 |
| Operating income | 28,616 | 67,916 |
| Percent of net sales | 3.0 % | 6.9 % |
| | | |
| Shipments (short tons) | | |
| Non-retail | 55,562 | 81,952 |
| Retail | 309,067 | 314,042 |
| Total tissue tons | 364,629 | 395,994 |
| Converted products cases (in thousands) | 51,221 | 52,875 |
| | | |
| Sales price (per short ton) | | |
| Non-retail | $1,440 | $1,480 |
| Retail | 2,775 | 2,757 |
| Total tissue | $2,572 | $2,493 |

Net sales for our Consumer Products segment decreased by $46.5 million, or 4.7%, in 2017 compared to 2016, due to lower overall sales volume in both finished goods cases and parent rolls. The decreased parent roll sales were primarily the result of the shutdown of two paper machines at our Neenah facility in the fourth quarter of 2016. This decrease in volume was partially offset by a favorable sales mix as increased TAD bathroom tissue and household towel sales, combined with reduced parent roll sales, resulted in a 3.2% average price increase.

Segment operating income decreased $39.3 million, or 57.9%, in 2017 compared to 2016 due primarily to increased costs for transportation, pulp and packaging, higher depreciation expense, costs associated with the closure of our Oklahoma City facility, and higher inventory costs in the fourth quarter of 2016 that flowed through cost of sales in the first quarter of 2017. These cost increases were partially offset by reduced wage and benefit costs resulting from the implementation of our warehouse automation project, the shutdown of the two paper machines at our Neenah facility in the fourth quarter 2016 and the closure of our Oklahoma City facility in the first quarter of 2017 which also resulted in favorable maintenance cost comparisons in 2017.

Pulp and Paperboard

| | Years Ended December 31, | |
|---|---|---|
| (Dollars in thousands - except per ton amounts) | 2017 | 2016 |
| Net sales | $788,501 | $746,383 |
| Operating income | 98,508 | 112,732 |
| Percent of net sales | 12.5 % | 15.1 % |
| | | |
| Paperboard shipments (short tons) | 828,201 | 796,158 |
| Paperboard sales price (per short ton) | $952 | $937 |

Net sales for our Pulp and Paperboard segment increased by $42.1 million, or 5.6%, in 2017 compared to 2016. The increase was primarily due to the inclusion of Manchester and incremental volumes with a higher net selling price resulting from a favorable sales mix.

Operating income for the segment decreased $14.2 million, or 12.6%, during 2017 compared to 2016, due primarily to increased costs for purchased pulp, higher natural gas prices and increased electrical usage due to extended turbine generator outages at our Arkansas and Idaho facilities. Additionally, depreciation and amortization costs increased as a result of the acquisition of Manchester and the completion of the continuous pulp digester at our Idaho facility. These cost increases were partially offset by improved pulp yields and reduced wood fiber prices at our Arkansas facility.

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YEAR ENDED DECEMBER 31, 2016 COMPARED TO YEAR ENDED DECEMBER 31, 2015

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

| | Years Ended December 31, | | | |
|---|---|---|---|---|
| (Dollars in thousands) | 2016 | | 2015 | |
| Net sales | $1,734,763 | 100.0% | $1,752,401 | 100.0% |
| Costs and expenses: | | | | |
| Cost of sales | (1,495,627 ) | 86.2 | (1,512,849 ) | 86.3 |
| Selling, general and administrative expenses | (127,819 ) | 7.4 | (115,882 ) | 6.6 |
| Total operating costs and expenses | (1,623,446 ) | 93.6 | (1,628,731 ) | 92.9 |
| Income from operations | 111,317 | 6.4 | 123,670 | 7.1 |
| Interest expense, net | (30,651 ) | 1.8 | (31,182 ) | 1.8 |
| Earnings before income taxes | 80,666 | 4.6 | 92,488 | 5.3 |
| Income tax provision | (31,112 ) | 1.8 | (36,505 ) | 2.1 |
| Net earnings | $49,554 | 2.9 % | $55,983 | 3.2 % |

Net sales—Net sales for 2016 decreased by $17.6 million, or 1.0%, compared to 2015, primarily due to lower average paperboard net selling prices due to increased competition and a mix shift in paperboard. These unfavorable comparisons were partially offset by an increase in retail tissue shipments. These items are further discussed below under “Discussion of Business Segments."

Cost of sales—Cost of sales was 86.2% of net sales for 2016 compared to 86.3% of net sales for 2015. Our overall cost of sales was $17.2 million lower in 2016 due primarily to reduced energy and chemical pricing in addition to lower overall packaging costs and transportation rates and operational improvements from productivity initiatives. During 2016, we also received a partial reimbursement of previously incurred costs related to performance issues with the recovery boiler at our Arkansas pulp and paperboard facility during the second quarter of 2013 through the first quarter of 2015. These favorable comparisons were partially offset by higher costs for purchased pulp and maintenance, as well as $3.5 million of costs, net of insurance received, as a result of a July 2016 unplanned power outage at our Idaho facility, and a $1.9 million pension settlement charge in the third quarter of 2016.

Selling, general and administrative expenses—Selling, general and administrative expenses increased $11.9 million during 2016 compared to 2015. The higher expense was primarily a result of $4.8 million of mark-to-market expense in 2016 related to our directors' common stock units, which will ultimately be settled in cash, compared to $4.1 million of mark-to-market benefit in 2015, $2.7 million of costs associated with our acquisition of Manchester in the fourth quarter of 2016, a $1.6 million pension settlement charge in the third quarter of 2016, and higher depreciation expense and profit dependent compensation accruals in 2016. These were partially offset by $2.0 million of non-routine legal expenses and settlement costs in 2015, including those related to a dispute involving one of our closed facilities, as well as $1.4 million of reorganization related expenses in 2015. Additionally, during 2016, we recognized a net gain of $1.8 million as a result of the release to us of $2.3 million from an indemnity escrow account related to the December 2014 sale of our former specialty business and mills, less $0.5 million of other related settlement costs. During 2015, we recognized a $1.3 million gain primarily related to the release of restricted cash balances pertaining to the settlement of a working capital escrow account established in connection with the sale of our former specialty business and mills.

Interest expense—Interest expense decreased $0.9 million during 2016, compared to 2015. The decrease was attributable to capitalized interest of $2.3 million in 2016 compared to $0.4 million in 2015, partially offset by higher interest expense in 2016 associated with additional borrowings on our revolving credit facilities.

Debt retirement costs—Debt retirement costs for 2016 consist of the write-off of $0.4 million of deferred finance costs in connection with the refinancing of our $125 million senior secured line of credit with two new senior secured revolving credit facilities that provide for up to $300 million in revolving loans.

Income tax provision—We recorded an income tax provision of $31.1 million in 2016, compared to $36.5 million in 2015.

During 2016 and 2015, 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 for both 2016 and 2015 would have been approximately 38%. See the section entitled "Non-GAAP Measures" on

pages 31-33 of this report for a reconciliation of these adjusted income tax benefit and provision amounts to the comparable income tax provision amounts.

DISCUSSION OF BUSINESS SEGMENTS

Consumer Products

| (Dollars in thousands - except per ton amounts) | Years Ended December 31, 2016 | 2015 |
|---|---|---|
| Net sales | $988,380 | $959,894 |
| Operating income | 67,916 | 55,704 |
| Percent of net sales | 6.9 % | 5.8 % |
| | | |
| Shipments (short tons) | | |
| Non-retail | 81,952 | 90,178 |
| Retail | 314,042 | 292,438 |
| Total tissue tons | 395,994 | 382,616 |
| Converted products cases (in thousands) | 52,875 | 52,149 |
| | | |
| Sales price (per short ton) | | |
| Non-retail | $1,480 | $1,469 |
| Retail | 2,757 | 2,825 |
| Total tissue | $2,493 | $2,505 |

Net sales for our Consumer Products segment increased by $28.5 million, or 3.0%, in 2016 compared to 2015, due to higher retail sales volumes, partially offset by decreases in parent roll sales. The increase in retail sales was partially offset by a decrease in sales price caused by a mix shift that resulted in a lower average net selling price. The decrease in parent roll sales was the result of increased finished goods sales and inventory balancing. Average selling prices decreased due to competitive pricing and product and customer mix changes.

The segment reported $67.9 million in operating income for 2016, compared to $55.7 million in 2015. The increase was primarily driven by the increase in net sales, which contributed to favorable per ton operating costs and operating income, as well as by lower packaging costs, lower energy costs due to favorable natural gas pricing in 2016, and operational improvements from productivity initiatives. In addition, a net gain of $1.8 million was recorded in 2016 as a result of the release to us of a $2.3 million indemnity escrow account related to the sale of our former specialty business and mills, less $0.5 million of other related settlement costs.

Pulp and Paperboard

| (Dollars in thousands - except per ton amounts) | Years Ended December 31, 2016 | 2015 |
|---|---|---|
| Net sales | $746,383 | $792,507 |
| Operating income | 112,732 | 120,861 |
| Percent of net sales | 15.1 % | 15.3 % |
| | | |
| Paperboard shipments (short tons) | 796,158 | 796,733 |
| Paperboard sales price (per short ton) | $937 | $990 |

Net sales for our Pulp and Paperboard segment decreased by $46.1 million, or 5.8%, in 2016 compared to 2015. The decrease was due to lower net selling prices, primarily due to a mix shift from higher priced extruded paperboard sales toward non-extruded paperboard sales.

Operating income for the segment decreased $8.1 million, or 6.7%, during 2016 compared to 2015, due primarily to decreased net sales. This unfavorable comparison was partially offset by lower operating costs due to lower energy costs resulting from decreased natural gas pricing, lower chemical usage and pricing, lower transportation costs due to lower line haul rates and fuel pricing, reduced planned major maintenance and operational improvements from productivity initiatives. These lower operating costs were partially offset by $3.5 million of net costs incurred due to an unplanned power outage at the Lewiston facility in the third quarter of 2016.

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NON-GAAP MEASURES

We use earnings before interest (including debt retirement costs), tax, depreciation and amortization, or EBITDA, and EBITDA adjusted for certain items, or Adjusted EBITDA, and Adjusted income tax provision 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, 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 used by other companies.

EBITDA and Adjusted EBITDA have important limitations as analytical tools, and should not be considered in isolation, or as a substitute for any of our results as reported under GAAP. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures for capital assets;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital requirements;
- EBITDA and Adjusted EBITDA do not include cash pension payments;
- EBITDA and Adjusted EBITDA exclude certain tax payments that may represent a reduction in cash available to us;
- EBITDA and Adjusted EBITDA do not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our debt;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect cash requirements for such replacements; and
- other companies, including other companies in our industry, may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

We present EBITDA, Adjusted EBITDA and Adjusted income tax provisions 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 2013 Notes use metrics 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:

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| Net earnings | $97,339 | $49,554 | $55,983 |
| Interest expense, net [1] | 31,374 | 30,651 | 31,182 |
| Income tax (benefit) provision | (56,385) | 31,112 | 36,505 |
| Depreciation and amortization expense[2] | 104,990 | 91,090 | 84,732 |
| EBITDA | $177,318 | $202,407 | $208,402 |
| Directors' equity-based compensation (benefit) expense | (2,833) | 4,779 | (4,073) |
| Costs associated with Oklahoma City facility closure[3] | 11,055 | 318 | — |
| Reorganization related expenses associated with SG&A cost control measures | 2,263 | — | — |
| Costs associated with Long Island facility closure | 1,443 | 1,891 | 2,463 |
| Manchester Industries acquisition related expenses | 220 | 2,665 | — |
| Write-off of assets as a result of Warehouse Automation project | 41 | — | — |
| Reorganization related expense | — | — | 1,470 |
| Pension settlement expense | — | 3,482 | — |
| Costs associated with Neenah paper machines shutdown | — | 1,049 | — |
| Gain associated with the sale of the specialty mills, net | — | (1,755) | (1,267) |
| Legal expenses and settlement costs | — | — | 1,972 |
| Costs associated with labor agreement | — | — | 1,730 |
| Adjusted EBITDA | $189,507 | $214,836 | $210,697 |

[1] Interest expense, net for the year ended December 31, 2016 includes debt retirement costs of $0.4 million.

[2] Depreciation and amortization expense for the years ended December 31, 2017 and 2016 includes $3.7 million and $1.3 million, respectively, of accelerated depreciation associated with the Oklahoma City facility closure.

[3] Costs associated with the Oklahoma City facility closure for the twelve months ended December 31, 2017 include $4.3 million of loss on the write-down of assets to their held for sale value and $3.2 million of expenses associated with the execution of a sublease for the facility.

The following table provides our Adjusted income tax provisions for the years ended December 31, 2017, 2016 and 2015, as well as a reconciliation to income tax benefit (provision):

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| GAAP income tax benefit (provision) | $56,385 | $(31,112) | $(36,505) |
| Adjustments, tax impact: | | | |
| Federal tax rate change[1] | (70,055) | — | — |
| Directors' equity-based compensation benefit (expense) | 952 | (1,693) | 1,288 |
| Costs associated with Oklahoma City facility closure | (4,977) | (589) | — |
| Reorganization related expenses associated with SG&A cost control measures | (757) | — | — |
| Costs associated with Long Island facility closure | (686) | (672) | (780) |
| Accelerated depreciation of assets as a result of warehouse automation project | (121) | — | — |
| Manchester Industries acquisition related expenses | (74) | (465) | — |
| Write-off of assets as a result of warehouse automation project | (14) | — | — |
| Reorganization related expenses | — | — | (470) |
| Costs associated with Neenah paper machines shutdown | — | (371) | — |
| Pension settlement expense | — | (1,242) | — |
| Gain associated with the sale of the specialty mills | — | 626 | 395 |
| Discrete tax items related to foreign tax credits | — | — | 1,309 |
| Legal expenses and settlement costs | — | — | (626) |
| Costs associated with labor agreement | — | — | (533) |
| Adjusted income tax provision | $(19,347) | $(35,518) | $(35,922) |

[1] The benefit in 2017 is primarily due to the remeasurement of deferred tax liabilities as a result of the Act signed into law on December 22, 2017. The resulting net tax benefit is excluded from our adjusted non-GAAP earnings.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents information regarding our cash flows for the years ended December 31, 2017, 2016 and 2015.

Cash Flows Summary

| | Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| Net cash flows from operating activities | $177,670 | $172,751 | $159,675 |
| Net cash flows from investing activities | (198,797) | (222,506) | (78,548) |
| Net cash flows from financing activities | 13,864 | 67,146 | (102,848) |

Operating Activities—Net cash flows from operating activities for 2017 increased by $4.9 million compared to 2016. The increase in operating cash flows was driven by $21.8 million of cash flows generated from changes in working capital in 2017, largely due to an increase in accounts payable and accrued liabilities, compared to $3.5 million of cash flows for changes in working capital in 2016. This increase in net cash flows from operating activities was partially offset by a net $10.6 million increase in taxes receivable in 2017, compared to a $5.1 million decrease in taxes receivable in 2016. The change in the taxes receivable balance for 2017 was due to increased tax depreciation relating to our strategic capital projects which lessened our tax burden and increased the amount of refund we expect to receive.

Net cash flows from operating activities for 2016 increased by $13.1 million compared to 2015. The increase in operating cash flows was driven by an increase in earnings, after adjusting for noncash related items, of $7.0 million. Additionally, there was an increase due to a $5.1 million decrease in taxes receivable in 2016 compared to a net $13.6 million increase in taxes receivable in 2015. These increases in cash flows from operating activities were partially offset by

$3.5 million of cash used for changes in working capital in 2016, compared to $14.8 million of cash flows generated from working capital changes in 2015.

Investing Activities—Net cash flows used for investing activities decreased $23.7 million in 2017 compared to 2016. This decrease was largely driven by the acquisition of Manchester Industries in 2016 for $67.4 million, net of cash acquired, partially offset by a $44.4 million increase in cash spent for plant and equipment in 2017, which increased due to our investments in strategic capital projects, including our continuous pulp digester project at our Lewiston, Idaho facility and our new tissue machine and related converting equipment in Shelby, North Carolina.

Net cash flows used for investing activities increased $144.0 million in 2016 compared to 2015. This was largely driven by the acquisition of Manchester in 2016. Cash spent for plant and equipment increased $26.4 million compared to 2015 due to our investments in strategic capital projects, including our continuous pulp digester project at our Lewiston facility. In addition, net investing cash flows were impacted by the conversion of $0.3 million of short-term investments into cash during 2016, compared to the conversion of $49.8 million of short-term investments into cash during 2015.

Financing Activities—Net cash flows from financing activities were $13.9 million for 2017, and were largely driven by net borrowings on our revolving credit facilities of $20.0 million partially offset by $4.9 million in repurchases of our outstanding common stock pursuant to our most recent $100 million stock repurchase program.

Net cash flows from financing activities were $67.1 million for 2016 and were largely driven by net borrowings on our revolving credit facilities of $135.0 million, partially offset by $65.3 million in repurchases of our outstanding common stock pursuant to our most recent $100 million stock repurchase program.

Capital Resources

Due to the competitive and cyclical nature of the markets in which we operate, 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 our borrowing capacity under our senior secured revolving credit facilities will be adequate to fund debt service requirements and provide cash required to support our ongoing operations, capital expenditures, stock repurchase program 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.

At December 31, 2017 and 2016, our financial position included gross debt of $730.0 million and $710.0 million, respectively. Stockholders' equity at December 31, 2017 was $575.4 million, compared to $469.9 million at the end of 2016. Our total debt to total capitalization, excluding accumulated other comprehensive loss, was 53.9% at December 31, 2017, compared to 57.5% at December 31, 2016.

Debt Arrangements

$300 Million Senior Notes Due 2025

On July 29, 2014, we issued $300 million aggregate principal amount of Senior Notes due 2025, which we refer to as the 2014 Notes, that mature on February 1, 2025, have an interest rate of 5.375% and were issued at their face value. The issuance of these notes generated net proceeds of approximately $298 million after deducting offering expenses. Our 2018 expected debt service obligation related to the 2014 Notes, consisting of cash payments for interest, is $16.1 million.

$275 Million Senior Notes Due 2023

On February 22, 2013, we issued $275 million aggregate principal amount of 4.5% senior notes due 2023, which we refer to as the 2013 Notes.

Our 2018 expected debt service obligation related to the 2013 Notes, consisting of cash payments for interest, is $12.4 million.

Revolving Credit Facilities

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

As of December 31, 2017, there were $155 million of borrowings outstanding under the Credit Agreements and we were in compliance with the covenants contained in the Credit Agreements. The borrowings outstanding under the Credit Agreements as of December 31, 2017, consisted of short-term base and LIBOR rate loans and no term loans.

Please see Part II, Note 10, "Debt" of this report for information relating to our senior notes and revolving credit facilities.

CONTRACTUAL OBLIGATIONS

The following table summarizes our contractual obligations as of December 31, 2017. Portions of the amounts shown are reflected in our financial statements and accompanying notes, as required by GAAP. See the footnotes following the table for information regarding the amounts presented and for references to relevant financial statement notes that include a detailed discussion of the item.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Revolving lines of credit | $155,000 | $ 155,000 | $— | $— | $— |
| Long-term debt[1] | 575,000 | — | — | — | 575,000 |
| Interest on long-term debt[1] | 189,000 | 28,500 | 57,000 | 57,000 | 46,500 |
| Capital leases[2] | 37,540 | 2,649 | 5,359 | 5,353 | 24,179 |
| Operating leases[2] | 75,340 | 12,074 | 18,500 | 15,180 | 29,586 |
| Purchase obligations[3] | 329,875 | 280,947 | 40,019 | 3,552 | 5,357 |
| Other obligations[4,5] | 169,477 | 97,469 | 16,377 | 10,824 | 44,807 |
| Total | $1,531,232 | $ 576,639 | $137,255 | $91,909 | $725,429 |

[1] Included above are the principal and interest payments that were due, as of December 31, 2017, on our 2013 and 2014 Notes. For more information regarding specific terms of our long-term debt, see Note 10, “Debt,” in the notes to the consolidated financial statements.

[2] These amounts represent our minimum capital lease payments, including amounts representing interest, and our minimum operating lease payments. See Note 17, “Commitments and Contingencies,” in the notes to the consolidated financial statements.

[3] Purchase obligations consist primarily of contracts for the purchase of raw materials (primarily pulp) from third parties, trade accounts payable as of December 31, 2017, contracts for outside wood chipping and contracts with natural gas and electricity providers.

[4] Included in other obligations are accrued liabilities and accounts payable (other than trade accounts payable) as of December 31, 2017, liabilities associated with supplemental pension and deferred compensation arrangements, and estimated payments on postretirement employee benefit plans.

[5] Total excludes $2.8 million of unrecognized tax benefits due to the uncertainty of timing of payment. See Note 8, “Income Taxes,” in the notes to the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements that have had, or are reasonably likely to have, a material current or future effect on our financial conditions or consolidated financial statements.

ENVIRONMENTAL

Our operating facilities are subject to rigorous federal and state environmental regulation governing air emissions, wastewater discharges, and solid and hazardous waste management. Our goal is continuous compliance with all environmental regulations and we regularly monitor our activities to ensure compliance with all pertinent rules and

requirements. Compliance with environmental regulations is a significant factor in our business and requires periodic capital expenditures as well as additional operating costs as rules change.

Concern over climate change, including the impact of global warming, may lead to future regulations. We believe there are no U.S. rules currently proposed that would have a material impact on our operations.

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Our facilities are currently in substantial compliance with applicable environmental laws and regulations. We cannot be certain, however, that situations that may give rise to material environmental liabilities will not be discovered or that the enactment of new environmental laws or regulations or changes in existing laws or regulations will not require significant expenditures by us.

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.

See Note 3, “Recently Adopted and Prospective Accounting Standards” to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for additional information regarding recently adopted and new accounting pronouncements.

Goodwill.

As of December 31, 2017, we had $244.2 million of goodwill included on our Consolidated Balance Sheet. Goodwill is not amortized but tested for impairment annually each November 1st and at any time when events suggest impairment may have occurred. When required, our goodwill impairment test is performed by comparing the fair value of the reporting unit to its carrying value. We incorporate assumptions involving forecasts, future growth rates, discount rates and tax rates in projecting the future cash flows. In the event the carrying value exceeds the fair value of the reporting unit, an impairment loss would be recognized to the extent the carrying amount of the reporting unit’s goodwill exceeds its implied fair value.

As of our November 1, 2017 analysis, we had an excess of fair value of both of the Consumer Products and Pulp and Paperboard reporting units compared to their respective carrying values. One of the primary assumptions in our annual impairment analysis is our EBITDA forecast. Decreasing the EBITDA forecast by 15% resulted in an excess of the carrying amount of each of our reporting unit’s goodwill compared to their respective implied fair values. Refer to Note 7, "Goodwill and Intangible Assets" to the consolidated financial statements included in Item 8 of this Annual Report on Form 10-K for additional information.

Pension and postretirement employee benefits. The determination of pension plan expense and the requirements for funding our pension plans are based on a number of actuarial assumptions. Note 13, "Savings, Pension and Other Postretirement Employee Benefit Plans," in the notes to the consolidated financial statements includes information for the three years ended December 31, 2017, 2016 and 2015, on the components of pension expense and OPEB income and the underlying actuarial assumptions used to calculate periodic expense, as well as the funded status for our pension and OPEB plans as of December 31, 2017 and 2016.

The assumption that has the largest impact on the determination of plan expense and the funded status of our pension and OPEB plans is the discount rate. The discount rate used in the determination of pension benefit obligations and pension expense is determined based on a review of long-term high-grade bonds and management’s expectations. At December 31, 2017, we calculated obligations using a 3.90% discount rate. The discount rates used at December 31, 2016 and 2015 were 4.45% and 4.70%, respectively. An increase in the discount rate, all other assumptions remaining the same, would decrease pension plan expense, and conversely, a decrease would increase plan expense. As an indication of the sensitivity that pension expense has to the discount rate assumption, a 25 basis point change in the discount rate would affect annual plan expense by approximately $0.6 million. Additionally, a 25 basis point decrease in the discount rate would increase the pension benefit obligation by approximately $9.0 million.

The discount rates used to calculate OPEB obligations, which were determined using the same methodology we used for our pension plans, were 3.95%, 4.30% and 4.50% at December 31, 2017, 2016 and 2015, respectively. As an indication of the sensitivity that OPEB income has to the discount rate assumption, a 25 basis point change in the discount rate would affect plan income by approximately $0.1 million. Additionally, a 25 basis point decrease in the discount rate would increase the OPEB benefit obligation by approximately $1.5 million.

Our company-sponsored pension plans were underfunded by a net $6.8 million at December 31, 2017 and $18.8 million at December 31, 2016. Our OPEB plans are unfunded and represent a liability of $65.1 million and $69.1

million as of December 31, 2017 and 2016.

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ITEM 7A.
Quantitative
and
Qualitative
Disclosures
About
Market
Risks

Interest Rate Risk

Our exposure to market risks on financial instruments includes interest rate risk on our secured revolving credit facilities. As of December 31, 2017, there were $155.0 million in borrowings outstanding under our revolving credit facilities. The interest rates applied to borrowings under the credit facilities 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 outstanding credit facilities' borrowings of $155.0 million, would have a $1.55 million annual effect on interest expense. During 2017, we alleviated the effect of short-term interest rate fluctuations through the use of a short-term LIBOR Rate option for $100.0 million of our overall outstanding credit facilities' borrowings balance of $155.0 million.

We currently do not attempt to alleviate the effects of short-term interest rate fluctuations on our credit facilities' 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 partially mitigate through the use of firm price contracts for a portion of the natural gas requirements of our manufacturing facilities. As of December 31, 2017, these contracts covered approximately 17% of the expected average monthly requirements for 2018, including approximately 30% of the expected average monthly requirements for the first quarter of 2018.

Foreign Currency Risk

We have minimal foreign currency exchange risk. Nearly all of our international sales are denominated in U.S. dollars.

Quantitative Information about Market Risks

| | Expected Maturity Date | | | | | | |
|---|---|---|---|---|---|---|---|
| (Dollars in thousands) | 2018 | 2019 | 2020 | 2021 | 2022 | Thereafter | Total |
| Long-term debt: | | | | | | | |
| Fixed rate | $— | $— | $— | $— | $— | $575,000 | $575,000 |
| Average interest rate | —% | —% | —% | —% | —% | 4.957 % | 4.957 % |
| Fair value at December 31, 2017 | | | | | | | $569,250 |

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ITEM 8.
Financial
Statements and
Supplementary
Data

Index to Consolidated Financial Statements


| | PAGE NUMBER |
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Financial Statement Schedules:
All schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.

CLEARWATER PAPER CORPORATION
Consolidated Statements of Operations
(Dollars in thousands – except per-share amounts)

| | For The Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net sales | $1,730,408 | $1,734,763 | $1,752,401 |
| Costs and expenses: | | | |
| Cost of sales | (1,529,621 ) | (1,495,627 ) | (1,512,849 ) |
| Selling, general and administrative expenses | (128,459 ) | (127,819 ) | (115,882 ) |
| Total operating costs and expenses | (1,658,080 ) | (1,623,446 ) | (1,628,731 ) |
| Income from operations | 72,328 | 111,317 | 123,670 |
| Interest expense, net | (31,374 ) | (30,651 ) | (31,182 ) |
| Earnings before income taxes | 40,954 | 80,666 | 92,488 |
| Income tax benefit (provision) | 56,385 | (31,112 ) | (36,505 ) |
| Net earnings | $97,339 | $49,554 | $55,983 |
| Net earnings per common share: | | | |
| Basic | $5.91 | $2.91 | $2.98 |
| Diluted | 5.88 | 2.90 | 2.97 |

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

CLEARWATER PAPER CORPORATION
Consolidated Statements of Comprehensive Income (Loss)
(In thousands)

| | For The Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Net earnings | $97,339 | $49,554 | $55,983 |
| Other comprehensive income (loss), net of tax: | | | |
| Defined benefit pension and other postretirement employee benefits: | | | |
| Net gain arising during the period, net of tax of $2,409, $248, and $5,814 | 6,745 | 379 | 8,944 |
| Amortization of actuarial loss included in net periodic cost, net of tax of $1,305, $1,576, and $4,972 | 1,951 | 2,321 | 7,647 |
| Amortization of prior service credit included in net periodic cost, net of tax of $(601), $(669), and $(829) | (926) | (1,021) | (1,276) |
| Settlement, net of tax of $-, $1,366, and $- | — | 2,116 | — |
| Other comprehensive income, net of tax | 7,770 | 3,795 | 15,315 |
| Comprehensive income | $105,109 | $53,349 | $71,298 |

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

CLEARWATER PAPER CORPORATION
Consolidated Balance Sheets
(Dollars in thousands – except share data)

| | At December 31, | |
|---|---|---|
| | 2017 | 2016 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $15,738 | $23,001 |
| Receivables, net | 142,065 | 147,074 |
| Taxes receivable | 20,282 | 9,709 |
| Inventories | 266,043 | 258,029 |
| Other current assets | 8,661 | 8,682 |
| Total current assets | 452,789 | 446,495 |
| Property, plant and equipment, net | 1,050,982 | 945,328 |
| Goodwill | 244,161 | 244,283 |
| Intangible assets, net | 32,542 | 40,485 |
| Other assets, net | 21,778 | 7,751 |
| TOTAL ASSETS | $1,802,252 | $1,684,342 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Borrowings under revolving credit facilities | $155,000 | $135,000 |
| Accounts payable and accrued liabilities | 256,621 | 223,699 |
| Current liability for pensions and other postretirement employee benefits | 7,631 | 7,821 |
| Total current liabilities | 419,252 | 366,520 |
| Long-term debt | 570,524 | 569,755 |
| Liability for pensions and other postretirement employee benefits | 72,469 | 81,812 |
| Other long-term obligations | 43,275 | 41,776 |
| Accrued taxes | 2,770 | 2,434 |
| Deferred tax liabilities | 118,528 | 152,172 |
| TOTAL LIABILITIES | 1,226,818 | 1,214,469 |
| Stockholders' equity: | | |
| Preferred stock, par value $0.0001 per share, 5,000,000 authorized shares, no shares issued | — | — |
| Common stock, par value $0.0001 per share, 100,000,000 authorized shares-16,447,898 and 24,223,191 shares issued | 2 | 2 |
| Additional paid-in capital | 1,161 | 347,080 |
| Retained earnings | 618,254 | 569,861 |
| Treasury stock, at cost, common shares – 0 and 7,736,255 shares | — | (395,317) |
| Accumulated other comprehensive loss, net of tax | (43,983) | (51,753) |
| Total stockholders' equity | 575,434 | 469,873 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,802,252 | $1,684,342 |

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

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CLEARWATER PAPER CORPORATION
Consolidated Statements of Cash Flows

| (in thousands) | For The Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net earnings | $97,339 | $49,554 | $55,983 |
| Adjustments to reconcile net earnings to net cash flows from operating activities: | | | |
| Depreciation and amortization | 104,990 | 91,090 | 84,732 |
| Equity-based compensation expense | 3,620 | 12,385 | 4,557 |
| Deferred taxes | (40,589) | 18,327 | 16,081 |
| Employee benefit plans | (4,371) | (1,979) | 3,011 |
| Deferred issuance costs on debt | 1,199 | 1,242 | 928 |
| Disposal of plant and equipment, net | 4,053 | 1,381 | 1,492 |
| Other non-cash activity | 1,750 | 758 | (1,020) |
| Changes in working capital, net of acquisition | 21,761 | (3,462) | 14,841 |
| Change in taxes receivable, net | (10,573) | 5,142 | (13,596) |
| Excess tax benefits from equity-based payment arrangements | — | (312) | (1,433) |
| Funding of qualified pension plans | — | — | (3,179) |
| Other, net | (1,509) | (1,375) | (2,722) |
| Net cash flows from operating activities | 177,670 | 172,751 | 159,675 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Change in short-term investments, net | — | 250 | 49,750 |
| Additions to property, plant and equipment | (199,748) | (155,349) | (128,902) |
| Acquisition of Manchester Industries, net of cash acquired | — | (67,443) | — |
| Proceeds from sale of assets | 951 | 36 | 604 |
| Net cash flows from investing activities | (198,797) | (222,506) | (78,548) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Purchase of treasury stock | (4,875) | (65,327) | (99,990) |
| Borrowings on revolving credit facilities | 298,308 | 1,273,959 | — |
| Repayments of borrowings on revolving credit facilities' | (278,308) | (1,138,959) | — |
| Payments for debt issuance costs | — | (1,906) | — |
| Payment of tax withholdings on equity-based payment arrangements | (1,127) | (933) | (4,152) |
| Excess tax benefits from equity-based payment arrangements | — | 312 | 1,433 |
| Other, net | (134) | — | (139) |
| Net cash flows from financing activities | 13,864 | 67,146 | (102,848) |
| (Decrease) increase in cash and cash equivalents | (7,263) | 17,391 | (21,721) |
| Cash and cash equivalents at beginning of period | 23,001 | 5,610 | 27,331 |
| Cash and cash equivalents at end of period | $15,738 | $23,001 | $5,610 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Cash paid for interest, net of amounts capitalized | $28,085 | $26,690 | $28,195 |
| Cash paid for income taxes | 2,684 | 17,655 | 35,849 |
| Cash received from income tax refunds | 7,638 | 11,289 | 2,533 |
| SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES: | | | |
| Changes in accrued property, plant and equipment | $(1,063) | $328 | $5,202 |
| Other changes to property, plant and equipment, net | 4,241 | — | — |

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

CLEARWATER PAPER CORPORATION
Consolidated Statements of Stockholders' Equity
(In thousands)

| | Common Stock | | Additional Paid-In Capital | Retained Earnings | Treasury Stock | | Accumulated Other Comprehensive Loss | | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | | | Shares | Amount | | | |
| Balance at December 31, 2014 | 24,056 | $ 2 | $334,074 | $464,324 | (4,498) | $(230,000) | $ (70,863) | | $497,537 |
| Net earnings | — | — | — | 55,983 | — | — | — | | 55,983 |
| Performance share, restricted stock unit, and stock option awards | 137 | — | 6,021 | — | — | — | — | | 6,021 |
| Pension and OPEB, net of tax of $9,957 | — | — | — | — | — | — | 15,315 | | 15,315 |
| Purchase of treasury stock | — | — | — | — | (1,882) | (99,990) | — | | (99,990) |
| Balance at December 31, 2015 | 24,193 | $ 2 | $340,095 | $520,307 | (6,380) | $(329,990) | $ (55,548) | | $474,866 |
| Net earnings | — | — | — | 49,554 | — | — | — | | 49,554 |
| Performance share, restricted stock unit, and stock option awards | 30 | — | 6,985 | — | — | — | — | | 6,985 |
| Pension and OPEB, net of tax of $2,521 | — | — | — | — | — | — | 3,795 | | 3,795 |
| Purchase of treasury stock | — | — | — | — | (1,356) | (65,327) | — | | (65,327) |
| Balance at December 31, 2016 | 24,223 | $ 2 | $347,080 | $569,861 | (7,736) | $(395,317) | $ (51,753) | 24,223,000 | $469,873 |
| Net earnings | — | — | — | 97,339 | — | — | — | | 97,339 |
| Performance share, restricted stock unit, and stock option awards | 46 | — | 5,327 | — | — | — | — | | 5,327 |
| Pension and OPEB, net of tax of $3,113 | — | — | — | — | — | — | 7,770 | | 7,770 |
| Purchase of treasury stock | — | — | — | — | (85) | (4,875) | — | | (4,875) |
| Retirement of treasury stock | (7,821) | — | (351,246) | (48,946) | 7,821 | 400,192 | — | | — |
| Balance at December 31, 2017 | 16,448 | $ 2 | $1,161 | $618,254 | — | $— | $ (43,983) | | $575,434 |

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

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CLEARWATER PAPER CORPORATION
Notes to Consolidated Financial Statements
NOTE 1 Nature of Operations and Basis of Presentation
Clearwater Paper manufactures quality consumer tissue, away-from-home tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. The company is a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchants and discount stores. In addition, the company produces bleached paperboard used by quality-conscious printers and packaging converters, and offers services that include custom sheeting, slitting and cutting. Clearwater Paper's employees build shareholder value by developing strong customer relationships through quality and service.
Unless the context otherwise requires or unless otherwise indicated, references in this report to “Clearwater Paper Corporation,” “we,” “our,” “the company” and “us” refer to Clearwater Paper Corporation and its subsidiaries.
On February 17, 2014, we announced the permanent and immediate closure of our Long Island, New York, tissue converting and distribution facility. We have incurred $24.6 million of costs associated with the closure, of which $1.4 million was incurred in 2017 primarily related to a facility lease that expired in 2017.
On December 16, 2016, we acquired Manchester Industries, or Manchester, an independently-owned paperboard sales, sheeting and distribution supplier to the packaging and commercial print industries, for total consideration of $71.7 million. The acquisition of Manchester's customers extends our reach and service platform to small and mid-sized folding carton plants, offering a range of converting services that include custom sheeting, slitting and cutting. Manchester's operations subsequent to the acquisition date are reflected in our financial statements.
On March 31, 2017, we closed our Oklahoma City, Oklahoma converting facility. Notwithstanding the closure, we remain subject to the terms of a long-term master lease applicable to the facility. In October 2017, we transferred to a third party substantially all of the remaining fixed assets and supplies inventory located at this facility and subleased the facility to the third party for the remaining term of the master lease for the facility. In connection with the transfer of fixed assets, we recorded a loss of $4.3 million in the third quarter of 2017 related primarily to the write down of the transferred assets to their held-for-sale value, and a loss of $3.2 million in the fourth quarter of 2017 related to the execution of the sublease agreement, which is included in “Selling, general and administrative expenses” in our Consolidated Statement of Operations. The sublease agreement is expected to substantially reduce our cash requirements under the master lease over the term of the sublease. In addition to the above amounts, we incurred $7.2 million of closure-related costs associated with the Oklahoma City facility for the twelve months ended December 31, 2017, which is largely included in "Cost of sales" in our Consolidated Statement of Operations.
These consolidated financial statements include the financial condition and results of operations of Clearwater Paper Corporation and its wholly-owned subsidiaries. All intercompany transactions and balances between operations within the company have been eliminated.
NOTE 2 Summary of Significant Accounting Policies
SIGNIFICANT ESTIMATES
The preparation of financial statements in conformity with accounting principles generally accepted in the U.S., which we refer to in this report as 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 period. Significant areas requiring the use of estimates and measurement of uncertainty include determination of valuation for deferred tax assets, uncertain income tax positions, assessment of impairment of long-lived assets and goodwill, assessment of environmental matters, allocation of purchase price and fair value estimates for business combinations, 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. As of December 31, 2017 and 2016, we had cash and cash equivalents of $15.7 million and $23.0 million, respectively, on our Consolidated Balance Sheets.

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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 December 31, 2017 and 2016, we had allowances for doubtful accounts of $1.4 million and $1.5 million, respectively. Bad debt expense, net, charged to selling, general and administrative expenses during 2017, 2016 and 2015 was $0.2 million, $0.7 million, and $0.2 million, respectively. All other activity impacting the allowance for doubtful accounts was immaterial for all periods.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including assets acquired under capital lease obligations and any interest costs capitalized, less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method. Estimated useful lives generally range from 10 to 40 years for land improvements; 10 to 40 years for buildings and improvements; 5 to 25 years for machinery and equipment; and 2 to 15 years for office and other equipment. Assets we acquire through business combinations have estimated lives that are typically shorter than the assets we construct or buy new.

We review the carrying value of our property, plant and equipment for impairment when events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. An impairment of property, plant and equipment exists when the carrying value is not considered to be recoverable through future undiscounted cash flows from operations and the carrying value of the assets exceeds the estimated fair value.

On March 31, 2017, we closed our Oklahoma City converting facility. For the twelve months ended December 31, 2017, we incurred $14.7 million of costs associated with this announced closure, which includes $3.7 million in accelerated depreciation on certain fixed assets. For the twelve months ended December 31, 2016, we incurred $1.7 million of costs associated with this announced closure, which includes $1.3 million in accelerated depreciation on certain fixed assets.

INTANGIBLE ASSETS

We use estimates in determining and assigning the fair value of the useful lives of intangible assets, the amount and timing of related future cash flows and fair values of the related operations. Our intangible assets have definite lives and are amortized over their estimated useful lives. We assess our intangible assets for impairment annually and when events or changes in circumstances indicate that the carrying amount may not be recoverable.

We recorded intangible assets as a result of our December 2016 acquisition of Manchester. See Note 7, "Goodwill and Intangible Assets" for further discussion.

GOODWILL

Goodwill from an acquisition represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets and liabilities assumed. We use estimates in determining and assigning the fair value of goodwill, including the amount and timing of related future cash flows and fair values of the related operations. Goodwill is not amortized but is tested for impairment annually as of November 1, as well as any time when events suggest impairment may have occurred. In the event the carrying value of the reporting unit in which our goodwill is assigned exceeds the estimated fair value of that reporting unit, an impairment loss would be recognized to the extent the carrying amount of the reporting unit exceeds its implied fair value.

We recorded $229.5 million of goodwill in connection with our acquisition of Cellu Tissue in December 2010. All of the recorded goodwill was assigned to our Consumer Products segment and reporting unit. As a result of the December 2014 sale of our Consumer Products segment's specialty business and mills, a portion of goodwill was allocated to the divested mills and included in our loss on divested assets. We recorded $35.1 million of goodwill in connection with our acquisition of Manchester. The goodwill from this acquisition is included in our Pulp and Paperboard segment. See Note 8, "Goodwill and Intangible Assets" for further discussion.

PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

The determination of pension plan expense and the requirements for funding our pension plans are based on a number of actuarial assumptions. Three critical assumptions are the discount rate applied to pension plan obligations, the rate of return on plan assets and mortality rates. For other postretirement employee benefit, or OPEB, plans, which provide certain health care and life insurance benefits to qualified retired employees, significant assumptions in determining OPEB income are the discount rate applied to benefit obligations, and mortality rates. We also participate in multiemployer defined benefit pension plans. We make contributions to these multiemployer plans, as well as make contributions to a trust fund established to provide retiree medical benefits for a portion of these employees.

The discount rate used in the determination of pension benefit obligations and pension expense is determined based on a review of long-term high-grade bonds and management's expectations. To determine the expected long-term rate of return on pension assets, we employ a process that analyzes historical long-term returns for various investment categories, as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at our determination of a composite expected return.

An increase in the discount rate or the rate of expected return on plan assets, all other assumptions remaining the same, would decrease pension plan expense, and conversely, a decrease in either of these measures would increase plan expense. The actual rates of return on plan assets may vary significantly from the assumptions used because of unanticipated changes in financial markets.

The estimated net loss and prior service cost (credit) for the defined benefit pension and OPEB plans is amortized from accumulated other comprehensive loss into net periodic cost (benefit) in accordance with current accounting guidance.

Net periodic pension and OPEB expenses are included in "Cost of sales" and "Selling, general and administrative expenses" in the Consolidated Statements of Operations. The expense is allocated to all business segments. In accordance with current accounting guidance governing defined benefit pension and other postretirement plans, at December 31, 2017 and 2016, long-term assets are recorded for overfunded single-employer plans and liabilities are recorded for underfunded single-employer plans. The funded status of a benefit plan is measured as the difference between plan assets at fair value and the projected benefit obligation. For underfunded single-employer plans, the estimated liability to be payable in the next twelve months is recorded as a current liability, with the remaining portion recorded as a long-term liability.

INCOME TAXES

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The determination of our provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is required in assessing the timing and amounts of deductible and taxable items and the probability of sustaining uncertain tax positions. The benefits of uncertain tax positions are recorded in our consolidated financial statements only after determining a more-likely-than-not probability that the uncertain tax positions will withstand challenge, if any, from tax authorities. When facts and circumstances change, we reassess these probabilities and record any changes in the consolidated financial statements as appropriate.

REVENUE RECOGNITION

We recognize net sales when there is persuasive evidence of a sales agreement, the price to the customer is fixed and determinable, collection is reasonably assured, and title and the risk of loss passes to the customer. Shipping terms generally indicate when title and the risk of loss have passed. Revenue is recognized at shipment for sales when shipping terms are free on board, or FOB, shipping point. For sales where shipping terms are FOB destination, revenue is recognized when the goods are received by the customer. Revenue from both domestic and foreign sales of our products can involve shipping terms of either FOB shipping point or FOB destination or other shipping terms, depending upon the sales agreement with the customer.

We had one customer in the Consumer Products segment, the Kroger Company, that accounted for approximately 15.3% of our total company net sales in 2017, approximately 13.4% of our total company net sales in 2016, and approximately 12.3% of our total company net sales in 2015.

We provide for trade promotions, customer cash discounts, customer returns and other deductions as reductions to net sales in the same period as the related revenues are recognized. Provisions for these items are determined based on historical experience or specific customer arrangements.

Revenue is recognized net of any sales taxes collected. Sales taxes, when collected, are recorded as a current liability and remitted to the appropriate governmental entities.

ENVIRONMENTAL

As part of our corporate policy, we have an ongoing process to monitor, report on and comply with environmental requirements. Based on this ongoing process, accruals for environmental liabilities that are not within the scope of specific authoritative guidance related to accounting for asset retirement obligations or conditional asset retirement obligations are established in accordance with guidance related to accounting for contingencies. We estimate our environmental liabilities based on various assumptions and judgments, the specific nature of which varies in light of the particular facts and circumstances surrounding each environmental liability. These estimates typically reflect assumptions and judgments as to the probable nature, magnitude and timing of required investigation, remediation and monitoring activities and the probable cost of these activities. Currently, we are not aware of any material environmental liabilities and have accrued only for specific costs related to environmental matters that we have determined are probable and for which an amount can be reasonably estimated. Fees for professional services associated with environmental and legal issues are expensed as incurred.

STOCKHOLDERS' EQUITY

On December 15, 2015, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to $100 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time. In total, we have repurchased 1,440,696 shares of our outstanding common stock pursuant to the repurchase program, of which 84,750 shares were repurchased during 2017 at an average price of $57.53 per share. As of December 31, 2017, we had up to $29.8 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 this program during the fourth quarter of 2015. In total, we repurchased 1,881,921 shares of our outstanding common stock at an average price of $53.13 per share under this program.

During 2017, we retired 7,821,005 treasury shares. The impact of this retirement was reflected within the stockholders' equity line items on our Consolidated Balance Sheet.

DERIVATIVES

We had no activity during the years ended December 31, 2017, 2016 and 2015 that required hedge or derivative accounting treatment. However, to partially 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 December 31, 2017, these contracts covered approximately 17% of the expected average monthly requirements for 2018, including approximately 30% of the expected average monthly requirements for the first quarter. For the years ended December 31, 2017, 2016 and 2015, approximately 28%, 45%, and 57%, respectively, of our natural gas volumes were supplied through firm price contracts. These contracts qualify for treatment as “normal purchases or normal sales” under authoritative guidance and thus require no mark-to-market adjustment.

NOTE 3 Recently Adopted and New Accounting Standards

Recently Adopted

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

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

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718),(ASU 2016-09), which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement. The update also allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. In addition, when accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur. Lastly, the update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, consistent with our historical practice. We adopted ASU 2016-09 in the first quarter of 2017. We have not changed our method of estimating forfeitures as a result of our adoption of this standard. As a result of adopting this standard, excess tax benefits are classified along with other income tax cash flows as an operating activity on the statement of cash flows on a prospective basis and $2.2 million was charged to our income tax provision for the year ended December, 2017, resulting in a $0.13 earnings per share impact.

New Accounting Standards

In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act (Act). This ASU also requires certain disclosures about stranded tax effects. The ASU will be effective prospectively for annual periods beginning after December 15, 2018, including interim periods within those annual periods. We plan to adopt this standard on January 1, 2018. The adoption of this standard will result in a reclassification between retained earnings and accumulated other comprehensive loss (AOCL), increasing AOCL within the equity section of our Consolidated Balance Sheet. We do not expect the adoption of this ASU to have a material impact on our consolidated financial statements. We are continuing our assessment of this new accounting standard.

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

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this ASU require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and other components of net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. This ASU will be effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We plan to adopt this standard on January 1, 2018. The amendments in this update require retrospective presentation in the income statement. Changes to the capitalized portion of both service cost and the other components of net benefit cost within inventory will be applied prospectively. The adoption of this ASU will not have a material impact 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. We expect the adoption of this ASU will increase both our assets and liabilities presented on our Consolidated Balance Sheets to reflect the ROU assets and corresponding lease liabilities, as well as increase our leasing disclosures. As of December 31, 2017, the total future minimum lease payments for our operating leases totaled $75.3 million. We plan to adopt this standard on January 1,

2019. We are continuing our assessment and review of existing leases, which may identify other impacts, and are addressing necessary policy and process changes in preparation for adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, such as service revenue and contract modifications, and clarify guidance for multiple-element arrangements. This standard was originally issued as effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption prohibited. However, in July 2015, the FASB approved deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition.The guidance permits a retrospective application of the new standard with certain practical expedients (contracts completed within the same annual reporting period need not be restated and other allowances for contracts with variable consideration) or retrospective application with a cumulative effect adjustment to the beginning balance of retained earnings. We will adopt the new revenue guidance effective January 1, 2018 using the cumulative effect method, and will not have an adjustment to retained earnings upon adoption. However, the adoption of Topic 606 will result in additional disclosures and updated internal controls and procedures around revenue recognition.

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

NOTE 4 Business Combinations

On December 16, 2016, we acquired Manchester for total consideration of $71.7 million. The purchase price included a $67.5 million cash payment, after adjusting for a working capital closing adjustment of $0.7 million, as well as $4.2 million in net liabilities effectively settled. The acquisition was financed with existing cash and proceeds from our revolving credit facilities. The acquisition resulted in the recognition of $35.1 million of goodwill, which is not deductible for tax purposes. Manchester's operations are included in our Pulp and Paperboard segment.

Goodwill recorded in the acquisition of Manchester was based on the purchase price allocation. We allocated the purchase price to the net assets of Manchester Industries acquired in the acquisition based on our estimates of the fair value of assets and liabilities as follows:

| (in thousands) | Amount |
|---|---|
| Current assets | $22,046 |
| Property, plant and equipment | 6,967 |
| Goodwill | 35,074 |
| Intangible assets | 25,472 |
| Assets acquired | 89,559 |
| Current liabilities | 5,403 |
| Deferred tax liabilities | 12,491 |
| Liabilities assumed | 17,894 |
| Net assets acquired | $71,665 |

We estimated the fair value of the assets and liabilities of Manchester utilizing information available at the time of acquisition. We considered outside third-party appraisals of the tangible and intangible assets to determine the applicable fair market values. In the fourth quarter of 2017, we completed the collection of information necessary to complete our determination of the fair values included in the purchase price in association with the final tax basis of acquired intangible assets and fixed assets used in the determination of deferred tax liabilities at the acquisition date. As a result, the deferred tax liabilities and goodwill associated with this acquisition were reduced by $0.1 million.

All costs associated with advisory, legal and other due diligence-related services performed in connection with acquisition-related activity are expensed as incurred. These costs were $0.2 million and $2.7 million for 2017 and 2016, respectively, and were recorded as selling, general and administrative expenses on our Consolidated Statements of Operations.

No supplemental pro-forma information is presented for the acquisition due to the immaterial pro-forma effect of the acquisition on our results of operations for all years presented.

NOTE 5 Inventories

| | December 31, | |
|---|---|---|
| (In thousands) | 2017 | 2016 |
| Pulp, paperboard and tissue products | $165,281 | $154,460 |
| Materials and supplies | 85,987 | 82,005 |
| Logs, pulpwood, chips and sawdust | 14,775 | 21,564 |
| | $266,043 | $258,029 |

At December 31, 2017, our inventories are stated at the lower of net realizable value or current average cost using the average cost method.

NOTE 6 Property, Plant and Equipment

| | December 31, | |
|---|---|---|
| (In thousands) | 2017 | 2016 |
| Machinery and equipment | $2,124,701 | $2,000,512 |
| Buildings and improvements | 340,042 | 328,251 |
| Land improvements | 49,908 | 47,844 |
| Office and other equipment | 46,467 | 40,051 |
| Land | 11,726 | 7,266 |
| Construction in progress | 114,424 | 103,429 |
| | $2,687,268 | $2,527,353 |
| Less accumulated depreciation and amortization | (1,636,286 ) | (1,582,025 ) |
| | $1,050,982 | $945,328 |

The December 31, 2017 and 2016 buildings and improvements and machinery and equipment combined balances include $24.4 million associated with capital leases.

Depreciation expense, including amounts associated with capital leases, totaled $97.0 million, $86.1 million and $79.8 million in 2017, 2016 and 2015, respectively. For 2017, 2016, and 2015, we capitalized $4.6 million, $2.3 million and $0.4 million, respectively, of interest expense associated with the construction of a continuous pulp digester at our Lewiston, Idaho pulp and paperboard mill and the construction of a paper machine at our Shelby, North Carolina consumer products facility.

On November 29, 2016, we announced the permanent closure of our Oklahoma City converting facility, effective March 31, 2017, and the permanent shutdown of two of the five tissue machines at our Neenah, Wisconsin, tissue facility, effective late-December 2016. In association with the March 31, 2017 closure of the Oklahoma City facility, we recorded accelerated depreciation of $3.7 million in the first quarter of 2017 and $1.3 million in the fourth quarter of 2016.

NOTE 7 Goodwill and Intangible Assets

The carrying amount of goodwill is reviewed at least annually for impairment as of November 1. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit is greater than zero and its estimated fair value exceeds its carrying amount, goodwill of the reporting unit is not considered impaired. For the purpose of goodwill impairment testing, goodwill associated with the Cellu Tissue acquisition was measured at the Consumer Products reporting unit level, which is the same as the Consumer Products reportable operating segment, and goodwill associated with the Manchester acquisition was measured at the Pulp and Paperboard reporting unit level, which is the same as the Pulp and Paperboard reportable operating segment (see Note 19, "Segment Information"). As of December 31, 2017, we had goodwill of $244.2 million recorded on our Consolidated Balance Sheet, which includes $209.1 million related to our Cellu Tissue acquisition and $35.1 million related to our Manchester acquisition, as discussed in Note 4, "Business Combinations." In addition, we recorded $25.5 million of intangible assets related to the Manchester acquisition.

As of November 1, 2017, we performed calculations of both discounted cash flow and market-based valuation models for both our Consumer Products reporting unit and our Pulp and Paperboard reporting unit. The assumptions used in these models allowed us to evaluate the estimated fair values of our reporting units. The determination of these assumptions required significant estimates on our part. Due to the inherent uncertainty involved in making such estimates, actual results could differ from those assumptions. However, we evaluated the merits of each significant assumption, both individually and in the aggregate, used to determine the estimated fair value of our reporting units for reasonableness. Upon completion of this exercise, we concluded that the estimated fair values of the Consumer Products reporting unit and the Pulp and Paperboard reporting unit exceeded their respective carrying amounts. We determined that no further testing was necessary and did not record any impairment loss on our goodwill for the years ended December 31, 2017 and 2016.

Intangible asset amounts represent the acquisition date fair values of identifiable intangible assets acquired. The fair values of the intangible assets were determined by using the income approach, discounting projected future cash flows based on management's expectations of the current and future operating environment. The rates used to discount projected future cash flows reflected a weighted average cost of capital based on our industry, capital structure and risk premiums including those reflected in the current market capitalization. Definite-lived intangible assets are amortized over their useful lives, which have historically ranged from 5 to 10 years. Authoritative guidance under ASC 360, Property, Plant and Equipment, requires that the carrying amount of a long-lived asset with a definite life that is held-for-use be evaluated for recoverability whenever events or changes in circumstances indicate that the entity may be unable to recover the asset's carrying amount.

We assessed our definite-lived intangible assets for impairment in 2017 and 2016 and concluded that their carrying amounts were recoverable and that no further testing was necessary. We do not have any indefinite-lived intangible assets recorded from acquisitions.

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

| | December 31, 2017 | | | |
|---|---|---|---|---|
| (Dollars in thousands, lives in years) | Weighted Average Useful Life | Historical Cost | Accumulated Amortization | Net Balance |
| Customer relationships | 9.3 | $ 62,401 | $ (34,061) | $ 28,340 |
| Trade names and trademarks | 7.4 | 6,786 | (3,000) | 3,786 |
| Non-compete agreements | 5.0 | 574 | (574) | — |
| Other intangibles | 6.0 | 572 | (156) | 416 |
| Total intangible assets | | $ 70,333 | $ (37,791) | $ 32,542 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| (Dollars in thousands, lives in years) | Weighted Average Useful Life | Historical Cost | Accumulated Amortization | Net Balance |
| Customer relationships | 9.3 | $ 62,401 | $ (27,364) | $ 35,037 |
| Trade names and trademarks | 7.4 | 6,786 | (1,972) | 4,814 |
| Non-compete agreements | 5.0 | 574 | (512) | 62 |

| | | | | |
|---|---|---|---|---|
| Other Intangibles | 6.0 | 572 | — | 572 |
| Total intangible assets | | $ 70,333 | $ (29,848 ) | $ 40,485 |

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As of December 31, 2017, estimated future amortization expense related to intangible assets is as follows (in thousands):

| Years ending December 31, | Amount |
|---|---|
| 2018 | $7,801 |
| 2019 | 7,801 |
| 2020 | 3,246 |
| 2021 | 2,917 |
| 2022 | 2,217 |
| Thereafter | 8,560 |
| Total | $32,542 |

NOTE 8 Income Taxes

Earnings before income taxes is comprised of the following amounts:

| | For The Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| United States | $40,954 | $80,666 | $92,488 |

The income tax (benefit) provision is comprised of the following:

| | For The Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| Current | | | |
| Federal | $(16,729) | $7,434 | $15,579 |
| State | 933 | 5,351 | 4,855 |
| Foreign | — | — | (10) |
| Total current | (15,796) | 12,785 | 20,424 |
| Deferred | | | |
| Federal | (36,810) | 15,573 | 13,006 |
| State | (3,779) | 2,754 | 3,075 |
| Total deferred | (40,589) | 18,327 | 16,081 |
| Income tax (benefit) provision | $(56,385) | $31,112 | $36,505 |

The income tax provision or benefit differs from the amount computed by applying the statutory federal income tax rate of 35.0% to earnings before income taxes due to the following:

| | For The Years Ended December 31, | | |
|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 |
| Tax at the statutory rate | $14,334 | $28,233 | $32,371 |
| Federal rate change | (70,055) | — | — |
| State and local taxes, net of federal income tax impact | (1,201) | 3,046 | 3,753 |
| Federal credits and net operating losses | (3,158) | (2,850) | 3,593 |
| Stock compensation | 2,207 | — | — |
| Other, net | 1,488 | 2,683 | (3,212) |
| Income tax provision | $(56,385) | $31,112 | $36,505 |

During 2017 and 2016, the valuation allowance for deferred tax assets decreased by $0.7 million and $0.6 million, respectively.

In March 2016 the FASB issued ASU 2016-09, Improvements to Employee Share Based Payment Accounting. We adopted the standard during the first quarter of 2017. The standard requires all excess tax benefits and deficiencies to be recognized as income tax expense or benefit discretely in the reporting period in which they occur. During 2017, we recognized $2.2 million in tax expense for stock based compensation.

We use the flow-through method to account for investment tax credits earned on eligible expenditures. Under this method, the investment tax credits are recognized as a reduction to income tax expense in the year they are earned. During 2017, we recognized $2.4 million related to energy investment tax credits.

The tax effects of significant temporary differences creating deferred tax assets and liabilities at December 31 were:

| (In thousands) | 2017 | 2016 |
|---|---|---|
| Deferred tax assets: | | |
| Employee benefits | $3,940 | $6,255 |
| Postretirement employee benefits | 17,132 | 27,370 |
| Incentive compensation | 5,194 | 11,356 |
| Inventories | 7,959 | 8,859 |
| Pensions | 2,516 | 8,338 |
| State credit carryforwards | 11,752 | 8,369 |
| State net operating losses | 3,088 | 1,462 |
| Other | 1,949 | 3,774 |
| Total deferred tax assets | $53,530 | $75,783 |
| Valuation allowance | (3,733) | (4,407) |
| Deferred tax assets, net of valuation allowance | $49,797 | $71,376 |
| Deferred tax liabilities: | | |
| Plant and equipment | $(153,885) | $(206,502) |
| Intangible assets | (7,577) | (14,136) |
| Total deferred tax liabilities | (161,462) | (220,638) |
| Net deferred tax liabilities | $(111,665) | $(149,262) |

Net deferred tax assets (liabilities) consist of:

| (In thousands) | 2017 | 2016 |
|---|---|---|
| Non-current deferred tax assets[1] | 6,863 | 2,910 |
| Non-current deferred tax liabilities | (118,528) | (152,172) |
| Net non-current deferred tax liabilities | (111,665) | (149,262) |
| Net deferred tax liabilities | $(111,665) | $(149,262) |

[1] Included in "Other assets, net" on our accompanying December 31, 2017 and 2016 Consolidated Balance Sheets.

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (Act). The Act made broad and complex changes to the U.S. tax code. For the year ended December 31, 2017, we recorded a tax benefit for the impact of the Act of approximately $70 million which represents the remeasurement of our net deferred tax liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate to 21% from 35%.

We have net investment tax credits associated with state jurisdictions totaling $11.1 million which expire between 2018 and 2033.

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The following presents a roll forward of our unrecognized tax benefits and associated interest and penalties, $2.8 million of which is included in the "Accrued taxes" line item in non-current liabilities in our Consolidated Balance Sheets. The remaining $1.3 million consists of unrecorded receivables and certain tax attributes that are uncertain.

| (In thousands) | Gross Unrecognized Tax Benefits, Excluding Interest and Penalties | Interest and Penalties | Total Gross Unrecognized Tax Benefits |
|---|---|---|---|
| Balance at December 31, 2015 | $ 4,227 | $ 221 | $ 4,448 |
| Change in prior year tax positions | 619 | 36 | 655 |
| Reductions as a result of a lapse of the applicable statute of limitations | (234) | (20) | (254) |
| Change in current year tax positions | 291 | — | 291 |
| Balance at December 31, 2016 | $ 4,903 | $ 237 | $ 5,140 |
| Change in prior year tax positions | (1,149) | 48 | (1,101) |
| Change in current year tax positions | 320 | — | 320 |
| Balance at December 31, 2017 | $ 4,074 | $ 285 | $ 4,359 |

Unrecognized tax benefits net of related deferred tax assets at December 31, 2017, if recognized, would favorably impact our effective tax rate by decreasing our tax provision by $3.6 million. For each of the years ended December 31, 2016 and 2015, if recognized, the balance of unrecognized tax benefits would favorably impact our effective tax rate by $4.1 million and $3.2 million, respectively. We reflect accrued interest related to tax obligations, as well as penalties, in our provision for income taxes. For the years ended December 31, 2017, 2016, and 2015, we accrued interest of less than $0.1 million each year in our income tax provision. We recorded no penalties in the years ended December 31, 2017, 2016, and 2015.

We have certain state benefits related to filing positions taken which have not been recognized on the balance sheet. Although the uncertain tax position was not reflected in the balance sheet as a recorded liability, it is disclosed in the tabular roll forward for unrecognized tax benefits.

We have operations in many states within the U.S. and are subject, at times, to tax audits in these jurisdictions. With a few exceptions, we are no longer subject to U.S. federal, state and local, or foreign income tax examinations by tax authorities for years prior to 2014. We expect that the outcome of any examination will not have a material effect on our consolidated financial statements. Although the timing of resolution of audits is not certain, we evaluate all audit issues in the aggregate, along with the expiration of applicable statutes of limitations, and estimate that it is reasonably possible the total gross unrecognized tax benefits could decrease by approximately $0.9 million within the next 12 months.

NOTE 9 Accounts Payable and Accrued Liabilities

| | December 31, | |
|---|---|---|
| (In thousands) | 2017 | 2016 |
| Trade accounts payable | $169,293 | $128,106 |
| Accrued wages, salaries and employee benefits | 41,979 | 49,871 |
| Accrued interest | 12,723 | 12,149 |
| Accrued discounts and allowances | 7,283 | 10,291 |
| Accrued taxes other than income taxes payable | 6,907 | 6,946 |
| Accrued utilities | 6,759 | 6,712 |
| Other | 11,677 | 9,624 |
| | $256,621 | $223,699 |

NOTE 10 Debt

$300 MILLION SENIOR NOTES DUE 2025

On July 29, 2014 we issued $300 million aggregate principal amount of senior notes, which we refer to as the 2014 Notes. The 2014 Notes mature on February 1, 2025, have an interest rate of 5.375% and were issued at their face value. The issuance of these notes generated net proceeds of approximately $298 million after deducting offering expenses.

The 2014 Notes are guaranteed by all of our direct and indirect domestic subsidiaries. The 2014 Notes will also be guaranteed by each of our future direct and indirect domestic subsidiaries that do not constitute an immaterial subsidiary under the indenture governing the 2014 Notes. The 2014 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 2014 Notes are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our secured revolving credit facilities, which are secured by certain of our accounts receivable, inventory and cash. The terms of the 2014 Notes limit our ability and the ability of any restricted subsidiaries to incur certain liens, engage in sale and leaseback transactions and consolidate, merge with, or convey, transfer or lease substantially all of our or their assets to another person.

We may, on any one or more occasions, redeem all or a part of the 2014 Notes, upon not less than 30 days nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the 2014 Notes redeemed, plus the applicable premium as of, and accrued and unpaid interest, if any, to the date of redemption. Unless we default in the payment of the redemption price, interest will cease to accrue on the 2014 Notes or portions thereof called for redemption on the applicable redemption date. In addition, we may be required to make an offer to purchase the 2014 Notes upon the sale of certain assets and upon a change of control.

$275 MILLION SENIOR NOTES DUE 2023

On February 22, 2013, we issued $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 facilities, which are 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.

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 FACILITIES

On October 31, 2016, we terminated and paid in full all outstanding amounts under our $125 million senior secured revolving credit facility and replaced that facility with two new senior secured revolving credit facilities. The senior secured revolving credit facilities provide in the aggregate, on a combined basis, for the extension of up to $300 million in revolving loans under: (i) a $200 million credit agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto (the “Commercial Credit Agreement”); and (ii) a $100 million credit agreement with Northwest Farm Credit Services, PCA, as administrative agent, and the lenders party thereto (the “Farm Credit Agreement”). We refer to both of these credit agreements collectively as the “Credit Agreements.” The revolving credit facilities provided under the Credit Agreements mature on October 31, 2021.

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

The Credit Agreements are secured by substantially all of the personal property of the Company and its domestic subsidiaries through separate liens granted under each Credit Agreement for the benefit of each secured party thereunder on an equal and ratable basis. The Company's obligations under the Credit Agreements are guaranteed by the Company's domestic subsidiaries.

The Credit Agreements contain various loan covenants that restrict the ability of the Company and its subsidiaries to take certain actions, including, incurrence of indebtedness, creation of liens, mergers or consolidations, dispositions of assets, repurchase or redemption of capital stock, making certain investments, entering into certain transactions with affiliates or changing the nature of their business. In addition, the Credit Agreements contain financial covenants that require the Company to maintain a consolidated total leverage ratio in an amount not to exceed 4.50 to 1.00 in 2018, 4.25 to 1.00 in 2019 and 4.00 to 1.00 thereafter (subject to certain exceptions with respect to acquisitions in excess of an agreed threshold amount) and a consolidated interest coverage ratio in an amount not less than 1.75 to 1.00 through 2020 and 2.25 to 1.00 thereafter.

Each Credit Agreement also contains customary events of default, including failure to make payments under such Credit Agreement, breach of any representation or warranty or covenant under such Credit Agreement, default under or acceleration of other indebtedness for borrowed money in excess of an agreed amount, any change in control of the Company based upon a third party acquiring more than 35% of the equity interests of the Company, bankruptcy events, invalidity of such credit agreement, the incurrence of certain liabilities, termination events or withdrawals from specified benefit plans, and unpaid or uninsured judgments in excess of an agreed amount.

We may separately request incremental commitments under either Credit Agreement to increase the amount of revolving loans or to provide term loans under such Credit Agreement in an aggregate amount not to exceed $200 million (on a combined basis under both Credit Agreements), plus an additional amount, not to exceed $100 million (also on a combined basis under both Credit Agreements), such that our first lien leverage ratio on a pro forma basis, as defined, does not exceed 3.00 to 1.00, subject to certain customary conditions and receipt of commitments by existing or additional lenders. In addition, after giving effect to the amount of any incremental borrowing under the Farm Credit Agreement, the principal amount of all unfunded revolving loan commitments and the outstanding amount of any term loans provided under the Farm Credit Agreement (if any) cannot exceed 50% of the sum of the outstanding principal amount of the loans and unfunded commitments under the Farm Credit Agreement and the Commercial Credit Agreement on a combined basis.

We are members of the Northwest Farm Credit Services, PCA system which entitles us to patronage refunds and other distributions on account of our equity interests in the Northwest Farm Credit Services, PCA, as well as our patronage with Northwest Farm Credit Services. Patronage refunds are distributions of profits from member banks in the United States Farm Credit System, like Northwest Farm Credit Services, which are cooperatives (member owned) that distribute profits to their members in the form of patronage dividends, which are accrued as earned and recorded as offsets to interest expense under the Farm Credit Agreement.

As of December 31, 2017, there was an aggregate of $155 million of borrowings outstanding under the Credit Agreements and we were in compliance with the covenants contained in the Credit Agreements. In addition, $7.6 million of the credit facilities was being used to support outstanding standby letters of credit. The borrowings outstanding under the Credit Agreements as of December 31, 2017, consisted of short-term base and LIBOR rate loans and are classified as current liabilities in our Consolidated Balance Sheet. As of December 31, 2017, we would

have been permitted to draw an additional $137.4 million under the credit facilities.



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NOTE 11 Other Long-Term Obligations

| (In thousands) | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Long-term lease obligations, net of current portion | $26,460 | $23,152 |
| Deferred proceeds | 5,576 | 9,013 |
| Deferred compensation | 5,023 | 7,219 |
| Other | 6,216 | 2,392 |
| | $43,275 | $41,776 |

NOTE 12 Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss at the balance sheet dates is comprised of the following:

| (In thousands) | Pension and Other Post Retirement Employee Benefit Plan Adjustments |
|---|---|
| Balance at December 31, 2015 | $ (55,548 ) |
| Other comprehensive income before reclassifications[2] | 2,495 |
| Amounts reclassified from accumulated other comprehensive loss | 1,300 |
| Other comprehensive income, net of tax[1] | 3,795 |
| Balance at December 31, 2016 | $ (51,753 ) |
| Other comprehensive income before reclassifications | 6,745 |
| Amounts reclassified from accumulated other comprehensive loss | 1,025 |
| Other comprehensive income, net of tax[1] | 7,770 |
| Balance at December 31, 2017 | $ (43,983 ) |

1 For the year ended December 31, 2017, net periodic costs associated with our pension and other postretirement employee benefit, or OPEB, plans included in other comprehensive loss and reclassified from accumulated other comprehensive loss, or AOCL, included $9.2 million of net gain on plan assets, $3.3 million of actuarial loss amortization, and $1.5 million of prior service credit amortization, less total tax of $3.1 million. For the year ended December 31, 2016, net periodic costs associated with our pension and OPEB plans included in other comprehensive income and reclassified from AOCL included $0.6 million of net gain on plan assets, $3.9 million of actuarial loss amortization, and $1.7 million of prior service credit amortization, less total tax of $1.2 million. These accumulated other comprehensive loss components are included in the computation of net periodic pension and OPEB costs in Note 13, "Savings, Pension and Other Postretirement Employee Benefit Plans."

2 Included in "Other comprehensive income before reclassifications" above for the twelve months ended December 31, 2016 is settlement expense of $3.5 million associated with the remeasurement of our salaried pension plan, which is discussed further in Note 13, "Savings, Pension and Other Postretirement Employee Benefit Plans." The settlement expense is net of tax totaling $1.4 million.

NOTE 13 Savings, Pension and Other Postretirement Employee Benefit Plans

Certain of our employees are eligible to participate in defined contribution savings and defined benefit postretirement plans. These include 401(k) savings plans, defined benefit pension plans including company-sponsored and multiemployer plans, and other postretirement employee benefit, or OPEB, plans, each of which is discussed below.

401(k) Savings Plans

Substantially all of our employees are eligible to participate in 401(k) savings plans, which include a company match component. In 2017, 2016 and 2015 we made 401(k) contributions on behalf of employees of $16.6 million, $16.9 million, and $16.9 million, respectively.

Company-Sponsored Defined Benefit Pension Plans

A majority of our salaried employees and a portion of our hourly employees are covered by company-sponsored noncontributory defined benefit pension plans. During 2016, we announced a voluntary, limited-time opportunity for former employees who are vested participants in certain of our qualified pension plans to request early payment of their entire pension plan benefit in the form of a single lump sum payment. The amount of total payments under this program totaled approximately $10.6 million for salaried employees and $4.8 million for hourly employees and were made from the applicable plan's trust assets during the third quarter of 2016. Based on the level of payments made, settlement accounting rules applied to our salaried pension plan and resulted in a remeasurement of that plan as of August 31, 2016 and the recognition of $3.5 million in settlement expense in 2016.

Company-Sponsored OPEB Plans

We also provide retiree health care and life insurance plans, which cover certain salaried and hourly employees. Retiree health care benefits for Medicare eligible participants over the age of 65 are provided through Health Reimbursement Accounts, or HRA's. Benefits for retirees under the age of 65 are provided under our company-sponsored health care plans, which require retiree contributions and contain other cost-sharing features. The retiree life insurance plans are primarily noncontributory.

Funded Status of Company-Sponsored Plans

As required by current standards governing the accounting for defined benefit pension and other postretirement benefit plans, we recognized the funded status of our company-sponsored plans on our Consolidated Balance Sheets at December 31, 2017 and 2016. The funded status is measured as the difference between plan assets at fair value (with limited exceptions) and the benefit obligation. For a pension plan, the benefit obligation is the projected benefit obligation; for any other postretirement employee benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated postretirement employee benefit obligation. We use a December 31 measurement date for our benefit plans.

The changes in benefit obligation, plan assets and funded status for company-sponsored benefit plans as of December 31 are as follows:

| | Pension Benefit Plans | | Other Postretirement Employee Benefit Plans | |
|---|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2017 | 2016 |
| Benefit obligation at beginning of year | $304,388 | $318,444 | $69,163 | $71,672 |
| Service cost | 2,069 | 1,562 | 163 | 249 |
| Interest cost | 13,149 | 14,072 | 2,745 | 3,075 |
| Plan settlements | — | (10,629) | — | — |
| Actuarial losses (gains) | 19,130 | 6,225 | (1,254) | 816 |
| Benefits paid | (20,922) | (25,286) | (5,689) | (6,649) |
| Benefit obligation at end of year | 317,814 | 304,388 | 65,128 | 69,163 |
| Fair value of plan assets at beginning of year | 285,638 | 294,076 | 20 | 20 |
| Actual return on plan assets | 45,796 | 27,056 | — | — |
| Employer contribution | 454 | 421 | 5,689 | 6,649 |
| Plan settlements | — | (10,629) | — | — |
| Benefits paid | (20,922) | (25,286) | (5,689) | (6,649) |
| Fair value of plan assets at end of year | 310,966 | 285,638 | 20 | 20 |
| Funded status at end of year | $(6,848) | $(18,750) | $(65,108) | $(69,143) |

The December 31, 2017 pension funded status was affected by favorable asset returns, partially offset by a decrease in the discount rate. The December 31, 2017 OPEB benefit obligation decreased slightly primarily driven by changes in the assumed health care cost trend rate and census changes, partially offset by a decrease in the discount rate.

Amounts recognized in the Consolidated Balance Sheets:

| | Pension Benefit Plans | | Other Postretirement Employee Benefit Plans | |
|---|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2017 | 2016 |
| Non-current assets | $8,144 | $1,740 | $— | $— |
| Current liabilities | (441) | (397) | (7,190) | (7,424) |
| Non-current liabilities | (14,551) | (20,093) | (57,918) | (61,719) |
| Net amount recognized | $(6,848) | $(18,750) | $(65,108) | $(69,143) |

Pre-tax amounts recognized in Accumulated Other Comprehensive Loss as of December 31 consist of:

| | Pension Benefit Plans | | Other Postretirement Employee Benefit Plans | |
|---|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2017 | 2016 |
| Net loss (gain) | $99,865 | $117,640 | $(15,541) | $(20,906) |
| Prior service cost (credit) | — | 8 | (1,676) | (3,211) |
| Net amount recognized | $99,865 | $117,648 | $(17,217) | $(24,117) |

Information as of December 31 for certain pension plans included above with accumulated benefit obligations in excess of plan assets were as follows:

| (In thousands) | 2017 | 2016 |
|---|---|---|
| Projected benefit obligation | $178,452 | $170,716 |
| Accumulated benefit obligation | 178,452 | 170,716 |
| Fair value of plan assets | 163,460 | 150,226 |

Pre-tax components of net periodic cost and other amounts recognized in Other Comprehensive Income (Loss) for the years ended December 31 were as follows:

Net Periodic Cost:

| | Pension Benefit Plans | | | Other Postretirement Employee Benefit Plans | | |
|---|---|---|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Service cost | $2,069 | $1,562 | $1,244 | $163 | $249 | $363 |
| Interest cost | 13,149 | 14,072 | 13,931 | 2,745 | 3,075 | 3,881 |
| Expected return on plan assets | (18,765) | (19,389) | (20,117) | (1) | (1) | (1) |
| Amortization of prior service cost (credit) | 8 | 22 | 73 | (1,535) | (1,712) | (2,178) |
| Amortization of actuarial loss (gain) | 9,874 | 11,463 | 12,619 | (6,618) | (7,566) | — |
| Settlement | — | 3,482 | — | — | — | — |
| Net periodic cost | $6,335 | $11,212 | $7,750 | $(5,246) | $(5,955) | $2,065 |

Other amounts recognized in Other Comprehensive Income (Loss):

| | Pension Benefit Plans | | | Other Postretirement Employee Benefit Plans | | |
|---|---|---|---|---|---|---|
| (In thousands) | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Net (gain) loss | $(7,901) | $(1,445) | $15,942 | $(1,253) | $818 | $(30,700) |
| Amortization of prior service (cost) credit | (8) | (22) | (73) | 1,535 | 1,712 | 2,178 |
| Amortization of actuarial (loss) gain | (9,874) | (11,463) | (12,619) | 6,618 | 7,566 | — |
| Settlement | — | (3,482) | — | — | — | — |
| Total recognized in other comprehensive (income) loss | $(17,783) | $(16,412) | $3,250 | $6,900 | $10,096 | $(28,522) |
| Total recognized in net periodic cost and other comprehensive (income) loss | $(11,448) | $(5,200) | $11,000 | $1,654 | $4,141 | $(26,457) |

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic cost (benefit) over the next fiscal year is $10.3 million. The estimated net gain and prior service credit for the OPEB plans that will be amortized from accumulated other comprehensive loss into net periodic cost (benefit) over the next fiscal year are $0.9 million and $1.7 million respectively.

During 2017, $0.6 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, as compared to $3.0 million and $2.3 million, respectively, during 2016.

Weighted average assumptions used to determine the benefit obligation as of December 31 were:

| | Pension Benefit Plans | | | Other Postretirement Employee Benefit Plans | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Discount rate | 3.90% | 4.45% | 4.70% | 3.95% | 4.30% | 4.50% |

Weighted average assumptions used to determine the net periodic cost for the years ended December 31 were:

| | Pension Benefit Plans | | | Other Postretirement Employee Benefit Plans | | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2017 | 2016 | 2015 |
| Discount rate | 4.45% | 4.70% | 4.25% | 4.30% | 4.50% | 4.15% |
| Expected return on plan assets | 6.75 | 6.75 | 7.00 | — | — | — |

The discount rate used in the determination of pension benefit obligations and pension expense was determined based on a review of long-term high-grade bonds as well as management's expectations. The discount rate used to calculate OPEB obligations was determined using the same methodology we used for our pension plans.

The expected return on plan assets assumption is based upon an analysis of historical long-term returns for various investment categories, as measured by appropriate indices. These indices are weighted based upon the extent to which plan assets are invested in the particular categories in arriving at our determination of a composite expected return.

The assumed health care cost trend rate used to calculate 2017 OPEB income was 7.40% in 2017, grading to 4.00% over approximately 70 years, for participants whose benefits are not provided through HRAs, and 2.50% annually for participants whose benefits are provided through HRAs. The health care cost trend rate used to calculate December 31, 2017 OPEB obligations was 6.70% in 2018, grading to 4.00% over approximately 70 years, for participants whose benefits are not provided through HRAs, and 2.50% annually for participants whose benefits are provided through HRAs. This assumption has a significant effect on the amounts reported. A one percentage point change in the health care cost trend rates would have the following effects:

| (In thousands) | 1% Increase | 1% Decrease |
|---|---|---|
| Effect on total of service and interest cost components | $ 193 | $ (168) |
| Effect on postretirement employee benefit obligation | 4,150 | (3,614) |

The investments of our defined benefit pension plans are held in a Master Trust. The assets of our OPEB plans are held within an Internal Revenue Code section 401(h) account for the payment of retiree medical benefits within the Master Trust.
Current accounting rules governing fair value measurement establish a framework for measuring fair value, which provides a fair value 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 (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plans have the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability; and

Inputs that are derived principally from or corroborated by observable market data by correlation or other means
If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.
There have been no changes in the methodologies used during 2017 and 2016. Investments in common and collective trust funds are generally valued based on their respective net asset value, or NAV, (or its equivalent), as a practical expedient to estimate fair value due to the absence of a readily determinable fair value. Investments that may be fully redeemed at NAV in the near-term are disclosed in the table below as "Investments measured at net asset value" in accordance with Accounting Standards Codification 820 - Fair Value Measurements and Disclosures.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management believes the valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.
The following tables set forth by level, within the fair value hierarchy, the investments at fair value for our company-sponsored pension benefit plans:

| | December 31, 2017 | | |
|---|---|---|---|
| (In thousands) | Level 1 | Investments measured at net asset value | Total |
| Cash and cash equivalents | $2,010 | $ — | $2,010 |
| Common and collective trust: | | | |
| Collective investment funds | — | 308,956 | 308,956 |
| Total investments at fair value | $2,010 | $ 308,956 | $310,966 |

| | December 31, 2016 | | |
|---|---|---|---|
| (In thousands) | Level 1 | Investments measured at net asset value | Total |
| Cash and cash equivalents | $2,002 | $ — | $2,002 |
| Common and collective trusts: | | | |
| Collective investment funds | — | 283,636 | 283,636 |
| Total investments at fair value | $2,002 | $ 283,636 | $285,638 |

Our OPEB plan had $20,000 held in cash and cash equivalents at December 31, 2017 and 2016, which were categorized as level 1.
We have formal investment policy guidelines for our company-sponsored plans. These guidelines were set by our Benefits Committee, which is comprised of members of our management and has been assigned its fiduciary authority over management of the plan assets by our Board of Directors. The Committee’s duties include periodically reviewing and modifying those investment policy guidelines as necessary and insuring that the policy is adhered to and the investment objectives are met.
The investment policy includes guidelines for specific categories of equity and fixed income securities. Assets are managed by professional investment managers who are expected to achieve a reasonable rate of return over a market cycle. Long-term performance is a fundamental tenet of the policy.
The general policy states that plan assets would be invested to seek the greatest return consistent with the fiduciary character of the pension funds and to allow the plans to meet the need for timely pension benefit payments. The specific investment guidelines stipulate that management is to maintain adequate liquidity for meeting expected benefit payments by reviewing, on a timely basis, contribution and benefit payment levels and appropriately revising long-term and short-term asset allocations. Management takes reasonable and prudent steps to preserve the value of pension fund assets, avoid the risk of large losses and also attempt to preserve the funded status of the plans. Major steps taken to provide this protection included:
Assets are diversified among various asset classes, such as domestic equities, international equities, fixed income and cash. The long-term asset allocation ranges are as follows:

| | |
|---|---|
| Domestic equities | 14%-22% |
| International equities, including emerging markets | 13%-22% |
| Corporate bonds | 50%-70% |
| Liquid reserves | 0%-5% |

Periodically, reviews of allocations within these ranges are made to determine what adjustments should be made based on changing economic and market conditions and specific liquidity requirements.

- Assets were managed by professional investment managers and could be invested in separately managed accounts or commingled funds.
- Assets were not invested in securities rated below BBB- by S&P or Baa3 by Moody's.

The investment guidelines also require that the individual investment managers are expected to achieve a reasonable rate of return over a market cycle. Emphasis is placed on long-term performance versus short-term market aberrations. Factors considered in determining reasonable rates of return include performance achieved by a diverse cross section of other investment managers, performance of commonly used benchmarks (e.g., Russell 3000 Index, MSCI World ex-U.S. Index, Barclays Capital Long Credit Index), actuarial assumptions for return on plan investments and specific performance guidelines given to individual investment managers.

As of December 31, 2017, nine active investment managers managed substantially all of the pension funds, each of whom had responsibility for managing a specific portion of these assets. Plan assets were diversified among the various asset classes within the allocation ranges approved by the Benefits Committee.

In 2017, we did not make any contributions to our qualified pension plans, and we currently do not anticipate making any cash contributions to those plans in 2018. We contributed $0.5 million to our non-qualified pension plan in 2017. We do not anticipate funding our OPEB plans in 2018 except to pay benefit costs as incurred during the year by plan participants.

Estimated future benefit payments are as follows for the years indicated:

| (In thousands) | Pension Benefit Plans | Other Postretirement Employee Benefit Plans |
|---|---|---|
| 2018 | 20,210 | 7,210 |
| 2019 | 20,372 | 6,700 |
| 2020 | 20,338 | 6,224 |
| 2021 | 20,278 | 5,182 |
| 2022 | 20,257 | 4,639 |
| 2023-2027 | 99,994 | 18,702 |

Multiemployer Defined Benefit Pension Plans

Hourly employees at two of our manufacturing facilities participate in multiemployer defined benefit pension plans: the PACE Industry Union-Management Pension Fund, or PIUMPF, which is managed by United Steelworkers, or USW, Benefits; and the International Association of Machinist & Aerospace Workers National Pension Fund, or IAM NPF. We make contributions to these plans, as well as make contributions to a trust fund established to provide retiree medical benefits for a portion of these employees, which is also managed by USW Benefits. The risks of participating in these multiemployer plans are different from single-employer plans in the following respects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. In 2013, two large employers withdrew from PIUMPF and in 2015, the largest employer in PIUMPF also withdrew. Additional employers have continued to withdraw, or announced plans to withdraw, from the fund in 2016 and 2017, including the second largest remaining employer at the beginning of 2018. We believe that we are now the largest contributing employer.

Further withdrawals by contributing employers could cause a “mass withdrawal” from, or effectively a termination of, PIUMPF, or alternatively we could elect to withdraw.

Under applicable federal law, any employer contributing to a multiemployer pension plan that completely ceases participating in the plan while it is underfunded is subject to an assessment of such employer's allocable share of the aggregate unfunded vested benefits of the plan. In certain circumstances, an employer can also be assessed a withdrawal liability for a partial withdrawal from a multiemployer pension plan. Based on our records as of December 31, 2017, as well as information provided by PIUMPF and reviewed by our actuarial consultant, we estimate the aggregate pre-tax liability that we would have incurred if we had completely withdrawn from PIUMPF in 2017 would have been in excess of $78 million. However, the exact amount of potential exposure could be higher or lower than the estimate, depending on, among other things, the nature and timing of any triggering events and the funded status of PIUMPF at that time. A withdrawal liability is recorded for accounting purposes when withdrawal is probable and the amount of the withdrawal obligation is reasonably estimable.

Our participation in these plans for the annual period ended December 31, 2017, is outlined in the table below. The “EIN" and "Plan Number” columns provide the Employee Identification Number, or EIN, and the three-digit plan number. The most recent Pension Protection Act, or PPA, zone status available in 2017 and 2016 is for a plan’s year-end as of December 31, 2017 and December 31, 2016, respectively. The zone status is set under the provisions of the Multiemployer Pension Plan Reform Act of 2014 and is based on information we received from the plans and is certified by each plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent but more than 65 percent funded, and plans in the green zone are at least 80 percent funded. The “FIP/RP Status Pending/Implemented” column indicates plans for which a Funding Improvement Plan, or FIP, or a Rehabilitation Plan, or RP, is either pending or has been implemented as required by the PPA as a measure to correct its underfunded status. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.

In 2017, the contribution rates for the IAM NPF plan was $4.00 per hour. In 2017, the contribution rates for PIUMPF was $2.79 per hour. In 2015, contribution rates for PIUMPF were increased as part of the RP in lieu of the legally required surcharge, paid by the employers, to assist the fund’s financial status. We were listed in PIUMPF’s Form 5500 report as providing more than five percent of the total contributions for the years 2016 and 2015. At the date of issuance of our consolidated financial statements, Form 5500 reports for these plans were not available for the 2017 plan year.

| Pension Fund | EIN | Plan Number | PPA Zone Status[1] | | FIP/RP Status Pending/ Implemented | Contributions (in thousands) | | | Surcharge Imposed | Expiration Date of Collective Bargaining Agreement |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | 2017 | 2016 | | 2017 | 2016 | 2015 | | |
| IAM NPF | 51-6031295 | 002 | Green | Green | N/A | $333 | $335 | $329 | No | 5/31/2018 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| PIUMPF | 11-6166763 | 001 | Red | Red | Implemented | 5,815 | 5,679 | 5,631 | No | 8/31/2017 |
| | | | | | Total Contributions: | $6,148 | $6,014 | $5,960 | | |

[1] PIUMPF has been certified as in "Critical and Declining Status" for 2017 and 2016, under the provisions of the Multiemployer Pension Plan Reform Act of 2014.

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NOTE 14 Earnings Per Share

Basic earnings (loss) 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. This method requires that the effect of potentially dilutive common stock equivalents be excluded from the calculation of diluted earnings per share for the periods in which net losses are reported because the effect is anti-dilutive.

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

| | December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Basic average common shares outstanding[1] | 16,464,281 | 17,000,599 | 18,762,451 |
| Incremental shares due to: | | | |
| Restricted stock units | 21,522 | 21,668 | 33,128 |
| Performance shares | 45,252 | 76,525 | 24,717 |
| Stock options | 24,866 | 7,648 | — |
| Diluted average common shares outstanding | 16,555,921 | 17,106,440 | 18,820,296 |
| Basic net earnings per common share | $5.91 | $ 2.91 | $ 2.98 |
| Diluted net earnings per common share | 5.88 | 2.90 | 2.97 |
| Anti-dilutive shares excluded from calculation | 499,348 | 220,037 | 331,168 |

[1] Basic average common shares outstanding include restricted stock awards that are fully vested, but are deferred for future issuance. See Note 15, "Equity-Based Compensation Plans" for further discussion.

NOTE 15 Equity-Based Compensation Plans

At December 31, 2017, we have two stock incentive plans in place: the Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan which became effective on December 16, 2008, and was amended and restated effective as of February 27, 2015, and the Clearwater Paper Corporation 2017 Stock Incentive Plan, which became effective February 28, 2017, collectively referred to as, the Stock Plans. Our Stock Plans have been approved by our stockholders, and provide for equity-based awards in the form of restricted shares, restricted stock units, or RSUs, performance shares, stock options or stock appreciation rights to selected employees, outside directors, and consultants of the company.

Under our Stock Plans we are authorized to issue up to approximately 6.2 million shares, which includes approximately 0.7 million additional shares authorized in connection with our acquisition of Cellu Tissue that are available for issuance as equity-based awards only to any employees, outside directors, or consultants who were not employed on December 26, 2010 by Clearwater Paper Corporation or any of its subsidiaries. At December 31, 2017, approximately 3.6 million shares were available for future issuance under the Stock Plans.

We recognize equity-based compensation expense for all equity-based payment awards made to employees and directors, including RSUs, performance shares and stock options, based on estimated fair values and net of estimates of future forfeitures. The expense is classified in "Selling, general and administrative expense" in our Consolidated Statements of Operations and is recognized on a straight-line basis over the requisite service periods of each award.

Based on the terms of the Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan, and for grants prior to 2017, employees who were retirement-eligible during the service period became fully vested in outstanding awards on the later of the date they reached retirement eligibility or at the end of the first calendar year of each respective grant. We account for this feature when determining the service period over which to recognize expense for each grant of RSUs, performance shares, and stock options. For the Clearwater Paper Corporation 2017 Stock Incentive Plan and for grants beginning in 2017, employees who are retirement-eligible during the service period become fully vested in outstanding awards on a prorated basis based on the portion of the service period for which they were employed in alignment with the terms of each respective grant type as outlined in the respective stock plan. Employees are not eligible to receive shares until the end of the applicable service period for performance shares, and the applicable vesting period for RSUs and stock options.

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Employee equity-based compensation expense was recognized as follows:

| (In thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Restricted stock units | $1,618 | $1,381 | $2,116 |
| Performance shares | 2,283 | 3,311 | 4,408 |
| Stock options | 2,552 | 2,913 | 2,106 |
| Total employee equity-based compensation | $6,453 | $7,605 | $8,630 |
| Related tax benefit | $2,149 | $2,767 | $3,193 |

RESTRICTED STOCK UNITS

RSUs granted under our Stock Plans are generally subject to a vesting period of one to three years, with generally the same service period. RSU awards will accrue dividend equivalents based on dividends paid, if any, during the RSU vesting period. The dividend equivalents will be converted into additional RSUs that will vest in the same manner as the underlying RSUs to which they relate. RSUs granted under our Stock Plans do not represent common stock, and therefore the holders do not have voting rights unless and until shares are issued upon settlement.

A summary of the status of outstanding unvested RSU awards as of December 31, 2017, 2016, and 2015, and changes during those years, is presented below:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Unvested shares outstanding at January 1 | 54,460 | $ 47.16 | 46,029 | $ 60.17 | 93,254 | $ 47.95 |
| Granted | 66,774 | 56.45 | 44,627 | 39.10 | 23,148 | 62.02 |
| Vested | (17,531) | 62.75 | (29,338) | 55.16 | (65,217) | 43.86 |
| Forfeited | (9,232) | 53.52 | (6,858) | 47.80 | (5,156) | 58.58 |
| Unvested shares outstanding at December 31 | 94,471 | 50.22 | 54,460 | 47.16 | 46,029 | 60.17 |
| Aggregate intrinsic value (in thousands) | | $ 4,289 | | $ 3,570 | | $ 2,096 |

During 2017, 25,940 RSU shares were settled and distributed in common stock. Of these shares, 20,940 were RSU shares that were settled and distributed in the fourth quarter of 2017. Another 1,775 shares were RSU shares that were settled in prior years but distribution had been deferred to preserve tax deductibility for the Company in the respective years because distribution of these shares would have resulted in certain executive compensation being above the Internal Revenue Code section 162(m) threshold for those years. After adjusting for minimum tax withholdings, a net 17,834 shares were issued during 2017. The minimum tax withholdings payment made in 2017 in connection with issued shares was $1.1 million.

During 2016, 45,143 RSU shares were settled and distributed, of which 19,196 shares were settled and distributed in the fourth quarter. After adjusting for minimum tax withholdings and deferred shares, a net 30,093 shares were issued during 2016. The minimum tax withholdings payment made in 2016 in connection with issued shares was $0.9 million.

As of December 31, 2017 a total of 33,663 shares remain deferred under Internal Revenue Code section 162(m).

The fair value of each RSU share award granted during 2017 was estimated on the date of grant using the grant date market price of our common stock. The total fair value of share awards that vested during 2017 was $1.1 million.

As of December 31, 2017, there was $2.8 million of total unrecognized compensation cost related to outstanding RSU awards. The cost is expected to be recognized over a weighted average period of 1.8 years.

PERFORMANCE SHARES

Performance share awards granted under our Stock Plan have a three-year performance period, with generally the same service period, and shares are issued after the end of the period if the employee provides the requisite service and the performance measure is met. For 2016 and prior years, and for 40% of performance shares granted in 2017, the performance measure used was a comparison of the percentile ranking of our total stockholder return (TSR) compared to the TSR performance of a selected peer group or index. The performance measure is considered to represent a "market condition" under authoritative accounting guidance, and thus, the market condition is considered when determining the estimate of the fair value of the performance share awards. In 2017, for 60% of the performance share awards granted, a return on invested capital (ROIC) performance measure is being used to determine the number of performance shares ultimately issuable. The final ROIC calculation is the average of the three one-year ROIC results for each year in the performance period. The number of shares actually issued, as a percentage of the amount subject to the performance share award, could range from 0%-200%.

Performance share awards granted under our Stock Plans do not represent common stock, and therefore the holders do not have voting rights unless and until shares are issued upon settlement. During the performance period, dividend equivalents accrue based on dividends paid, if any, and are converted into additional performance shares, which vest or are forfeited in the same manner as the underlying performance shares to which they relate. Generally, if an employee terminates prior to completing the requisite service period, all or a portion of their awards are forfeited and the previously recognized compensation cost is reversed. If an employee provides the requisite service through the end of the performance period, but the performance measure is not met, following authoritative guidance for awards with a market condition, previously recognized compensation cost is not reversed.

The fair value of performance share awards is estimated using a Monte Carlo simulation model. For performance shares granted in 2017, the following assumptions were used in our Monte Carlo model:

| | |
|---|---|
| Closing price of stock on date of grant | $56.75 |
| Risk free rate | 1.42 % |
| Measurement period | 3 years |
| Volatility | 35 % |

In addition to the above assumptions, the dividend yields for all companies were assumed to be zero since dividends are included in the definition of total stockholder return.

A summary of the status of outstanding performance share awards as of December 31, 2017, 2016, and 2015, and changes during those years, is presented below:

| | 2017 | | 2016 | | 2015 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Outstanding share awards at January 1 | 175,683 | $ 62.26 | 92,563 | $ 84.18 | 300,864 | $ 59.77 |
| Granted | 33,907 | 58.58 | 93,397 | 39.70 | 47,513 | 62.05 |
| Settled | (87,491 ) | 84.65 | — | — | (245,525) | 50.43 |
| Forfeited | (4,847 ) | 47.61 | (10,277 ) | 54.55 | (10,289 ) | 73.61 |
| Outstanding share awards at December 31 | 117,252 | 45.10 | 175,683 | 62.26 | 92,563 | 84.18 |
| Aggregate intrinsic value (in thousands) | | $ 5,323 | | $ 11,516 | | $ 4,214 |

On December 31, 2017, the three-year performance period for 41,538 performance shares granted in 2015 ended. The requisite market condition performance measure was not met, and as such no shares were paid or issued under those awards.

On December 31, 2016, the service and performance period for 45,953 outstanding shares granted in 2014 ended. Those performance shares were settled and distributed in the first quarter of 2017. The number of shares actually

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settled, as a percentage of the outstanding amount, was 89.0%. After adjusting for the related minimum tax withholdings, a net 27,878 shares were issued in the first quarter of 2017.
As of December 31, 2017, there was $2.3 million of unrecognized compensation cost related to outstanding performance share awards. The cost is expected to be recognized over a weighted average period of 1.2 years.
STOCK OPTIONS
Beginning in 2014, stock options were granted to certain employees under our Stock Plans. The stock options are generally subject to a vesting period of one to three years, with generally the same service period. Upon vesting, the holder is entitled to purchase a specified number of shares of Clearwater Paper common stock at a price per share equal to the closing market price of Clearwater Paper common stock on the date of grant. Once options have vested they are exercisable. The options are exercisable for 10 years from the date of grant.

Stock options granted under our Stock Plan do not represent common stock, and therefore the holders do not have voting rights unless and until shares have been issued to the employee.

The fair value of stock option awards was determined using a Black-Scholes option-pricing model. The Black-Scholes model utilizes a range of assumptions related to dividend yield, volatility, risk-free interest rate and employee exercise behavior. Expected volatility is based on Clearwater Paper's historical stock prices. The risk-free interest rate is based on constant maturity treasury rates with maturities matching the options' expected life on the grant date. The expected life, estimated in accordance with Securities and Exchange Commission Staff Accounting Bulletin 110, is the approximate mid-point between the expected vesting time and the remaining contractual life.

| | | |
|---|---|---|
| Volatility | 30 | % |
| Risk-free interest rate | 2.05 | % |
| Expected life-years | 6.0 | |

A summary of the status of outstanding stock option awards as of December 31, 2017, and changes during the year, is presented below:

| | | Shares | Weighted Average Exercise Price | Weighted Average Grant Date Fair Value | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|---|---|
| Outstanding options at December 31, 2014 | | 150,580 | $ 66.84 | | | $ 258 |
| Granted | | 142,542 | 61.93 | $ 20.82 | | |
| Forfeited | | (15,429 ) | 64.12 | | | |
| Outstanding options at December 31, 2015 | | 277,693 | $ 64.47 | | | $ — |
| Granted | | 280,191 | 38.86 | 14.42 | | |
| Forfeited | | (30,830 ) | 47.79 | | | |
| Outstanding options at December 31, 2016 | | 527,054 | $ 51.83 | | | $ 7,232 |
| Granted | | 158,484 | 56.45 | 18.82 | | |
| Forfeited | | (22,306 ) | 50.74 | | | |
| Expired | | (5,913 ) | 66.97 | | | |
| Outstanding options at December 31, 2017 | 2,017 | 657,319 | $ 52.84 | | 7.4 | $ — |

As of December 31, 2017, there was $3.1 million of unrecognized compensation cost related to nonvested stock options. The cost is expected to be recognized over a weighted average period of 1.4 years.



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During 2017, 124,617 stock option awards vested with a weighted average exercise price of $61.95 and total fair value of $7.7 million. These options are outstanding at December 31, 2017 and became exercisable on January 1, 2018. The weighted average remaining contractual term of options that vested during the year is 7.0 years.
Exercisable stock option awards are included in the detail of outstanding stock option awards above. A summary of the status of exercisable stock option awards as of December 31, 2017, and changes during the year, is presented below:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Exercisable options at January 1, 2017 | 137,860 | $ 66.85 | | |
| Expired | (5,913 ) | 66.97 | | |
| Exercisable options at December 31, 2017 | 131,947 | $ 66.85 | 6.0 | $ — |

DIRECTOR AWARDS
In connection with joining our Board of Directors, in January 2009 our outside directors at that time were granted an award of phantom common stock units, which were credited to an account established on behalf of each director and vested ratably over a three-year period with the final vesting in January 2012. Subsequent equity awards have been granted annually in May, or on a pro-rata basis as applicable, to our outside directors in the form of phantom common stock units as part of their annual compensation, which are credited to their accounts. These awards vest ratably over a one-year period. These accounts will be credited with additional phantom common stock units equal in value to dividends paid, if any, on the same amount of common stock. Upon separation from service as a director, the vested portion of the phantom common stock units held by the director in a stock unit account are converted to cash based upon the then market price of the common stock and paid to the director.
Due to its cash-settlement feature, we account for these awards as liabilities rather than equity and recognize the equity-based compensation expense or income at the end of each reporting period based on the portion of the award that is vested and the increase or decrease in the value of our common stock.
We recorded director equity-based compensation benefit totaling $2.8 million for the year ended December 31, 2017, compensation expense totaling $4.8 million for the year ended December 31, 2016, and compensation benefit totaling $4.1 million for the year ended December 31, 2015.
At December 31, 2017, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" on our Consolidated Balance Sheet were $3.6 million and $2.4 million, respectively. At December 31, 2016, the liability amounts associated with director equity-based compensation in "Other long-term obligations" and "Accounts payable and accrued liabilities" on our Consolidated Balance Sheet were $7.9 million and $3.2 million, respectively.

NOTE 16 Fair Value Measurements

The estimated fair values of our financial instruments as of our balance sheet dates are presented below:

| | December 31, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| (In thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents (Level 1) | $15,738 | $15,738 | $23,001 | $23,001 |
| Borrowings under revolving credit facilities (Level 2) | 155,000 | 154,882 | 135,000 | 135,000 |
| Long-term debt (Level 2) | 575,000 | 569,250 | 575,000 | 567,875 |

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

Cash and cash equivalents, borrowings under the revolving credit facilities and long-term debt are the only items measured at fair value on a recurring basis.

We do not have any financial assets measured at fair value on a nonrecurring basis. Nonfinancial assets measured at fair value on a nonrecurring basis include items such as long-lived assets held and used that are measured at fair value resulting from impairment, if deemed necessary.

NOTE 17 Commitments and Contingencies

LEASE COMMITMENTS

Our operating leases cover manufacturing, office, warehouse and distribution space, paperboard sheeting facilities, equipment and vehicles, which expire at various dates through 2029. We have capital leases related to our North Carolina converting and manufacturing facilities as well as various office equipment. As leases expire, it can be expected that, in the normal course of business, certain leases will be renewed or replaced.

As of December 31, 2017, under current operating and capital lease contracts, we had future minimum lease payments as follows:

| (In thousands) | Capital | Operating |
|---|---|---|
| 2018 | $2,649 | $ 12,074 |
| 2019 | 2,697 | 9,692 |
| 2020 | 2,662 | 8,808 |
| 2021 | 2,710 | 7,764 |
| 2022 | 2,643 | 7,416 |
| Thereafter | 24,179 | 29,586 |
| Total future minimum lease payments | $37,540 | $ 75,340 |
| Less interest portion | (15,442 ) | |
| Present value of future minimum lease payments | $22,098 | |

Rent expense for operating leases was $12.6 million, $14.3 million and $14.8 million for the years ended December 31, 2017, 2016 and 2015, respectively.

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NOTE 18 Business Interruption and Insurance Recovery

On July 6, 2016, our Lewiston, Idaho facility experienced an electrical incident that caused a complete plant-wide power outage. Power was restored in approximately 18 hours. However, damage to certain equipment limited pulping operations throughout the remainder of July. In addition to repair costs, we incurred other various costs, including incremental pulp replacement costs, incremental natural gas costs, lost electrical generation and increased labor, chemical and wood costs. We maintain property and business interruption insurance and filed a claim with our insurance provider to recover the cost of repairs to the equipment and estimated lost profits due to the disruption of the operations during the repair period. All associated costs and insurance recoveries were recorded in "Cost of sales" in our Consolidated Statement of Operations and included in the "Net earnings" line in our Consolidated Statement of Cash Flows. The insurance claim for this event totaled $8.5 million. The claim was settled in its entirety in September 2016, and, net of the policy deductible and certain exclusions totaling $3.5 million, we received $5.0 million from our property insurance provider as final payment of the claim.

On November 14, 2016, we experienced a fire at our Las Vegas, Nevada facility. There was minimal disruption to the converting operations at that facility, however certain paper machine equipment was damaged and we incurred approximately 17 days of paper machine downtime while repairs were being made. We were unable to produce through-air-dried parent rolls during this period at the Las Vegas facility. We were able to replace a portion of this lost production capacity by shipping parent rolls from our Shelby, North Carolina facility, in addition to making open market purchases. We maintain property and business interruption insurance and filed a claim with our insurance provider to recover the cost of repairs to the equipment and estimated lost profits due to the disruption of the operations during the repair period. The insurance claim for this event, net of policy deductible, was $2.9 million, of which $1.5 million was recorded in the fourth quarter of 2016 and $1.4 million was recorded in the first quarter of 2017. All associated costs and insurance recoveries have been recorded in "Cost of sales" in our Consolidated Statements of Operations and included in the "Net earnings" line in our Consolidated Statement of Cash Flows.

On January 28, 2017, there was a fire at our Shelby, North Carolina facility warehouse. Although the building sustained minimal damage, the smoke and water damage to raw material and finished goods inventory was more significant. Operations were impacted during the clean-up and repair period. We filed a claim with our insurance providers to recover the cost of repairs to the equipment and estimated lost profits and inventory due to the disruption of the operations during the repair and cleanup period. Net of policy deductibles, the insurance claim for this event totaled $2.9 million, and was settled in its entirety in the first quarter of 2017. All associated costs and insurance recoveries have been recorded in "Cost of sales" in our Consolidated Statements of Operations and included in the "Net earnings" line in our Consolidated Statement of Cash Flows.

NOTE 19 Segment Information

We are organized in two reportable operating segments: Consumer Products and Pulp and Paperboard. The following is a tabular presentation of business segment information for each of the past three years. Corporate information is included to reconcile segment data to the financial statements.

| (In thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| Segment net sales: | | | |
| Consumer Products | $941,907 | $988,380 | $959,894 |
| Pulp and Paperboard | 788,501 | 746,383 | 792,507 |
| Total segment net sales | $1,730,408 | $1,734,763 | $1,752,401 |
| Operating income: | | | |
| Consumer Products[1] | $28,616 | $67,916 | $55,704 |
| Pulp and Paperboard | 98,508 | 112,732 | 120,861 |
| | 127,124 | 180,648 | 176,565 |
| Corporate[2] | (54,796) | (69,331) | (52,895) |
| Income from operations | $72,328 | $111,317 | $123,670 |
| Depreciation and amortization: | | | |
| Consumer Products[3] | $65,007 | $59,375 | $54,595 |
| Pulp and Paperboard | 34,474 | 26,741 | 27,204 |
| Corporate | 5,509 | 4,974 | 2,933 |
| Total depreciation and amortization | $104,990 | $91,090 | $84,732 |
| Assets: | | | |
| Consumer Products | $1,069,876 | $1,031,563 | $1,046,170 |
| Pulp and Paperboard | 645,353 | 586,687 | 423,694 |
| | 1,715,229 | 1,618,250 | 1,469,864 |
| Corporate | 87,023 | 66,092 | 57,505 |
| Total assets | $1,802,252 | $1,684,342 | $1,527,369 |
| Capital expenditures: | | | |
| Consumer Products | $112,597 | $47,079 | $55,594 |
| Pulp and Paperboard | 74,616 | 104,113 | 67,929 |
| | 187,213 | 151,192 | 123,523 |
| Corporate | 11,472 | 4,485 | 10,581 |
| Total capital expenditures | $198,685 | $155,677 | $134,104 |

[1] Included in Consumer Products operating income are costs associated with the March 31, 2017 Oklahoma City facility closure. For the twelve months ended December 31, 2017, these costs include $4.3 million of loss on the write-down of assets to their held for sale value and $3.2 million of expenses associated with the execution of a sublease for the facility. For the twelve months ended December 31, 2016 and 2015, Consumer Products operating income includes gains on divested assets of $1.8 million and $1.3 million, respectively.

[2] Corporate expenses for 2016 include $2.7 million of expenses associated with the acquisition of Manchester Industries. Operating results subsequent to the acquisition of Manchester are included in the Pulp and Paperboard segment. Corporate expenses for 2016 also include a $3.5 million settlement accounting charge associated with a pension lump sum buyout for term-vested participants.

[3] Depreciation and amortization expense for the Consumer Products segment for the twelve months ended December 31, 2017 and 2016 includes accelerated depreciation of $3.7 million and $1.3 million, respectively, associated with the Oklahoma City facility closure.

Our manufacturing facilities and all other assets are located within the continental United States. We sell and ship our products to customers in many foreign countries. Geographic information regarding our net sales is summarized as follows:

| (In thousands) | 2017 | 2016 | 2015 |
|---|---|---|---|
| United States | $1,650,066 | $1,663,231 | $1,653,208 |
| Japan | 48,604 | 44,970 | 59,463 |
| Canada | 12,106 | 6,831 | 6,896 |
| Korea | 7,124 | 5,260 | 10,016 |
| Australia | 4,255 | 4,790 | 5,578 |
| Other foreign countries | 8,253 | 9,681 | 17,240 |
| Total net sales | $1,730,408 | $1,734,763 | $1,752,401 |

NOTE 20 Financial Results by Quarter (Unaudited)

| | Three Months Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| (In thousands— | March 31, | | June 30, | | September 30, | | December 31, | |
| except per-share amounts) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Net sales | $437,525 | $437,204 | $429,663 | $436,671 | $426,504 | $435,320 | $436,716 | $425,568 |
| Costs and expenses: | | | | | | | | |
| Cost of sales | (387,030 ) | (368,647 ) | (380,733 ) | (361,851 ) | (386,581 ) | (396,605 ) | (375,277 ) | (368,524 ) |
| Selling, general and administrative expenses | (29,937 ) | (30,795 ) | (29,265 ) | (34,655 ) | (34,472 ) | (29,435 ) | (34,785 ) | (32,934 ) |
| Total operating costs and expenses | (416,967 ) | (399,442 ) | (409,998 ) | (396,506 ) | (421,053 ) | (426,040 ) | (410,062 ) | (401,458 ) |
| Income from operations | 20,558 | 37,762 | 19,665 | 40,165 | 5,451 | 9,280 | 26,654 | 24,110 |
| Net earnings | $7,515 | $18,446 | $8,037 | $20,864 | $863 | $901 | $80,924 | $9,343 |
| Net earnings per common share | | | | | | | | |
| Basic | $0.46 | $1.05 | $0.49 | $1.22 | $0.05 | $0.05 | $4.92 | $0.56 |
| Diluted | 0.45 | 1.05 | 0.48 | 1.21 | 0.05 | 0.05 | 4.88 | 0.56 |

NOTE 21 Supplemental Guarantor Financial Information

All of our directly and indirectly owned, domestic subsidiaries guarantee 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 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.
We acquired Manchester Industries on December 16, 2016 and their results of operations, financial position and cash flows are included below as a guarantor entity.
Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Twelve Months Ended December 31, 2017

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| Net sales | $1,707,283 | $242,222 | $(219,097) | $1,730,408 |
| Cost and expenses: | | | | |
| Cost of sales | (1,524,925) | (219,931) | 215,235 | (1,529,621) |
| Selling, general and administrative expenses | (97,989) | (30,470) | — | (128,459) |
| Total operating costs and expenses | (1,622,914) | (250,401) | 215,235 | (1,658,080) |
| Income (loss) from operations | 84,369 | (8,179) | (3,862) | 72,328 |
| Interest expense, net | (30,820) | (554) | — | (31,374) |
| Earnings (loss) before income taxes | 53,549 | (8,733) | (3,862) | 40,954 |
| Income tax benefit | 34,250 | 20,644 | 1,491 | 56,385 |
| Equity in earnings of subsidiary | 11,911 | — | (11,911) | — |
| Net earnings | $99,710 | $11,911 | $(14,282) | $97,339 |
| Other comprehensive income, net of tax | 7,770 | — | — | 7,770 |
| Comprehensive income | $107,480 | $11,911 | $(14,282) | $105,109 |

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Twelve Months Ended December 31, 2016

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| Net sales | $1,685,327 | $287,952 | $(238,516) | $1,734,763 |
| Cost and expenses: | | | | |
| Cost of sales | (1,468,691) | (263,577) | 236,641 | (1,495,627) |
| Selling, general and administrative expenses | (113,766) | (14,053) | — | (127,819) |
| Total operating costs and expenses | (1,582,457) | (277,630) | 236,641 | (1,623,446) |
| Income from operations | 102,870 | 10,322 | (1,875) | 111,317 |
| Interest expense, net | (30,462) | (189) | — | (30,651) |
| Earnings before income taxes | 72,408 | 10,133 | (1,875) | 80,666 |
| Income tax provision | (26,966) | (4,802) | 656 | (31,112) |
| Equity in earnings of subsidiary | 5,331 | — | (5,331) | — |
| Net earnings | $50,773 | $5,331 | $(6,550) | $49,554 |
| Other comprehensive income, net of tax | 3,795 | — | — | 3,795 |
| Comprehensive income | $54,568 | $5,331 | $(6,550) | $53,349 |

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income (Loss)
Twelve Months Ended December 31, 2015

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| Net sales | $1,683,890 | $291,270 | $(222,759) | $1,752,401 |
| Cost and expenses: | | | | |
| Cost of sales | (1,458,121) | (277,487) | 222,759 | (1,512,849) |
| Selling, general and administrative expenses | (108,414) | (7,468) | — | (115,882) |
| Total operating costs and expenses | (1,566,535) | (284,955) | 222,759 | (1,628,731) |
| Income from operations | 117,355 | 6,315 | — | 123,670 |
| Interest expense, net | (31,067) | (115) | — | (31,182) |
| Earnings before income taxes | 86,288 | 6,200 | — | 92,488 |
| Income tax provision | (32,371) | (3,724) | (410) | (36,505) |
| Equity in earnings of subsidiary | 2,476 | — | (2,476) | — |
| Net earnings | $56,393 | $2,476 | $(2,886) | $55,983 |
| Other comprehensive income, net of tax | 15,315 | — | — | 15,315 |
| Comprehensive income | $71,708 | $2,476 | $(2,886) | $71,298 |

Clearwater Paper Corporation
Consolidating Balance Sheet
At December 31, 2017

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $15,738 | $— | $— | $15,738 |
| Receivables, net | 125,001 | 17,064 | — | 142,065 |
| Taxes receivable | 20,242 | 40 | — | 20,282 |
| Inventories | 228,311 | 41,594 | (3,862) | 266,043 |
| Other current assets | 8,587 | 74 | — | 8,661 |
| Total current assets | 397,879 | 58,772 | (3,862) | 452,789 |
| Property, plant and equipment, net | 936,659 | 114,323 | — | 1,050,982 |
| Goodwill | 244,161 | — | — | 244,161 |
| Intangible assets, net | 2,089 | 30,453 | — | 32,542 |
| Intercompany receivable (payable) | (2,807) | (1,055) | 3,862 | — |
| Investment in subsidiary | 157,000 | — | (157,000) | — |
| Other assets, net | 21,413 | 2,696 | (2,331) | 21,778 |
| TOTAL ASSETS | $1,756,394 | $205,189 | $(159,331) | $1,802,252 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Borrowings under revolving credit facilities | $155,000 | $— | $— | $155,000 |
| Accounts payable and accrued liabilities | 235,439 | 21,182 | — | 256,621 |
| Current liability for pensions and other postretirement employee benefits | 7,631 | — | — | 7,631 |
| Total current liabilities | 398,070 | 21,182 | — | 419,252 |
| Long-term debt | 570,524 | — | — | 570,524 |
| Liability for pensions and other postretirement employee benefits | 72,469 | — | — | 72,469 |
| Other long-term obligations | 43,275 | — | — | 43,275 |
| Accrued taxes | 1,928 | 842 | — | 2,770 |
| Deferred tax liabilities | 94,694 | 26,165 | (2,331) | 118,528 |
| TOTAL LIABILITES | 1,180,960 | 48,189 | (2,331) | 1,226,818 |
| Accumulated other comprehensive loss, net of tax | (43,983) | — | — | (43,983) |
| Stockholders' equity excluding accumulated other comprehensive loss | 619,417 | 157,000 | (157,000) | 619,417 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,756,394 | $205,189 | $(159,331) | $1,802,252 |

Clearwater Paper Corporation
Consolidating Balance Sheet
At December 31, 2016

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $19,586 | $3,415 | $— | $23,001 |
| Receivables, net | 130,098 | 27,252 | (10,276) | 147,074 |
| Taxes receivable | 15,143 | 35 | (5,469) | 9,709 |
| Inventories | 208,472 | 51,432 | (1,875) | 258,029 |
| Other current assets | 8,161 | 521 | — | 8,682 |
| Total current assets | 381,460 | 82,655 | (17,620) | 446,495 |
| Property, plant and equipment, net | 802,064 | 143,264 | — | 945,328 |
| Goodwill | 244,283 | — | — | 244,283 |
| Intangible assets, net | 3,135 | 37,350 | — | 40,485 |
| Intercompany receivable (payable) | 30,034 | (31,909) | 1,875 | — |
| Investment in subsidiary | 145,089 | — | (145,089) | — |
| Other assets, net | 8,433 | 2,853 | (3,535) | 7,751 |
| TOTAL ASSETS | $1,614,498 | $234,213 | $(164,369) | $1,684,342 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Borrowings under revolving credit facilities | $135,000 | $— | $— | $135,000 |
| Accounts payable and accrued liabilities | 202,187 | 37,257 | (15,745) | 223,699 |
| Current liability for pensions and other postretirement employee benefits | 7,821 | — | — | 7,821 |
| Total current liabilities | 345,008 | 37,257 | (15,745) | 366,520 |
| Long-term debt | 569,755 | — | — | 569,755 |
| Liability for pensions and other postretirement employee benefits | 81,812 | — | — | 81,812 |
| Other long-term obligations | 41,424 | 352 | — | 41,776 |
| Accrued taxes | 1,614 | 820 | — | 2,434 |
| Deferred tax liabilities | 105,012 | 50,695 | (3,535) | 152,172 |
| TOTAL LIABILITIES | 1,144,625 | 89,124 | (19,280) | 1,214,469 |
| Accumulated other comprehensive loss, net of tax | (51,753) | — | — | (51,753) |
| Stockholders' equity excluding accumulated other comprehensive loss | 521,626 | 145,089 | (145,089) | 521,626 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | $1,614,498 | $234,213 | $(164,369) | $1,684,342 |

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Twelve Months Ended December 31, 2017

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net earnings | $99,710 | $ 11,911 | $ (14,282 ) | $97,339 |
| Adjustments to reconcile net earnings to net cash flows from operating activities: | | | | |
| Depreciation and amortization | 76,862 | 28,128 | — | 104,990 |
| Equity-based compensation expense | 3,620 | — | — | 3,620 |
| Deferred taxes | (16,957 ) | (23,632 ) | — | (40,589 ) |
| Employee benefit plans | (4,371 ) | — | — | (4,371 ) |
| Deferred issuance costs on debt | 1,199 | — | — | 1,199 |
| Disposal of plant and equipment, net | 512 | 3,541 | — | 4,053 |
| Other non-cash activity | 1,750 | — | — | 1,750 |
| Changes in working capital | 8,776 | 5,529 | 7,456 | 21,761 |
| Change in taxes receivable, net | (5,099 ) | (5 ) | (5,469 ) | (10,573 ) |
| Other, net | 1,585 | (3,094 ) | — | (1,509 ) |
| Net cash flows from operating activities | 167,587 | 22,378 | (12,295 ) | 177,670 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Additions to property, plant and equipment | (193,864) | (5,884 ) | — | (199,748) |
| Proceeds from sale of assets | 283 | 668 | — | 951 |
| Net cash flows from investing activities | (193,581) | (5,216 ) | — | (198,797) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Purchase of treasury stock | (4,875 ) | — | — | (4,875 ) |
| Borrowings on revolving credit facilities | 298,308 | — | — | 298,308 |
| Repayments of borrowings on revolving credit facilities' | (278,308) | — | — | (278,308) |
| Investment from (to) parent | 8,282 | (20,577 ) | 12,295 | — |
| Payment of tax withholdings on equity-based payment arrangements | (1,127 ) | — | — | (1,127 ) |
| Other, net | (134 ) | — | — | (134 ) |
| Net cash flows from financing activities | 22,146 | (20,577 ) | 12,295 | 13,864 |
| Decrease in cash and cash equivalents | (3,848 ) | (3,415 ) | — | (7,263 ) |
| Cash and cash equivalents at beginning of period | 19,586 | 3,415 | — | 23,001 |
| Cash and cash equivalents at end of period | $15,738 | $ — | $ — | $15,738 |

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Twelve Months Ended December 31, 2016

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net earnings | $ 50,773 | $ 5,331 | $ (6,550 ) | $ 49,554 |
| Adjustments to reconcile net earnings to net cash flows from operating activities: | | | | |
| Depreciation and amortization | 68,496 | 22,594 | — | 91,090 |
| Equity-based compensation expense | 12,385 | — | — | 12,385 |
| Deferred taxes | 18,860 | 605 | (1,138 ) | 18,327 |
| Employee benefit plans | (1,979 ) | — | — | (1,979 ) |
| Deferred issuance costs on debt | 1,242 | — | — | 1,242 |
| Disposal of plant and equipment, net | 781 | 600 | — | 1,381 |
| Other non-cash activity | 740 | 18 | — | 758 |
| Changes in working capital, net of acquisition | (642 ) | 774 | (3,594 ) | (3,462 ) |
| Change in taxes receivable, net | 1,078 | (1,405 ) | 5,469 | 5,142 |
| Excess tax benefits from equity-based payment arrangements | (312 ) | — | — | (312 ) |
| Other, net | (1,592 ) | (921 ) | 1,138 | (1,375 ) |
| Net cash flows from operating activities | 149,830 | 27,596 | (4,675 ) | 172,751 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Change in short-term investments, net | 250 | — | — | 250 |
| Additions to property, plant and equipment | (145,579 ) | (9,770 ) | — | (155,349 ) |
| Acquisition of Manchester Industries, net of cash acquired | (67,443 ) | — | — | (67,443 ) |
| Proceeds from the sale of assets | — | 36 | — | 36 |
| Net cash flows from investing activities | (212,772 ) | (9,734 ) | — | (222,506 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Purchase of treasury stock | (65,327 ) | — | — | (65,327 ) |
| Borrowings on revolving credit facilities | 1,273,959 | — | — | 1,273,959 |
| Repayments of borrowings on revolving credit facilities' | (1,138,959) | — | — | (1,138,959) |
| Investment from (to) parent | 9,772 | (14,447 ) | 4,675 | — |
| Payments for debt issuance costs | (1,906 ) | — | — | (1,906 ) |
| Payment of tax withholdings on equity-based payment arrangements | (933 ) | — | — | (933 ) |
| Excess tax benefits from equity-based payment arrangements | 312 | — | — | 312 |
| Net cash flows from financing activities | 76,918 | (14,447 ) | 4,675 | 67,146 |
| Increase in cash and cash equivalents | 13,976 | 3,415 | — | 17,391 |
| Cash and cash equivalents at beginning of period | 5,610 | — | — | 5,610 |
| Cash and cash equivalents at end of period | $ 19,586 | $ 3,415 | $ — | $ 23,001 |

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Twelve Months Ended December 31, 2015

| (In thousands) | Issuer | Guarantor Subsidiaries | Eliminations | Total |
|---|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net earnings | $56,393 | $ 2,476 | $ (2,886 ) | $55,983 |
| Adjustments to reconcile net earnings to net cash flows from operating activities: | | | | |
| Depreciation and amortization | 65,078 | 19,654 | — | 84,732 |
| Equity-based compensation expense | 4,557 | — | — | 4,557 |
| Deferred taxes | 9,944 | 3,178 | 2,959 | 16,081 |
| Employee benefit plans | 3,011 | — | — | 3,011 |
| Deferred issuance costs on debt | 928 | — | — | 928 |
| Disposal of plant and equipment, net | 1,587 | (95 ) | — | 1,492 |
| Other non-cash activities | (1,028 ) | 8 | — | (1,020 ) |
| Changes in working capital, net | 11,809 | 3,032 | — | 14,841 |
| Change in taxes receivable, net | (9,461 ) | (14,388 ) | 10,253 | (13,596 ) |
| Excess tax benefits from equity-based payment arrangements | (1,433 ) | — | — | (1,433 ) |
| Funding of qualified pension plans | (3,179 ) | — | — | (3,179 ) |
| Other, net | (1,591 ) | (1,131 ) | — | (2,722 ) |
| Net cash flows from operating activities | 136,615 | 12,734 | 10,326 | 159,675 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Change in short-term investments, net | 49,750 | — | — | 49,750 |
| Additions to property, plant and equipment | (121,720) | (7,182 ) | — | (128,902) |
| Proceeds from sale of assets | — | 604 | — | 604 |
| Net cash flows from investing activities | (71,970 ) | (6,578 ) | — | (78,548 ) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Purchase of treasury stock | (99,990 ) | — | — | (99,990 ) |
| Investment from (to) parent | 16,482 | (6,156 ) | (10,326 ) | — |
| Payment of tax withholdings on equity-based payment arrangements | (4,152 ) | — | — | (4,152 ) |
| Excess tax benefits from equity-based payment arrangements | 1,433 | — | — | 1,433 |
| Other, net | (139 ) | — | — | (139 ) |
| Net cash flows from financing activities | (86,366 ) | (6,156 ) | (10,326 ) | (102,848) |
| Decrease in cash and cash equivalents | (21,721 ) | — | — | (21,721 ) |
| Cash and cash equivalents at beginning of period | 27,331 | — | — | 27,331 |
| Cash and cash equivalents at end of period | $5,610 | $ — | $ — | $5,610 |

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Clearwater Paper Corporation:
Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of Clearwater Paper Corporation and subsidiaries (the “Company”) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders’ equity for each of the years in the three year period ended December 31, 2017, and the related notes (collectively, the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.
We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 20, 2018 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.
Basis for Opinion
These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.
We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP
We have served as the Company’s auditor since 2007.
Seattle, Washington
February 20, 2018

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Clearwater Paper Corporation:

Opinion on Internal Control Over Financial Reporting

We have audited Clearwater Paper Corporation and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive income (loss), cash flows, and stockholders' equity for each of the years in the three-year period ended December 31, 2017, and the related notes (collectively, the "consolidated financial statements"), and our report dated February 20, 2018 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP
Seattle, Washington
February 20, 2018

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ITEM 9.
Changes in and
Disagreements
with
Accountants on
Accounting
and Financial
Disclosure
None.

ITEM 9A.
Controls
and
Procedures
Evaluation of Controls and Procedures
We maintain "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) under the Securities 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 fiscal year covered by this annual report on Form 10-K. Based on that evaluation, the CEO and CFO have concluded that, as of such date, our disclosure controls and procedures are effective to meet the objective for which they were designed and operate 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.
Management Report on Internal Control Over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) of the Exchange Act).
Under the supervision of and with the participation of our CEO and our CFO, our management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework).
Based on our evaluation under the 2013 Framework, our management has concluded that as of December 31, 2017 our internal control over financial reporting was effective. The effectiveness of our internal control over financial reporting as of December 31, 2017 has been audited by KPMG LLP, our independent registered public accounting firm, as stated in its report which is included in this Annual Report on Form 10-K.

ITEM 9B.

Other
Information
None.

Part III

ITEM 10.
Directors,
Executive
Officers and
Corporate
Governance

Information regarding our directors is set forth under the heading “Board of Directors” in our definitive proxy statement, to be filed on or about April 3, 2018, for the 2018 Annual Meeting of Stockholders, referred to in this report as the 2018 Proxy Statement, which information is incorporated herein by reference. Information concerning Executive Officers is included in Part I of this report in Item 1. Information regarding reporting compliance with Section 16(a) for directors, officers or other parties is set forth under the heading “Section 16(a) Beneficial Ownership Reporting Compliance” in the 2018 Proxy Statement and is incorporated herein by reference.

We have adopted a Code of Business Conduct and Ethics that applies to all directors and employees and a Code of Ethics for Senior Financial Officers that applies to our CEO, CFO, the President, the Controller and other Senior Financial Officers identified by our Board of Directors. You can find each code on our website by going to the following address: www.clearwaterpaper.com, selecting “Investor Relations” and “Corporate Governance,” then selecting the link for “Code of Business Conduct and Ethics" or "Code of Ethics for Senior Financial Officers.” We will post any amendments, as well as any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, on our website. To date, no waivers of the Code of Ethics for Senior Financial Officers have been considered or granted.

Our Board of Directors has adopted corporate governance guidelines and charters for the Board of Directors’ Audit Committee, Compensation Committee, and Nominating and Governance Committee. You can find these documents on our website by going to the following address: www.clearwaterpaper.com, selecting “Investor Relations” and “Corporate Governance,” then selecting the appropriate link.

The Audit Committee of our Board of Directors is an “audit committee” for purposes of Section 3(a)(58) of the Exchange Act. As of December 31, 2017, the members of that committee were William D. Larsson (Chair), Beth E. Ford, and Boh A. Dickey. The Board of Directors has determined that Messrs. Dickey and Larsson are each an “audit committee financial expert” and that all of the members of the Audit Committee are “independent” as defined under the applicable rules and regulations of the SEC and the listing standards of the New York Stock Exchange.

ITEM 11.
Executive
Compensation

Information required by Item 11 of Part III is included under the heading “Executive Compensation Discussion and Analysis” in our 2018 Proxy Statement, to be filed on or about April 3, 2018, relating to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12.
Security
Ownership of
Certain
Beneficial
Owners and
Management
and Related
Stockholder
Matters

Information required by Item 12 of Part III is included in our 2018 Proxy Statement, to be filed on or about April 3, 2018, relating to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

The following table provides certain information as of December 31, 2017, with respect to our equity compensation plans:

| Plan Category | Number Of Securities To Be Issued Upon Exercise Of Outstanding Options, Warrants And Rights[1] | Weighted Average Exercise Price Of Outstanding Options, Warrants And Rights[2] | Number of Securities Remaining Available For Future Issuance Under Equity Compensation Plans |
|---|---|---|---|
| Equity compensation plans approved by security holders | 1,024,183 | $ 52.84 | 3,639,058 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 1,024,183 | $ 52.84 | 3,639,058 |

1 Includes 234,504 performance shares, 657,319 stock options, and 132,360 restricted stock units, or RSUs, which are the maximum number of shares that could be awarded under the performance share, stock option, and RSU programs, not including future dividend equivalents, if any are paid.

2 Performance shares and RSUs do not have exercise prices. During 2017, 124,617 stock option awards vested with a weighted average exercise price of $61.95.

ITEM 13.
Certain
Relationships
and Related
Transactions,
and Director
Independence

Information required by Item 13 of Part III is included under the heading “Transactions with Related Persons” in our 2018 Proxy Statement, to be filed on or about April 3, 2018, relating to our 2018 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14.
Principal
Accounting
Fees and
Services

Information required by Item 14 of Part III is included under the heading “Fees Paid to Independent Registered Public Accounting Firm” in our 2018 Proxy Statement, to be filed on or about April 3, 2018, relating to our 2018 Annual

Meeting of Stockholders and is incorporated herein by reference.

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PART IV
ITEM 15.
Exhibits,
Financial
Statement
Schedules
FINANCIAL STATEMENTS
Our consolidated financial statements are listed in the Index to Consolidated Financial Statements on page 42 of this report.
FINANCIAL STATEMENT SCHEDULES
All schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements, including the notes thereto.
EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
| --- | --- |
| 3.1* | Restated Certificate of Incorporation of the Company, effective as of December 16, 2008, as filed with the Secretary of State of the State of Delaware (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on December 18, 2008). |
| 3.2* | Amended and Restated Bylaws of the Company, effective as of December 16, 2008 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the Commission on December 18, 2008). |
| 4.1* | Indenture, dated as of January 23, 2013, by and among Clearwater Paper Corporation (the "Registrant"), the Guarantors (as defined therein) and U.S. Bank National Association, as trustee, (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on January 24, 2013). |
| 4.2* | Form of 4.500% Senior Notes due 2023 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on January 24, 2013). |
| 4.3* | Indenture, dated as of July 29, 2014, by and among Clearwater Paper Corporation (the "Registrant"), the Guarantors (as defined therein) and U.S. Bank National Association, as trustee, (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on July 29, 2014). |
| 4.4* | Form of 5.375% Senior Notes due 2025 (incorporated by reference as Exhibit A to the Indenture filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on July 29, 2014). |
| 10.1* | Commercial Bank Agreement, dated as of October 31, 2016, by and among the financial institutions signatory thereto, Wells Fargo Bank, National Association and Clearwater Paper Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on November 3, 2016). |
| 10.1(i)* | Amendment to Commercial Bank Agreement, effective as of December 31, 2017, by and among the financial institutions signatory thereto, Wells Fargo Bank, National Association and Clearwater Paper Corporation (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 11, 2018). |

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|---|---|
| 10.2* | Farm Credit Agreement, dated as of October 31, 2016, by and among the financial institutions signatory thereto, Northwest Farm Credit Services, PCA, and Clearwater Paper Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on November 3, 2016). |
| 10.2(i)* | Amendment to Farm Credit Agreement, effective as of December 31, 2017, by and among the financial institutions signatory thereto, Northwest Farm Credit Services, PCA, and Clearwater Paper Corporation (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 11, 2018). |
| 10.3*[1] | Form of Indemnification Agreement entered into between the Company and each of its directors and executive officers (incorporated by reference to Exhibit 10.15 to Amendment No. 4 to the Company's Registration Statement on Form 10 filed with the Commission on November 19, 2008). |
| 10.4*[1] | Employment Agreement between Linda K. Massman and the Company, dated effective January 1, 2016 (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed with the Commission February 22, 2016). |
| 10.5*[1] | Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 8, 2015). |
| 10.5(i)*[1] | Amendment to the Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan, effective January 1, 2017 (incorporated by reference to Exhibit 10.5(i) to the Company's Annual Report on Form 10-K filed with the Commission on February 22, 2017). |
| 10.5(ii)*[1] | Clearwater Paper Corporation 2017 Stock Incentive Plan (incorporated by reference to exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 11, 2017). |
| 10.6*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Amendment of Performance Share Agreement, effective as of January 1, 2015 (incorporated by reference to Exhibit 10.5(ii) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.6(i)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Performance Share Agreement to be used for annual performance share awards approved subsequent to December 31, 2014 (incorporated by reference to Exhibit 10.5(iii) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.6(ii)*[1] | Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan—Form of Performance Share Agreement to be used for annual performance share awards approved subsequent to December 31, 2015 (incorporated by reference to Exhibit 10.6(iv) to the Company's Annual Report on Form 10-K filed with the Commission February 22, 2016). |
| 10.6(iii)*[1] | Clearwater Paper Corporation—Form of Performance Share Agreement, as amended and restated, to be used for annual performance share awards approved subsequent to December 31, 2016 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 10, 2017). |
| 10.7*[1] | |

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| | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, as amended and restated May 12, 2009, to be used for restricted stock unit awards approved subsequent to May 12, 2009 (incorporated by reference to Exhibit 10.12(i) to the Company's Quarterly Report on Form 10-Q filed with the Commission for the quarter ended June 30, 2009). |
| 10.7(i)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, as amended and restated December 1, 2009, to be used for annual restricted stock unit awards approved subsequent to December 31, 2009, (incorporated by reference to Exhibit 10.12(ii) to the Company's Current Report on Form 8-K filed with the Commission on December 4, 2009). |

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| 10.7(ii)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of RSU Deferral Agreement for Founders Grant RSUs (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on December 14, 2011). |
| 10.7(iii)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, to be used for annual restricted stock unit awards approved subsequent to December 31, 2011 (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Commission on December 14, 2011). |
| 10.7(iv)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, to be used for special restricted stock unit awards (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed with the Commission for the quarter ended June 30, 2014). |
| 10.7(v)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Amendment of Restricted Stock Unit Agreement, effective as of January 1, 2015 (incorporated by reference to Exhibit 10.6(ix) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.7(vi)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, to be used for annual restricted stock unit awards approved subsequent to December 31, 2014 (incorporated by reference to Exhibit 10.6(x) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.7(vii)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, to be used for special restricted stock unit awards approved subsequent to December 31, 2014 (incorporated by reference to Exhibit 10.6(xi) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.7(viii)*[1] | Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan—Form of Restricted Stock Unit Agreement, to be used for restricted stock unit awards approved subsequent to December 31, 2015 (incorporated by reference to Exhibit 10.7(xii) to the Company's Annual Report on Form 10-K filed with the Commission February 22, 2016). |
| 10.7(ix)*[1] | Clearwater Paper Corporation—Form of Restricted Stock Unit Agreement, as amended and restated, to be used for restricted stock unit awards approved subsequent to December 31, 2016 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on February 10, 2017). |
| 10.7(x)[1] | Clearwater Paper Corporation-Form of Restricted Stock Unit Agreement, as amended and restated, to be used for restricted stock unit awards approved subsequent to December 31, 2017. |
| 10.8*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Stock Option Agreement (incorporated by reference to Exhibit 10.3 to the Company's current Report on Form 8-K filed with the Commission on February 18, 2014). |
| 10.8(i)*[1] | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Amendment of Stock Option Agreement, effective as of January 1, 2015 (incorporated by reference to Exhibit 10.7(i) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.8(ii)*[1] | |

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| | Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Stock Option Agreement, to be used for annual restricted stock unit awards approved subsequent to December 31, 2014 (incorporated by reference to Exhibit 10.7(ii) to the Company's Annual Report on Form 10-K filed with the Commission on February 26, 2015). |
| 10.8(iii)*[1] | Clearwater Paper Corporation Amended and Restated 2008 Stock Incentive Plan—Form of Stock Option Agreement, to be used for annual restricted stock unit awards approved subsequent to December 31, 2015 (incorporated by reference to Exhibit 10.8(iii) to the Company's Annual Report on Form 10-K filed with the Commission February 22, 2016). |

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| 10.8(iv)*[1] | Clearwater Paper Corporation— Form of Stock Option Agreement, as amended and restated, to be used for annual restricted stock unit awards approved subsequent to December 31, 2016 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on February 10, 2017). |
| 10.8(v)[1] | Clearwater Paper Corporation- Form of Stock Option Agreement, as amended and restated, to be used for annual restricted stock unit awards approved subsequent to December 31, 2017. |
| 10.9*[1] | Clearwater Paper Corporation Annual Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 8-K filed with the Commission on May 9, 2014). |
| 10.9(i)*[1] | Amendment to the Clearwater Paper Corporation Annual Incentive Plan, effective as of January 1, 2016 (incorporated by reference to Exhibit 10.1 to the Company’s Current Report on Form 10-Q filed with the Commission on July 27, 2016). |
| 10.10*[1] | Amended and Restated Clearwater Paper Corporation Management Deferred Compensation Plan (incorporated by reference to Exhibit 10.10 to the Company’s Annual Report on Form 10-K filed with the Commission for the year ended December 31, 2016). |
| 10.11*[1] | Clearwater Paper Executive Severance Plan (incorporated by reference to Exhibit 10.12 to the Company’s Annual Report on Form 10-K filed with the Commission on February 20, 2014). |
| 10.12*[1] | Amended and Restated Clearwater Paper Corporation Salaried Supplemental Benefit Plan (incorporated by reference to Exhibit 10.12 to the Company’s Annual Report on Form 10-K filed with the Commission for the year ended December 31, 2016). |
| 10.13*[1] | Clearwater Paper Corporation Benefits Protection Trust Agreement (incorporated by reference to Exhibit 10.18 to the Company’s Annual Report on Form 10-K filed with the Commission for the year ended December 31, 2008). |
| 10.13(i)*[1] | Amendment to the Clearwater Paper Corporation Benefits Protection Trust Agreement, dated August 8, 2013 (incorporated by reference to Exhibit 10.16(i) to the Company's Quarterly Report on Form 10-Q filed with the Commission for the quarter ended September 30, 2013). |
| 10.14*[1] | Amended and Restated Clearwater Paper Corporation Deferred Compensation Plan for Directors, (incorporated by reference to Exhibit 99.1 to the Company’s Current Report on Form 8-K filed with the Commission on December 7, 2017). |
| 10.15*[1] | Clearwater Paper Change of Control Plan (incorporated by reference to Exhibit 10.16 to the Company’s Annual Report on Form 10-K filed with the Commission on February 20, 2014). |
| (12) | Computation of Ratio of Earnings to Fixed Charges. |
| (21) | Clearwater Paper Corporation Subsidiaries. |
| (23) | Consent of Independent Registered Public Accounting Firm. |

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| (24) | Powers of Attorney. |
| (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. |

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| 101 | Pursuant to Rule 405 of Regulation S-T, the following financial information from the Registrant's Annual Report on Form 10-K for the year ended December 31, 2017, is formatted in XBRL interactive data files: (i) Consolidated Statements of Operations for the years ended December 31, 2017, 2016 and 2015; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2017, 2016 and 2015; (iii) Consolidated Balance Sheets at December 31, 2017 and 2016, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015, (v) Consolidated Statements of Stockholders' Equity for the years ended December 31, 2017, 2016 and 2015 and (vi) Notes to Consolidated Financial Statements. |

* Incorporated by reference.

1 Management contract or compensatory plan, contract or arrangement.

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ITEM 16.
Form
10-K
Summary
Not applicable.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

By /S/ Linda K. Massman
Linda K. Massman
President, Chief Executive Officer and Director (Principal Executive Officer)

Date: February 20, 2018

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| | | | Date |
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| By | /S/ Linda K. Massman<br>Linda K. Massman | President, Chief Executive Officer and Director (Principal Executive Officer) | February 20, 2018 |
| By | /S/ John D. Hertz<br>John D. Hertz | Senior Vice President, Finance and Chief Financial Officer (Duly Authorized Officer; Principal Financial Officer) | February 20, 2018 |
| By | /S/ Robert N. Dammarell<br>Robert N. Dammarell | Vice President, Corporate Controller (Duly Authorized Officer; Principal Accounting Officer) | February 20, 2018 |
| | *<br>Beth E. Ford | Director and Chair of the Board | February 20, 2018 |
| | *<br>Boh A. Dickey | Director | February 20, 2018 |
| | *<br>Kevin J. Hunt | Director | February 20, 2018 |
| | *<br>William D. Larsson | Director | February 20, 2018 |
| | *<br>John P. O'Donnell | Director | February 20, 2018 |
| | *<br>Alexander Toeldte | Director | February 20, 2018 |

*By /S/ Michael S. Gadd
Michael S. Gadd
(Attorney-in-fact)

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