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 March 31, 2020

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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.0001 per share	CLW	New York Stock Exchange

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 every Interactive Data File required to be submitted 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 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 May 3, 2020 was 16,570,864.

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 impacts of COVID-19 on our business and operations; accounting standards; liquidity; capital expenditures; cash flow; borrowing and credit facilities; credit agreement compliance; disclosure controls and legal proceedings. 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 2019 Form 10-K and the "Risk Factor" included in Part II of this report, as well as the following:

- impact of COVID-19 on our operations, our supplier's operations and our customer demand
- competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors and the impact of foreign currency fluctuations on the pricing of products globally;
- the loss of, changes in prices in regard to, or reduction in, orders from a significant customer;
- changes in the cost and availability of wood fiber and wood pulp;
- changes in transportation costs and disruptions in transportation services;
- changes in customer product preferences and competitors' product offerings;
- larger competitors having operational and other advantages;
- customer acceptance and timing and quantity of purchases of our tissue products, including the existence of sufficient demand for and the quality of tissue produced by our expanded Shelby, North Carolina operations;
- consolidation and vertical integration of converting operations in the paperboard industry;
- our ability to successfully implement our operational efficiencies and cost savings strategies, along with related capital projects, and achieve the expected operational or financial results of those projects, including from the continuous digester at our Lewiston, Idaho facility;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- manufacturing or operating disruptions, including IT system and IT system implementation failures, equipment malfunctions and damage to our manufacturing facilities;
- cyber-security risks;
- changes in costs for and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- labor disruptions;
- cyclical industry conditions;
- changes in expenses, required contributions and potential withdrawal costs associated with our pension plans;
- environmental liabilities or expenditures;
- reliance on a limited number of third-party suppliers for raw materials;
- our ability to attract, motivate, train and retain qualified and key personnel;
- our substantial indebtedness and ability to service our debt obligations;
- restrictions on our business from debt covenants and terms;
- negative changes in our credit agency ratings; 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.

CLEARWATER PAPER CORPORATION

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Part I: Financial Information

ITEM 1. Consolidated Financial Statements

CLEARWATER PAPER CORPORATION
Consolidated Balance Sheets
(Unaudited)

(In millions, except share data)	March 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 60.8	$ 20.0
Restricted cash	—	1.4
Receivables, net	207.1	159.4
Inventories	240.5	281.4
Other current assets	12.6	3.6
Total current assets	520.9	465.8
Property, plant and equipment, net	1,235.5	1,257.7
Operating lease right-of-use assets	70.4	73.1
Goodwill and intangible assets, net	51.2	52.0
Other assets, net	18.8	29.1
TOTAL ASSETS	$ 1,896.8	$ 1,877.7
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$ 58.1	$ 17.9
Trade payables	146.8	158.2
Accrued compensation	34.1	45.0
Other accrued liabilities	51.4	59.3
Total current liabilities	290.4	280.4
Long-term debt	883.9	884.5
Long-term operating lease liabilities	62.7	65.6
Liability for pension and other postretirement employee benefits	75.3	76.6
Other long-term obligations	16.2	17.3
Deferred tax liabilities	123.6	121.3
TOTAL LIABILITIES	1,452.1	1,445.7
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, 16,569,442 and 16,515,813 shares issued	—	—
Additional paid-in capital	10.4	9.8
Retained earnings	492.1	481.7
Accumulated other comprehensive loss, net of tax	(57.7)	(59.5)
TOTAL STOCKHOLDERS' EQUITY	444.8	432.0
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,896.8	$ 1,877.7

See accompanying Notes to the Consolidated Financial Statements.

CLEARWATER PAPER CORPORATION

Consolidated Statements of Operations
(Unaudited)

(In millions, except per-share data)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net sales	$ 477.9	$ 428.8
Costs and expenses:		
Cost of sales	423.0	384.3
Selling, general and administrative expenses	27.5	30.4
Other operating charges, net	8.6	(0.3)
Total operating costs and expenses	459.1	414.4
Income from operations	18.8	14.4
Interest expense, net	(12.8)	(8.6)
Other non-operating expense	(1.9)	(1.3)
Total non-operating expense	(14.7)	(9.9)
Income before income taxes	4.1	4.5
Income tax provision (benefit)	(6.2)	0.7
Net income	$ 10.3	$ 3.8
Net income per common share:		
Basic	$ 0.62	$ 0.23
Diluted	0.62	0.23
Average shares of common stock used to compute net income per share: (in thousands)		
Basic	16,555	16,516
Diluted	16,615	16,563

See accompanying Notes to the Consolidated Financial Statements.

CLEARWATER PAPER CORPORATION
Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net income	$ 10.3	$ 3.8
Other comprehensive income:		
Defined benefit pension and other postretirement employee benefits:		
Amortization of actuarial loss included in net periodic cost, net of tax of $0.6 and $0.5	1.8	1.2
Other comprehensive income, net of tax	1.8	1.2
Comprehensive income	$ 12.1	$ 5.0

See accompanying Notes to the Consolidated Financial Statements.

CLEARWATER PAPER CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10.3	$ 3.8
Adjustments to reconcile net income to net cash flows provided by (used in) operating activities:		
Depreciation and amortization	28.0	25.8
Stock-based compensation expense	1.5	0.8
Deferred taxes	1.8	0.9
Pension and other post retirement employment benefits	0.8	—
Gain on divested assets	(1.4)	—
Other non-cash activity, net	0.9	(0.6)
Changes in operating assets and liabilities:		
Increase in accounts receivable	(37.3)	(23.1)
(Increase) decrease in inventory	40.9	(21.6)
Increase in other current assets	(9.0)	(8.8)
Increase (decrease) in trade payables	(13.0)	(10.8)
Decrease in accrued compensation	(10.9)	(11.9)
Decrease in other accrued liabilities	(0.1)	13.5
Other, net	(0.5)	2.6
Net cash flows provided by (used in) operating activities	12.1	(29.4)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(10.5)	(71.6)
Net cash flows used in investing activities	(10.5)	(71.6)
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowings of short-term debt	88.5	290.4
Repayments of short-term debt	(48.8)	(199.0)
Repayments of long-term debt	(1.1)	—
Other, net	(0.8)	(0.7)
Net cash flows provided by financing activities	37.8	90.7
Increase (decrease) in cash, cash equivalents and restricted cash	39.4	(10.3)
Cash, cash equivalents and restricted cash at beginning of period	22.4	24.9
Cash, cash equivalents and restricted cash at end of period	$ 61.8	$ 14.6
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$ 19.2	$ 15.1
Cash received from refunds, net of amounts paid for income taxes	$ —	$ (0.2)
CASH, CASH EQUIVALENTS, AND RESTRICTED CASH		
Cash and cash equivalents	$ 60.8	$ 12.2
Restricted cash	—	1.4
Restricted cash included in Other assets, net	1.0	1.0
Total cash, cash equivalents and restricted cash	$ 61.8	$ 14.6

See accompanying Notes to the Consolidated Financial Statements.

CLEARWATER PAPER CORPORATION
Consolidated Statements of Stockholders' Equity
(Unaudited)

(In millions, except share amounts which are in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2018	16,482	$ —	$ 6.4	$ 487.3	$ (67.3)	$ 426.4
Net income	—	—	—	3.8	—	3.8
Stock-based compensation expense	—	—	1.2	—	—	1.2
Issuance of shares under stock plans	33	—	(0.4)	—	—	(0.4)
Pension and other postretirement employee benefit plans, net of tax of $0.5	—	—	—	—	1.2	1.2
Balance at March 31, 2019	16,515	$ —	$ 7.2	$ 491.1	$ (66.1)	$ 432.2

(In millions, except share amounts which are in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2019	16,515	$ —	$ 9.8	$ 481.7	$ (59.5)	$ 432.0
Net income	—	—	—	10.3	—	10.3
Stock-based compensation expense	—	—	1.3	—	—	1.3
Issuance of shares under stock plans	54	—	(0.7)	—	—	(0.7)
Pension and other postretirement employee benefit plans, net of tax of $0.6	—	—	—	—	1.8	1.8
Balance at March 31, 2020	16,569	$ —	$ 10.4	$ 492.1	$ (57.7)	$ 444.8

See accompanying Notes to the Consolidated Financial Statements.

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary to present fairly, in all material respects, the consolidated financial position, results of operations, stockholders' equity and cash flows for us and our subsidiaries for the interim periods presented. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019. All dollar amounts are shown in millions, except per share.

NOTE 2 RECENTLY ADOPTED AND NEW ACCOUNTING STANDARDS

Recently Adopted 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. This ASU is effective for fiscal years beginning after December 15, 2019 and for interim periods therein. The adoption of this ASU did not have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments (Topic 326)*, which modifies the measurement approach for credit losses on financial assets measured on an amortized cost basis from an 'incurred loss' method to an 'expected loss' method. Such modification of the measurement approach for credit losses eliminates the requirement that a credit loss be considered probable, or incurred, to impact the valuation of a financial asset measured on an amortized cost basis. The amended guidance requires the measurement of expected credit losses to be based on relevant information, including historical experience, current conditions, and a reasonable and supportable forecast that affects the collectability of the related financial asset. This amendment will affect trade receivables, off-balance sheet credit exposures and any other financial assets not excluded from the scope of this amendment that have the contractual right to receive cash. The new standard is effective for annual and interim periods beginning after December 15, 2019. We have updated our historical losses and our allowance for credit losses as a result of the adoption of this ASU, which did not have a material impact on our consolidated financial statements.

In March 2020, the SEC issued a final rule that amended the disclosure requirements under SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.* The final rule is based on the premise that the primary source of information that investors in guaranteed debt rely on is the consolidated financial statements of the parent company. The final rule replaces the previous requirement to provide separate condensed consolidating financial information of the guarantors. The final rule is effective for filings on or after January 4, 2021, and early adoption is permitted. We have elected to early adopt this rule which resulted in the removal of the supplemental guarantor financial information footnote.

New Accounting Standards

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.* This ASU provides practical expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. This ASU is applicable to our contracts that reference LIBOR. The amendments may be applied through December 31, 2022. We will apply this guidance to transactions and modifications of these arrangements.

NOTE 3 FAIR VALUE MEASUREMENTS

Carrying amounts reported on the balance sheet for cash and cash equivalents, restricted cash, accounts receivable and accounts payable approximate fair value due to the short-term maturity of these instruments. We estimated the Senior Notes due 2023 and 2025 to have a total fair market value of $529.0 million and $574.0 million at March 31, 2020 and December 31, 2019 based upon market quotations. We estimated the fair value of the Term Loan to be $272.3 million and $300.0 million at March 31, 2020 and December 31, 2019. We believe the carrying amounts of the ABL Credit Agreement of $53.5 million approximates fair market value based upon current interest rates with similar maturities.

NOTE 4 RECEIVABLES

Receivables consist of:

	March 31, 2020	December 31, 2019
Trade accounts receivable	$ 187.2	$ 157.0
Allowance for current expected credit losses	(1.4)	(1.5)
Taxes receivable	19.2	0.3
Interest receivable	—	1.0
Other	2.0	2.6
	$ 207.1	$ 159.4

NOTE 5 INVENTORIES

Inventories consist of:

	March 31, 2020	December 31, 2019
Logs, pulpwood, chips and sawdust	$ 13.3	$ 19.4
Materials and supplies	94.1	93.1
Pulp, paperboard and tissue products	133.1	168.9
	$ 240.5	$ 281.4

NOTE 6 LEASES

We have operating leases for manufacturing, office, warehouse and distribution space, paperboard sheeting and chipping facilities, equipment and vehicles. We also have finance leases related to our North Carolina converting and manufacturing facilities, as well as for certain office and other equipment. Our leases have remaining lease terms from less than one year to twelve years, and some of our leases include one or more options to renew.

The tables below present financial information associated with our leases.

Lease expense

	Three Months Ended March 31, 2020	2019
Operating lease costs	$ 3.9	$ 3.5
Finance lease costs:		
Amortization of right-of-use assets	0.4	0.4
Interest on lease liabilities	0.5	0.5
Total finance lease costs	0.9	0.9
Variable lease costs	0.4	0.2
Total lease costs	$ 5.2	$ 4.6

Supplemental cash flow information

	Three Months Ended March 31, 2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 4.4	$ 4.1
Operating cash flows from finance leases	0.5	0.5
Financing cash flows from finance leases	0.3	0.3
Non-cash amounts for lease liabilities arising from obtaining right-of-use assets:		
Operating leases	$ 0.6	$ 0.1
Finance leases	0.3	0.5

Supplemental balance sheet information

	Classification	March 31, 2020	December 31, 2019
Lease ROU Assets			
Operating lease assets	Operating lease right-of-use assets	$ 70.4	$ 73.1
Finance lease assets	Property, plant and equipment, net	26.7	26.5
Accumulated depreciation		(11.4)	(11.1)
Total lease ROU assets		$ 85.7	$ 88.5
Lease Liabilities			
Current operating lease liabilities	Other accrued liabilities	$ 14.0	$ 13.9
Current finance lease liabilities	Short-term debt	1.6	1.4
Total current lease liabilities		15.6	15.3
Non-current operating lease liabilities	Long-term operating lease liabilities	62.7	65.6
Non-current finance lease liabilities	Long-term debt	20.4	20.6
Total non-current lease liabilities		83.0	86.2
Total operating lease liabilities		76.7	79.5
Total finance lease liabilities		22.0	22.0
Total lease liabilities		$ 98.6	$ 101.5

NOTE 7 DEBT

Long-term debt consisted of:

		March 31, 2020			December 31, 2019		
	Interest Rate at March 31, 2020	Principal	Unamortized Debt Costs	Total	Principal	Unamortized Debt Costs	Total
Term loan maturing 2026, variable interest rate	4.3%	$ 299.3	$ (5.0)	$ 294.3	$ 300.0	$ (5.1)	$ 294.9
2013 Notes, maturing 2023, fixed interest rate	4.5%	275.0	(1.4)	273.6	275.0	(1.5)	273.5
2014 Notes, maturing 2025, fixed interest rate	5.4%	300.0	(1.4)	298.6	300.0	(1.5)	298.5
ABL Credit Agreement, variable interest rate	2.8%	53.5	—	53.5	13.5	—	13.5
Finance leases		22.0	—	22.0	22.0	—	22.0
Total debt		949.7	(7.7)	942.0	910.5	(8.1)	902.4
Less: current portion		(58.1)	—	(58.1)	(17.9)	—	(17.9)
Net long-term portion		$ 891.6	$ (7.7)	$ 883.9	$ 892.6	$ (8.1)	$ 884.5

At March 31, 2020, we were in compliance with covenants in our various credit agreements. The maturities of our Term loan and our ABL Credit Agreement are subject to the refinancing of our 2013 Notes. If the 2013 Notes are not refinanced 91 days before their maturity, the ABL Credit Agreement and Term Loan Credit Agreement will become due.

Term Loan Credit Agreement

The Term Loan Credit Agreement matures on July 26, 2026. We are required to repay the aggregate outstanding principal amount in quarterly installments in an aggregate amount for each such date equal to the aggregate principal amount of the initial loan amount (as such amount may be adjusted pursuant to the prepayment provisions of the Term Loan Credit Agreement) multiplied by 0.25%.

In addition, we must make mandatory prepayments of principal under the Term Loan Credit Agreement upon the occurrence of certain specified events, including certain asset sales (subject to customary reinvestment rights), debt issuances not permitted under the Term Loan Credit Agreement, and based on a percentage, which may vary from 0% to 50% depending on our secured leverage ratio, of annual excess cash flows in excess of certain threshold amounts, less any voluntary prepayments under the Term Loan Credit Agreement. Any remaining outstanding principal balance under the Term Loan Credit Agreement is repayable on the maturity date. Amounts repaid or prepaid by us with respect to the loans under the Term Loan Credit Agreement cannot be reborrowed. We may, at our option, prepay any borrowings under the Term Loan Credit Agreement, in whole or in part, at any time and from time to time without premium or penalty (except in certain circumstances).

We may add one or more incremental term loan facilities to the Term Loan Credit Agreement, subject to obtaining commitments from any participating lenders and certain other conditions, in an amount not to exceed (1) $100 million, plus (2) the amount of all voluntary prepayments of the Term Loan Credit Agreement (other than prepayments funded with long-term indebtedness), plus (3) an additional amount, so long as after giving effect to the incurrence of such additional amount, our pro forma first lien secured leverage ratio would not exceed 2.00x to 1.00x. At March 31, 2020 our pro forma first lien secured ratio was 1.68x. Under the Term Loan Credit Agreement, loans generally may bear interest based on LIBOR or an annual base rate, as applicable, plus, in each case, an applicable margin. When our leverage ratio is (i) less than or equal to 4.25 to 1.00, the margin is 3.00% per annum in the case of LIBOR loans and of 2.00% per annum in the case of annual base rate loans and (ii) greater than 4.25 to 1.00, the margin is 3.25% per annum in the case of LIBOR loans and of 2.25% per annum in the case of annual base rate loans. At March 31, 2020, our leverage ratio was 4.74x and therefore our applicable margin on LIBOR loans was 3.25%.

ABL Credit Agreement

The ABL Credit Agreement matures on July 26, 2024 and includes a $250 million revolving loan commitment, subject to borrowing base limitations based on a percentage of applicable eligible receivables and eligible inventory. Based upon our Consolidated Balance Sheet as of March 31, 2020, our borrowings supported up to $231.5 million availability under the line of which we utilized $57.9 million, $53.5 million borrowed and $4.4 million under letters of credit. We may, at our option, prepay any borrowings under the ABL Credit Agreement, in whole or in part, at any time and from time to time without premium or penalty (except in certain circumstances). Borrowings under the ABL Credit Agreement are also subject to mandatory prepayment in certain circumstances, including in the event that borrowings exceed applicable borrowing base limits. We may also increase commitments under the ABL Credit Agreement in an aggregate principal amount of up to $100 million, subject to obtaining commitments from any participating lenders and certain other conditions.

The ABL Credit Agreement also contains a financial covenant, which requires us to maintain a consolidated fixed charge coverage ratio of not less than 1.10 to 1.00, provided that the financial covenant under the ABL Credit Agreement is only applicable when unused availability falls below $25 million. As of March 31, 2020, our fixed charge coverage ratio was approximately 2.85x. Our ability to utilize our ABL Credit Agreement could be limited in the future by our bond indentures which have limitations on liens.

NOTE 8 INCOME TAXES

We recorded an income tax benefit of $6.2 million (150% effective tax rate) and an income tax provision of $0.7 million (16% effective tax rate) during the three months ended March 31, 2020 and March 31, 2019. Our effective tax rate for the three months ended March 31, 2020 varies from the statutory U.S. federal income tax rate of 21% primarily due to the effect of tax credits and a $7.3 million benefit from the provisions of the Coronavirus Aid, Relief, and Economic Security Act. The Company's effective tax rate for the three months ended March 31, 2019 varies from the statutory U.S. federal income tax rate primarily due to the effect of tax credits and non-deductible compensation expense.

NOTE 9 OTHER OPERATING CHARGES

The major components of “Other operating charges, net” in the Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 are reflected in the table below and described in the paragraphs following the table:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Reorganization expenses	$ 2.8	$ —
Union settlement	6.6	—
Gain on divested assets	(1.4)	—
Directors' equity-based compensation expense (benefit)	0.2	(0.4)
Other	0.4	0.1
	$ 8.6	$ (0.3)

2020

During the first quarter of 2020, we recorded $8.6 million net expenses in "Other operating charges, net." The components of the expenses include:

- expenses of $2.8 million related to reorganization expenses (primarily related to corporate expenses),
- expenses of $6.6 million associated with union settlement retroactive wage payments ($2.6 million associated with Consumer Products and $4.0 million associated with Pulp and Paperboard segments),
- gain of $1.4 million associated with the Ladysmith Consumer Products facility sale escrow release and
- expense of $0.2 million relating to directors' equity based compensation.

2019

During the first quarter of 2019, we recorded a $0.3 million net gain in "Other operating charges, net". The primary component of the gain includes:

- gain of $0.4 million relating to directors' equity based compensation.

NOTE 10 NON-OPERATING INCOME (EXPENSE)

The components of "Non-operating expense" in the Consolidated Statements of Operations for the three months ended March 31, 2020 and 2019 are reflected in the table below:

	Three Months Ended March 31,	
	2020	2019
Interest expense	$ (12.2)	$ (11.9)
Capitalized interest	—	3.4
Amortization of debt issuance costs	(0.6)	(0.5)
Interest income	—	0.4
Interest expense, net	$ (12.8)	$ (8.6)
Non-operating pension and other postretirement employee benefits income (expense)	(1.9)	(1.3)
Other non-operating expense	(1.9)	$ (1.3)
	$ (14.7)	$ (9.9)

NOTE 11 PENSION AND POSTRETIREMENT EMPLOYEE BENEFIT PLANS

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

	Three Months Ended March 31,			
	2020	2019	2020	2019
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$ 0.6	$ 0.6	$ —	$ —
Interest cost	2.6	3.1	0.6	0.6
Expected return on plan assets	(3.7)	(4.1)	—	—
Amortization of actuarial loss (gain)	2.4	1.9	—	(0.2)
Net periodic cost	$ 1.9	$ 1.5	$ 0.6	$ 0.4

We record the service component of net periodic cost (benefit) as part of "Cost of sales" and "Selling, general, and administrative expenses," while the non-service components of net periodic cost (benefit) are recorded to "Other non-operating expense" on our Consolidated Statements of Operations. For both the three months ended March 31, 2020 and 2019, we recorded $0.4 million to "Cost of sales" and $0.2 million to "Selling, general, and administrative expenses".

NOTE 12 ACCUMULATED OTHER COMPREHENSIVE LOSS

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

	Pension Plan Adjustments	Other Post Retirement Employee Benefit Plan Adjustments	Total
Balance at December 31, 2018	$ (83.0)	$ 15.7	$ (67.3)
Amounts reclassified from accumulated other comprehensive loss	1.4	(0.2)	1.2
Other comprehensive income, net of tax	1.4	(0.2)	1.2
Balance at March 31, 2019	$ (81.6)	$ 15.5	$ (66.1)
Balance at December 31, 2019	$ (67.8)	$ 8.3	$ (59.5)
Amounts reclassified from accumulated other comprehensive loss	1.8	—	1.8
Other comprehensive income, net of tax	1.8	—	1.8
Balance at March 31, 2020	$ (66.0)	$ 8.3	$ (57.7)

NOTE 13 STOCKHOLDERS' EQUITY

Common Stock Plans

We have stock-based compensation plans under which restricted stock awards and stock options are granted according to time or performance vesting requirements. At March 31, 2020, approximately 0.4 million shares were available for future issuance under our current plan.

	Three Months Ended March 31,	
	2020	2019
Total stock-based compensation expense (selling, general and administrative and other operating charges, net)	$ 1.5	$ 0.8
Income tax benefit related to stock-based compensation	$ 0.4	$ 0.2
Impact on cash flow due to taxes paid related to net share settlement of equity awards	$ 0.7	$ 0.4

At March 31, 2020, $9.1 million of compensation cost related to unvested restricted stock units, performance awards and stock options attributable to future service had not yet been recognized.

During the first three months ended March 31, 2020, we granted 160,897 restricted stock units (time vesting) at an average grant date fair value of $28.67 per share and 52,863 restricted stock units (performance vesting) at an average grant date fair value of $33.75.

NOTE 14 EARNINGS PER SHARE

Basic income (loss) per share is based on the weighted-average number of shares of common stock outstanding. Diluted income (loss) per share is 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.

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Basic weighted-average common shares outstanding[1]	16,555	16,516
Incremental shares due to:		
Stock-based awards	60	47
Diluted weighted-average common shares outstanding	16,615	16,563

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

Anti-dilutive shares excluded from the calculation were 0.9 million and 0.9 million for the three months ended March 31, 2020 and 2019.

NOTE 15 SEGMENT INFORMATION

We operate in two segments: Consumer Products and Pulp and Paperboard. Our business units have been aggregated into these two segments based upon the similarity of economic characteristics, customers and distribution methods. Our results of operations are summarized below for each of these segments separately. Segment information was prepared in accordance with the same accounting principles as those described in Note 1 of the Notes to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019.

	Three Months Ended March 31,	
	2020	**2019**
Segment net sales:		
Consumer Products	$ 265.7	$ 223.4
Pulp and Paperboard	212.2	205.4
Total segment net sales	$ 477.9	$ 428.8
Operating income (loss):		
Consumer Products	$ 14.3	$ 1.3
Pulp and Paperboard	26.5	29.4
Corporate	(13.4)	(16.6)
Other operating charges, net	(8.6)	$ 0.3
Income from operations	$ 18.8	$ 14.4

	Three Months Ended March 31,	
	2020	**2019**
Major products:		
Paperboard	$ 211.0	$ 203.0
Retail tissue	248.0	204.6
Non-retail tissue	13.9	18.5
Other	5.0	2.7
Total net sales	$ 477.9	$ 428.8

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

Impact of COVID-19 on Our Business

In response to the outbreak and business disruption caused by the novel coronavirus (COVID-19) pandemic, we are focused on two priorities - the health and safety of our employees and continuing to safely operate our facilities to respond to the heightened demand across our customer base. We have implemented important health and safety measures across our facilities, including temperature checks, social distancing guidelines, sanitation practices, remote work for those whose jobs allow them to do so, and travel and visitor restrictions.

The COVID-19 pandemic has resulted, and is likely to continue to result, in significant economic disruption and may adversely affect our business. To date, our industry has been classified as essential by the Federal Government, through the Department of Homeland Security's Cyber and Infrastructure Security Agency (CISA), and in each of the jurisdictions in which we operate, which enabled us to operate our facilities in the first quarter of 2020. We do not expect there to be any changes in this designation and as a result, we do not anticipate having to curtail or cease our operations as a result of a governmental imposed shutdown.

Our company, peers and others have experienced a significant increase in demand for our products in the first quarter of 2020 as a result of COVID-19, which has changed residential consumer purchasing behavior. In the near term, demand for tissue products is expected to remain elevated as consumers shift to at home consumption and retailers continue to focus on keeping their shelves stocked. We expect that residential consumer demand will flatten and that sales of tissue and paperboard products will eventually normalize in terms of annual volumes.

The effects of the COVID-19 pandemic may negatively impact sales and gross margin in the future in various aspects of our business including, but are not limited to:

- the ability of our suppliers to meet delivery requirements and commitments;
- disruptions to our supply chains;
- the ability of our employees to perform their work due to illness caused by the pandemic, the complete or partial closure of one or more of our manufacturing facilities, or local, state, or federal orders requiring employees to remain at home;
- disruptions or delays in the delivery of our products to customers;
- a decrease in demand for our products;
- limitations on the ability of our customers to pay us on a timely basis; and
- negative impact on some of our customers due to challenging economic conditions.

We are evaluating and taking actions to monitor and ensure appropriate levels of available liquidity and may experience disruptions in our business as we implement modifications to preserve adequate liquidity and ensure that our business can continue to operate during this uncertain time. However, we believe that our cash flows from operations, our cash on hand and our borrowing capacity under our credit agreements will be adequate to fund debt service requirements and provide cash to support our ongoing operations, capital expenditures and working capital needs for the next twelve months.

As the COVID-19 pandemic continues to evolve, we will continue to actively monitor the situation and may take actions that alter our business operations as may be required by federal, state or local authorities or that we determine are in the best interests of our employees, customers, suppliers, and shareholders. While we are unable to determine or predict the nature, duration or scope of the overall impact the COVID-19 pandemic will have on our business, results of operations, liquidity or capital resources, we believe that it is important to share where our company stands today, how our response to COVID-19 is progressing and how our operations and financial condition may change as the fight against COVID-19 progresses.

Executive Summary

For the three months ended March 31, 2020, we reported net sales of $477.9 million, or 11% higher compared to $428.8 million in the first quarter of 2019. This increase was primarily driven by residential consumer purchasing behavior in response to COVID-19 pandemic that drove an increase of 21% in our retail tissue business. We reported net income for the three months ended March 31, 2020 of $10.3 million, or $0.62 per diluted share, compared to net income of $3.8 million or $0.23 per diluted share in the first quarter of 2019. We reported Adjusted EBITDA for the three months ended March 31, 2020 of $55.4 million compared to $39.9 million reported in the first quarter of 2019.

See discussion on segment level results regarding sales, operating results and Adjusted EBITDA in “Our Operating Results” below.

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 March 31, 2020, 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, 2019.

NON-GAAP MEASURES

In evaluating our business, we utilize several non-GAAP financial measures. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows, but excludes or includes amounts that would not be so excluded or included under applicable GAAP guidance. In this report on Form 10-Q, we disclose overall and segment earnings (loss) from operations before interest expense, net, non-operating pension and other post employment benefit costs, taxes, depreciation and amortization, goodwill impairment, other operating charges, net, and debt retirement costs as Adjusted EBITDA which is a non-GAAP financial measure. Adjusted EBITDA is not a substitute for the GAAP measure of net income or for any other GAAP measures of operating performance.

We have included Adjusted EBITDA on a consolidated and segment basis in this report because we use them as important supplemental measures of our performance and believe that they are frequently used by securities analysts, investors and other interested persons in the evaluation of companies in our industry, some of which present Adjusted EBITDA when reporting their results. We also use Adjusted EBITDA to evaluate our performance as compared to other companies in our industry that have different financing and capital structures and/or tax rates. It should be noted that companies calculate Adjusted EBITDA differently and, therefore, our Adjusted EBITDA measures may not be comparable to Adjusted EBITDA reported by other companies. Our Adjusted EBITDA measures have material limitations as performance measures because they exclude interest expense, income tax (benefit) expense and depreciation and amortization which are necessary to operate our business or which we otherwise incur or experience in connection with the operation of our business. In addition, we exclude other income and expense items which are outside of our core operations.

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

	Three Months Ended March 31,	
(In millions)	**2020**	**2019**
Net income	$ 10.3	$ 3.8
Income tax provision (benefit)	(6.2)	0.7
Interest expense, net	12.8	8.6
Depreciation and amortization expense	28.0	25.8
Other operating charges, net	8.6	(0.3)
Other non-operating expense	1.9	1.3
Adjusted EBITDA	$ 55.4	$ 39.9
Consumer Products segment income	$ 14.3	$ 1.3
Depreciation and amortization	17.3	14.7
Adjusted EBITDA Consumer Products segment	$ 31.6	$ 16.0
Pulp and Paperboard segment income	$ 26.5	$ 29.4
Depreciation and amortization	9.3	9.5
Adjusted EBITDA Pulp and Paperboard segment	$ 35.8	$ 38.9
Corporate and other expense	$ (13.4)	$ (16.6)
Depreciation and amortization	1.4	1.6
Adjusted EBITDA Corporate and other	$ (12.0)	$ (15.0)
Consumer Products segment	$ 31.6	$ 16.0
Pulp and Paperboard segment	35.8	38.9
Corporate and other	(12.0)	(15.0)
Adjusted EBITDA	$ 55.4	$ 39.9

OUR OPERATING RESULTS

Our results of operations for each of our segments are discussed below. See Note 15 "Segment Information" of the Notes to the Consolidated Financial Statements included in Item 1 of this report for further information regarding our segments.

Consumer Products

	Three Months Ended March 31,		
(Dollars in millions, except per unit)	**2020**	**2019**	**Increase (decrease)**
Sales:			
Retail tissue	$ 248.0	$ 204.6	21.2 %
Non-retail tissue	13.9	18.5	(24.6)%
Other	3.8	0.3	nm
	$ 265.7	$ 223.4	18.9 %
Operating income	14.3	1.3	nm
Operating Margin	5.4%	0.6%	
Adjusted EBITDA	$ 31.6	$ 16.0	97.5 %
Adjusted EBITDA Margin	11.9%	7.2%	
Shipments (short tons)			
Retail	90,791	73,356	23.8 %
Non-retail	9,002	10,266	(12.3)%
Sales price (per short ton)			
Retail	$ 2,732	$ 2,789	(2.0)%
Non-retail	1,548	1,799	(14.0)%

Net sales for the Consumer Products segment during the first quarter of 2020 increased by $42.3 million compared to the first quarter of 2019. This increase was due to significantly higher sales volume for retail tissue as a result of the COVID-19 pandemic and increases in demand based upon new customer programs which were implemented prior to the pandemic offset by a slight decrease in sales prices per short ton. From a product perspective, we saw the largest increases in the bath and facial tissue sales with smaller increases in paper towels and napkins.

The segment had operating income of $14.3 million for the first quarter of 2020, compared to operating income of $1.3 million in the first quarter of 2019. The increase was driven by higher sales as noted above and reductions in costs due to lower external pulp prices and freight costs partially offset by the continued start up costs associated with the Shelby expansion.

Pulp and Paperboard

(Dollars in millions - except per ton amounts)	Three Months Ended March 31, 2020	2019	Increase (decrease)
Sales:			
Paperboard	$ 211.0	$ 203.0	3.9 %
Other	1.2	2.4	(50.9)%
	$ 212.2	$ 205.4	3.3 %
Operating income	26.5	29.4	(9.9)%
Operating margin	12.5%	14.3%	
Adjusted EBITDA	$ 35.8	$ 38.9	(8.1)%
Adjusted EBITDA Margin	16.9%	18.9%	
Shipments (short tons)	211,296	202,834	4.2 %
Sales price (per short tons)	$ 999	$ 1,001	(0.2)%

Net sales for the Pulp and Paperboard segment increased by $6.7 million during the first quarter of 2020 compared to the first quarter of 2019. This was due to increased demand for our folding carton business used for home food packaging and pharmacy products as a result of the COVID-19 pandemic.

Operating income for the segment decreased by $2.9 million during the first quarter of 2020, compared to the first quarter of 2019 driven by a public utility disruption at our Cypress Bend facility caused by a weather event partially offset by the higher sales volumes.

Corporate expenses

Corporate expenses were $13.4 million in the first quarter of 2020 as compared to $16.6 million in the first quarter of 2019 due to reductions in professional fees associated with the identification of the material weakness in our internal control over financial reporting as of December 31, 2018. Corporate expenses primarily consist of corporate overhead such as wages and benefits, professional fees, insurance and other expenses for corporate functions including certain executive officers, public company costs, information technology, financial services, environmental and safety, legal, supply management, human resources and other corporate functions not directly associated with the business operations.

Other operating charges

See Note 9 "Other operating charges" included in Item 1 of this report for additional information.

Interest expense

Interest expense for the first quarter of 2020 was $4.2 million higher than the first quarter of 2019 due to slightly higher interest expense associated with a larger average balance on our credit facility and lower capitalized interest. See Note 10 "Non-operating income (expense)" included in Item 1 of this report for additional information.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are existing cash balances, cash generated by our operations and our ability to borrow under such credit facilities as we may have in effect from time to time. Our principal uses of liquidity are paying the costs and expenses associated with our operations, servicing outstanding indebtedness and making capital expenditures. We may also from time to time prepay or repurchase outstanding indebtedness or acquire assets or businesses that are complementary to our operations.

Operating Activities

Net cash flows provided by operating activities for the three months ended March 31, 2020 were $12.1 million compared to a use of $29.4 million in the first quarter of 2019. This increase was driven by changes in working capital due to increased demand in our consumer products division which resulted in lower inventories. Accounts receivable and accounts payable agings have remained relatively consistent with balances as of December 31, 2019.

Investing Activities

During the three months ended March 31, 2020, net cash flows used for investing activities was $10.5 million compared to $71.6 million in the prior year period. This decrease is primarily due to the completion of our Shelby expansion as well as the Lewiston pulp optimization project in late 2019. Included in "Other accrued liabilities" on our Consolidated Balance Sheets was $4.6 million and $28.7 million related to capital expenditures that had not yet been paid at March 31, 2020 and 2019.

Throughout 2020, we expect cash paid for capital expenditures to be approximately $45 to $50 million.

Financing Activities

Net cash flows provided by financing activities were $37.8 million for the three months ended March 31, 2020 as compared to $90.7 million for the same period of 2019. The decrease was driven by lower net borrowing due to improved operating results and lower capital expenditures.

Credit Agreements

We are required to make quarterly installment payments of approximately $0.8 million on the outstanding principal of our Term Loan Credit Agreement. In addition, we must make mandatory prepayments of principal under the Term Loan Credit Agreement upon the occurrence of certain specified events, including based upon a percentage of annual Excess Cash Flow as defined by the Term Loan Credit Agreement. There is uncertainty in the amount of Excess Cash Flow that we may generate during the current fiscal year, therefore, we are unable to estimate the mandatory prepayment under the Term Loan Credit Agreement that could be required at the time such payment is due in 2021. Amounts repaid or prepaid cannot be reborrowed. However, we may add one or more incremental term loan facilities to the Term Loan Credit Agreement, subject to obtaining commitments from any participating lenders and certain other conditions, so long as our first lien secured leverage ratio does not exceed 2.00x to 1.00. At March 31, 2020 our first lien secured ratio was 1.68x.

The ABL Credit Agreement includes a $250 million revolving loan commitment, subject to borrowing base limitations. Borrowings under the ABL Credit Agreement are subject to mandatory prepayment in certain circumstances. We may also increase commitments under the ABL Credit Agreement in an aggregate principal amount of up to $100 million, subject to obtaining commitments from any participating lenders and certain other conditions.

Both Credit Agreements include contain certain customary representations, warranties, and affirmative and negative covenants. The ABL Credit Agreement also contains a financial covenant, which requires us to maintain a consolidated fixed charge coverage ratio of not less than 1.10x to 1.00x, provided that the financial covenant under the ABL Credit Agreement is only applicable when availability falls below $25 million.

At March 31, 2020, we were in compliance with all covenants in both of our credit agreements, and based on our current financial projections, we expect to remain in compliance. 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 our credit agreements. If we are unable to do so, it would be necessary to seek an amendment from our lenders, which, if obtained, could require payment of additional fees, increased interest rates or other conditions or restrictions.

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 Term Loan and ABL Credit Agreement. As of March 31, 2020, there were $352.8 million in borrowings outstanding under our credit agreements. The reference interest rate applied to borrowings under the Credit Agreements is adjusted, at our option, at one, two, three, or six month intervals for LIBOR-based borrowings (or daily in the case of alternative based rate borrowings). A one percentage point increase or decrease in interest rates, based on outstanding credit facilities' borrowings of $352.8 million, would have an approximate $3.5 million annual effect on interest expense.

ITEM 4. Controls and Procedures

As of March 31, 2020, our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) have carried out, with the participation of our Disclosure Committee and management, an evaluation of the effectiveness of our disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Act). Based upon this evaluation, the CEO and CFO have concluded that our disclosure controls and procedures are effective to provide reasonable assurance that material information required to be disclosed by us in reports we file under the Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and that information required to be disclosed by us in the reports we file or submit under the Act is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended March 31, 2020 that has materially affected, or is 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

The COVID-19 pandemic may adversely affect our operations and financial condition.

Since being reported in December 2019, COVID-19 has spread globally, including to every state in the United States. On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, and on March 13, 2020, the United States declared a national emergency with respect to COVID-19.

The COVID-19 pandemic has had, and another pandemic in the future could have, repercussions across regional and global economies and financial markets. The outbreak of COVID-19 in many countries, including the United States, has significantly adversely impacted global economic activity and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak has been rapidly evolving and, as cases of COVID-19 have continued to be identified in additional countries, many countries, including the United States, have reacted by instituting quarantines, mandating business and school closures and restricting travel.

As has been widely reported in the media, companies like ours experienced a significant increase in demand for tissue and paperboard products in the first quarter of 2020 as a result of the COVID-19 pandemic, particularly due to residential consumer purchasing behavior. The stocking up of tissue products by residential consumers during the pandemic will likely lead to a drop in regular purchasing as the pandemic, or concerns as to tissue shortages as a result of the pandemic, subside. We expect that residential consumer demand will flatten and that sales of tissue and paperboard products will eventually normalize in terms of annual volumes.

Nevertheless, our business, the businesses of our customers and the businesses of our suppliers could be materially and adversely affected by the impact and risks of the pandemic. Such risks include, but are not limited to, the following:

- the complete or partial closure of one or more of our manufacturing facilities;
- limitations on our ability to operate our business as a result of any federal, state or local regulations, including any changes to the designation of our business as “essential” by the US Department of Homeland Security;
- disruptions to international trade, or further restrictions or prohibitions on international travel, on which we rely to make our products (for example, an interruption in eucalyptus pulp from Brazil or lack of availability for spare parts or technical support from European suppliers of our production and converting equipment);
- a decrease in demand for our products as a result of a prolonged economic downturn or global recession (for example, during previous, extreme recessionary periods in the U.S., we experienced significant declines in demand for our paperboard used in folding carton, cup and liquid packaging applications);
- the interruption of our distribution system or delays in the delivery of our products;
- temporary or long-term disruption in our supply chains (for example, governmental restrictions on construction and the resulting decline in lumber production could result in a decline in the availability of wood residuals);
- volatility related to pension plan assets (for example, we may need to make additional contributions to address an increase in obligations and/or a loss in plan assets as a result of the combination of declining market interest rates and/or past or future plan asset investment losses);
- significant disruption of global financial markets, which could have a negative impact on our ability to access capital in the future;
- a decline in our ability to collect on accounts receivable, which could materially affect our liquidity;
- bankruptcy of customers that leads to a decrease in demand for our products;
- the loss of our management team and employee base that possess unique technical skills for the execution of our business plan; and

- an interruption in processing or an inability to process accounts payable by our third-party processor, which could result in our suppliers and vendors withholding supplies or services.

The extent of the impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict, as information is rapidly evolving with respect to the duration and severity of the pandemic. At this point, we cannot reasonably estimate the duration and severity of the COVID-19 pandemic, or its overall impact on our business. Moreover, many of the risk factors set forth in our Form 10-K for the year ended December 31, 2019 should be interpreted as heightened risks as a result of the COVID-19 pandemic.

There are no other material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019. See Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019, entitled "Risk Factors."

ITEM 2. Unregistered Sale of Equity Securities

None.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

EXHIBIT NUMBER	DESCRIPTION
10.1	Offer letter, dated April 9, 2020, with Michael J. Murphy
10.2	Amendment to ABL Credit Agreement, dated as of January 29, 2020 by and among JPMorgan Chase Bank, N.A., as administrative agent and Clearwater Paper Corporation
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.
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.

* Incorporated by reference.

** 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.

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)

May 5, 2020	By: /s/ ARSEN S. KITCH Arsen S. Kitch President, Chief Executive Officer and Director (Principal Executive Officer)
May 5, 2020	By: /s/ MICHAEL J. MURPHY Michael J. Murphy Senior Vice President, Finance and Chief Financial Officer (Principal Financial Officer)

Clearwater Paper Corporation
601 West Riverside Suite 1100
Spokane, WA 99201

April 9, 2020

Michael J. Murphy

Dear Mike,

On behalf of Clearwater Paper, I am pleased to confirm the terms of the offer for the position of Senior Vice President, Finance and Chief Financial Officer. This position will have a target start date of April 13, 2020, report directly to me and will be located in Spokane, WA.

This offer is contingent upon the approval and authorization of our Board of Directors of your hiring and the approval and authorization of the the Compensation Committee of the Board of the material compensation terms contained in this letter. Additional contingencies include successful completion of pre-employment drug screening, background check, reference validation; as well as signed enterprise policy acknowledgement statements.

The annual base salary for this position is $470,000, pro-rated for this year, for which you will be paid on a bi-weekly basis. Your target Annual Incentive Plan (AIP) is 65% of your base salary earnings for each plan year (calendar). An Employee who is actively employed by Clearwater Paper during an Award Year as an Executive Officer shall commence participation at the beginning of the Award Year, or at such later time during the Award Year as the position is assumed. Awards are not guaranteed, but rather based on the performance of the corporation.

Additionally, you will be eligible for a long-term incentive award for the 2020-2022 performance period under the company's 2017 Stock Incentive Plan. The current annual award value for your position is 100% of your base salary.

You will receive a one time, $350,000 sign-on grant of Restricted Stock Units (RSUs) with a cliff vest of three years.

You will be eligible for our permissive vacation plan. In addition to vacation, you are eligible for (9) nine designated holidays and (5) five floating holidays.

You will be eligible for participation in Clearwater Paper's health and welfare benefits as well as the 401K plan on the 1st day following 30 days of employment. More information on these programs will be provided to you later.

You will be eligible to participate in the company's Change of Control Plan and the Executive Severance Plan, pending approval by the Executive Compensation Committee and the Board of Directors.

I hope you will favorably consider our offer of employment as we are truly excited by your becoming a member of our corporate executive management team. Please indicate your acceptance of this offer by returning a signed and dated copy to me.

Mike, I realize that a career decision such as this has a major impact on you and your family. If there is anything that we can do to either before or after your start date of employment, please do not hesitate to call me.

Sincerely,

/s/ Arsen Kitch

Arsen S. Kitch
President and Chief Executive Officer
Clearwater Paper Corporation

Accepted:

/s/ Michael J. Murphy_ 4/9/2020
Michael J. Murphy Date

CC:
Kari Moyes, SVP, Human Resources
Shannon N. Mullins, Director Talent Acquisition & Development

Execution Version

January 29, 2020

Clearwater Paper Corporation 601 West Riverside, Suite 1100
Spokane, Washington 99201

Re: ABL Credit Agreement (as amended, modified, supplemented, increased and extended from time to time, the "Credit Agreement") dated as of July 26, 2019 by and among Clearwater Paper Corporation, a Delaware corporation (the "Borrower"), the Lenders from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is hereby made to the Credit Agreement described above. Capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Credit Agreement.

This letter will confirm the agreement of the Administrative Agent and the Borrower as follows:

1. Inconsistency in Credit Agreement.

(a) Section 7.3 of the Credit Agreement provides that the Borrower shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired except, among other exceptions, as provided in Section 7.3(h), which provides as follows:

> "(h) (i) Liens on the Collateral created pursuant to the Security Documents (or any ABL Security Documents (as defined in the Intercreditor Agreement)), (ii) Liens on cash granted in favor of any Lenders and/or the Issuing Lender created as a result of any requirement to provide cash collateral pursuant to this Agreement and
> (iii) subject to the Intercreditor Agreement, ***Liens on the Collateral created pursuant to the Term Loan Security Documents (or any Term Loan Security Documents*** (as defined in the Intercreditor Agreement));" (emphasis added)

(b) "Collateral" is defined in Section 1.1 of the Credit Agreement and means: "all property of the Loan Parties, now owned or hereafter acquired, upon which a Lien is purported to be created by any Security Document."

(c) The Guarantee and Collateral Agreement is a Security Document, and pursuant to the Guarantee and Collateral Agreement and clause (ix) of the definition of "Excluded Property" therein, "fee-owned real property and leasehold interests in real property" are excluded from the Collateral, as such term is used in Section 7.3(h) of the Credit Agreement. In addition, Section 6.10(e) of the Credit Agreement provides that: "Notwithstanding anything to the contrary in this Agreement or any other Loan Document, no Loan Document shall grant the Secured Parties a security interest in any fee-owned or leased real property."

(d) Neither the Term Loan Security Documents nor the Term Loan Credit Agreement contain the exclusion or override provisions described in Section 1(c) above. Therefore, Section 7.3(h)(iii) of the Credit Agreement may be interpreted to prohibit the Borrower and its Restricted Subsidiaries from
incurring Liens under Term Loan Security Documents that are secured by fee-owned or leased real

property of the Loan Parties.

(e) Such an interpretation is inconsistent with various other provisions of the Loan Documents, including, (i) the last sentence of Section 7.3 of the Credit Agreement, (ii) Section 2.4 of the Intercreditor Agreement and (iii) the last sentence of Section 10.18 of the Credit Agreement.

2. Amendment to Credit Agreement.

(a) Pursuant to Section 10.1 of the Credit Agreement, the Administrative Agent, with the consent of the Borrower, may amend, modify or supplement any Loan Document without the consent of any Lender or the Required Lenders in order to correct, amend or cure any ambiguity, inconsistency or defect or correct any typographical error or other manifest error in any Loan Document not materially adverse to any Lender.

(b) To address the inconsistency described in Section 1 above, the Administrative Agent and the Borrower hereby agree that Section 7.3(h)(iii) of the Credit Agreement shall be amended and restated to read as follows:

> "(iii) subject to the Intercreditor Agreement, Liens on the Collateral (as defined in the Intercreditor Agreement) created pursuant to the Term Loan Security Documents (or any Term Loan Security Documents (as defined in the Intercreditor Agreement));"

Except as set forth herein, nothing contained herein shall constitute an amendment or modification of any other rights or remedies the Administrative Agent or any Lender may have under any Loan Document or applicable Law. The Credit Agreement shall remain in full force and effect according to its terms (as modified by this letter agreement). This letter agreement and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this letter agreement and the transactions contemplated hereby shall be governed by, and constructed in accordance with, the laws of the State of New York. The provisions of Sections 10.12 and 10.16 of the Credit Agreement with respect to submission to jurisdiction, waiver of venue and waiver of jury trail are incorporated herein by reference, *mutatis mutandis*, and the parties hereto agree to such terms. This letter agreement is a Loan Document.

This letter agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this letter agreement by facsimile or other electronic imaging means (e.g., "pdf" or "tif") shall be effective as delivery of a manually executed counterpart of this letter agreement.

[*signature pages follow*]

The agreement of the Administrative Agent that is contained in this letter agreement shall not become effective unless and until this letter is signed by the Borrower.

Sincerely,

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By: /s/ Jerome Prince
Name: Jerome Prince
Title: Authorized Signatory

ACCEPTED AND AGREED AS OF THE DATE FIRST ABOVE WRITTEN:

BORROWER: CLEARWATER PAPER CORPORATION.
a Delaware Corporation

By: /s/ Robert G. Hrivnak
Name: Robert GG. Hrivnak
Title: SVP Finance & CFO

ACCEPTED AND AGREED AS OF THE DATE FIRST ABOVE WRITTEN:

BORROWER: CLEARWATER PAPER CORPORATION,
a Delaware corporation

Exhibit (31)

CERTIFICATION

I, Arsen S. Kitch, 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: May 5, 2020

/s/ Arsen S. Kitch

Arsen S. Kitch

President and Chief Executive Officer

CERTIFICATION

I, Michael J. Murphy, 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: May 5, 2020

/s/ MICHAEL J. MURPHY

Michael J. Murphy

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, Arsen S. Kitch, 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 March 31, 2020, 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/ ARSEN S. KITCH

Arsen S. Kitch
President and Chief Executive Officer
May 5, 2020

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, Michael J. Murphy, 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 March 31, 2020, 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/ MICHAEL J. MURPHY

Michael J. Murphy

Senior Vice President, Finance and Chief Financial Officer

May 5, 2020

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.