

Edgar Filing: Clearwater Paper Corp - Form 10-Q

Clearwater Paper Corp
Form 10-Q
October 30, 2014

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, 2014

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
(State or other jurisdiction of
incorporation or organization)

20-3594554
(I.R.S. Employer
Identification No.)

601 West Riverside, Suite 1100
Spokane, Washington
(Address of principal executive offices)
(509) 344-5900
(Registrant's telephone number, including area code)

99201
(Zip 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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

The number of shares of common stock of the registrant outstanding as of October 22, 2014 was 19,532,427.

CLEARWATER PAPER CORPORATION
Index to Form 10-Q

	Page Number
PART I. <u>FINANCIAL INFORMATION</u>	
ITEM 1. <u>Consolidated Financial Statements</u>	
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2014 and 2013</u>	<u>2</u>
<u>Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013</u>	<u>3</u>
<u>Consolidated Balance Sheets at September 30, 2014 and December 31, 2013</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013</u>	<u>5</u>
<u>Condensed Notes to Consolidated Financial Statements</u>	<u>6 - 21</u>
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22 - 35</u>
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>36</u>
ITEM 4. <u>Controls and Procedures</u>	<u>36</u>
PART II. <u>OTHER INFORMATION</u>	
ITEM 1. <u>Legal Proceedings</u>	<u>37</u>
ITEM 1A. <u>Risk Factors</u>	<u>37</u>
ITEM 2. <u>Unregistered Sales of Equity Securities and Uses of Proceeds</u>	<u>37</u>
ITEM 6. <u>Exhibits</u>	<u>38</u>
<u>SIGNATURES</u>	<u>39</u>
<u>EXHIBIT INDEX</u>	<u>40</u>

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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net sales	\$511,142	\$487,845	\$1,494,821	\$1,419,671
Costs and expenses:				
Cost of sales	(434,457)	(441,237)	(1,295,197)	(1,269,967)
Selling, general and administrative expenses	(31,817)	(27,766)	(96,896)	(88,665)
Impairment of assets	(890)	—	(5,149)	—
Total operating costs and expenses	(467,164)	(469,003)	(1,397,242)	(1,358,632)
Income from operations	43,978	18,842	97,579	61,039
Interest expense, net	(9,570)	(10,708)	(30,992)	(32,784)
Debt retirement costs	(24,420)	—	(24,420)	(17,058)
Earnings before income taxes	9,988	8,134	42,167	11,197
Income tax (provision) benefit	(3,735)	5,183	(17,235)	12,896
Net earnings	\$6,253	\$13,317	\$24,932	\$24,093
Net earnings per common share:				
Basic	\$0.32	\$0.60	\$1.23	\$1.08
Diluted	0.31	0.60	1.21	1.07

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,	
	2014	2013	2014	2013
Net earnings	\$6,253	\$13,317	\$24,932	\$24,093
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of \$948, \$1,462, \$2,847, and \$4,385	1,504	2,249	4,512	6,745
Amortization of prior service credit included in net periodic cost, net of tax of \$(191), \$(17), \$(573), and \$(49)	(303)	(25)	(907)	(75)
Curtailments, net of tax of \$ -, \$ -, \$ - and \$303	—	—	—	466
Amortization of deferred taxes related to actuarial gain on other postretirement employee benefit obligations	—	53	—	53
Other comprehensive income, net of tax	1,201	2,277	3,605	7,189
Comprehensive income	\$7,454	\$15,594	\$28,537	\$31,282

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, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	\$ 13,578	\$ 23,675
Restricted cash	—	1,500
Short-term investments	—	70,000
Receivables, net	178,175	158,874
Taxes receivable	2,609	10,503
Inventories	282,457	267,788
Deferred tax assets	24,864	37,538
Prepaid expenses	6,461	5,523
Total current assets	508,144	575,401
Property, plant and equipment, net	878,423	884,698
Goodwill	229,533	229,533
Intangible assets, net	34,589	40,778
Pension assets	18,656	4,488
Other assets, net	9,224	9,927
TOTAL ASSETS	\$ 1,678,569	\$ 1,744,825
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 223,236	\$ 190,648
Short-term borrowings	47,047	—
Current liability for pensions and other postretirement employee benefits	8,778	8,778
Total current liabilities	279,061	199,426
Long-term debt	575,000	650,000
Liability for pensions and other postretirement employee benefits	103,909	109,807
Other long-term obligations	49,443	52,942
Accrued taxes	2,807	2,658
Deferred tax liabilities	127,393	124,898
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share, 5,000,000 authorized shares, no shares issued	—	—
Common stock, par value \$0.0001 per share, 100,000,000 authorized shares-24,030,815 and 24,007,581 shares issued	2	2
Additional paid-in capital	333,871	326,546
Retained earnings	491,571	466,639
Treasury stock, at cost, common shares-4,498,388 and 2,923,640 shares repurchased	(230,000)	(130,000)
Accumulated other comprehensive loss, net of tax	(54,488)	(58,093)
Total stockholders' equity	540,956	605,094
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,678,569	\$ 1,744,825

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,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$24,932	\$24,093
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	66,539	67,584
Equity-based compensation expense	9,201	7,758
Impairment of assets	5,149	—
Deferred tax provision (benefit)	12,895	(9,678)
Employee benefit plans	1,603	7,801
Deferred issuance costs and discounts on long-term debt	5,864	4,490
Disposal of plant and equipment, net	747	35
Changes in working capital, net	(13,190)	47
Changes in taxes receivable, net	7,894	12,448
Excess tax benefits from equity-based payment arrangements	(1,508)	—
Changes in non-current accrued taxes, net	149	(10,535)
Funding of qualified pension plans	(15,957)	(12,611)
Other, net	(2,387)	108
Net cash flows from operating activities	101,931	91,540
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in short-term investments, net	70,000	(69,000)
Additions to plant and equipment	(54,029)	(54,400)
Proceeds from sale of assets	733	—
Net cash flows from investing activities	16,704	(123,400)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	300,000	275,000
Repayment of long-term debt	(375,000)	(150,000)
Purchase of treasury stock	(100,000)	(75,783)
Changes in short-term borrowings, net	47,047	—
Payments for long-term debt issuance costs	(2,995)	(4,834)
Payment of tax withholdings on equity-based payment arrangements	(792)	(4,173)
Excess tax benefits from equity-based payment arrangements	1,508	—
Other, net	1,500	—
Net cash flows from financing activities	(128,732)	40,210
(Decrease) increase in cash	(10,097)	8,350
Cash at beginning of period	23,675	12,579
Cash at end of period	\$13,578	\$20,929
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest	\$34,418	\$22,788
Cash paid for income taxes	6,196	2,400
Cash received from income tax refunds	10,496	820
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		
Changes in accrued plant and equipment	\$3,831	\$8,239

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

5

Clearwater Paper Corporation
Condensed Notes to Consolidated Financial Statements
Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

Clearwater Paper Corporation is a leading North American producer of private label tissue and paperboard products. We manufacture quality consumer tissue, away-from-home tissue, parent rolls (non-converted tissue product), machine-glazed tissue, bleached paperboard and pulp at 13 manufacturing locations in the U.S. and Canada. Our private label consumer tissue products - facial and bath tissue, paper towels and napkins - are used primarily at-home and are principally sold to major retailers and wholesale distributors, which include grocery, drug, mass-merchant and discount stores. Our paperboard is sold primarily in the high-end segment of the packaging industry, which demands high-quality construction and print surfaces for graphics.

On February 17, 2014, we announced the permanent and immediate closure of our Long Island, New York, tissue converting and distribution facility. As of September 30, 2014, we have incurred \$15.0 million of costs associated with the closure, of which \$4.7 million was incurred during the third quarter of 2014.

On March 6, 2013, we announced the planned permanent closure of our Thomaston, Georgia converting and distribution facility. The shutdown occurred gradually as converting lines were relocated and installed at our other facilities, with all operations at Thomaston ceasing at the end of 2013. As of September 30, 2014, we have incurred \$7.1 million of costs associated with the closure, of which less than \$0.1 million was incurred during the third quarter of 2014.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at September 30, 2014 and December 31, 2013, the related Consolidated Statements of Operations and Comprehensive Income for the three months and nine months ended September 30, 2014 and 2013, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2014 and 2013, have been prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. We believe that all adjustments necessary for a fair statement of the results of the interim periods presented have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission, or SEC, on February 20, 2014.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ESTIMATES

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

SHORT-TERM INVESTMENTS AND RESTRICTED CASH

Our short-term investments are invested primarily in demand deposits, which have very short maturity periods, and therefore earn an interest rate commensurate with low-risk instruments. We do not attempt to hedge our exposure to interest rate risk for our short-term investments. Our restricted cash in which the underlying instrument has a term of greater than twelve months from the balance sheet date is classified as non-current and is included in "Other assets, net" on our Consolidated Balance Sheet. As of September 30, 2014, all restricted cash balances were de minimis and classified as non-current and included in "Other assets, net" on our Consolidated Balance Sheet. As of December 31, 2013, substantially all restricted cash balances were classified as current and included in "Restricted cash" on our Consolidated Balance Sheet.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We generally determine the allowance based on a combination of actual historical write-off experience and an analysis of specific customer accounts. As of September 30, 2014 and December 31, 2013, we had allowances for doubtful accounts of \$2.1 million and \$1.9 million, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including any interest costs capitalized, less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method. Assets we acquire through business combinations have estimated lives that are typically shorter than the assets we construct or buy new. Accumulated depreciation totaled \$1,465.3 million and \$1,476.4 million at September 30, 2014 and December 31, 2013, respectively.

Consistent with authoritative guidance, we assess the carrying amount of long-lived assets with definite lives that are held-for-use and evaluate them for recoverability whenever events or changes in circumstances indicate that we may be unable to recover the carrying amount of the assets. During the first quarter of 2014, we permanently closed our Long Island converting and distribution facility. As a result of this closure, we considered an outside third party's appraisal in assessing the recoverability of the facility's long-lived plant and equipment based on available market data for comparable assets sold through private party transactions. Based on this assessment, we determined the carrying amounts of certain long-lived plant and equipment related to the Long Island facility exceeded their fair value. As a result, we have recorded \$3.8 million of non-cash impairment charges to our accompanying Consolidated Statement of Operations in the nine months ended September 30, 2014, of which \$0.9 million