UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2018

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from ___________ to ___________

Commission File Number: 001-34146

CLEARWATER PAPER CORPORATION
(Exact name of registrant as specified in its charter)

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

(509) 344-5900
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of common stock of the registrant outstanding as of November 5, 2018 was 16,461,119.

CLEARWATER PAPER CORPORATION

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Part I

ITEM 1.

Consolidated Financial Statements

Clearwater Paper Corporation
Consolidated Statements of Operations
Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net sales	**$ 426,460**	$ 426,504	**$ 1,295,511**	$ 1,293,692
Costs and expenses:				
Cost of sales	**(376,221)**	(386,762)	**(1,155,808)**	(1,154,883)
Selling, general and administrative expenses	**(26,283)**	(34,582)	**(85,827)**	(93,991)
Gain on divested assets	**22,944**	—	**22,944**	—
Total operating costs and expenses	**(379,560)**	(421,344)	**(1,218,691)**	(1,248,874)
Income from operations	**46,900**	5,160	**76,820**	44,818
Interest expense, net	**(7,547)**	(7,683)	**(23,290)**	(23,399)
Non-operating pension and other postretirement benefit (costs) income	**(1,234)**	291	**(3,700)**	856
Earnings (loss) before income taxes	**38,119**	(2,232)	**49,830**	22,275
Income tax (provision) benefit	**(3,675)**	3,095	**(5,825)**	(5,860)
Net earnings	**$ 34,444**	$ 863	**$ 44,005**	$ 16,415
Net earnings per common share:				
Basic	**$ 2.09**	$ 0.05	**$ 2.67**	$ 1.00
Diluted	**2.08**	0.05	**2.66**	0.99

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

Clearwater Paper Corporation
Consolidated Statements of Comprehensive Income
Unaudited (Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net earnings	**$ 34,444**	$ 863	**$ 44,005**	$ 16,415
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of $602, $319, $1,807 and $967	**1,687**	487	**5,059**	1,475
Amortization of prior service credit included in net periodic cost, net of tax of $(110), $(152), $(331) and $(454)	**(309)**	(230)	**(926)**	(691)
Other comprehensive income, net of tax	**1,378**	257	**4,133**	784
Comprehensive income	**$ 35,822**	$ 1,120	**$ 48,138**	$ 17,199

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

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

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 76,150**	$ 15,738
Restricted cash	**1,080**	—
Receivables, net	**139,170**	142,065
Taxes receivable	**6,748**	20,282
Inventories	**263,274**	266,043
Other current assets	**6,105**	8,661
Total current assets	**492,527**	452,789
Property, plant and equipment, net	**1,206,168**	1,050,982
Goodwill	**230,153**	244,161
Intangible assets, net	**25,865**	32,542
Other assets, net	**25,382**	21,778
TOTAL ASSETS	**$ 1,980,095**	$ 1,802,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Borrowings under revolving credit facilities	**$ 100,000**	$ 155,000
Accounts payable and accrued liabilities	**341,075**	256,621
Current liability for pensions and other postretirement employee benefits	**7,631**	7,631
Total current liabilities	**448,706**	419,252
Long-term debt	**671,100**	570,524
Liability for pensions and other postretirement employee benefits	**67,759**	72,469
Other long-term obligations	**37,788**	43,275
Accrued taxes	**2,839**	2,770
Deferred tax liabilities	**123,778**	118,528
TOTAL LIABILITIES	**1,351,970**	1,226,818
Stockholders' equity:		
Preferred stock, par value $0.0001 per share, 5,000,000 authorized shares, no shares issued	**—**	—
Common stock, par value $0.0001 per share, 100,000,000 authorized shares-16,461,119 and 16,447,898 shares issued	**2**	2
Additional paid-in capital	**5,714**	1,161
Retained earnings	**675,111**	618,254
Accumulated other comprehensive loss, net of tax	**(52,702)**	(43,983)
TOTAL STOCKHOLDERS' EQUITY	**628,125**	575,434
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,980,095**	$ 1,802,252

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

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

	Nine Months Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	**$ 44,005**	$ 16,415
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	**75,686**	79,468
Equity-based compensation expense	**2,845**	2,523
Deferred taxes	**3,930**	14,602
Employee benefit plans	**102**	(2,999)
Disposal of plant and equipment, net	**128**	3,755
Gain on divested assets	**(25,510)**	—
Other non-cash adjustments, net	**899**	874
Changes in working capital, net	**7,402**	43,846
Changes in taxes receivable, net	**13,534**	(4,869)
Other, net	**(1,922)**	(1,439)
Net cash flows from operating activities	**121,099**	152,176
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(174,034)**	(136,650)
Net proceeds from divested assets	**70,930**	—
Other, net	**807**	753
Net cash flows from investing activities	**(102,297)**	(135,897)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	**—**	(4,875)
Borrowings on revolving credit facilities	**322,454**	185,000
Repayments of borrowings on revolving credit facilities	**(277,454)**	(210,000)
Other, net	**(853)**	(927)
Net cash flows from financing activities	**44,147**	(30,802)
Increase (decrease) in cash, cash equivalents, and restricted cash	**62,949**	(14,523)
Cash, cash equivalents, and restricted cash at beginning of period	**16,738**	23,001
Cash, cash equivalents, and restricted cash at end of period	**$ 79,687**	$ 8,478
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	**$ 27,449**	$ 27,867
Cash paid for income taxes	**1,665**	2,367
Cash received from income tax refunds	**13,483**	5,988
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accrued property, plant and equipment	**$ 78,465**	$ 2,173
Non-cash reclassification of credit facility borrowings to long-term debt	**100,000**	—
Non-cash additions to property, plant and equipment	**—**	4,500

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

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

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

On August 21, 2018, we sold our Ladysmith, Wisconsin manufacturing facility for net proceeds of approximately $71 million and recorded a related gain on divested assets of $22.9 million. See Note 4, "Asset Divestiture" for further discussion.

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 reduce selling, general and administrative expenses beginning in 2018. For the nine months ended September 30, 2018, we incurred $6.4 million of expenses associated with these efforts, which consisted primarily of severance and professional services expenses.

On March 31, 2017, we closed our Oklahoma City, Oklahoma 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 writedown of the transferred assets to their held for sale value. This loss 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. For the three and nine months ended September 30, 2017, we also incurred $0.8 million and $6.8 million, respectively, of closure-related costs associated with the Oklahoma City facility, which are included in "Cost of goods sold" in our Consolidated Statement of Operations.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at September 30, 2018 and December 31, 2017, the related Consolidated Statements of Operations, and Comprehensive Income for the three and nine months ended September 30, 2018 and 2017, and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017, have been prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. We believe that all adjustments necessary for a fair presentation of the results of the interim periods presented have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the Securities and Exchange Commission, or SEC, on February 21, 2018.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Significant areas that may require the use of estimates and measurement of uncertainty include determination of net realizable value for deferred tax assets, uncertain tax positions, assessment of impairment of long-lived assets, variable consideration or reductions to revenue, revenue recognition estimates related to allocating the transaction price to various performance obligations, goodwill and intangibles, assessment of environmental matters, equity-based compensation and pension and postretirement obligation assumptions. Actual results could differ from those estimates and assumptions.

CASH, CASH EQUIVALENTS, AND RESTRICTED CASH

We consider all highly liquid instruments with maturities of three months or less at date of purchase to be cash equivalents. Cash that is held by a third party and has restrictions on its availability to us is classified as restricted cash. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported on the balance sheet that sum to the total of those same amounts shown in our Consolidated Statements of Cash Flows.

(In thousands)		September 30, 2018		December 31, 2017
Cash and cash equivalents	$	**76,150**	$	15,738
Restricted cash		**1,080**		—
Restricted cash included in other assets, net		**2,457**		1,000
Total cash, cash equivalents, and restricted cash shown in the consolidated statements of cash flows	$	**79,687**	$	16,738

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including any interest costs capitalized, less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method. Assets we acquire through business combinations have estimated lives that are typically shorter than the assets we construct or buy new. Accumulated depreciation totaled $1,680.2 million and $1,636.3 million at September 30, 2018 and December 31, 2017, respectively.

For the nine months ended September 30, 2018, we capitalized $5.1 million of interest expense associated with the construction of a paper machine at our Shelby, North Carolina consumer products facility and $0.9 million of interest expense associated with the construction of a continuous pulp digester at our Lewiston, Idaho pulp and paperboard facility. For the nine months ended September 30, 2017, we capitalized $3.0 million of interest expense associated with the continuous pulp digester project and $0.5 million associated with the Shelby paper machine.

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

REVENUE RECOGNITION

We enter into contracts that can include various combinations of tissue and paperboard products, which are generally distinct and accounted for as separate performance obligations.

Revenue is recognized at a point in time upon transfer of control of promised products or services to customers in an amount that reflects the consideration we expect to receive in exchange for those products or services. Transfer of control typically occurs when the title and 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 have elected to treat shipping and handling costs for FOB shipping point contracts as a fulfillment cost, not as a separate performance obligation. No revenue is recognized over time. We typically expense incremental direct costs of obtaining a contract (sales commissions) when incurred because the amortization period is generally 12 months or less. We have also elected to use the practical expedient to not disclose unsatisfied or partially satisfied performance obligations as we have no unsatisfied contracts where the remaining portions are expected to be satisfied in a period greater than one year.

We provide for trade promotions, customer cash discounts, customer returns and other deductions as reductions to net sales, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. Revenue net of returns and credits is only recognized to the extent that it is probable that a significant reversal of any incremental revenue will not occur. Significant judgment is required to determine the most probable amount of variable consideration to apply as a reduction to net sales. Revenue is recognized net of any taxes collected from customers, which are subsequently remitted to governmental authorities.

Payment terms and conditions vary by contract type. Terms generally include a requirement of payment within 30 days, and do not include a significant financing component.

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We generally determine the allowance based on a combination of actual historical write-off experience and an analysis of specific customer accounts. As of both September 30, 2018 and December 31, 2017, we had allowances for doubtful accounts of $1.4 million.

Refer to Note 16, "Segment Information," for further information, including the disaggregation of revenue by segment, primary geographical market, and major product type.

ACCOUNT PURCHASE AGREEMENT

In June 2018, we entered into an agreement (the “Account Purchase Agreement”) to offer to sell, on a revolving and discounted basis, certain trade accounts receivable balances to an unrelated third-party financial institution. If the financial institution purchases receivables thereunder, in its sole discretion, such transfers are accounted for as sales of receivables resulting in the receivables being de-recognized from our Consolidated Balance Sheet. The Account Purchase Agreement provides for the continuing sale of certain receivables on a revolving basis until June 2020 and automatically renews for successive one year terms, unless either party elects to terminate the Account Purchase Agreement in accordance with its terms. The maximum amount of receivables that may be sold at any time, prior to the settlement thereof, is $60.0 million.

For the three and nine months ended September 30, 2018, $23.4 million and $45.4 million of receivables were sold under the Account Purchase Agreement, respectively. As of September 30, 2018, $9.0 million of accounts receivable sold under the Asset Purchase Agreement were outstanding. The proceeds from these sales of receivables are included within the change in receivables in the operating activities section of the Condensed Consolidated Statements of Cash Flows. For the nine months ended September 30, 2018, we recorded factoring expense on sales of receivables of $0.1 million, which is included in the "Selling, general and administrative expenses" line in the Consolidated Statement of Operations.

We have no retained interest in the receivables sold under the Account Purchase Agreement, however, we do have servicing responsibilities for the sold receivables. The fair value of the servicing arrangement was not material to the financial statements.

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 this repurchase program, of which 84,750 shares were repurchased during the first nine months of 2017 at an average price of $57.53 per share. We did not repurchase shares during the first nine months of 2018. As of September 30, 2018, we had up to $29.8 million of authorization remaining pursuant to this stock repurchase program.

DERIVATIVES

We had no activity during the three and nine months ended September 30, 2018 and 2017 that required hedge or derivative accounting treatment. To help mitigate our exposure to market risk for changes in utility commodity pricing, we use firm price contracts to supply a portion of the natural gas requirements for our manufacturing facilities. As of September 30, 2018, these contracts covered approximately 29% of our expected average monthly natural gas requirements for the remainder of 2018, and a lesser amount for 2019. Historically, these contracts have qualified for treatment as “normal purchases or normal sales” under authoritative guidance and thus required no mark-to-market adjustment.

NOTE 2 Recently Adopted and New Accounting Standards

Recently Adopted

In February 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* to allow for 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. We adopted this standard on January 1, 2018, which resulted in the reclassification of $12.9 million between retained earnings and accumulated other comprehensive loss (AOCL), increasing retained earnings and AOCL within the equity section of our Consolidated Balance Sheet.

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 was effective prospectively for annual periods beginning after December 15, 2017, including interim periods within those annual periods. We adopted this standard on January 1, 2018. The adoption of this ASU did not 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 standard requires that an employer disaggregate the service cost component, presented within the "Cost of sales" and "Selling, general, and administrative" line items on our Consolidated Statements of Operations, from the other components of net periodic cost (benefit), which are now presented within the "Non-operating pension and other postretirement benefit (costs) income" line item in our Consolidated Statements of Operations. We adopted the standard effective January 1, 2018, which resulted in the retrospective presentation in the income statement of the disaggregated components and the prospective changes to the capitalized portion of both service cost and the other components within inventory. The adoption did not have a material impact on our consolidated financial statements. Refer to Note 11, "Pension and Other Postretirement Employee Benefit Plans," for further information, including the amounts associated with the reclassification of the components of net periodic cost as operating and non-operating.

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 requires enhanced disclosures about revenue, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. We adopted the new revenue guidance effective January 1, 2018 using the cumulative effect method, and did not have an adjustment to retained earnings upon adoption. The standard was applied to open contracts at the date of initial application. Aside from expanded disclosures, the adoption of Topic 606 did not have a material impact on our consolidated financial statement line items, processes, or internal controls. Refer to Note 1, "Nature of Operations and Basis of Presentation," for information about the basis of revenue recognition, and Note 16, "Segment Information," for further information including the disaggregation of revenue by segment, primary geographical market, and major product type.

New Accounting Standards

In August 2018, the FASB issued ASU 2018-15, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)*. This ASU requires capitalization of certain implementation costs incurred in a cloud computing arrangement that is a service contract. Amendments in this ASU are effective for fiscal years beginning after December 15, 2019 and for interim periods therein, with early adoption permitted. We do not believe this ASU will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)*, which modifies the disclosure requirements for defined benefit and other postretirement plans. This ASU eliminates certain disclosures associated with accumulated other comprehensive income, plan assets, related parties, and the effects of interest rate basis point changes on assumed health care costs, with other disclosures being added to address significant gains and losses related to changes in benefit obligations. This ASU also clarifies disclosure requirements for projected benefit and accumulated benefit obligations. The amendments in this ASU are effective for fiscal years ending after December 15, 2020, with early adoption permitted and adoption on a retrospective basis for all periods presented required. We are currently assessing the timing of our adoption of this ASU, and we do not believe this ASU will have a material impact on our consolidated financial statements beyond updating footnote disclosures.

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, implementing a leasing software solution, and addressing necessary policy and process changes in preparation for adoption.

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

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)		**September 30, 2018**		**December 31, 2017**
Pulp, paperboard and tissue products	**$**	**160,645**	$	165,281
Materials and supplies		**85,260**		85,987
Logs, pulpwood, chips and sawdust		**17,369**		14,775
	$	**263,274**	$	266,043

NOTE 4 Asset Divestiture

On August 21, 2018, we simultaneously announced and completed the sale of our Ladysmith, Wisconsin tissue manufacturing facility (the “Ladysmith Facility”) for net cash proceeds of approximately $71 million. We assessed the sale of this location under the relevant authoritative accounting guidance related to discontinued operations reporting and concluded that this divestiture of assets does not qualify for discontinued operations reporting as the Ladysmith Facility does not represent either a strategic shift in the Consumer Products segment, nor does it represent a major impact on our operations and financial results.

In total, $22.9 million was recorded as "Gain on divested assets" and included as a component of operating income within our Consolidated Statement of Operations, as well as a component of our Consumer Products segment's operating income as disclosed in Note 16, “Segment Information.” Among other offsets, the net gain on divested assets included a $14.0 million write-off of goodwill. Consistent with authoritative guidance, the goodwill was allocated to our divested assets by estimating the fair value of the Ladysmith Facility compared to the estimated fair value of the Consumer Products reporting unit, which was then used to estimate the percentage of goodwill to allocate to the sale of this business. In addition, "Gain on divested assets" within our Consolidated Statement of Operations included a $0.9 million intangible asset write-off related to certain identifiable customer relationship intangibles associated with the divested mill. Both the goodwill and intangible asset charges are discussed further in Note 5, “Intangible Assets and Goodwill."

In total, $34.0 million of book value of assets were sold, consisting primarily of $26.8 million of property, plant and equipment and $3.4 million of inventory. As a result of this sale, we have recorded restricted cash to reflect certain indemnity and working capital contingencies, of which $1.1 million is recorded in "Restricted cash" and $1.4 million is included in "Other assets, net" on our September 30, 2018 Consolidated Balance Sheet.

NOTE 5 Intangible Assets and Goodwill

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

	September 30, 2018						
(Dollars in thousands, lives in years)	Weighted Average Useful Life		Historical Cost		Accumulated Amortization		Net Balance
Customer relationships	9.4	$	56,453	$	(33,961)	**$**	**22,492**
Trade names and trademarks	7.4		6,786		(3,772)		**3,014**
Other intangibles	6.0		572		(213)		**359**
		$	63,811	$	(37,946)	**$**	**25,865**

	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
		$	70,333	$	(37,791)	$	32,542

For the three months ended September 30, 2018 and 2017, intangible assets amortization expense was $1.9 million and $2.0 million, respectively. For the nine months ended September 30, 2018 and 2017, intangible assets amortization expense was $5.8 million and $6.0 million, respectively.

Goodwill is not amortized but is reviewed for impairment annually as of November 1 and at any time when events indicate impairment may have occurred. On August 21, 2018, we simultaneously announced and completed the sale of our Ladysmith Facility. We concluded that this event did not trigger the need for additional impairment testing. However, consistent with authoritative guidance, we allocated a portion of our goodwill to the facility sold. We also wrote off certain identifiable, customer relationship intangible assets associated with the divested facility. For additional discussion regarding the sale of our Ladysmith Facility, see Note 4, "Asset Divestiture."

NOTE 6 Income Taxes

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

Our estimated annual effective tax rate applied to the third quarter of 2018 is approximately 32%, compared with approximately 34% for the comparable interim period in 2017. The rate reflects the Federal rate reduction enacted by the Tax Cuts and Jobs Act offset by an increase in the rate due to basis differences associated with the goodwill written-off as part of the sale of our Ladysmith facility.

We also recognized a tax benefit in the current quarter for Federal alternative energy production tax credits of $10.0 million related to our Lewiston pulp optimization projects. Approximately $8 million of the credits have been included in our overall net deferred tax liability.

NOTE 7 Accounts Payable and Accrued Liabilities

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

(In thousands)		September 30, 2018		December 31, 2017
Trade accounts payable	$	**264,811**	$	169,293
Accrued wages, salaries and employee benefits		**36,813**		41,979
Accrued discounts and allowances		**9,395**		7,283
Accrued interest		**6,392**		12,723
Accrued utilities		**6,271**		6,759
Accrued taxes other than income taxes payable		**6,220**		6,907
Other		**11,173**		11,677
	$	**341,075**	$	256,621

NOTE 8 Debt

REVOLVING CREDIT FACILITIES

On August 21, 2018, we entered into a Lender Commitment Agreement, which we refer to as the Commitment Agreement, in association with the credit facilities agreement we have with Northwest Farm Credit Services, PCA, as agent, and the lenders party thereto, which we refer to as the Farm Credit Agreement, to provide us an additional $100.0 million in revolving credit commitments under the Farm Credit Agreement, increasing the amount of borrowings available under the Farm Credit Agreement from $100.0 million to $200.0 million. Concurrent with the increase to the revolving credit commitments under the Farm Credit Agreement, we drew down $100.0 million under that agreement, all of which was applied to reduce the outstanding revolving loan balance we had under our credit facilities agreement with Wells Fargo Bank, National Association, as administrative agent, and the lenders party thereto. The incremental borrowing of revolving loans under the Farm Credit Agreement bears interest based upon a fixed three-year rate, plus the margin applicable to all other revolving loans under the Farm Credit Agreement, which is determined in accordance with our total leverage ratio.

As of September 30, 2018, there was an aggregate of $200.0 million in borrowings outstanding under the credit facilities and $7.6 million of the credit facilities was being used to support outstanding standby letters of credit. As of December 31, 2017, there was an aggregate of $155.0 million in borrowings outstanding under the credit facilities. Our borrowings outstanding under the revolving credit facilities as of September 30, 2018, consisted of $100.0 million of short-term base and LIBOR rate loans classified as current liabilities that are included in "Borrowings under revolving credit facilities," and the $100.0 million fixed rate, three-year borrowings discussed above classified as a noncurrent liability that are included in "Long-term debt," in our Consolidated Balance Sheet. As of September 30, 2018, we would have been permitted to draw an additional $192.4 million under the credit facilities.

On November 8, 2018, we entered into separate amendments (the "Amendments") to our credit agreements, each dated as of October 31, 2016, one of which is with Wells Fargo Bank, National Association, as agent and the lenders party thereto (as amended, the "Commercial Credit Agreement"), and the other of which is with Northwest Farm Credit Services, PCA, as agent and the lenders party thereto (as amended, the "Farm Credit Agreement", and collectively with the Commercial Credit Agreement, the "Credit Agreements"). Pursuant to the Amendments, the interest rate margin, which may vary from quarter to quarter based upon grid pricing under the Credit Agreements determined in accordance with our consolidated leverage ratio, was increased (i) in the case of the Commercial Credit Agreement, by 0.50% per annum in the highest tier, (ii) in the case of the Farm Credit Agreement, by 0.50% in the second highest tier and by 0.75% per annum in the highest tier, and (iii) in the case of the commitment fee for unused availability under each of the Credit Agreements' revolving credit facilities, by 0.05% per annum in the highest tier. In addition, the financial covenants in the Credit Agreements were modified to provide that going forward we will be required to maintain a:

- maximum consolidated secured leverage ratio of 2.00 to 1.00 through December 31, 2019 and of 1.50 to 1.00 from March 31, 2020 and thereafter, in lieu of being required to maintain a maximum consolidated leverage ratio which was in effect prior to the amendments;
- minimum consolidated interest coverage ratio of 1.25 to 1.00; and
- minimum consolidated asset coverage ratio of 1.00 to 1.00 which was not in effect prior to the Amendments.

NOTE 9 Other Long-Term Obligations

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

(In thousands)		September 30, 2018		December 31, 2017
Long-term lease obligations, net of current portion	$	25,330	$	26,460
Deferred proceeds		4,677		5,576
Deferred compensation		2,867		5,023
Other		4,914		6,216
	$	37,788	$	43,275

NOTE 10 Accumulated Other Comprehensive Loss

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

(In thousands)		Pension and Other Post Retirement Employee Benefit Plan Adjustments
Balance at December 31, 2016	$	(51,753)
Other comprehensive income, net of tax[1]		784
Balance at September 30, 2017	$	(50,969)
Balance at December 31, 2017	$	(43,983)
Other comprehensive income, net of tax[1]		4,133
Reclassification of the income tax effects of the Tax Cuts and Jobs Act		(12,852)
Balance at September 30, 2018	**$**	**(52,702)**

[1] Included in other comprehensive income are net periodic costs associated with our pension and other postretirement employee benefit (OPEB) plans that were reclassified from accumulated other comprehensive loss. For the nine months ended September 30, 2018 and 2017, actuarial loss amortization of $5.1 million and $1.5 million, respectively, as well as $0.9 million and $0.7 million, respectively, of prior service credit amortization were reclassified. These amounts are net of tax totaling $1.5 million and $0.5 million for each respective period. These accumulated other comprehensive loss components are included in the computation of net periodic pension and OPEB costs in Note 11, "Pension and Other Postretirement Employee Benefit Plans."

NOTE 11 Pension and Other Postretirement Employee Benefit Plans

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

	Three Months Ended September 30,							
(In thousands)		2018		2017		2018		2017
	Pension Benefit Plans				Other Postretirement Employee Benefit Plans			
Service cost	$	447	$	518	$	34	$	41
Interest cost		3,005		3,288		609		688
Expected return on plan assets		(4,250)		(4,691)		—		—
Amortization of prior service cost (credit)		—		2		(419)		(384)
Amortization of actuarial loss (gain)		2,515		2,468		(226)		(1,662)
Net periodic cost (benefit)	$	1,717	$	1,585	$	(2)	$	(1,317)

	Nine Months Ended September 30,			
(In thousands)	2018	2017	2018	2017
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	**$ 1,342**	$ 1,552	**$ 102**	$ 122
Interest cost	**9,015**	9,862	**1,827**	2,059
Expected return on plan assets	**(12,751)**	(14,073)	**—**	(1)
Amortization of prior service cost (credit)	**—**	6	**(1,257)**	(1,151)
Amortization of actuarial loss (gain)	**7,543**	7,405	**(677)**	(4,963)
Net periodic cost (benefit)	**$ 5,149**	$ 4,752	**$ (5)**	$ (3,934)

During the nine months ended September 30, 2018 and 2017, we made no contributions to our qualified pension plans. We do not expect, nor are we required, to make contributions in 2018.

During the nine months ended September 30, 2018, we made contributions of $0.4 million to our company-sponsored non-qualified pension plan. We estimate contributions will total $0.5 million in 2018. We do not anticipate funding our OPEB plans in 2018 except to pay benefit costs as incurred during the year by plan participants.

On January 1, 2018, we adopted ASU 2017-07, which allows for only the service cost component of net periodic cost to be included as an operating cost. The other components of net periodic costs are to be included as non-operating costs in the accompanying Consolidated Statements of Operations. During the three and nine months ended September 30, 2018, $0.3 million and $0.8 million of net periodic pension and OPEB service costs were charged to "Cost of sales," $0.2 million and $0.6 million were charged to "Selling, general and administrative expenses," and $1.2 million and $3.7 million of costs were charged to "Non-operating pension and other post retirement benefit (costs) income" in the accompanying Consolidated Statements of Operations, respectively.

The adoption of ASU 2017-07 also required the reclassification of all prior period costs other than service costs from operating to non-operating. During the three and nine months ended September 30, 2017, $0.3 million and $1.0 million of net periodic costs were charged to "Cost of sales," $0.3 million and $0.7 million were charged to "Selling, general and administrative expenses," and $0.3 million and $0.9 million of income was charged to "Non-operating pension and other postretirement benefit (costs) income" in the accompanying Consolidated Statements of Operations, respectively.

NOTE 12 Earnings per Common Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic weighted-average common shares outstanding[1]	**16,486,935**	16,457,991	**16,492,843**	16,466,325
Incremental shares due to:				
Restricted stock units	**22,461**	42,122	**27,893**	37,021
Performance shares	**54,253**	50,506	**52,508**	42,914
Stock options	**—**	16,265	**60**	26,347
Diluted weighted-average common shares outstanding	**16,563,649**	16,566,884	**16,573,304**	16,572,607
Basic net earnings per common share	**$ 2.09**	$ 0.05	**$ 2.67**	$ 1.00
Diluted net earnings per common share	**2.08**	0.05	**2.66**	0.99
Anti-dilutive shares excluded from calculation	**985,312**	468,624	**935,037**	525,655

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

NOTE 13 Equity-Based Compensation

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

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Restricted stock units	**$ 595**	$ 429	**$ 1,599**	$ 1,224
Performance shares	**499**	567	**1,409**	1,793
Stock options	**639**	659	**1,767**	1,974
Total employee equity-based compensation expense	**$ 1,733**	$ 1,655	**$ 4,775**	$ 4,991

As provided in the Clearwater Paper Corporation 2008 and 2017 Stock Incentive Plans, the following performance measures are used to determine the number of performance shares ultimately issuable:

- For performance shares granted in 2017, the performance measure used for 40% of the grant is a comparison of the percentile ranking of our total stockholder return, or TSR, compared to the TSR of a selected index, and for 60% of the performance share awards granted the performance measure used is a return on invested capital, or ROIC, performance measure.
- For performance shares granted in 2018, the performance measure used for 40% of the performance share awards granted is an ROIC performance measure. For the remaining 60% of the grants, a free cash flow performance measure is used. The combined performance of these measures is then subject to an adjustment (increase or decrease) of up to 25% based on our TSR compared to the TSR performance of a selected index.

The number of performance shares actually issued, as a percentage of the amount subject to the performance share award, could range from 0%-200%.

During the first nine months of 2018, 19,133 RSUs were settled and distributed. After adjusting for minimum tax withholdings, a net 13,221 shares were issued. In connection with the issued RSUs, the minimum tax withholding payments made during the nine months ended September 30, 2018 totaled $0.2 million.

During the nine months ended September 30, 2018, we had 21,577 stock option awards expire with a weighted-average exercise price of $62.76. At September 30, 2018, we had 282,848 stock option awards that were exercisable with a weighted-average exercise price of $63.24.

The following table summarizes the number of share-based awards granted under the Clearwater Paper Corporation 2017 Stock Incentive Plan during the nine months ended September 30, 2018 and the grant-date fair value of the awards:

	Nine Months Ended September 30, 2018	
	Number of Shares Subject to Award	**Average Fair Value of Award Per Share**
Restricted stock units	111,054	$ 37.31
Performance shares	49,040	37.45
Stock options	198,426	14.51

DIRECTOR AWARDS

Annually, each outside member of our Board of Directors receives deferred equity-based awards that are measured in units of our common stock and ultimately settled in cash at the time of payment. Accordingly, the compensation expense associated with these awards is subject to fluctuations each quarter based on mark-to-market adjustments at each reporting period in line with changes in the market price of our common stock. As a result of the mark-to-market adjustment, we recorded director equity-based compensation expense of $0.8 million and $0.5 million for the three months ended September 30, 2018 and 2017, respectively. For the nine months ended September 30, 2018 and 2017, we recorded director equity-based compensation benefit of $1.9 million and $2.5 million, respectively.

As of September 30, 2018, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" on the accompanying Consolidated Balance Sheet were $0.9 million and $1.9 million, respectively. 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" totaled $3.6 million and $2.4 million, respectively.

NOTE 14 Fair Value Measurements

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

	September 30, 2018		December 31, 2017	
(In thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash, cash equivalents, and restricted cash (Level 1)	**$ 79,687**	**$ 79,687**	$ 16,738	$ 16,738
Borrowings under revolving credit facilities (Level 2)	**100,000**	**99,889**	155,000	154,882
Long-term debt (Level 2)	**675,000**	**635,888**	575,000	569,250

Accounting guidance establishes a framework for measuring the fair value of financial instruments, providing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, or “Level 1” measurements, followed by quoted prices of similar assets or observable market data 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, cash equivalents, and restricted cash, 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 15 Business Interruption and Insurance Recovery

In the first quarter of 2017, our financial statements included the impact of two separate fires, one of which occurred in the fourth quarter of 2016. Both claims were finalized in the first quarter of 2017 and the net proceeds from our insurance provider of $4.3 million was included in "Cost of Sales" in our Consolidated Statement of Operations for the nine months ended September 30, 2017.

There was no business interruption insurance activity in the nine months ended September 30, 2018 at any of our facilities.

NOTE 16 Segment Information

Our reportable segments are described below.

Consumer Products

Our Consumer Products segment manufactures and sells a complete line of at-home tissue products, or retail products, and away-from-home tissue products, or non-retail products, and parent rolls. Retail products include bath, paper towels, facial and napkin product categories. Non-retail products include conventional one and two-ply bath tissue, two-ply paper towels, hard wound towels and dispenser napkins sold to customers with commercial and industrial tissue needs. Each category is further distinguished according to quality segments: ultra, premium, value and economy.

Pulp and Paperboard

Our Pulp and Paperboard segment manufactures and markets solid bleached sulfate paperboard for the high-end segment of the packaging industry as well as offers custom sheeting, slitting and cutting of paperboard. Our overall production consists primarily of folding carton, liquid packaging, cup and plate products and commercial printing grades. The majority of our Pulp and Paperboard customers are packaging converters, folding carton converters, merchants and commercial printers.

The table below presents information about our reportable segments:

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Segment net sales:				
Consumer Products	**$ 211,642**	$ 232,916	**$ 672,069**	$ 707,251
Pulp and Paperboard	**214,818**	193,588	**623,442**	586,441
Total segment net sales	**$ 426,460**	$ 426,504	**$ 1,295,511**	$ 1,293,692
Earnings (loss) before income taxes:				
Consumer Products[1,2,3]	**$ (1,269)**	$ 4,525	**$ (3,244)**	$ 21,427
Gain on divested assets[4]	**22,944**	—	**22,944**	—
Pulp and Paperboard[2,3]	**38,280**	14,735	**98,626**	63,006
	59,955	19,260	**118,326**	84,433
Corporate[2,3]	**(13,055)**	(14,100)	**(41,506)**	(39,615)
Income from operations	**46,900**	5,160	**76,820**	44,818
Interest expense, net	**(7,547)**	(7,683)	**(23,290)**	(23,399)
Non-operating pension and other postretirement benefit (costs) income[2]	**(1,234)**	291	**(3,700)**	856
Earnings (loss) before income taxes	**$ 38,119**	$ (2,232)	**$ 49,830**	$ 22,275
Depreciation and amortization:				
Consumer Products[1]	**$ 14,447**	$ 16,073	**$ 42,964**	$ 50,607
Pulp and Paperboard	**9,316**	8,328	**28,106**	24,789
Corporate	**1,579**	1,455	**4,616**	4,072
Total depreciation and amortization	**$ 25,342**	$ 25,856	**$ 75,686**	$ 79,468

1 Operating income for the Consumer Products segment for the three and nine months ended September 30, 2017 includes $5.1 million and $11.1 million , respectively, of costs associated with the closure of the Oklahoma City facility. These costs include $4.3 million on the write down of assets to their held for sale value and $3.7 million of accelerated depreciation.

2 As a result of the adoption of ASU 2017-07, certain pension and OPEB (costs) income have been reclassified from operating to non-operating income. The service cost component of pension and OPEB costs remains within segment operating income. Refer to Note 2, "Recently Adopted and New Accounting Standards," and Note 11, "Pension and Other Postretirement Benefit Plans," for additional detail.

3 Income (loss) from operations for the Consumer Products, Pulp and Paperboard and Corporate segments for the nine months ended September 30, 2018 include $1.7 million, $0.5 million and $4.2 million, respectively, of expenses associated with our selling, general and administrative cost control measures.

4 Gain on divested assets for the three and nine months ended September 30, 2018 relates to the sale of our Ladysmith, Wisconsin facility, For additional discussion, see Note 4 "Asset Divestiture".

For the nine months ended September 30, 2018 and 2017, one customer, the Kroger Company, accounted for approximately 11.9% and 15.2%, respectively, of our total company net sales.

Net sales, classified by the major geographic areas in which our customers are located and by major products, were as follows:

(In thousands)	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Primary geographical markets:				
United States	**$ 404,593**	$ 405,303	**$ 1,237,644**	**$ 1,237,146**
Other countries	**21,867**	21,201	**57,867**	**56,546**
Total net sales	**$ 426,460**	$ 426,504	**$ 1,295,511**	$ 1,293,692
Major products:				
Retail tissue	**$ 182,869**	$ 213,466	**$ 601,521**	$ 643,192
Paperboard	**214,818**	193,588	**623,442**	586,441
Non-retail tissue	**27,660**	19,029	**68,384**	62,988
Other	**1,113**	421	**2,164**	1,071
Total net sales	**$ 426,460**	$ 426,504	**$ 1,295,511**	$ 1,293,692

NOTE 17 Supplemental Guarantor Financial Information

All of our subsidiaries that are 100% directly or indirectly owned by Clearwater Paper, guarantee our $275 million aggregate principal amount of 4.5% senior notes issued in January 2013 and due 2023, which we refer to as the 2013 Notes, on a full and unconditional, and 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 subsidiaries, and the eliminations necessary to arrive at the information for Clearwater Paper on a consolidated basis.

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income
Three Months Ended September 30, 2018

(In thousands)	**Issuer**	**Guarantor Subsidiaries**	**Eliminations**	**Total**
Net sales	$ 426,816	$ 50,340	$ (50,696)	**$ 426,460**
Costs and expenses:				
Cost of sales	(383,737)	(45,693)	53,209	**(376,221)**
Selling, general and administrative expenses	(20,721)	(5,562)	—	**(26,283)**
Gain on divested assets	—	22,944	—	**22,944**
Total operating costs and expenses	(404,458)	(28,311)	53,209	**(379,560)**
Income from operations	22,358	22,029	2,513	**46,900**
Interest expense, net	(7,366)	(181)	—	**(7,547)**
Non-operating pension and other postretirement benefit costs	(1,234)	—	—	**(1,234)**
Earnings before income taxes	13,758	21,848	2,513	**38,119**
Income tax benefit (provision)	1,748	(5,043)	(380)	**(3,675)**
Equity in income of subsidiary	16,805	—	(16,805)	**—**
Net earnings	$ 32,311	$ 16,805	$ (14,672)	**$ 34,444**
Other comprehensive income, net of tax	1,378	—	—	**1,378**
Comprehensive income	$ 33,689	$ 16,805	$ (14,672)	**$ 35,822**

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income
Nine Months Ended September 30, 2018

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$ 1,315,819	$ 150,866	$ (171,174)	**$ 1,295,511**
Costs and expenses:				
Cost of sales	(1,190,954)	(133,971)	169,117	**(1,155,808)**
Selling, general and administrative expenses	(69,579)	(16,248)	—	**(85,827)**
Gain on divested assets	—	22,944	—	**22,944**
Total operating costs and expenses	(1,260,533)	(127,275)	169,117	**(1,218,691)**
Income from operations	55,286	23,591	(2,057)	**76,820**
Interest expense, net	(22,922)	(368)	—	**(23,290)**
Non-operating pension and other postretirement benefit costs	(3,700)	—	—	**(3,700)**
Earnings before income taxes	28,664	23,223	(2,057)	**49,830**
Income tax provision	(1,208)	(5,242)	625	**(5,825)**
Equity in income of subsidiary	17,981	—	(17,981)	**—**
Net earnings	$ 45,437	$ 17,981	$ (19,413)	**$ 44,005**
Other comprehensive income, net of tax	4,133	—	—	**4,133**
Comprehensive income	$ 49,570	$ 17,981	$ (19,413)	**$ 48,138**

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income
Three Months Ended September 30, 2017

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
Net sales	$ 423,712	$ 55,894	$ (53,102)	$ 426,504
Costs and expenses:				
Cost of sales	(387,877)	(51,052)	52,167	(386,762)
Selling, general and administrative expenses	(24,786)	(9,796)	—	(34,582)
Total operating costs and expenses	(412,663)	(60,848)	52,167	(421,344)
Income (loss) from operations	11,049	(4,954)	(935)	5,160
Interest expense, net	(7,407)	(276)	—	(7,683)
Non-operating pension and other postretirement benefit income	291	—	—	291
Earnings (loss) before income taxes	3,933	(5,230)	(935)	(2,232)
Income tax (provision) benefit	(1,847)	4,589	353	3,095
Equity in loss of subsidiary	(641)	—	641	—
Net earnings (loss)	$ 1,445	$ (641)	$ 59	$ 863
Other comprehensive income, net of tax	257	—	—	257
Comprehensive income (loss)	$ 1,702	$ (641)	$ 59	$ 1,120

Clearwater Paper Corporation
Consolidating Statement of Operations and Comprehensive Income
Nine Months Ended September 30, 2017

(In thousands)	**Issuer**	**Guarantor Subsidiaries**	**Eliminations**	**Total**
Net sales	$ 1,263,467	$ 196,399	$ (166,174)	$ 1,293,692
Costs and expenses:				
Cost of sales	(1,138,470)	(178,732)	162,319	(1,154,883)
Selling, general and administrative expenses	(71,762)	(22,229)	—	(93,991)
Total operating costs and expenses	(1,210,232)	(200,961)	162,319	(1,248,874)
Income (loss) from operations	53,235	(4,562)	(3,855)	44,818
Interest expense, net	(22,981)	(418)	—	(23,399)
Non-operating pension and other postretirement benefit income	856	—	—	856
Earnings (loss) before income taxes	31,110	(4,980)	(3,855)	22,275
Income tax (provision) benefit	(11,857)	4,582	1,415	(5,860)
Equity in loss of subsidiary	(398)	—	398	—
Net earnings (loss)	$ 18,855	$ (398)	$ (2,042)	$ 16,415
Other comprehensive income, net of tax	784	—	—	784
Comprehensive income (loss)	$ 19,639	$ (398)	$ (2,042)	$ 17,199

Clearwater Paper Corporation
Consolidating Balance Sheet
At September 30, 2018

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ 76,150	$ —	$ —	**$ 76,150**
Restricted cash	1,080	—	—	**1,080**
Receivables, net	118,405	20,765	—	**139,170**
Taxes receivable	12,189	14	(5,455)	**6,748**
Inventories	223,595	41,736	(2,057)	**263,274**
Other current assets	5,837	268	—	**6,105**
Total current assets	437,256	62,783	(7,512)	**492,527**
Property, plant and equipment, net	1,127,534	78,634	—	**1,206,168**
Goodwill	230,153	—	—	**230,153**
Intangible assets, net	1,306	24,559	—	**25,865**
Intercompany (payable) receivable	(48,326)	46,269	2,057	**—**
Investment in subsidiary	174,981	—	(174,981)	**—**
Other assets, net	24,340	2,867	(1,825)	**25,382**
TOTAL ASSETS	$ 1,947,244	$ 215,112	$ (182,261)	**$ 1,980,095**
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Borrowings under revolving credit facilities	$ 100,000	$ —	$ —	**$ 100,000**
Accounts payable and accrued liabilities	326,573	19,957	(5,455)	**341,075**
Current liability for pensions and other postretirement employee benefits	7,631	—	—	**7,631**
Total current liabilities	434,204	19,957	(5,455)	**448,706**
Long-term debt	671,100	—	—	**671,100**
Liability for pensions and other postretirement employee benefits	67,759	—	—	**67,759**
Other long-term obligations	37,788	—	—	**37,788**
Accrued taxes	1,979	860	—	**2,839**
Deferred tax liabilities	106,289	19,314	(1,825)	**123,778**
TOTAL LIABILITIES	1,319,119	40,131	(7,280)	**1,351,970**
Stockholders' equity excluding accumulated other comprehensive loss	680,827	174,981	(174,981)	**680,827**
Accumulated other comprehensive loss, net of tax	(52,702)	—	—	**(52,702)**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,947,244	$ 215,112	$ (182,261)	**$ 1,980,095**

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 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 LIABILITIES	1,180,960	48,189	(2,331)	1,226,818
Stockholders' equity excluding accumulated other comprehensive loss	619,417	157,000	(157,000)	619,417
Accumulated other comprehensive loss, net of tax	(43,983)	—	—	(43,983)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,756,394	$ 205,189	$ (159,331)	$ 1,802,252

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2018

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings	$ 45,437	$ 17,981	$ (19,413)	**$ 44,005**
Adjustments to reconcile net earnings to net cash flows from operating activities:				
Depreciation and amortization	59,632	16,054	—	**75,686**
Equity-based compensation expense	2,845	—	—	**2,845**
Deferred taxes	10,662	(6,732)	—	**3,930**
Employee benefit plans	102	—	—	**102**
Disposal of plant and equipment, net	128	—	—	**128**
Gain on divested assets	—	(25,510)	—	**(25,510)**
Other non-cash adjustments, net	899	—	—	**899**
Changes in working capital, net	22,045	(7,383)	(7,260)	**7,402**
Changes in taxes receivable, net	8,053	26	5,455	**13,534**
Other, net	(1,800)	(122)	—	**(1,922)**
Net cash flows from operating activities	148,003	(5,686)	(21,218)	**121,099**
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(172,434)	(1,600)	—	**(174,034)**
Net proceeds from divested assets	70,930	—	—	**70,930**
Other, net	793	14	—	**807**
Net cash flows from investing activities	(100,711)	(1,586)	—	**(102,297)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Borrowings on revolving credit facilities	322,454	—	—	**322,454**
Repayments of borrowings on revolving credit facilities	(277,454)	—	—	**(277,454)**
Investment (to) from parent	(28,490)	7,272	21,218	**—**
Other, net	(853)	—	—	**(853)**
Net cash flows from financing activities	15,657	7,272	21,218	**44,147**
Increase in cash, cash equivalents, and restricted cash	62,949	—	—	**62,949**
Cash, cash equivalents, and restricted cash at beginning of period	16,738	—	—	**16,738**
Cash, cash equivalents, and restricted cash at end of period	$ 79,687	$ —	$ —	**$ 79,687**

Clearwater Paper Corporation
Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2017

(In thousands)	Issuer	Guarantor Subsidiaries	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Net earnings (loss)	$ 18,855	$ (398)	$ (2,042)	$ 16,415
Adjustments to reconcile net earnings (loss) to net cash flows from operating activities:				
Depreciation and amortization	56,642	22,826	—	79,468
Equity-based compensation expense	2,523	—	—	2,523
Deferred taxes	19,531	(4,929)	—	14,602
Employee benefit plans	(2,999)	—	—	(2,999)
Disposal of plant and equipment, net	481	3,274	—	3,755
Other non-cash adjustments, net	874	—	—	874
Changes in working capital, net	32,501	3,896	7,449	43,846
Changes in taxes receivable, net	600	—	(5,469)	(4,869)
Other, net	(413)	(1,026)	—	(1,439)
Net cash flows from operating activities	128,595	23,643	(62)	152,176
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to property, plant and equipment	(132,725)	(3,925)	—	(136,650)
Other, net	283	470	—	753
Net cash flows from investing activities	(132,442)	(3,455)	—	(135,897)
CASH FLOWS FROM FINANCING ACTIVITIES				
Purchase of treasury stock	(4,875)	—	—	(4,875)
Borrowings on revolving credit facilities	185,000	—	—	185,000
Repayments of borrowings on revolving credit facilities	(210,000)	—	—	(210,000)
Investment from (to) parent	23,541	(23,603)	62	—
Other, net	(927)	—	—	(927)
Net cash flows from financing activities	(7,261)	(23,603)	62	(30,802)
Decrease in cash, cash equivalents, and restricted cash	(11,108)	(3,415)	—	(14,523)
Cash, cash equivalents, and restricted cash at beginning of period	19,586	3,415	—	23,001
Cash, cash equivalents, and restricted cash at end of period	$ 8,478	$ —	$ —	$ 8,478

ITEM 2.

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

FORWARD-LOOKING STATEMENTS

Our disclosure, discussion and analysis in this report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the costs, timing and benefits of optimization, cost management and strategic capital projects; costs, timing and benefits associated with the Shelby, North Carolina facility expansion; selling, general and administrative cost reduction initiative and savings; sales volume; operating costs, including transportation and purchased pulp; raw materials and input usage and costs; timing and costs related to major maintenance and repairs; capital expenditures; energy costs and usage; tax rates; cash flows; liquidity; credit agreement financial covenants; and market risks. Words such as anticipate, expect, intend, plan, target, project, believe, schedule, estimate, may, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are based on management's current expectations, estimates, assumptions and projections that are subject to change. Our actual results of operations may differ materially from those expressed or implied by the forward-looking statements contained in this report. Important factors that could cause or contribute to such differences include those risks discussed in the section entitled "Risk Factors" in our 2017 Form 10-K, as well as the following:

- competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors;
- the loss of, changes in prices in regards to, or reduction in orders from a significant customer;
- changes in customer product preferences and competitors' product offerings;
- our ability to successfully implement our operational efficiencies and cost savings strategies, including related capital projects, and achieve the expected operational or financial results of those projects, including from the continuous digester at our Lewiston facility;
- our ability to complete construction of our new tissue manufacturing operations in Shelby, North Carolina on time and within current cost expectations.
- customer acceptance and timing and quantity of purchases of our tissue products, including the existence of sufficient demand for the quality of tissue produced by our expanded Shelby, North Carolina operations when completed;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- labor disruptions;
- changes in transportation costs and disruptions in transportation services;
- changes in the cost and availability of wood fiber and wood pulp;
- manufacturing or operating disruptions, including IT system and IT system implementation failures, equipment malfunctions and damage to our manufacturing facilities;
- changes in costs for and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- cyclical industry conditions;
- changes in expenses and required contributions associated with our pension plans;
- environmental liabilities or expenditures;
- cyber-security risks;
- reliance on a limited number of third-party suppliers for raw materials;
- our ability to service our debt obligations;
- restrictions on our business from debt covenants and terms; and
- changes in laws, regulations or industry standards affecting our business.

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

OVERVIEW

Background

We manufacture quality consumer tissue, away-from-home tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. We are a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchant and discount stores. In addition, we produce bleached paperboard used by quality-conscious printers and packaging converters. Our employees build shareholder value by developing strong customer partnerships through quality and service.

Recent Events

Asset Divestiture

On August 21, 2018, we sold our Ladysmith, Wisconsin manufacturing facility for net cash proceeds of approximately $71 million and recorded a related gain on divested assets of $22.9 million. Among other offsets, the net gain on divested assets includes $34.0 million of assets sold and a $14.0 million goodwill write-off.

Shelby Expansion Project

We are in the process of building 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 $320 million to $330 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. The total estimated cost of the project has increased by approximately $40 million to $50 million from our original estimates due to the combination of external factors and the acceleration of the startup of our converting operation in Shelby to help improve the Consumer Products segment's operating model by lowering transportation costs. The external factors include higher steel costs, exacerbated by recently imposed tariffs, weather-related delays and impacts, and a very tight labor market. The weather-related delays and impacts were caused by a wet spring and summer, as well as the recent hurricanes, which combined led to an overtime component to keep the project on schedule. The increased cost for the Shelby expansion was offset by an approximately $30 million reduction in other capital expenditures originally forecasted for 2018.

We project that the construction of the new facility will be completed in early 2019 and will be fully operational in 2020. During the nine months ended September 30, 2018, we incurred costs of $220.7 million on construction related activities and the new tissue machine in Shelby. We also capitalized $5.1 million of interest during the nine months ended September 30, 2018 related to the Shelby expansion.

Selling, General and Administrative Cost Structure Changes

In the second half of 2017, we began a review of our selling, general and administrative, or SG&A, 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 to lower selling, general and administrative expenses beginning in 2018, and then is expected to result in approximately $20 million in annual SG&A savings, compared to 2017 SG&A expenses, beginning in the first quarter of 2019. For the nine months ended September 30, 2018, we incurred $6.4 million of expenses associated with these efforts, of which $0.2 million was incurred in the third quarter and consisted primarily of severance and professional services expenses. As of September 30, 2018, we had achieved expected annual run-rate savings of approximately $8 million, compared to 2017 SG&A expenses, as a result of these changes.

Components and Trends in our Business

Net sales

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

In recent years, the tissue 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. Demand and pricing for consumer tissue products is currently being adversely 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. In addition, in the third quarter of 2017, our largest tissue customer made the decision to go from a single source model to a multi-source model for their private label tissue supply beginning in the first quarter of 2018. This decision has primarily affected conventional tissue supply to this customer and we do not expect to be able to fully replace this lost volume in 2018 through sales to other customers, which resulted in reduced tissue sales in the second and third quarters of 2018 and is expected to result in a reduction in our overall tissue sales volume in 2018.

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.

Cost of sales

	Three Months Ended September 30,				
(Dollars in thousands)	**2018**		**2017**		
	Cost	**Percentage of Sales**	**Cost**	**Percentage of Sales**	**Cost Variance**
Wages and benefits	**$ 70,143**	**16.4%**	$ 68,189	16.0%	**$ 1,954**
Transportation[1]	**44,264**	**10.4**	50,243	11.8	**(5,979)**
Purchased pulp	**45,347**	**10.7**	53,411	12.5	**(8,064)**
Chemicals	**43,096**	**10.1**	39,768	9.3	**3,328**
Chips, sawdust and logs	**41,535**	**9.7**	29,801	7.0	**11,734**
Packaging supplies	**21,326**	**5.0**	21,977	5.2	**(651)**
Depreciation	**21,790**	**5.1**	22,359	5.2	**(569)**
Energy	**21,645**	**5.1**	22,408	5.3	**(763)**
Maintenance and repairs[2]	**19,968**	**4.7**	29,078	6.8	**(9,110)**
	329,114	**77.2**	337,234	79.1	**(8,120)**
Other operating costs	**47,107**	**11.0**	49,528	11.6	**(2,421)**
Total cost of sales	**$ 376,221**	**88.2%**	$ 386,762	90.7%	**$ (10,541)**

	Nine Months Ended September 30,				
(Dollars in thousands)	**2018**		**2017**		
	Cost	**Percentage of Sales**	**Cost**	**Percentage of Sales**	**Cost Variance**
Wages and benefits	**$ 213,316**	**16.4%**	$ 209,720	16.2%	**$ 3,596**
Transportation[1]	**155,131**	**12.0**	146,646	11.3	**8,485**
Purchased pulp	**138,614**	**10.7**	144,869	11.2	**(6,255)**
Chemicals	**130,719**	**10.0**	122,407	9.4	**8,312**
Chips, sawdust and logs	**123,902**	**9.6**	99,887	7.7	**24,015**
Packaging supplies	**65,530**	**5.1**	65,867	5.1	**(337)**
Depreciation	**65,086**	**5.0**	69,266	5.4	**(4,180)**
Energy	**61,671**	**4.8**	66,710	5.2	**(5,039)**
Maintenance and repairs[2]	**55,425**	**4.3**	74,244	5.7	**(18,819)**
	1,009,394	**77.9**	999,616	77.3	**9,778**
Other operating costs	**146,414**	**11.3**	155,267	12.0	**(8,853)**
Total cost of sales	**$ 1,155,808**	**89.2%**	$ 1,154,883	89.3%	**$ 925**

1 Includes internal and external transportation costs.
2 Excludes related internal labor costs.

Wages and benefits. Costs related to our employees primarily consist of wages and related benefit costs and payroll taxes. For the three and nine months ended September 30, 2018, wage and benefit costs increased compared to the same periods in 2017, primarily due to severance related costs associated with our SG&A cost structure changes and the impact of annual wage increases, in addition to costs for hiring and training new employees for the Shelby expansion project.

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 the 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. Transportation costs decreased in the three month period ended September 30, 2018, compared to the same period in 2017, due in part to improvements in our Consumer Products segment's operating model as a result of the acceleration of converting operations in Shelby, as well as lower tissue shipments in the third quarter of 2018. Transportation costs increased for the nine months ended September 30, 2018 due to increased paperboard shipments and higher line haul rates on both internal and external shipments.

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. Purchased pulp costs decreased in the three and nine months ended September 30, 2018, compared to the same period in 2017, mainly due to no planned major maintenance outages at our pulp and paperboard facilities in 2018 and lower tissue shipments in our consumer products division.

Chemicals. We consume a substantial amount of chemicals in the production of pulp and paperboard, as well as in the production of through-air-dried, or 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.

Chemical costs increased in the three and nine months ended September 30, 2018, compared to the same periods in 2017, due to increased paperboard production and higher pricing for polyethylene, latex and caustic.

Chips, sawdust and logs. We purchase chips, sawdust and logs 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 and log costs increased for the three and nine months ended September 30, 2018, compared to the same periods in 2017, primarily due to increased paperboard production and higher prices for these materials at both of our pulp and paperboard locations.

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. Packaging costs remained flat for the three and nine months ended September 30, 2018, compared to the same periods in 2017, as higher pricing for packaging materials was offset by reduced shipments in our consumer products segment.

Depreciation. We record substantially all of our depreciation expense associated with our plant and equipment in "Cost of sales" on our Consolidated Statements of Operations. Depreciation expense for the three and nine months ended September 30, 2018 decreased compared to the same period in 2017 primarily due to accelerating depreciation in 2017 on certain Oklahoma City assets in connection with the March 2017 facility closure, partially offset by increased depreciation as a result of higher 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 primarily due to volatility in temperatures and electricity and natural gas rates. We generally strive to reduce our exposure to volatile energy prices through conservation. In addition, a co-generation facility that produces steam and electricity at our Lewiston, Idaho manufacturing site helps to lower our energy costs. Energy costs for the three and nine months ended September 30, 2018, decreased compared to the same periods in 2017, primarily due to favorable natural gas and electricity prices in our pulp and paperboard segment, in addition to lower natural gas usage at our Idaho pulp and paperboard facility.

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 September 30, 2018, these contracts covered approximately 29% of our expected average monthly natural gas requirements for the remainder of 2018, and a lesser amount for 2019.

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. During the three and nine months ended September 30, 2018, maintenance and repair spending was lower than the same periods in 2017 due to no planned major maintenance in our pulp and paperboard segment in 2018.

Other. Other costs primarily consist of miscellaneous operating costs, which decreased in the three and nine months ended September 30, 2018, compared to the same periods in 2017, due in part to reduced purchased paper costs, lower professional service fees and decreased operating supplies charges.

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 for the three and nine months ended September 30, 2018 and 2017 includes interest on our $275 million aggregate principal amount of 4.5% senior notes issued in January 2013 and due 2023, which we refer to as the 2013 Notes, and interest on our $300 million aggregate principal amount of 5.375% senior notes issued in 2014 and due 2025, which we refer to as the 2014 Notes. 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 the jurisdictions in which our operations occur and offices are located, adjusted for available credits, changes in valuation allowances and differences between reported earnings and taxable income using current tax laws and rates. We generally expect our effective income tax rate, excluding discrete items, to remain fairly constant, although it could fluctuate due to changes in tax law.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

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

	Three Months Ended September 30,			
(Dollars in thousands)	**2018**		**2017**	
Net sales	**$ 426,460**	**100.0%**	$ 426,504	100.0%
Costs and expenses:				
Cost of sales	**(376,221)**	**88.2**	(386,762)	90.7
Selling, general and administrative expenses	**(26,283)**	**6.2**	(34,582)	8.1
Gain on divested assets	**22,944**	**5.4**	—	—
Total operating costs and expenses	**(379,560)**	**89.0**	(421,344)	98.8
Income from operations	**46,900**	**11.0**	5,160	1.2
Interest expense, net	**(7,547)**	**1.8**	(7,683)	1.8
Non-operating pension and other postretirement benefit (costs) income	**(1,234)**	**0.3**	291	0.1
Earnings (loss) before income taxes	**38,119**	**8.9**	(2,232)	0.5
Income tax (provision) benefit	**(3,675)**	**0.9**	3,095	0.7
Net earnings	**$ 34,444**	**8.1%**	$ 863	0.2%

Net sales—Third quarter 2018 net sales were flat compared to the third quarter of 2017, as increased paperboard sales volumes and prices were offset by reduced tissue volumes and prices. These items are further discussed below under “Discussion of Business Segments.”

Cost of sales—Cost of sales was 88.2% of net sales for the third quarter of 2018 and 90.7% of net sales for the same period in 2017. Our overall cost of sales was $10.5 million lower than the third quarter of 2017, primarily due to lower maintenance and internally sourced paperboard costs, which were partially offset by higher input costs for chips, sawdust and logs, chemicals and wages and benefits.

Selling, general and administrative expenses—Selling, general and administrative expenses for the third quarter of 2018 decreased $8.3 million compared to the third quarter of 2017. The lower expense was due in part to decreased wages resulting from cost structure changes, reduced consulting and professional fees and lower commission and marketing expense. In addition, selling, general and administrative expenses for the third quarter of 2017 included $4.3 million of asset writedowns to held for sale value on certain assets at our former Oklahoma City facility.

Gain on divested assets—On August 21, 2018, we sold our Ladysmith facility for net cash proceeds of approximately $71 million. In total, $22.9 million of gain was recorded on the sale, which included $34.0 million of net assets sold, $14.0 million of goodwill write-off and other expenses related to the sale.

Interest expense—Interest expense for the third quarter of 2018 remained flat compared to the third quarter of 2017, as higher interest expense associated with a larger average balance on our revolving credit facilities was offset by higher capitalized interest in the third quarter of 2018.

Income tax provision—We recorded an income tax provision of $3.7 million for the three months ended September 30, 2018, compared to a benefit of $3.1 million in the same period of 2017. The rate determined under generally accepted accounting principles, or GAAP, for the three months ended September 30, 2018 was approximately 10% compared to a beneficial rate of approximately 139% for the same period of 2017. The rate in each period is primarily the result of benefits from Federal income tax credits, combined with a loss before income taxes for the third quarter of 2017.

During the third quarters of 2018 and 2017, 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 tax rates for the three months ended September 30, 2018 and 2017 would have been benefits of approximately 40% and 18%, respectively. See the section entitled "Non-GAAP Measures" on page 35 of this report for a reconciliation of these adjusted income tax provision amounts to the comparable GAAP income tax provision amounts.

Discussion of Business Segments

Consumer Products

(Dollars in thousands - except per ton amounts)	Three Months Ended September 30, 2018	2017
Net sales	**$ 211,642**	$ 232,916
Operating income	**21,675**	4,525
Percent of net sales	**10.2%**	1.9%
Shipments (short tons)		
Retail	**70,335**	77,544
Non-retail	**18,525**	12,958
Total tissue tons	**88,860**	90,502
Converted products cases (in thousands)	**11,789**	12,727
Sales price (per short ton)		
Retail	**$ 2,615**	$ 2,754
Non-retail	**1,491**	1,468
Total tissue	**$ 2,381**	$ 2,574

Net sales for the Consumer Products segment during the third quarter of 2018 decreased by $21.3 million compared to the third quarter of 2017 due to lower average net selling prices, a reduction in sales volume, an unfavorable mix shift to increased parent roll sales and the sale of our Ladysmith facility during the third quarter of 2018. These decreases were partially offset by increased TAD towel sales.

The segment had operating income of $21.7 million for the third quarter of 2018, which included the gain of $22.9 million on the sale of our Ladysmith facility. Excluding this gain, the segment had an operating loss of $1.3 million, compared to operating income of $4.5 million in the third quarter of 2017, primarily due to the decreased sales and higher wage and benefits expenses associated primarily with an increase of employees at our Shelby facility related to the Shelby expansion project and the effect of annual wage increases. Operating income for the third quarter of 2017 also included $4.3 million of asset writedowns to held for sale value on certain assets at our former Oklahoma City facility.

Pulp and Paperboard

(Dollars in thousands - except per ton amounts)	Three Months Ended September 30, 2018	2017
Net sales	**$ 214,818**	$ 193,588
Operating income	**38,280**	14,735
Percent of net sales	**17.8%**	7.6%
Paperboard shipments (short tons)	**218,135**	200,569
Paperboard sales price (per short ton)	**$ 985**	$ 965

Net sales for the Pulp and Paperboard segment increased by $21.2 million during the third quarter of 2018, compared to the third quarter of 2017. The increase was due primarily to strong production and sales volume increases in addition to paperboard net price increases.

Operating income for the segment increased by $23.5 million during the third quarter of 2018, compared to the third quarter of 2017, primarily due to increased sales, in addition to no planned major maintenance in the third quarter of 2018, compared to approximately $21 million in the third quarter of 2017, and lower purchased paper costs. These favorable impacts were partially offset by higher chips, sawdust and log costs, as well as higher transportation, chemical and depreciation costs.

RESULTS OF OPERATIONS

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

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

	Nine Months Ended September 30,			
(Dollars in thousands)	**2018**		**2017**	
Net sales	**$ 1,295,511**	**100.0%**	$ 1,293,692	100.0 %
Costs and expenses:				
Cost of sales	**(1,155,808)**	**89.2**	(1,154,883)	89.3
Selling, general and administrative expenses	**(85,827)**	**6.6**	(93,991)	7.3
Gain on divested assets	**22,944**	**1.8**	—	—
Total operating costs and expenses	**(1,218,691)**	**94.1**	(1,248,874)	96.5
Income from operations	**76,820**	**5.9**	44,818	3.5
Interest expense, net	**(23,290)**	**1.8**	(23,399)	1.8
Non-operating pension and other postretirement benefit (costs) income	**(3,700)**	**0.3**	856	(0.1)
Earnings before income taxes	**49,830**	**3.8**	22,275	1.7
Income tax provision	**(5,825)**	**0.4**	(5,860)	0.5
Net earnings	**$ 44,005**	**3.4**	$ 16,415	1.3

Net sales—Net sales for the nine months ended September 30, 2018 increased by $1.8 million, or 0.1%, compared to the same period in 2017. The increase was primarily due to favorable prices and sales volume in our Pulp and Paperboard segment, offset by lower average selling prices and reduced shipment volumes in our Consumer Products segment. These items are further discussed below under "Discussion of Business Segments."

Cost of sales—Cost of sales was approximately 89% of net sales for the nine months ended September 30, 2018 and for the same period in 2017. Our overall cost of sales was slightly higher in the first nine months of 2018 compared to 2017, primarily due to increased costs for wood fiber and higher transportation costs driven by higher line haul rates. These cost increases were partially offset by lower maintenance, internally sourced paperboard, energy and depreciation costs.

Selling, general and administrative expenses—Selling, general and administrative expenses for the nine months ended September 30, 2018 decreased by $8.2 million compared to the same period in 2017. The decrease was due in part to lower commission and marketing expense, reduced travel expenses and lower profit dependent accruals, which were partially offset by higher severance and professional services expenses related to the selling, general, and administrative cost structure changes. In addition, selling, general and administrative expenses for the third quarter of 2017 included $4.3 million of asset writedowns to held for sale value on certain assets at our former Oklahoma City facility.

Gain on divested assets—On August 21, 2018, we sold our Ladysmith facility for net cash proceeds of approximately $71 million. In total, $22.9 million of gain was recorded on the sale, which included $34.0 million of net assets sold, $14.0 million of goodwill write-off and other expenses related to the sale.

Interest expense—Interest expense for the nine months ended September 30, 2018 remained flat compared to the same period in 2017, as higher interest expense associated with a larger average balance on our revolving credit facilities was offset by higher capitalized interest in the 2018 period.

Income tax provision—We recorded an income tax provision of $5.8 million in the nine months ended September 30, 2018, compared to $5.9 million in the same period of 2017. The rate determined under GAAP for the nine months ended September 30, 2018 was approximately 12%, compared to 26% for the same period of 2017. The net change to our effective tax rate in the nine months ended September 30, 2018 was primarily the result of the Federal rate reduction enacted by the Tax Cuts and Jobs Act, offset by an increase in the rate due to basis differences associated with the goodwill written-off as part of the sale of our Ladysmith facility. The rate in each period also includes the benefit from Federal credits.

During the nine months ended September 30, 2018 and 2017, 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 tax rate for the nine months ended September 30, 2018 would have been a benefit of approximately 7% compared to expense of approximately 29% for the nine months ended September 30, 2017. See the section entitled "Non-GAAP Measures" on page 35 of this report for a reconciliation of these adjusted income tax provision amounts to the comparable GAAP income tax provision amounts.

Discussion of Business Segments

Consumer Products

(Dollars in thousands - except per ton amounts)	Nine Months Ended September 30, 2018	2017
Net sales	$ **672,069**	$ 707,251
Operating income	**19,700**	21,427
Percent of net sales	**2.9%**	3.0%
Shipments (short tons)		
Retail	224,376	233,944
Non-retail	47,077	43,372
Total tissue tons	271,453	277,316
Converted products cases (in thousands)	**37,078**	38,559
Sales price (per short ton)		
Retail	$ **2,681**	$ 2,750
Non-retail	**1,452**	1,452
Total tissue	$ **2,468**	$ **2,547**

Net sales for our Consumer Products segment decreased $35.2 million for the nine months ended September 30, 2018, compared to the same period of 2017, due to lower average net selling prices for retail tissue, decreased sales volumes in retail cases, and the sale of our Ladysmith facility during the third quarter of 2018. These unfavorable impacts were partially offset by a favorable sales mix driven by increased TAD paper towel sales.

The segment had operating income of $19.7 million for the nine months ended September 30, 2018, which included the gain of $22.9 million on the sale of our Ladysmith facility. Excluding this gain, the segment had an operating loss of $3.2 million compared to operating income of $21.4 million for the same period of 2017. This loss was primarily due to decreased sales volumes, higher pulp prices, higher wage and benefits expenses associated primarily with an increase of employees at our Shelby facility related to the Shelby expansion project and the effect of annual wage increases, and higher transportation costs. Operating income for the nine months ended September 30, 2017 also included $4.3 million of asset writedowns to held for sale value on certain assets at our former Oklahoma City facility.

Pulp and Paperboard

(Dollars in thousands - except per ton amounts)	Nine Months Ended September 30, 2018	2017
Net sales	$ **623,442**	$ 586,441
Operating income	**98,626**	63,006
Percent of net sales	**15.8%**	10.7%
Paperboard shipments (short tons)	**641,026**	618,103
Paperboard sales price (per short ton)	$ **973**	$ 949

Net sales for the Pulp and Paperboard segment increased by $37.0 million during the nine months ended September 30, 2018, compared to the same period of 2017. The increase was primarily due to increased sales volume in addition to price increases.

Operating income for the segment increased $35.6 million during the nine months ended September 30, 2018, compared to the same period of 2017, primarily due to increased sales, reduced maintenance costs due to no planned major maintenance in the first nine months of 2018, compared to approximately $30 million for the nine months ended September 30, 2017, and lower energy costs. These favorable impacts were partially offset by increased chips, sawdust and log costs, higher chemical and transportation costs, and higher depreciation expense.

NON-GAAP MEASURES

We use earnings before interest, taxes, depreciation and amortization, or EBITDA, 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, or as alternatives to cash flows from operating activities or a measure of our liquidity or profitability. In addition, our calculation of EBITDA and Adjusted EBITDA may or may not be comparable to similarly titled measures used by other companies.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
Net earnings	**$ 34,444**	$ 863	**$ 44,005**	$ 16,415
Interest expense, net	**7,547**	7,683	**23,290**	23,399
Income tax provision (benefit)	**3,675**	(3,095)	**5,825**	5,860
Depreciation and amortization expense[1]	**25,342**	25,856	**75,686**	79,468
EBITDA	**$ 71,008**	$ 31,307	**$ 148,806**	$ 125,142
Gain on divested assets, net	**(22,944)**	—	**(22,944)**	—
Directors' equity-based compensation expense (benefit)	**769**	463	**(1,930)**	(2,470)
Reorganization related expenses associated with SG&A cost control measures	**210**	480	**6,390**	480
Consumer products reorganization related expenses	**158**	—	**950**	—
Other	**(338)**	—	**—**	—
Costs associated with Oklahoma City facility closure[2]	**—**	5,057	**—**	7,406
Costs associated with Long Island facility closure	**—**	314	**—**	1,145
Manchester Industries acquisition related expenses	**—**	—	**—**	220
Write-off of assets as a result of Warehouse Automation project	**—**	—	**—**	41
Adjusted EBITDA	**$ 48,863**	$ 37,621	**$ 131,272**	$ 131,964

[1] Depreciation and amortization expense for the three months ended September 30, 2017 includes accelerated depreciation of $0.3 million associated with the closure of our Long Island facility and $0.1 million as a result of our warehouse automation project. In addition, depreciation and amortization for the nine months ended September 30, 2017 includes $3.7 million of accelerated depreciation associated with the closure of our Oklahoma City facility, $0.6 million associated with the Long Island facility closure and $0.4 million as a result of the warehouse automation project.

[2] Costs associated with the Oklahoma City facility closure for both the three and nine months ended September 30, 2017 include $4.3 million of loss on the writedown of assets to their held for sale value.

The following table provides our Adjusted income tax provisions for the three and nine months ended September 30, 2018 and 2017, as well as a reconciliation to the GAAP income tax benefit (provision).

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2018**	**2017**	**2018**	**2017**
GAAP Income tax (provision) benefit	**$ (3,675)**	$ 3,095	**$ (5,825)**	$ (5,860)
Special items, tax impact:				
Gain on divested assets	**10,264**	—	**10,264**	—
Reorganization related expenses associated with SG&A cost control measures	**(67)**	(163)	**(1,623)**	(163)
Directors' equity-based compensation (expense) benefit	**(245)**	(157)	**450**	831
Consumer products reorganization related expenses	**(50)**	—	**(256)**	—
Other	**88**	—	**—**	—
Impact of state tax reform	**—**	—	**(676)**	—
Costs associated with Oklahoma City facility closure	**—**	(1,719)	**—**	(3,762)
Manchester Industries acquisition related expenses	**—**	—	**—**	(74)
Costs associated with Long Island facility closure	**—**	(208)	**—**	(586)
Write off of assets as a result of Warehouse Automation project	**—**	—	**—**	(14)
Accelerated depreciation of assets as a result of Warehouse Automation project	**—**	(41)	**—**	(121)
Adjusted income tax benefit (provision)	**$ 6,315**	$ 807	**$ 2,334**	$ (9,749)

LIQUIDITY AND CAPITAL RESOURCES

The following table presents information regarding our cash flows for the nine months ended September 30, 2018 and 2017:

(In thousands)	**2018**	**2017**
Net cash flows from operating activities	**$ 121,099**	$ 152,176
Net cash flows from investing activities	**(102,297)**	(135,897)
Net cash flows from financing activities	**44,147**	(30,802)

Cash Flows Summary

Net cash flows provided by operating activities for the nine months ended September 30, 2018 decreased by $31.1 million compared to the same period in 2017. The decrease in operating cash flows was driven by a decrease of $36.4 million from changes in working capital primarily as the result of a decrease in the amount of cash provided by accounts payable and accrued liabilities and accounts receivables in the nine months ended September 30, 2018, compared to the same period of 2017, as well as a decrease in net earnings of $12.6 million, after adjusting for non-cash related items. These unfavorable changes were partially offset by a net $13.5 million decrease in taxes receivable in the nine months ended September 30, 2018, as the result of cash received from income tax refunds, compared to a net $4.9 million increase in taxes receivable in the nine months ended September 30, 2017.

Net cash flows used for investing activities for the nine months ended September 30, 2018 were $33.6 million lower than the prior year period primarily due to approximately $71 million of net cash proceeds from divested assets, which resulted from the sale of our Ladysmith facility. These proceeds were partially offset by an increase in cash paid for plant and equipment in the nine months ended September 30, 2018, compared to the same period in 2017. In addition to cash paid for plant and equipment, we also incurred $78.5 million of non-cash additions related to accrued property plant and equipment in the 2018 period, which is largely associated with our Shelby expansion project.

Net cash flows provided by financing activities were $44.1 million for the nine months ended September 30, 2018, and were largely driven by net borrowings of $45.0 million on our revolving credit facilities. Borrowings and repayments on our credit facilities are presented gross on our Consolidated Statements of Cash Flows. Net cash flows used for financing activities were $30.8 million for the same period of 2017, due largely to net repayments of $25.0 million on our revolving credit facilities, as well as $4.9 million in repurchases of our outstanding common stock pursuant to our 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 our debt service requirements and provide cash required to support our ongoing operations, capital expenditures, and working capital needs for the next twelve months.

We may choose to refinance all or a portion of our indebtedness on or before maturity. We cannot be certain that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

Capital Expenditures

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. During the nine months ended September 30, 2018, excluding capitalized interest of $6.0 million, we spent $246.5 million on capital expenditures, which included $228.0 million of capital spending on strategic projects and other projects designed to reduce future manufacturing costs and provide a positive return on investment. During the nine months ended September 30, 2017, we spent $135.4 million on capital expenditures, excluding capitalized interest of $3.4 million, which included $104.3 million of capital spending on strategic projects and other projects expected to reduce future manufacturing costs and provide a positive return on investment.

Debt Arrangements

Our annual debt service obligation, consisting of cash payments for interest on the 2013 Notes and the 2014 Notes, is estimated to be $28.5 million for 2018. 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. 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.

Credit Arrangements

Our revolving credit facilities contain various loan covenants that restrict our ability and that of our 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, through September 30, 2018, the revolving credit facilities contained financial covenants that required us 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.

As of September 30, 2018, our consolidated total leverage ratio for the most recent four quarters was 3.97 to 1.0 and our consolidated interest coverage ratio was 2.56 to 1.0. Based on our current financial projections and also taking into account certain actions that are available to us to enhance our compliance with these covenants, we expect to remain in compliance with them. However, if our financial position, results of operations or market conditions deteriorate, we may not be able to remain in compliance. There can be no assurance that we will be able to remain in compliance with these covenants. If we are unable to do so, it would be necessary to seek amendments to the affected covenants from our lenders, which, if obtained, could require payment of additional fees, increased interest rates or other conditions or restrictions.

On November 8, 2018, we entered into separate amendments (the “Amendments”) to our credit agreements, each dated as of October 31, 2016, one of which is with Wells Fargo Bank, National Association, as agent and the lenders party thereto (as amended, the "Commercial Credit Agreement"), and the other of which is with Northwest Farm Credit Services, PCA, as agent and the lenders party thereto (as amended, the "Farm Credit Agreement", and collectively with the Commercial Credit Agreement, the “Credit Agreements”). Pursuant to the Amendments, the interest rate margin, which may vary from quarter to quarter based upon grid pricing under the Credit Agreements determined in accordance with our consolidated leverage ratio, was increased (i) in the case of the Commercial Credit Agreement, by 0.50% per annum in the highest tier, (ii) in the case of the Farm Credit Agreement, by 0.50% in the second highest tier and by 0.75% per annum in the highest tier, and (iii) in the case of the commitment fee for unused availability under each of the Credit Agreements’ revolving credit facilities, by 0.05% per annum in the highest tier. In addition, the financial covenants in the Credit Agreements were modified to provide that going forward we will be required to maintain a:

- maximum consolidated secured leverage ratio of 2.00 to 1.00 through December 31, 2019 and of 1.50 to 1.00 from March 31, 2020 and thereafter, in lieu of being required to maintain a maximum consolidated leverage ratio which was in effect prior to the amendments;
- minimum consolidated interest coverage ratio of 1.25 to 1.00; and
- minimum consolidated asset coverage ratio of 1.00 to 1.00 which was not in effect prior to the Amendments.

See Note 8, "Debt" to the condensed notes to the consolidated financial statements included in this Report for additional discussion of our revolving credit facilities.

CONTRACTUAL OBLIGATIONS

As of September 30, 2018, there were no significant changes to the contractual obligations table disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

OFF-BALANCE SHEET ARRANGEMENTS

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

As of September 30, 2018, there have been no significant changes with regard to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.

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

ITEM 3.

Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risks on financial instruments includes interest rate risk on our secured revolving credit facilities. As of September 30, 2018, there were $200.0 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 assumed outstanding credit facilities' borrowings of $200.0 million, would have an approximate $2.0 million annual effect on interest expense. During the nine months ended September 30, 2018, we reduced our short-term interest rate risk through the use of a short-term LIBOR Rate option for $100.0 million and negotiated a fixed, long-term rate on the remaining $100 million, of our total outstanding credit facilities' borrowings balance of $200.0 million, reducing the Company's exposure to variable rate debt. We currently do not attempt to alleviate the effects of short-term interest rate fluctuations on our credit facility borrowings through the use of derivative financial instruments.

Commodity Risk

We are exposed to market risk for changes in natural gas commodity pricing, which we partially mitigate through the use of firm price contracts for a portion of our natural gas requirements for our manufacturing facilities. As of September 30, 2018, these contracts covered approximately 29% of our expected average monthly natural gas requirements for the remainder of 2018, and a lesser amount for 2019.

Foreign Currency Risk

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

ITEM 4.

Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Subject to the limitations noted above, our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the third quarter of 2018. Based on that evaluation, the CEO and CFO have concluded that, as of September 30, 2018, our disclosure controls and procedures were effective to meet the objective for which they were designed and operated at the reasonable assurance level.

Changes in Internal Controls

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

Part II

ITEM 1.

Legal Proceedings

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

ITEM 1A.

Risk Factors

There are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017. See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2017, entitled “Risk Factors.”

ITEM 5.

Other Information

On November 8, 2018, we entered into separate amendments (the “Amendments”) to our credit agreements, each dated as of October 31, 2016, one of which is with Wells Fargo Bank, National Association, as agent and the lenders party thereto (as amended, the "Commercial Credit Agreement"), and the other of which is with Northwest Farm Credit Services, PCA, as agent and the lenders party thereto (as amended, the "Farm Credit Agreement", and collectively with the Commercial Credit Agreement, the “Credit Agreements”). Pursuant to the Amendments, the interest rate margin, which may vary from quarter to quarter based upon grid pricing under the Credit Agreements determined in accordance with our consolidated leverage ratio, was increased (i) in the case of the Commercial Credit Agreement, by 0.50% per annum in the highest tier, (ii) in the case of the Farm Credit Agreement, by 0.50% in the second highest tier and by 0.75% per annum in the highest tier, and (iii) in the case of the commitment fee for unused availability under each of the Credit Agreements’ revolving credit facilities, by 0.05% per annum in the highest tier. In addition, the financial covenants in the Credit Agreements were modified to provide that going forward we will be required to maintain a:

- maximum consolidated secured leverage ratio of 2.00 to 1.00 through December 31, 2019 and of 1.50 to 1.00 from March 31, 2020 and thereafter, in lieu of being required to maintain a maximum consolidated leverage ratio which was in effect prior to the amendments;
- minimum consolidated interest coverage ratio of 1.25 to 1.00; and
- minimum consolidated asset coverage ratio of 1.00 to 1.00 which was not in effect prior to the Amendments.

ITEM 6.

Exhibits

EXHIBIT NUMBER	DESCRIPTION
(31)	Rule 13a-14(a)/15d-14(a) Certifications.
(32)**	Furnished statements of the Chief Executive Officer and Chief Financial Officer under 18 U.S.C Section 1350.
10(i)	Amendment No. 3 to the Credit Agreement and Amendment to the Collateral Agreement dated as of August 21, 2018 by and among Clearwater Paper Corporation, the lenders signatory thereto and Wells Fargo Bank, National Association.
10(ii)	Amendment No. 3 to the Credit Agreement and Amendment to the Collateral Agreement dated as of August 21, 2018 by and among Clearwater Paper Corporation, the lenders signatory thereto and Northwest Farm Credit Services, PCA.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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

1 Management contract or compensatory plan, contract or arrangement.

SIGNATURES

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

CLEARWATER PAPER CORPORATION
(Registrant)

November 9, 2018	By /s/ JOHN D. HERTZ John D. Hertz Senior Vice President, Finance and Chief Financial Officer (Duly Authorized Officer; Principal Financial Officer)
November 9, 2018	By /s/ ROBERT N. DAMMARELL Robert N. Dammarell Vice President, Corporate Controller (Duly Authorized Officer; Principal Accounting Officer)

Exhibit 10(i)

AMENDMENT NO. 3 TO THE CREDIT AGREEMENT

This AMENDMENT NO. 3 TO THE CREDIT AGREEMENT (this "Amendment"), dated as of August 21, 2018, is entered into by and among (1) **CLEARWATER PAPER CORPORATION** , a Delaware corporation (the "Borrower"); (2) Lenders (as defined below) constituting the Required Lenders (as defined in the Credit Agreement referred to below); and (3) WELLS FARGO BANK, NATIONAL ASSOCIATION ("Wells Fargo"), as administrative agent for the Lenders (in such capacity, the "Administrative Agent"):

WHEREAS the Borrower, the lenders from time to time party thereto (the "Lenders") and the Administrative Agent have previously entered into that certain Credit Agreement, dated as of October 31, 2016 (as amended and in effect immediately prior to the date hereof, the "Existing Credit Agreement" and as the same may be amended, restated, supplemented or otherwise modified and in effect from time to time, including, but not limited to, by this Amendment, the "Credit Agreement");

WHEREAS the Borrower has requested that the Administrative Agent and the Required Lenders make amendments to the Existing Credit Agreement as set forth in this Amendment; and

WHEREAS the Administrative Agent and the Lenders that are signatories hereto, constituting Required Lenders, are willing to grant such request on the terms and subject to the conditions set forth in this Amendment;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Definitions**. Capitalized terms are used in this Amendment as defined in the Credit Agreement unless otherwise defined herein.

2. **Amendments to the Existing Credit Agreement**. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 3 below:

(a) Section 1.1 of the Existing Credit Agreement is hereby amended by adding the following definitions thereto in appropriate alphabetical order:

"Permitted Subsidiary-1 Equity Sale" means the sale by Cellu Tissue Holdings, Inc. (a) of all of the Equity Interests of Cellu Tissue-CityForest LLC and (b) or its Affiliates of certain other assets more specifically set forth in the definitive sale agreement with respect thereto.

(b) Section 8.4 of the Existing Credit Agreement is hereby amended by (i) deleting "and" at the end of subclause (e), (ii) re-lettering subclause (f) as subclause (g) and (iii) adding new subclause (f) as follows:

"(f) the Permitted Subsidiary-1 Equity Sale; and".

3. **Conditions Precedent to the Effectiveness of this Amendment**. The provisions of Sections 2, 5(a) and 5(b) of this Amendment are conditioned upon, and such provisions shall not be effective until, satisfaction of the following conditions (the first date on which all of the following conditions have been satisfied being referred to herein as the "Amendment Effective Date"):

(a) The Administrative Agent shall have received, on behalf of the Lenders, this Amendment, duly executed and delivered by the Borrower, the Required Lenders and the Administrative Agent (and consented to by the Guarantors);

(b) The Administrative Agent shall have received a corresponding amendment to the FCS Facility, duly executed by each party thereto (and consented to by the Guarantors (as defined under the FCS Facility)) in form and substance reasonably satisfactory to the Administrative Agent;

(c) No Default or Event of Default shall have occurred and be continuing;

(d) The representations and warranties set forth in this Amendment shall be true and correct in all material respects as of the Amendment Effective Date (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct as of such specific date); and

(e) (i)The Administrative Agent shall have received a substantially final copy of the definitive equity purchase agreement (together with all schedules and exhibits thereto) with respect to the Permitted Subsidiary-1 Equity Sale, in form and substance reasonably acceptable to the Administrative Agent (the "Definitive Agreement"), it being agreed that the form of the Definitive Agreement delivered to the Administrative Agent on August 20, 2018 is reasonably acceptable, (ii) the Definitive Agreement shall not have been altered, amended or otherwise changed or supplemented or any provision waived or consented to in a manner that is materially adverse to the Administrative Agent or the Lenders without the prior written consent of the Administrative Agent (such consent not to be unreasonably withheld, delayed or conditioned) and (iii) the Permitted Subsidiary-1 Equity Sale shall have been consummated in all material respects in accordance with the Definitive Agreement.

4. **Representations and Warranties**. In order to induce the Administrative Agent and the Lenders to enter into this Amendment and to amend the Existing Credit Agreement in the manner provided in this Amendment, the Borrower represents and warrants to the Administrative Agent and each Lender as follows:

(a) Authorization of Agreements; Enforceability. The Borrower has the right, power and authority and has taken all necessary corporate and other action to authorize the execution, delivery and performance of this Amendment in accordance with its terms. This Amendment has been duly executed and delivered by duly authorized officers of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar state or federal Debtor Relief Laws from time to time in effect which affect the enforcement of creditors' rights in general and the availability of equitable remedies.

(b) Representations and Warranties in the Credit Agreement. The Borrower confirms that as of the Amendment Effective Date, (i) the representations and warranties contained in Article VI of the Credit Agreement are true and correct in all material respects (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct as of such specific date) and (ii) no Default or Event of Default has occurred and is continuing.

5. **Miscellaneous**.

(a) Consummation of Permitted Subsidiary-1 Equity Sale. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 3 above, the parties hereto acknowledge and agree that upon the consummation of the Permitted Subsidiary-1 Equity Sale:

(i) All Guarantees provided by Cellu Tissue-CityForest LLC as a Subsidiary Guarantor pursuant to the Loan Documents shall be automatically terminated.

(ii) All Liens in (x) the Equity Interests in, and the assets of, Cellu Tissue-CityForest LLC and (y) those assets of Cellu Tissue Holdings, Inc. or its Affiliates, solely to the extent being sold in the Permitted Subsidiary-1 Equity Sale, in each case, granted to the Administrative Agent for the benefit of the Secured Parties pursuant to the Loan Documents shall be automatically and immediately discharged, released and terminated.

(iii) Any original stock certificates in Cellu Tissue-CityForest LLC held by the Administrative Agent shall be returned to Cellu Tissue Holdings, Inc. or its designee.

(iv) The Borrower is authorized to file a UCC-3 termination statement in connection with the Permitted Subsidiary-1 Equity Sale, in the form attached hereto as Exhibit A.

(v) If requested by the Borrower, the Administrative Agent shall confirm in a writing addressed to the Borrower and/or the purchaser under the Definitive Agreement the effectiveness of the matters set forth in Sections 5(a)(i), (a)(ii) and (a)(iv).

(b) Reference to and Effect on the Existing Credit Agreement and the other Loan Documents.

(i) Except as specifically amended by this Amendment and the documents executed and delivered in connection herewith, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed by the Borrower in all respects.

(ii) The execution and delivery of this Amendment and performance of the Credit Agreement shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders under, the Existing Credit Agreement or any of the other Loan Documents.

(iii) Upon the conditions precedent set forth herein being satisfied, this Amendment shall be construed as one with the Existing Credit Agreement, and the Existing Credit Agreement shall, where the context requires, be read and construed throughout so as to incorporate this Amendment.

(iv) If there is any conflict between the terms and provisions of this Amendment and the terms and provisions of the Credit Agreement or any other Loan Document, the terms and provisions of this Amendment shall govern.

(c) Expenses. The Borrower expressly acknowledges its obligations under Section 11.3 of the Credit Agreement (Expenses; Indemnity) with respect to this Amendment.

(d) Headings. Section and subsection headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(e) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes. Delivery of an executed counterpart of this Amendment by electronic mail shall be equally as effective as delivery of an original executed counterpart of this Amendment.

(f) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

6. **Loan Documents**. This Amendment is a Loan Document as defined in the Credit Agreement, and the provisions of the Credit Agreement generally applicable to Loan Documents are applicable hereto and incorporated herein by this reference.

[This Space Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

BORROWER:

CLEARWATER PAPER CORPORATION,
a Delaware corporation

By: /s/ John Hertz
Name: John D. Hertz
Title: SVP, Finance and CFO

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Administrative Agent and a Lender

By: /s/ Thomas M. Thoen
Name: Thomas M. Thoen
Title: SVP

[BANK OF AMERICA, N.A.,]
as a Lender

By: /s/ Daryl K. Hogge
Name: Daryl K. Hogge
Title: Senior Vice President

[JPMORGAN CHASE BANK, N.A.],
as a Lender

By: /s/ Lynn Braun
Name: Lynn Braun
Title: Executive Director

[GOLDMAN SACHS BANK USA],
as a Lender

By: /s/ Chris Lam
Name: Chris Lam
Title: Authorized Signatory

[U.S. BANK NATIONAL ASSOCIATION],
as a Lender

By: /s/ Glenn Leyrer
Name: Glenn Leyrer
Title: Vice President

The undersigned hereby acknowledge and consent to the foregoing Amendment and confirm and agree that the Guaranty executed by the undersigned in connection with the Credit Agreement remains in full force and effect in accordance with its terms and is hereby reaffirmed, confirmed and ratified by the undersigned, and the undersigned hereby confirm that the representations and warranties contained in such Guaranty (including any incorporated by reference to the Credit Agreement) are (before and after giving effect to this Amendment) true and correct in all material respects (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct in all material respects as of such specific date); provided that, if a representation and warranty is qualified as to materiality, the materiality qualifier set forth above shall be disregarded with respect to such representation and warranty for purposes of this confirmation.

GUARANTORS:

CELLU TISSUE HOLDINGS, INC.

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CELLU TISSUE - LONG ISLAND, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CELLU TISSUE-CITYFOREST LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CELLU TISSUE CORPORATION-NEENAH

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CELLU TISSUE CORPORATION - OKLAHOMA CITY

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CELLU TISSUE - THOMASTON, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

CLEARWATER FIBER, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

TRULY BRANDS, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

MANCHESTER INDUSTRIES INC. OF VIRGINIA

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance and Chief Financial Officer

EXHIBIT A

Form of UCC-3 Termination Statement

(Attached)

Exhibit 10(ii)

AMENDMENT NO. 3 TO THE CREDIT AGREEMENT

This AMENDMENT NO. 3 TO THE CREDIT AGREEMENT (this "Amendment"), dated as of August 21, 2018, is entered into by and among (1) **CLEARWATER PAPER CORPORATION** , a Delaware corporation (the "Borrower"); (2) Lenders (as defined below) constituting the Required Lenders (as defined in the Credit Agreement referred to below); and (3) NORTHWEST FARM CREDIT SERVICES, PCA ("NWFCS"), as administrative agent for the Lenders (in such capacity, the "Administrative Agent"):

WHEREAS the Borrower, the lenders from time to time party thereto (the "Lenders") and the Administrative Agent have previously entered into that certain Credit Agreement, dated as of October 31, 2016 (as amended and in effect immediately prior to the date hereof, the "Existing Credit Agreement" and as the same may be amended, restated, supplemented or otherwise modified and in effect from time to time, including, but not limited to, by this Amendment, the "Credit Agreement");

WHEREAS the Borrower has requested that the Administrative Agent and the Required Lenders make amendments to the Existing Credit Agreement as set forth in this Amendment; and

WHEREAS the Administrative Agent and the Lenders and Voting Participants that are signatories hereto, constituting Required Lenders, are willing to grant such request on the terms and subject to the conditions set forth in this Amendment;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. **Definitions**. Capitalized terms are used in this Amendment as defined in the Credit Agreement unless otherwise defined herein.

2. **Amendments to the Existing Credit Agreement**. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 3 below:

(a) Section 1.1 of the Existing Credit Agreement is hereby amended by adding the following definitions thereto in appropriate alphabetical order:

> "Permitted Subsidiary-1 Equity Sale" means the sale by Cellu Tissue Holdings, Inc. (a) of all of the Equity Interests of Cellu Tissue-CityForest LLC and (b) or its Affiliates of certain other assets more specifically set forth in the definitive sale agreement with respect thereto.

(b) Section 8.4 of the Existing Credit Agreement is hereby amended by (i) deleting "and" at the end of subclause (e), (ii) re-lettering subclause (f) as subclause (g) and (iii) adding new subclause (f) as follows:

> "(f) the Permitted Subsidiary-1 Equity Sale; and".

3. **Conditions Precedent to the Effectiveness of this Amendment**. The provisions of Sections 2, 5(a) and 5(b) of this Amendment are conditioned upon, and such provisions shall not be effective until, satisfaction of the following conditions (the first date on which all of the following conditions have been satisfied being referred to herein as the "Amendment Effective Date"):

(a) The Administrative Agent shall have received, on behalf of the Lenders, this Amendment, duly executed and delivered by the Borrower, the Required Lenders and the Administrative Agent (and consented to by the Guarantors);

(b) The Administrative Agent shall have received a corresponding amendment to the Commercial Bank Facility, duly executed by each party thereto (and consented to by the Guarantors (as defined under the Commercial Bank Facility)) in form and substance reasonably satisfactory to the Administrative Agent;

(c) No Default or Event of Default shall have occurred and be continuing;

(d) The representations and warranties set forth in this Amendment shall be true and correct in all material respects as of the Amendment Effective Date (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct as of such specific date); and

(e) (i) The Administrative Agent shall have received a substantially final copy of the definitive equity purchase agreement (together with all schedules and exhibits thereto) with respect to the Permitted Subsidiary-1 Equity Sale, in form and substance reasonably acceptable to the Administrative Agent (the "Definitive Agreement"), it being agreed that the form of the Definitive Agreement delivered to the Administrative Agent on August 20, 2018 is reasonably acceptable, (ii) the Definitive Agreement shall not have been altered, amended or otherwise changed or supplemented or any provision waived or consented to in a manner that is materially adverse to the Administrative Agent or the Lenders without the prior written consent of the Administrative Agent (such consent not to be unreasonably withheld, delayed or conditioned) and (iii) the Permitted Subsidiary-1 Equity Sale shall have been consummated in all material respects in accordance with the Definitive Agreement.

4. **Representations and Warranties**. In order to induce the Administrative Agent and the Lenders to enter into this Amendment and to amend the Existing Credit Agreement in the manner provided in this Amendment, the Borrower represents and warrants to the Administrative Agent and each Lender as follows:

(a) Authorization of Agreements; Enforceability. The Borrower has the right, power and authority and has taken all necessary corporate and other action to authorize the execution, delivery and performance of this Amendment in accordance with its terms. This Amendment has been duly executed and delivered by duly authorized officers of the Borrower and constitutes the legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar state or federal Debtor Relief Laws from time to time in effect which affect the enforcement of creditors' rights in general and the availability of equitable remedies.

(b) Representations and Warranties in the Credit Agreement. The Borrower confirms that as of the Amendment Effective Date, (i) the representations and warranties contained in Article VI of the Credit Agreement are true and correct in all material respects (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct as of such specific date) and (ii) no Default or Event of Default has occurred and is continuing.

5. **Miscellaneous**.

(a) Consummation of Permitted Subsidiary-1 Equity Sale. On the terms of this Amendment and subject to the satisfaction of the conditions precedent set forth in Section 3 above, the parties hereto acknowledge and agree that upon the consummation of the Permitted Subsidiary-1 Equity Sale:

i. All Guarantees provided by Cellu Tissue-CityForest LLC as a Subsidiary Guarantor pursuant to the Loan Documents shall be automatically terminated.

ii. All Liens in (x) the Equity Interests in, and the assets of, Cellu Tissue-CityForest LLC and (y) those assets of Cellu Tissue Holdings, Inc. or its Affiliates, solely to the extent being sold in the Permitted Subsidiary-1 Equity Sale, in each case, granted to the Administrative Agent for the benefit of the Secured Parties pursuant to the Loan Documents shall be automatically and immediately discharged, released and terminated.

iii. The Borrower is authorized to file a UCC-3 termination statement in connection with the Permitted Subsidiary-1 Equity Sale, in the form attached hereto as Exhibit A.

iv. If requested by the Borrower, the Administrative Agent shall confirm in a writing addressed to the Borrower and/or the purchaser under the Definitive Agreement the effectiveness of the matters set forth in Sections 5(a)(i), (a)(ii) and (a)(iii).

(b) Reference to and Effect on the Existing Credit Agreement and the other Loan Documents.

i. Except as specifically amended by this Amendment and the documents executed and delivered in connection herewith, the Credit Agreement and the other Loan Documents shall remain in full force and effect and are hereby ratified and confirmed by the Borrower in all respects.

ii. The execution and delivery of this Amendment and performance of the Credit Agreement shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of the Administrative Agent or the Lenders under, the Existing Credit Agreement or any of the other Loan Documents.

iii. Upon the conditions precedent set forth herein being satisfied, this Amendment shall be construed as one with the Existing Credit Agreement, and the Existing Credit Agreement shall, where the context requires, be read and construed throughout so as to incorporate this Amendment.

iv. If there is any conflict between the terms and provisions of this Amendment and the terms and provisions of the Credit Agreement or any other Loan Document, the terms and provisions of this Amendment shall govern.

(c) Expenses. The Borrower expressly acknowledges its obligations under Section 11.3 of the Credit Agreement (Expenses; Indemnity) with respect to this Amendment.

(d) Headings. Section and subsection headings in this Amendment are included for convenience of reference only and shall not constitute a part of this Amendment for any other purpose or be given any substantive effect.

(e) Counterparts. This Amendment may be executed in any number of identical counterparts, any set of which signed by all the parties hereto shall be deemed to constitute a complete, executed original for all purposes. Delivery of an executed counterpart of this Amendment by electronic mail shall be equally as effective as delivery of an original executed counterpart of this Amendment.

(f) Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

(g) Loan Modification. By its execution of this Amendment, the Borrower hereby authorizes the Administrative Agent to consider this Amendment its application for loan modification on the terms and conditions set forth herein.

6. **Loan Documents**. This Amendment is a Loan Document as defined in the Credit Agreement, and the provisions of the Credit Agreement generally applicable to Loan Documents are applicable hereto and incorporated herein by this reference.

[This Space Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed as of the date first above written.

BORROWER:

CLEARWATER PAPER CORPORATION,
a Delaware corporation

By: /s/ John Hertz
Name: John D. Hertz
Title: SVP, Finance and CFO

NORTHWEST FARM CREDIT SERVICES, PCA,
as Administrative Agent and a Lender

By: /s/ Suann Harris
Name: Suann Harris
Title: Relationship Manager, VP

The undersigned hereby acknowledge and consent to the foregoing Amendment and confirm and agree that the Guaranty executed by the undersigned in connection with the Credit Agreement remains in full force and effect in accordance with its terms and is hereby reaffirmed, confirmed and ratified by the undersigned, and the undersigned hereby confirm that the representations and warranties contained in such Guaranty (including any incorporated by reference to the Credit Agreement) are (before and after giving effect to this Amendment) true and correct in all material respects (except to the extent any such representation and warranty is expressly stated to have been made as of a specific date, in which case it shall be true and correct in all material respects as of such specific date); provided that, if a representation and warranty is qualified as to materiality, the materiality qualifier set forth above shall be disregarded with respect to such representation and warranty for purposes of this confirmation.

GUARANTORS:

CELLU TISSUE HOLDINGS, INC.

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CELLU TISSUE - LONG ISLAND, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CELLU TISSUE-CITYFOREST LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CELLU TISSUE CORPORATION-NEENAH

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CELLU TISSUE CORPORATION - OKLAHOMA CITY

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CELLU TISSUE - THOMASTON, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

CLEARWATER FIBER, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

TRULY BRANDS, LLC

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

MANCHESTER INDUSTRIES INC. OF VIRGINIA

By: /s/ John Hertz
Name: John D. Hertz
Title: Sr. Vice President, Finance
and Chief Financial Officer

EXHIBIT A

Form of UCC-3 Termination Statement

(Attached)

Exhibit (31)

CERTIFICATION

I, Linda K. Massman, certify that:

1. I have reviewed this report on Form 10-Q of Clearwater Paper Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2018

/S/ LINDA K. MASSMAN

Linda K. Massman

President and Chief Executive Officer

CERTIFICATION

I, John D. Hertz, certify that:

1. I have reviewed this report on Form 10-Q of Clearwater Paper Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2018

/S/ JOHN D. HERTZ

John D. Hertz

Senior Vice President, Finance and Chief Financial Officer

Exhibit (32)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Linda K. Massman, President and Chief Executive Officer of Clearwater Paper Corporation (the “Company”), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ LINDA K. MASSMAN

Linda K. Massman
President and Chief Executive Officer
November 9, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, John D. Hertz, Senior Vice President, Finance and Chief Financial Officer of Clearwater Paper Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/S/ JOHN D. HERTZ

John D. Hertz

Senior Vice President, Finance and Chief Financial Officer

November 9, 2018

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.