Clearwater Paper Corp
Form 10-K
February 20, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K
(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2013
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)	(IRS Employer Identification No.)

601 W. Riverside Avenue, Suite 1100	
Spokane, Washington	99201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (509) 344-5900
Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock ($0.0001 par value per share)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ý Yes ¨ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes ý No

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. ý 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 (§ 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). ý Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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	x	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 Act). ¨ Yes ý No
As of June 30, 2013 (the last business day of the registrant's most recently completed second quarter), the aggregate market value of the common stock held by non-affiliates of the registrant was $1.02 billion. Shares of common stock beneficially held by each officer and director and by each person who owns 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.
As of February 14, 2014, 20,912,248 shares of the registrant's common stock were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive proxy statement to be filed on or about March 24, 2014, with the Securities and Exchange Commission in connection with the registrant's 2014 annual meeting of stockholders are incorporated by reference in Part III hereof.

table of contents

CLEARWATER PAPER CORPORATION
Index to 2013 Form 10-K

table of contents

Part I

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

Our disclosure and analysis in this report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the costs and benefits associated with the closure of our Thomaston, Georgia facility, cash flows, capital expenditures, tax rates, operating costs, including energy costs, selling, general and administrative expenses, timing of major maintenance and repairs, liquidity, benefit plan funding levels, capitalized interest, interest expenses, and the tax treatment of the alternative fuels and cellulosic biofuels tax credits. Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “believe,” “schedule,” “estimate,” “may,” and similar expressions are intended to identify such forward-loo 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 in operating results include those risks discussed in Item 1A of this report, as well as the following:

- customer acceptance and timing of purchases of our new through-air-dried, or TAD, products and quantity;
- competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors;
- difficulties with the optimization and realization of the benefits expected from our new TAD paper machine and converting lines in Shelby, North Carolina;
- the loss of business from a significant customer;
- manufacturing or operating disruptions, including equipment malfunction and damage to our manufacturing facilities caused by fire or weather-related events and IT system failures;
- changes in the cost and availability of wood fiber and wood pulp;
- changes in transportation costs and disruptions in transportation services;
- labor disruptions;
- changes in costs for and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- changes in customer product preferences and competitors' product offerings;
- changes in expenses and required contributions associated with our pension plans;
- environmental liabilities or expenditures;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- increased supply and pricing pressures resulting from increasing Asian paper production capabilities;
- cyclical industry conditions;
- reliance on a limited number of third-party suppliers for raw materials;
- inability to successfully implement our expansion strategies;
- inability to fund our debt obligations;
- restrictions on our business from debt covenants and terms;
- changes in laws, regulations or industry standards affecting our business; and
- our qualification to retain, or ability to utilize, tax credits associated with alternative fuels or cellulosic biofuels and the tax treatment associated with receipt of such credits.

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. You are advised, however, to consult any further disclosures we make on related subjects in our quarterly reports on Form 10-Q and current reports on Form 8-K filed with the Securities and Exchange Commission, or SEC.

table of contents

ITEM 1.
Business
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, or AFH, parent rolls (non-converted tissue product), machine-glazed tissue, bleached paperboard and pulp at 14 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. Our products are made primarily from wood fiber pulp.
On December 27, 2010, we acquired Cellu Tissue Holdings, Inc., or Cellu Tissue, a tissue manufacturing and converting company whose customers included consumer retailers and AFH distributors of tissue products, vertically integrated manufacturers and third-party converters serving the tissue and machine-glazed tissue sectors. Cellu Tissue sold product as finished cases and parent rolls.
In the fourth quarter of 2012, we completed construction of our through-air-dried, or TAD, paper machine and converting facility in Shelby, North Carolina.
Company Strengths
Leading private label tissue manufacturer with a broad footprint in North America. Our consumer products business is a premier private label tissue manufacturer. We have production facilities strategically located throughout North America as a result of the expansion of our manufacturing footprint through significant capital investments and the acquisition of Cellu Tissue. We have TAD tissue manufacturing facilities in North Carolina, Las Vegas, Nevada and Ontario, Canada and converting operations across the United States. We believe we were the sixth largest manufacturer in the North American tissue market as of December 31, 2013, based on tissue parent roll capacity. Our broad manufacturing footprint allows us to better and more cost effectively service a diverse customer base, including major grocery store chains and value retailers across the entire U.S.
High quality brand-equivalent tissue and other products to meet retailers' private label strategies. Our consumer products business produces high-quality products that match the quality of the leading national brands. We focus on high value tissue products across a wide variety of categories and retail channels. We also manufacture a broad range of cost-competitive consumer products, including recycled tissue, tissue parent rolls and machine-glazed paper. In addition to our conventional paper-making capabilities, we produce TAD tissue that we convert into national brand-equivalent, ultra-quality paper towels and bath tissue. Our expanded TAD tissue offerings are expected to create new opportunities to increase our private label consumer tissue business around our broad manufacturing footprint by allowing us to supply these key products to customers across the U.S.
High quality premium bleached paperboard products. Our pulp and paperboard business produces premium paperboard products with ultra-smooth print surfaces, superior cleanliness, and excellent forming and sealing ability. Products are available in several thicknesses to provide the rigidity and strength needed for a wide range of applications. The high quality of our paperboard allows buyers to use our products for packaging where branding and quality are critical, such as health and beauty packaging, pharmaceutical packaging, and point of purchase displays.
Complementary, long-standing customer relationships. Our consumer products business supplies private label tissue products to several of the largest national grocery chains. Our top 10 consumer products customers in 2013 accounted for approximately 58% of our total consumer products net sales. Our largest customer in 2013 was the Kroger Company, which accounted for 10.8% of our total company net sales. The average tenure of these customers was approximately 12 years. In addition to these long-standing customer relationships, we have a diverse base of over 110 customers across a broad geographic area. We also have long-standing customer relationships with our paperboard customers. Our top 10 paperboard customers in 2013 accounted for approximately 42% of our total paperboard net sales. The average tenure of these customers was approximately 31 years.
Strategically positioned pulp and paperboard facilities. Our pulp and paperboard mill in Lewiston, Idaho is one of only two solid bleach sulfate, or SBS, paperboard mills, and the only coated SBS paperboard mill, in the Western U.S. to

offer a full range of specialized products to meet the needs of customers for traditional folding carton, plates, cup and liquid packaging. This facility's geographic location reduces transportation costs to customers for the western U.S. as well as Asia, which allows us to compete on a cost-advantaged basis relative to East Coast competitors. Our Cypress Bend, Arkansas mill is centrally located, which reduces transportation costs to the Midwestern and Eastern U.S. and complements the Lewiston mill in shipping to customers nationwide.

table of contents

Strategy

Our long-term strategy is to grow the size and scope of our consumer products business and optimize the profitability of that business as well as that of our paperboard business. In the near-term, our focus remains on maximizing the strategic and financial benefits from the integration of our existing facilities and our TAD paper machine and converting lines in North Carolina. We also continue to work on optimizing the operating efficiencies and cost effectiveness of our premium bleached paperboard production.

Grow Our Consumer Products Business. Our long-term strategy has been to grow within the private label tissue market. As part of this strategy, we expanded our tissue manufacturing footprint through the acquisition of Cellu Tissue in 2010 and the construction of additional converting and TAD paper making capacity. Most notably, our North Carolina facility has been the cornerstone of our strategy to expand our TAD tissue operations in the Eastern U.S. With our broad manufacturing footprint now in place, we plan to continue to capitalize on our position as one of the largest premium private label tissue producers in North America by taking advantage of the attractive tissue market and the increasing adoption of store brand products by retailers and their customers.

Optimize Our Consumer Products Business. We intend to continue optimizing the strategic and financial benefits of our broad-based manufacturing operations by improving our operational integration and enhancing our manufacturing facilities. Improving our operational integration allows us to better serve existing private label grocery customers by providing them the full spectrum of consumer tissue products across the U.S., and provides us with the capability to continue to expand further into grocery stores as well as other private label distribution channels, including drug stores, mass merchants and discount stores. Optimizing our manufacturing facilities includes the implementation of cost savings programs as well as consolidating converting such as our recent closure of the Thomaston, Georgia facility and strategic redeployment of its converting lines to other of our facilities.

Optimize Our Pulp and Paperboard Business. We intend to continue improving our operational efficiency, and product quality and mix of customers to which we sell our paperboard products, as well as controlling our raw material and energy costs. We have implemented cost saving programs that are based primarily on lean manufacturing and cost optimization initiatives. Our cost saving programs include the implementation of 18 to 24 month (versus the previous 12 to 18 month) major maintenance cycles at our Lewiston and Cypress Bend facilities, as well as the strengthening of our wood fiber supply chain through the acquisition of a wood chipping facility near our Lewiston facility.

ORGANIZATION

Our businesses are organized into two operating segments: Consumer Products and Pulp and Paperboard. Additional information relating to the amounts of net sales, operating income, depreciation and amortization, identifiable assets and capital expenditures attributable to each of our operating segments for 2011-2013, as well as geographic information regarding our net sales, is set forth in Note 17 to our consolidated financial statements included under Part II, Item 8 of this report.

Consumer Products Segment

Our Consumer Products segment manufactures and sells a complete line of at-home tissue products as well as AFH products. Our integrated manufacturing and converting operations and geographic footprint enable us to deliver a broad range of cost-competitive products with brand equivalent quality to our consumer products customers. In 2013, our Consumer Products segment had net sales of $1.1 billion. A listing of our Consumer Products segment facilities is included under Part I, Item 2 of this report.

Tissue Industry Overview

Consumer Tissue Products. The U.S. tissue market can be divided into two market segments: the at-home or consumer retail purchase segment, which represents approximately two-thirds of U.S. tissue sales; and the AFH segment, which represents the remaining one-third of U.S. tissue market sales and includes locations such as airports, restaurants, hotels and office buildings.

The U.S. at-home tissue segment consists of bath, paper towels, facial and napkin products categories. Each category is further distinguished according to quality segments: ultra, premium, value and economy. As a result of process improvements and consumer preferences, the majority of at-home tissue sold in the U.S. is ultra and premium quality.

At-home tissue producers are comprised of companies that manufacture branded tissue products, private label tissue products, or both. Branded tissue suppliers manufacture, market and sell tissue products under their own nationally branded labels. Private label tissue producers sell tissue products to retailers to sell as their store brand.

In the U.S., at-home tissue is primarily sold through grocery stores, mass merchants, warehouse clubs, drug stores and discount dollar stores. Tissue has historically been one of the strongest segments of the paper industry due to its steady demand growth and the absence of severe supply imbalances that occur in a number of other paper segments. In addition to economic and demographic drivers, tissue demand is affected by product innovations and shifts in distribution channels.

table of contents

Machine-Glazed Tissue. Machine-glazed tissue has a glazed coating and, in some cases, other moisture and grease-resistant coatings. Machine-glazed tissue is converted into products such as fast food and commercial food wrappers, gum wrappers, coffee filters, cigarette pack liner paper, wax paper and butter wraps.

Our Consumer Products Business

In bathroom tissue, the majority of our sales are high quality two-ply ultra and premium products, including TAD tissue products. In paper towels, we produce and sell ultra quality TAD towels as well as premium and value towels. In the facial category, we sell ultra-lotion three-ply and a complete line of two-ply premium products as well as value facial tissue. In napkins, we manufacture ultra two- and three-ply dinner napkins, as well as premium and value one-ply luncheon napkins. Recycled fiber value grade products are also available to customers who wish to further diversify their product portfolio. We compete primarily in the at-home portion of the U.S. tissue market, which made up approximately 89% of our Consumer Products segment sales in 2013.

We manufacture and sell a line of AFH products to customers with commercial and industrial tissue needs. Products include conventional one- and two-ply bath tissue, two-ply paper towels, hard wound towels and dispenser napkins. Tissue parent rolls that we manufacture to requested specifications but do not convert are sold to third-party converters or brokers for conversion into various end products, including at-home tissue products and absorbent products used to produce liners for diapers, feminine care products, surgical waddings and other medical and sanitary disposable products.

We also manufacture and sell machine-glazed tissue products, including wax paper products for retail food wrappers and machine-glazed tissue parent rolls for third-party converters.

Our consumer products are manufactured on 21 paper machines in our facilities located throughout the U.S. and in Ontario, Canada. Parent rolls from these paper machines are then converted and packaged at our converting facilities located across the U.S. Three of our paper machines, located in Nevada, North Carolina and Ontario produce TAD tissue that we convert into national brand comparable, ultra quality towels and/or bath tissue.

In 2013 and 2012, through multi-outlet channels, which include grocery, drug, dollar, super and club stores, as well as military purchasing, we sold approximately 34% of the total private label tissue products in the U.S. When only considering private label tissue products sold in grocery stores, we sold approximately 65% of the total private label tissue products sold in the U.S. for 2013 and 2012.

We believe that we are the only U.S. consumer tissue manufacturer that solely produces a full line of quality private label tissue products for large retail trade channels. Most U.S. tissue producers manufacture only branded products, or both branded and private label products, or in the case of certain smaller or midsize manufacturers, only produce a limited range of tissue products or quality segments. Branded producers generally manufacture their private label products at a quality grade or two below their branded products so as not to impair sales of the branded products. Because we do not produce and market branded tissue products, we believe we are able to offer products that match the quality of leading national brands, but generally at lower prices. We are committed to maintaining a high level of quality for our products that matches the quality of the leading national brands, and we utilize independent companies to routinely test our product quality.

We sell private label tissue products through our own sales force based on product quality, customer service and price. We deliver customer-focused business solutions by assisting in managing product assortment, category management, and pricing and promotion optimization.

Pulp and Paperboard Segment

Our Pulp and Paperboard segment manufactures and markets bleached paperboard for the high-end segment of the packaging industry and is a leading producer of SBS paperboard. This segment also produces hardwood and softwood pulp, which is primarily used as the basis for our paperboard products, and slush pulp, which it supplies to our Consumer Products segment. In 2013, our Pulp and Paperboard segment had net sales of $740.1 million. A listing of our pulp and paperboard facilities is included under Part I, Item 2 of this report.

Pulp and Paperboard Industry Overview

SBS paperboard is a premium paperboard grade that is most frequently used to produce folding cartons, liquid packaging, cups and plates as well as commercial printing items. SBS paperboard is used to make these products because it is manufactured using virgin fiber combined with the kraft bleaching process, which results in superior cleanliness, brightness and consistency. SBS paperboard is often manufactured with a clay coating to provide superior surface printing qualities. SBS paperboard can also be extrusion coated with a plastic film to provide a moisture barrier for some uses.

table of contents

In general, the process of making paperboard begins by chemically cooking wood fibers to make pulp. The pulp is bleached to provide a white, bright pulp, which is formed into paperboard. Bleached pulp that is to be used as market pulp is dried and baled on a pulp drying machine, bypassing the paperboard machines. The various grades of paperboard are wound into rolls for shipment to customers for converting to final end uses. Liquid packaging and cup stock grades are often coated with polyethylene, a plastic coating, in a separate operation to create a resistant and durable liquid barrier.

Folding Carton Segment. Folding carton is the largest portion of the SBS category of the U.S. paperboard industry comprising approximately 41% of the category in 2013. Within the folding carton segment there are varying qualities of SBS paperboard. The high end of the folding carton category in general requires a premium print surface and includes uses such as packaging for pharmaceuticals, cosmetics and other premium retail goods. SBS paperboard is also used in the packaging of frozen foods, beverages and baked goods.

Liquid Packaging and Cup Segment. SBS liquid packaging paperboard is primarily used in the U.S. for the packaging of juices. In Japan and other Asian countries, SBS liquid packaging paperboard is primarily used for the packaging of milk and other liquid items. The cup segment of the market consists primarily of hot and cold drink cups and food packaging. The hot and cold cups are primarily used to serve beverages in quick-service restaurants, while round food containers are often used for packaging premium ice-cream and dry food products.

Commercial Printing Segment. Commercial printing applications use bleached bristols, which are heavyweight paper grades, to produce postcards, signage and sales literature. Bristols can be clay coated on one side or both sides for applications such as brochures, presentation folders and paperback book covers. The customers in this segment are accustomed to high-quality paper grades, which possess superior printability and brightness compared to most paperboard packaging grades. Suppliers to this segment must be able to deliver small volumes, often within 24 hours.

Market Pulp. The majority of the pulp manufactured worldwide is integrated with paper and paperboard production, usually at the same mill. In those cases where a paper mill does not produce its own pulp, it must purchase it on the open market. Market pulp is defined as pulp produced for sale to these customers and it excludes tonnage consumed by the producing mill or shipped to any of its affiliated mills within the same company.

Our Pulp and Paperboard Business

Our Pulp and Paperboard segment operates facilities in Idaho, which has two paperboard machines, and Arkansas, which has one paperboard machine. As of December 31, 2013, we were one of the five largest producers of bleached paperboard in North America with approximately 11% of the available production capacity.

Our overall pulp and paperboard production consists primarily of folding carton, liquid packaging, cup, plate, commercial printing grades and hardwood and softwood pulp.

Folding carton board used in pharmaceuticals, cosmetics and other premium packaging, such as those that incorporate foil and holographic lamination, accounts for the largest portion of our total paperboard sales. We focus on high-end folding carton applications where the heightened focus on product quality provides for differentiation among suppliers, resulting in margins that are more attractive than less critical packaging applications.

Our liquid packaging paperboard is known for its cleanliness and printability, and is engineered for long-lived performance due to its three-ply, softwood construction. Our reputation for producing liquid packaging meeting the most demanding standards for paperboard quality and cleanliness has resulted in meaningful sales in Japan, where consumers have a particular tendency to associate blemish-free, vibrant packaging with the cleanliness, quality and freshness of the liquids contained inside.

We also sell cup stock and plate stock grades for use in food service products. A majority of our sales in this area consist of premium clay coated cup stock grades used for high-end food packaging, such as premium ice cream.

We do not produce converted paperboard end-products, so we are not simultaneously a supplier of and a competitor to our customers. Of the five largest SBS paperboard producers in the U.S., we are the only producer that does not also convert SBS paperboard into end products. We believe our position as a non-integrated supplier has resulted in a diverse group of loyal customers because when there is decreased market supply of paperboard, we do not divert our production to internal uses.

At our Idaho facility we produce bleached softwood pulp primarily for internal use. As a result of the acquisition of Cellu Tissue, which relied entirely on purchased pulp, we have significantly decreased external sales of pulp produced by our Pulp and Paperboard segment and instead utilize that pulp in our Consumer Products segment. Depending on market factors, we may sell some pulp externally going forward.

table of contents

Our pulp mills are currently capable of producing approximately 856,000 tons of pulp on an annual basis. In 2013, we utilized 80% of our pulp production, or approximately 650,000 tons, to produce approximately 766,000 tons of paperboard. The increase in tonnage from pulp to paperboard production is due to the addition of coatings and other manufacturing processes. We also used 19% of our pulp production, or approximately 158,000 tons, in our Consumer Products segment to produce tissue products. The remaining 1% of our pulp production, or approximately 9,000 tons, was sold externally.

We utilize various methods for the sale and distribution of our paperboard and softwood pulp. The majority of our paperboard is sold to packaging converters domestically through sales offices located throughout the U.S., with a smaller percentage channeled through distribution to commercial printers. The majority of our international paperboard sales are conducted through sales agents and are primarily denominated in U.S. dollars. Our principal methods of competing are product quality, customer service and price.

RAW MATERIALS AND INPUT COSTS

For our manufacturing operations, the principal raw material used is wood fiber, which consists of purchased pulp and chips, sawdust and logs. During 2013, our purchased pulp costs were 17.6% of our cost of sales, while chips, sawdust and logs accounted for 8.3%. In 2013, our Consumer Products segment sourced approximately 30% of its total pulp supply from our Pulp and Paperboard segment, with the remainder purchased from external suppliers. We operate a wood chipping facility located in Clarkston, Washington, near our Lewiston, Idaho, facility in an effort to bolster our wood fiber position and obtain short-term and long-term cost savings.

We utilize a significant amount of chemicals in the production of pulp and paper, including caustic, polyethylene, starch, sodium chlorate, latex and specialty process paper chemicals. Many of the chemicals used in our manufacturing processes, particularly in the pulp-making process, are petroleum-based or are impacted by petroleum prices. During 2013, chemical costs accounted for 11.5% of our cost of sales.

Transportation is a significant cost input for our business. Fuel prices impact our transportation costs for delivery of raw materials to our manufacturing facilities and delivery of our finished products to customers. Our total transportation costs were 10.8% of our cost of sales in 2013.

We consume substantial amounts of energy, such as electricity, hog fuel, steam and natural gas. During 2013, energy costs accounted for 7.6% of our cost of sales. We purchase a significant portion of our natural gas and electricity under supply contracts, most of which are between a specific facility and a specific local provider. Under most of these contracts, the providers have agreed to provide us with our requirements for a particular type of energy at a specific facility. Most of these contracts have pricing mechanisms that adjust or set prices based on current market prices. In addition, we use firm-price contracts to mitigate price risk for certain of our energy requirements.

As a significant producer of private label consumer tissue products, we also incur expenses related to packaging supplies used for retail chains, wholesalers and cooperative buying organizations. Our total packaging costs for 2013 were 6.2% of our cost of sales.

Our maintenance and repairs, including major maintenance and repairs, represented 5.8% of our cost of sales for 2013 and are expensed as incurred. We perform routine maintenance on our machines and equipment and periodically replace a variety of parts such as motors, pumps, pipes and electrical parts.

We also record depreciation expense associated with our plant and equipment. Depreciation expense was 4.8% of our cost of sales for 2013.

SEASONALITY

Our Consumer Products segment experiences some drop in shipments during the fourth quarter generally as a result of decreased consumer demand, retail brand holiday promotions, and end of year inventory management by non-retail customers. In addition, customer buying patterns for our paperboard generally result in lower sales for our Pulp and Paperboard segment during the first and fourth quarters, when compared to second and third quarters of a given year.

ENVIRONMENTAL

Information regarding environmental matters is included under Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this report, and is incorporated herein by reference.

WEBSITE

Interested parties may access our periodic and current reports filed with the SEC, at no charge, by visiting our website, www.clearwaterpaper.com. In the menu select “Investor Relations,” then select “Financial Information & SEC Filings.” Information on our website is not part of this report.

table of contents

EMPLOYEES

As of December 31, 2013, we had approximately 3,860 employees, of which approximately 2,610 were employed by our Consumer Products segment, approximately 1,110 were employed by our Pulp and Paperboard segment and approximately 140 were corporate administration employees. This workforce consisted of approximately 760 salaried employees and approximately 3,100 hourly and fixed rate employees. As of December 31, 2013, approximately 53% of our workforce was covered under collective bargaining agreements.

Unions represent hourly employees at eight of our manufacturing sites. There was one hourly union labor contract that expired in 2013, which was renegotiated during the year. Four collective bargaining agreements expire in 2014 and will need to be renegotiated:

CONTRACT EXPIRATION DATE	DIVISION AND LOCATION	UNION	APPROXIMATE NUMBER OF HOURLY EMPLOYEES
August 31, 2014	Consumer Products Division and Pulp & Paperboard Division-Lewiston, Idaho	United Steel Workers (USW)	1,000
August 31, 2014	Consumer Products Division and Pulp & Paperboard Division-Lewiston, Idaho	International Brotherhood of Electrical Workers (IBEW)	55
October 31, 2014	Consumer Products Division-Natural Dam, New York	United Steel Workers (USW)	75
December 13, 2014	Consumer Products Division-Menominee, Michigan	United Steel Workers (USW)	95

table of contents

EXECUTIVE OFFICERS OF THE REGISTRANT

The following individuals are deemed our "executive officers" under the Securities Exchange Act of 1934 as of December 31, 2013. Executive officers of the company are generally appointed as such at the annual meeting of our board, and each officer holds office until the officer's successor is duly elected and qualified or until the earlier of the officer's death, resignation, retirement, removal by the board or as otherwise provided in our bylaws. There are no arrangements or understandings between any of our executive officers and any other persons pursuant to which they were selected as officers. No family relationships exist among any of our executive officers.

Linda K. Massman (age 47), has served as Chief Executive Officer and as a director since January 2013. Ms. Massman served as President and Chief Operating Officer from November 2011 until December 31, 2012, and as Chief Financial Officer from December 2008 to April 2012. From May 2011 to November 2011, Ms. Massman served as Senior Vice President, Finance, and as Vice President, Finance from December 2008 to May 2011. From September 2008 to December 2008, Ms. Massman served as a Vice President of Potlatch Corporation, pending completion of the spin-off of Clearwater Paper Corporation. From May 2002 to August 2008, Ms. Massman served as the Group Vice President, Finance and Corporate Planning for SUPERVALU Inc., a grocery retail company.

John D. Hertz (age 47) joined the company in June 2012 as Senior Vice President, and has served as Senior Vice President, Finance and Chief Financial Officer since August 2012. Before joining our company, Mr. Hertz was the Vice President and Chief Financial Officer, of Novellus Systems, Inc., a position he held from June 2010 to June 2012. From October 2007 to June 2010, he served as Novellus' Vice President of Corporate Finance and Principal Accounting Officer and as Vice President and Corporate Controller from June 2007 to October 2007. From 2000 to 2007, Mr. Hertz worked for Intel Corporation where he held a number of positions, including Central Finance Controller of the Digital Enterprise Group, Finance Controller of the Enterprise Platform Services Division and Accounting Policy Controller. Prior to that Mr. Hertz was a Senior Manager with KPMG.

Michael S. Gadd (age 49) has served as Senior Vice President since May 2011 and General Counsel and Corporate Secretary since December 2008. In addition, he served as Vice President from December 2008 to May 2011. From March 2006 to December 2008, Mr. Gadd served as Associate General Counsel of Potlatch Corporation, and served as Corporate Secretary of Potlatch from July 2007 to December 2008. From 2000 to January 2006, Mr. Gadd was an attorney with Perkins Coie, LLP in Portland, Oregon.

Thomas A. Colgrove (age 62), has served as Senior Vice President and President of Consumer Products since January 2013, and served as Senior Vice President and President of Pulp and Paperboard from May 2011 until December 31, 2012. Mr. Colgrove served as Vice President of Pulp and Paperboard from May 2009 to May 2011. He was employed by Kimberly-Clark Corporation from 1984 to 2009, in various manufacturing management positions, including as Senior Director-North America Product Supply with responsibility for seven North American tissue facilities from September 2006 to April 2009.

Danny G. Johansen (age 63) has served as Senior Vice President and President of Pulp and Paperboard since January 2013. From December 2008 through December 2012, he served as Vice President, Sales and Marketing, for Pulp and Paperboard. Prior to December 2008, Mr. Johansen was employed by Potlatch Corporation for nearly 36 years. From 2002 to December 2008, he served as the Director of Sales, Idaho Pulp and Paperboard division, for Potlatch.

Jackson O. Lynch (age 45) has served as Senior Vice President of Human Resources since April 2013. Before joining our company, Mr. Lynch served as Vice President of Human Resources for Nestlé USA's Direct Store Delivery division from March 2010 to February 2013. From June 2007 to March 2010, he served as National Director of Human Resources for Nestlé USA's Dreyer's Ice Cream division. Prior to June 2007, Mr. Lynch held various senior human resources roles with PepsiCo, Inc.

table of contents

ITEM 1A.

Risk Factors

Our business, financial condition, results of operations and liquidity are subject to various risks and uncertainties, including those described below, and as a result, the trading price of our common stock could decline.

The expansion of our TAD tissue offerings may not proceed as anticipated.

In connection with our long-term growth strategy, we built a new TAD paper machine and installed five converting lines at our facility in Shelby, North Carolina and upgraded our TAD manufacturing capabilities at our Las Vegas, Nevada facility. As these are recently completed projects, we are still in the process of optimizing the mix and the quality of the TAD products being produced at these facilities, the converting and distribution of our TAD and existing tissue products and the sales mix of our new TAD product offerings with existing product lines. We also continue to work with existing customers as well as new customers to develop marketing and sales programs in connection with the new TAD products. These ongoing efforts entail numerous risks, including difficulties in integrating the new TAD products with existing products, difficulties in integrating the new operations and personnel with our other tissue operations and market acceptance of and demand for the new TAD products. Any of these risks, if realized, could have a material adverse effect on our business, financial condition, results of operations and liquidity. In addition, such events could also divert management's attention from other business concerns.

Additionally, over the past few years, several new or refurbished TAD paper machines have been completed or announced by our competitors, including private label competitors, that will result in a substantial increase in the supply of TAD tissue in the North American market. This increase in supply of TAD products, as well as the effects of that increased supply in displacing existing conventional tissue product sales, could have a material adverse effect on the price of TAD tissue products and on the market demand for conventional tissue products, which will continue to represent a majority of our total production for the foreseeable future.

The loss of, or a significant reduction in, orders from, or changes in prices in regards to, any of our large customers could adversely affect our operating results and financial condition.

In 2013, our Consumer Products segment derived approximately 33% of its net sales and we derived approximately 20% of our total net sales from three customers. If we lose any of these customers or a substantial portion of their business or if the terms of our relationship with any of them becomes less favorable to us, our net sales would decline, which would harm our business, results of operations and financial condition. We have experienced increased price and promotion competition for our consumer products customers, particularly in regards to TAD products, which can decrease our gross margins and adversely affect our financial condition. Some of our customers have the capability to produce the parent rolls or products themselves that they purchase from us. Our Pulp and Paperboard segment sells its products to a large number of customers, although certain customers have historically purchased a significant amount of our pulp or paperboard products.

We do not have long-term contracts with any of our customers, including our largest customers, that ensure a continuing level of business from them. In addition, our agreements with our customers are not exclusive and generally do not contain minimum volume purchase commitments. Our relationship with our large customers will depend on our ability to continue to meet their needs for quality products and services at competitive prices. If we lose one or more of these customers or if we experience a significant decline in the level of purchases by any of them, we may not be able to quickly replace the lost business volume and our operating results and business could be harmed. In addition, our focus on these large accounts could affect our ability to serve our smaller accounts, particularly when product supply is tight and we are not able to fully satisfy orders for these smaller accounts.

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

Our Consumer Products segment sources a significant portion of its wood pulp requirements from external suppliers. In 2013, it sourced approximately 70% of its pulp requirements externally. Approximately 17.6% of our cost of sales in 2013 consisted of purchased pulp costs. Our dependence on external sources of wood pulp increases our exposure to fluctuations in prices for wood pulp, which in turn could have a material adverse effect on our financial results, operations and cash flows.

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

table of contents

Changes in the cost and availability of wood fiber used in production of our products may adversely affect our results of operations and cash flow.

Wood fiber is the principal raw material used to create wood pulp, which in turn is used to manufacture our pulp and paperboard products and consumer products. In 2013, our wood fiber costs were 8.3% of our cost of sales. Much of the wood fiber we use in our pulp manufacturing process in Lewiston, Idaho, is the by-product of sawmill operations. As a result, the price of these residual wood fibers is affected by operating levels in the lumber industry. The significant reduction in home building over the past five years resulted in the closure or curtailment of operations at many sawmills. The price of wood fiber is expected to remain volatile until the housing market recovers and sawmill operations increase. Additionally, the supply and price of wood fiber can be negatively affected by weather and other events.

The effects on market prices for wood fiber resulting from various governmental programs involving tax credits or payments related to biomass and other renewable energy projects are uncertain and could result in a reduction in the supply of wood fiber available for our pulp and paperboard manufacturing operations. If we and our pulp suppliers are unable to obtain wood fiber at favorable prices or at all, our costs will increase and financial results, operations and cash flows may be materially adversely affected.

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

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

Unexpected production disruptions could cause us to shut down or curtail operations at any of our facilities. For example, we have had to curtail operations at certain of our facilities as the result of an electrical malfunction and a fire in previous years. Disruptions could occur due to any number of circumstances, including prolonged power outages, mechanical or process failures, shortages of raw materials, natural catastrophes, disruptions in the availability of transportation, labor disputes, terrorism, changes in or non-compliance with environmental or safety laws and the lack of availability of services from any of our facilities' key suppliers. Any facility shutdowns may be followed by prolonged startup periods, regardless of the reason for the shutdown. Those startup periods could range from several days to several weeks, depending on the reason for the shutdown and other factors. Any prolonged disruption in operations at any of our facilities could cause significant lost production, which would have a material adverse effect on our business, financial condition, results of operations and cash flows.

Increases in our transportation costs or disruptions in our transportation services could have a material adverse effect on our business.

Our business, particularly our Consumer Products business, is dependent on transportation services to deliver our products to our customers and to deliver raw materials to us. In 2013, our transportation costs were 10.8% of our cost of sales. The costs of these transportation services are primarily determined by fuel prices, which have steadily increased since 2008 and are affected by geopolitical and economic events. We have not been in the past, and may not be in the future, able to pass along part or all of any fuel price increases to customers. If we are unable to increase our prices as a result of increased fuel costs charged to us by transportation providers, our gross margins may be materially adversely affected.

If any transportation providers fail to deliver raw materials to us in a timely manner, we may be unable to manufacture products on a timely basis. Shipments of products and raw materials may be delayed or disrupted due to weather conditions, labor strikes, regulatory actions or other events. Any failure of a third-party transportation provider to deliver raw materials or products in a timely manner could harm our reputation, negatively affect our customer relationships and have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

As of December 31, 2013, 53% of our full-time employees are represented by unions under collective bargaining agreements. As these agreements expire, we may not be able to negotiate extensions or replacement agreements on terms acceptable to us. Four collective bargaining agreements have a 2014 expiration date and will need to be renegotiated. Any failure to reach an agreement with one of the unions may result in strikes, lockouts or other labor actions. Any such labor actions, including work slowdowns in the future or stoppages, could have a material adverse effect on our operations and financial results.

table of contents

The cost of chemicals and energy needed for our manufacturing processes significantly affects our business.
We use a variety of chemicals in our manufacturing processes, including latex and polyethylene, many of which are petroleum-based chemicals. In 2013, our chemical costs were 11.5% of our cost of sales. Prices for these chemicals have been and are expected to remain volatile. In addition, chemical suppliers that use petroleum-based products in the manufacture of their chemicals may, due to supply shortages and cost increases, ration the amount of chemicals available to us, and therefore we may not be able to obtain at favorable prices the chemicals we need to operate our business, if we are able to obtain them at all.
Our manufacturing operations utilize large amounts of electricity and natural gas and our energy requirements, particularly natural gas, have increased significantly as a result of operations at our North Carolina facility. In 2013, our energy costs were 7.6% of our cost of sales. Energy prices have fluctuated widely over the past decade, which in turn affects our cost of sales. We purchase on the open market a substantial portion of the natural gas necessary to produce our products, and, as a result, the price and other terms of those purchases are subject to change based on factors such as worldwide supply and demand, geopolitical events, government regulation, and natural disasters. Our energy costs in future periods will depend principally on our ability to produce a substantial portion of our electricity needs internally, on changes in market prices for natural gas and on reducing energy usage.
Any significant energy shortage or significant increase in our energy costs in circumstances where we cannot raise the price of our products could have a material adverse effect on our business, financial condition, results of operations and cash flows. Any disruption in the supply of energy could also affect our ability to meet customer demand in a timely manner and could harm our reputation.
Larger competitors have operational and other advantages over our operations.
The markets for our products are highly competitive, and companies that have substantially greater financial resources compete with us in each market. Some of our competitors have advantages over us, including lower raw material and labor costs and better access to the inputs of our products.
Our Consumer Products business faces competition from companies that produce the same type of products that we produce or that produce alternative products that customers may use instead of our products. Our Consumer Products business competes with the branded tissue products producers, such as Procter & Gamble, and branded label producers who manufacture branded and private label products, such as Georgia-Pacific and Kimberly-Clark. These companies are far larger than us, have much greater sales, marketing and research and development resources than we do, and enjoy significant cost advantages due to economies of scale. In addition, because of their size and resources, these companies may foresee market trends more accurately than we do and develop new technologies that render our products less attractive or obsolete.
Our ability to successfully compete in the pulp and paperboard industry is influenced by a number of factors, including manufacturing capacity, general economic conditions and the availability and demand for paperboard substitutes. Our Pulp and Paperboard business competes with International Paper, MeadWestvaco, Georgia-Pacific, RockTenn and international producers, most of whom are much larger than us. Any increase in manufacturing capacity by any of these or other producers could result in overcapacity in the pulp and paperboard industry, which could cause downward pressure on pricing. For example, several new, large paperboard manufacturing facilities in China have recently been, or soon will be, completed, the output of which is expected to increase paperboard supplies on the international market. In addition, customers could choose to use types of paperboard that we do not produce or could rely on alternative materials, such as plastic, for their products. An increased supply of any of these products could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.
The consolidation of paperboard converting businesses, including through the acquisition and integration of such converting business by larger competitors of ours, could result in a loss of customers and sales on the part of our Pulp and Paperboard business, which does not include paperboard converting facilities or capabilities. A loss of paperboard customers or sales as a result of consolidations and integrations could have a material adverse effect on our business, financial condition, results of operations and cash flows.
Changes in demand for certain products could adversely affect our financial results.

Our ability to compete successfully depends on our ability to adjust to increases and decreases in demand. If we are unable to respond to increases in demand, we may need to limit deliveries of some orders for existing customers, which could harm our reputation and our long-term relationships with these customers. Alternatively, if we experience a decrease in demand for certain products, we may incur significant costs in revising our manufacturing plan. If we are not able to respond to changes in demand for our products in a timely manner, our financial position, results of operations and cash flows may be adversely affected.

table of contents

Competitors' branded products and private label products could have an adverse effect on our financial results.

Our consumer products compete with well-known, branded products, as well as other private label products. Inherent risks in our competitive strategy include whether our products will receive direct and retail customer acceptance, new product offerings by competitors, the effects of consolidation within retailer and distribution channels, and price competition from companies that may have greater financial resources than we do. If we are unable to offer our existing customers, or new customers, tissue products comparable to branded products or private label TAD products in terms of quality and/or price, we may lose business or we may not be able to grow our existing business and be forced to sell lower-margin products, all of which could negatively affect our financial condition and results of operations.

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

Foreign manufacturers, particularly in Asia, are currently increasing, and are expected to continue to increase, their paper production capabilities, particularly of paperboard. This, in turn, may result in increased competition in the North American paper markets from direct sales by foreign competitors into these markets and/or increased competition in the U.S. as domestic manufacturers seek increased U.S. sales to offset displaced overseas sales caused by increased sales by Asian suppliers into those markets. An increased supply of Asian paper products could cause us to lower our prices or lose sales to competitors, either of which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our company-sponsored pension plans are currently underfunded, and we are required to make cash payments to the plans, reducing cash available for our business.

We have company-sponsored pension plans covering certain of our salaried and hourly employees. The significant decline in the securities markets beginning in 2008 and resulting substantial decline in the value of equity and fixed income investments held by these plans, coupled with a low interest rate environment resulting in higher liability valuations, caused these plans to be underfunded so that the projected benefit obligation exceeded the aggregate fair value of plan assets. At December 31, 2013, and 2012, our company sponsored pension plans were underfunded in the aggregate by approximately $6.8 million and $78.7 million, respectively. As a result of underfunding, we are required to make contributions to our qualified pension plans. In 2013, we contributed $15.1 million to these pension plans. We may be required to make increased annual contributions to our pension plans in future years, which would reduce the cash available for business and other needs.

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

We contribute to two multiemployer pension plans. The amount of our annual contributions to each of these plans is negotiated with the plan and the bargaining unit representing our employees covered by the plan. In 2013, we contributed approximately $6 million to these plans, and in future years we may be required to make increased annual contributions, which would reduce the cash available for business and other needs. In addition, in the event of a partial or complete withdrawal by us from any multiemployer plan that is underfunded, we would be liable for a proportionate share of such multiemployer plan's unfunded vested benefits, referred to as a withdrawal liability. A withdrawal liability is considered a contingent liability. In the event that any other contributing employer withdraws from any multiemployer plan that is underfunded, and such employer cannot satisfy its obligations under the multiemployer plan at the time of withdrawal, then the proportionate share of the plan’s unfunded vested benefits that would be allocable to us and to the other remaining contributing employers, would increase and there could be an increase to our required annual contributions. In renegotiations of collective bargaining agreements with labor unions that participate in these multiemployer plans, we may decide to discontinue participation in these plans.

One of the multiemployer pension plans to which we contribute, the PACE Industry Union-Management Pension Fund, or PIUMPF, was certified to be in “critical status” for the plan year beginning January 1, 2010, and continued to be in critical status for the plan year beginning January 1, 2013. In 2013, two large employers withdrew from PIUMPF. Further withdrawals by other contributing employers could cause a “mass withdrawal” from, or effectively a termination of, PIUMPF or alternatively we could elect to withdraw. Although we have no current intention to withdraw from PIUMPF, if we were to withdraw, either completely or partially, we would incur a withdrawal liability based on our share of PIUMPF’s unfunded vested benefits. Based on information as of December 31, 2012 provided by PIUMPF and reviewed by our actuarial consultant, we estimate that, as of December 31, 2013, the payments that we would be required to make to PIUMPF in the event of our complete withdrawal would be approximately $5.7 million per year on a pre-tax basis. These payments would continue for 20 years, unless we were deemed to be included in a "mass withdrawal" from PIUMPF, in which case these payments would continue in perpetuity. However, we are not able to determine the exact amount of our withdrawal liability because the amount could be higher or lower depending on the nature and timing of any triggering event, the funded status of the plan and our level of contributions to the plan prior to the triggering event. These withdrawal liability payments would be in addition to pension contributions to any new pension plan adopted or contributed to by us to replace PIUMPF, all of which would reduce the cash available for business and other needs. Adverse changes to pension laws and regulations could increase the likelihood and amount of our liabilities arising under PIUMPF.

table of contents

Our pension and health care costs are subject to numerous factors which could cause these costs to change.
In addition to our pension plans, we provide health care benefits to certain of our current and former U.S. salaried and hourly employees. There is a risk of higher enrollment and claims in our health care plans and likely increased costs due to the Affordable Care Act's individual mandate and required coverage. Our health care costs vary with changes in health care costs generally, which have significantly exceeded general economic inflation rates for many years. Our pension costs are dependent upon numerous factors resulting from actual plan experience and assumptions about future investment returns. Pension plan assets are primarily made up of equity and fixed income investments. Fluctuations in actual equity market returns as well as changes in general interest rates may result in increased pension costs in future periods. Likewise, changes in assumptions regarding current discount rates and expected rates of return on plan assets could also increase pension costs. Significant changes in any of these factors may adversely impact our cash flows, financial condition and results of operations.
We are subject to significant environmental regulation and environmental compliance expenditures, which could increase our costs and subject us to liabilities.
We are subject to various federal, state and foreign environmental laws and regulations concerning, among other things, water discharges, air emissions, hazardous material and waste management and environmental cleanup. Environmental laws and regulations continue to evolve and we may become subject to increasingly stringent environmental standards in the future, particularly under air quality and water quality laws and standards related to climate change issues, such as reporting of greenhouse gas emissions. Increased regulatory activity at the state, federal and international level is possible regarding climate change as well as other emerging environmental issues associated with our manufacturing sites, such as water quality standards based on elevated fish consumption rates. Compliance with regulations that implement new public policy in these areas might require significant expenditures on our part or even the curtailment of certain of our manufacturing operations.
We are required to comply with environmental laws and the terms and conditions of multiple environmental permits. In particular, the pulp and paper industry in the United States is subject to several performance based rules associated with effluent and air emissions as a result of certain of its manufacturing processes. Federal, state and local laws and regulations require us to routinely obtain authorizations from and comply with the evolving standards of the appropriate governmental authorities, which have considerable discretion over the terms of permits. Failure to comply with environmental laws and permit requirements could result in civil or criminal fines or penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing our operations or requiring us to take corrective measures, install pollution control equipment, or take other remedial actions, such as product recalls or labeling changes. We also may be required to make additional expenditures, which could be significant, relating to environmental matters on an ongoing basis.
In 2012, we were notified that the U.S. Environmental Protection Agency, or EPA, submitted a civil referral to the U.S. Department of Justice, or DOJ, alleging violations of the Clean Air Act stemming from an EPA investigation at our Lewiston, Idaho pulp facility. Prior to the filing of any formal action, we and the DOJ agreed to discuss the resolution of the allegations, and the parties entered into an agreement to toll the statute of limitations. The tolling agreement expires on July 31, 2014, unless further extended by the parties. Discussions with the DOJ and EPA are ongoing. However, this matter could result in civil penalties or enforcement actions, including regulatory or judicial orders enjoining or curtailing our operations or requiring us to take corrective measures, install pollution control equipment, or take other remedial actions.
We own properties, conduct or have conducted operations at properties, and have assumed indemnity obligations in connection with our spin-off in 2008 from Potlatch Corporation, for properties or operations where hazardous materials have been or were used for many years, including during periods before careful management of these materials was required or generally believed to be necessary. Consequently, we will continue to be subject to risks under environmental laws that impose liability for historical releases of hazardous substances. There can be no assurance that future environmental permits will be granted or that we will be able to maintain and renew existing permits, and the failure to do so could have a material adverse effect on our results of operations, financial condition and cash flows.

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

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

table of contents

We face cyber-security risks.

Our business operations rely upon secure information technology systems for data capture, processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber attacks. Network, system, application and data breaches could result in operational disruptions or information misappropriation, which could result in lost sales, business delays, negative publicity and could have a material adverse effect on our business, results of operations and financial condition.

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

U.S. and global economic conditions have negatively affected and may continue to negatively affect our business and financial results. For example, the away-from-home consumer paper products market has experienced a decline because of the slowdown in the travel and restaurant industries as a result of the ongoing economic downturn. Recessed economic conditions affect our business in a number of ways, including causing: (i) increased pressure for price concessions from customers; (ii) declines in domestic and global demand for paperboard; (iii) shifts in customer purchases that affect the mix of our product sales; (iv) decreased or low housing starts, which increase production costs due to lower wood fiber supplies; and (v) financial distress or insolvency for certain customers which could affect our sales volumes or our ability to collect accounts receivable on a timely basis from those customers.

Cyclical industry conditions have in the past affected and may continue to adversely affect the operating results and cash flow of our Pulp and Paperboard business.

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

We rely on a limited number of third-party suppliers for certain raw materials required for the production of our products.

Our dependence on a limited number of third-party suppliers, and the challenges we may face in obtaining adequate supplies of raw materials, involve several risks, including limited control over pricing, availability, quality, and delivery schedules. We cannot be certain that our current suppliers will continue to provide us with the quantities of these raw materials that we require or will continue to satisfy our anticipated specifications and quality requirements. Any supply interruption in limited raw materials could materially harm our ability to manufacture our products until a new source of supply, if any, could be identified and qualified. Although we believe there are other suppliers of these raw materials, we may be unable to find a sufficient alternative supply channel in a reasonable time or on commercially reasonable terms. Any performance failure on the part of our suppliers could interrupt production of our products, which would have a material adverse effect on our business.

Additional expansion of our business through construction of new facilities or acquisitions may not proceed as anticipated.

In addition to the acquisition of Cellu Tissue and construction of our North Carolina facility, in the future we may build other converting and papermaking facilities, pursue acquisitions of existing facilities, or both. We may be unable to identify future suitable building locations or acquisition targets. In addition, we may be unable to achieve anticipated benefits or cost savings from construction projects or acquisitions in the timeframe we anticipate, or at all. Any inability by us to integrate and manage any new or acquired facilities or businesses in a timely and efficient manner, any inability to achieve anticipated cost savings or other anticipated benefits from these projects or acquisitions in the time frame we anticipate or any unanticipated required increases in promotional or capital spending could adversely affect our business, financial condition, results of operations or liquidity. Large construction projects or acquisitions can result in a decrease in our cash and short-term investments, an increase in our indebtedness, or both, and also may limit our ability to access additional capital when needed and divert management's attention from other business concerns.

14

table of contents

The indentures for our outstanding notes that we issued in 2010 and 2013, and the credit agreement governing our senior secured revolving credit facility, contain various covenants that limit our discretion in the operation of our business.

The indentures governing our outstanding notes that we issued in 2010 and 2013, and the credit agreement governing our senior secured revolving credit facility, contain various provisions that limit our discretion in the operation of our business by restricting our ability to:

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

These restrictions on our ability to operate our business at our discretion could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities. In addition, our senior secured revolving credit facility requires, among other things, that we maintain a minimum fixed charge coverage ratio of at least 1.0-to-1.0 when availability falls below $50 million or an event of default exists. Events beyond our control could affect our ability to meet this financial test, and we cannot assure you that we will meet it.

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

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

To service our indebtedness, we must generate significant cash flows. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including our outstanding notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured revolving credit facility in an amount sufficient to enable us to pay our indebtedness, including the notes, or to fund our other liquidity needs. We cannot assure you that we will be able to refinance any of our indebtedness, including our senior secured revolving credit facility and our existing notes, on commercially reasonable terms or at all.

table of contents

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

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

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

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

ITEM 1B.
Unresolved Staff Comments

None.

table of contents

ITEM 2.
Properties
FACILITIES
We own and operate facilities located throughout the United States and one in Canada. The following table lists each of our facilities and its location, use, and 2013 capacity and production:

	USE	LEASED OR OWNED	CAPACITY		PRODUCTION[1]	
CONSUMER PRODUCTS						
Tissue manufacturing facilities:						
East Hartford, Connecticut	Tissue	Owned	36,000	tons	32,000	tons
Gouverneur, New York	Tissue	Owned	39,000	tons	39,000	tons
Ladysmith, Wisconsin	Tissue	Owned	56,000	tons	52,000	tons
Las Vegas, Nevada	TAD tissue	Owned	38,000	tons	35,000	tons
Lewiston, Idaho	Tissue	Owned	190,000	tons	185,000	tons
Menominee, Michigan	Machine-glazed tissue	Owned	36,000	tons	34,000	tons
Neenah, Wisconsin	Tissue	Owned	84,000	tons	80,000	tons
Shelby, North Carolina[3]	TAD tissue	Owned/Leased	70,000	tons	54,000	tons
St. Catharines, Ontario	TAD tissue	Owned	20,000	tons	22,000	tons
	Machine-glazed tissue		23,000	tons	23,000	tons
Wiggins, Mississippi	Tissue	Owned	29,000	tons	29,000	tons
	Machine-glazed tissue		33,000	tons	33,000	tons
			654,000	tons	618,000	tons
Tissue converting facilities:						
Central Islip, New York[2]	Tissue converting	Leased	38,000	tons	29,000	tons
Elwood, Illinois[2]	Tissue converting	Leased	68,000	tons	58,000	tons
Las Vegas, Nevada	Tissue converting	Owned	61,000	tons	52,000	tons
Lewiston, Idaho	Tissue converting	Owned	95,000	tons	72,000	tons
Menominee, Michigan	Machine-glazed tissue converting	Owned	27,000	tons	6,000	tons
Neenah, Wisconsin	Tissue converting	Owned	99,000	tons	63,000	tons
Oklahoma City, Oklahoma[2]	Tissue converting	Leased	29,000	tons	15,000	tons
Shelby, North Carolina[3]	Tissue converting	Owned/Leased	62,000	tons	37,000	tons
Thomaston, Georgia[2, 4]	Tissue converting	Leased	—	tons	12,000	tons
			479,000	tons	344,000	tons
PULP AND PAPERBOARD						
Pulp Mills:						
Cypress Bend, Arkansas	Pulp	Owned	316,000	tons	291,000	tons
Lewiston, Idaho	Pulp	Owned	540,000	tons	526,000	tons
			856,000	tons	817,000	tons
Bleached Paperboard Mills:						
Cypress Bend, Arkansas	Paperboard	Owned	343,000	tons	325,000	tons
Lewiston, Idaho	Paperboard	Owned	445,000	tons	441,000	tons
			788,000	tons	766,000	tons
CORPORATE						
Alpharetta, Georgia		Owned/Leased		N/A		N/A

	Operations and administration			
Spokane, Washington	Corporate headquarters	Leased	N/A	N/A

[1] Production amounts are approximations for full year 2013.

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

[3] In December 2012, our new TAD tissue machine in North Carolina began producing tissue. In addition to two converting lines installed in 2011, and two more converting lines installed in 2012, at our North Carolina location, two more tissue converting lines at that site became operational during 2013.

[4] On March 6, 2013, we announced the planned permanent closure of our Thomaston, Georgia converting and distribution facility. As of December 31, 2013, all converting lines have been relocated and installed at our other facilities. As a result, the capacity from our Thomaston facility has been reallocated accordingly.

In addition to the manufacturing facilities listed in this table, we own a chip shipment facility in Columbia City, Oregon and a chipping producing facility in Clarkston, Washington.

table of contents

ITEM 3.
Legal Proceedings
On August 13, 2012, we were notified that the U.S. Environmental Protection Agency, or EPA, submitted a civil referral to the U.S. Department of Justice, or DOJ, alleging violations of the Clean Air Act stemming from an EPA investigation that included an inspection of our Lewiston, Idaho pulp facility in July 2009 and a subsequent information request dated February 24, 2011. On July 19, 2013, the EPA issued to us an additional information request. Prior to the filing of any formal action, we and the DOJ agreed to discuss the resolution of the allegations. On October 21, 2013, the parties entered into a new agreement to toll the statute of limitations. The tolling period commenced as of September 14, 2012 and expires on July 31, 2014, unless further extended by the parties. Discussions with the DOJ and EPA are ongoing.
In addition to the matters discussed above, 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 4.
Mine Safety Disclosures
Not applicable.

table of contents

Part II

ITEM 5.

Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET FOR OUR COMMON STOCK

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

	Common Stock Price	
	High	Low
Year Ended December 31, 2013:		
Fourth Quarter	$53.91	$47.15
Third Quarter	50.40	45.13
Second Quarter	52.47	44.64
First Quarter	53.01	38.94
Year Ended December 31, 2012:		
Fourth Quarter	$42.79	$37.33
Third Quarter	41.98	33.37
Second Quarter	34.79	29.84
First Quarter	40.19	32.51

HOLDERS

On February 14, 2014, the last reported sale price for our common stock on the New York Stock Exchange was $65.88 per share. As of February 14, 2014, there were approximately 1,000 registered holders of our common stock.

DIVIDENDS

We have not paid any cash dividends and do not anticipate paying a cash dividend in 2014. We will continue to review whether payment of a cash dividend on our common stock in the future best serves the company and our stockholders. The declaration and amount of any dividends, however, will be determined by our Board of Directors and will depend on our earnings, our compliance with the terms of our notes and revolving credit facility that contain certain restrictions on our ability to pay dividends, and any other factors that our Board of Directors believes are relevant.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

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

ISSUER PURCHASES OF EQUITY SECURITIES

On February 5, 2014, in an event subsequent to the close of our 2013 fiscal year, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100.0 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time.

On January 17, 2013, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100.0 million of our common stock, which was completed in 2013. The repurchases were authorized to be carried out by the utilization of a number of different methods, including but not limited to, open market purchases, accelerated buybacks and negotiated block purchases. On March 1, 2013, we entered into an accelerated stock buyback, or ASB, agreement with a major financial institution to repurchase an aggregate of $50.0 million of our outstanding common stock. In total, 1,039,513 shares of our outstanding common stock were delivered under the ASB agreement at an average repurchase price of $48.10 per share. In addition to the ASB agreement, we also made repurchases of 1,030,657 shares of our outstanding common stock on the open market at a total cost of $50.0 million, representing an average price of $48.51 per share.

table of contents

On July 28, 2011, we announced that our Board of Directors had authorized the repurchase of up to $30.0 million of our common stock. Under the stock repurchase program, we were authorized to repurchase shares in the open market or as otherwise determined by management, subject to market conditions, business opportunities and other factors. We completed this repurchase program in the fourth quarter of 2012. The total number of shares repurchased under this program was 853,470 at an aggregate cost of $30.0 million and an average price of $35.15 per share.
The following table provides information about share repurchases that we made during the three months ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program
October 1, 2013 to October 31, 2013	494,760	$48.95	494,760	$—
November 1, 2013 to November 30, 2013	—	$—	—	$—
December 1, 2013 to December 31, 2013	—	$—	—	$—
Total	494,760	$48.95	494,760	

ITEM 6.
Selected Financial Data
All of the data listed below has been derived from our audited financial statements. Our historical financial and other data is not necessarily indicative of our future performance. In addition, all amounts below for 2010 reflect the acquisition of Cellu Tissue on December 27, 2010, including four days of Cellu Tissue's operating results and incurrence of acquisition related expenses. Amounts for 2011 forward, are reflective of the sale of our Lewiston, Idaho sawmill in November 2011.
Earnings per share and common shares outstanding data have been retroactively adjusted to reflect our two-for-one stock split that was effected in the form of a stock dividend distributed on August 26, 2011 to shareholders of record on August 12, 2011.

(In thousands, except earnings per share amounts)	2013	2012	2011	2010	2009
Net sales	$1,889,830	$1,874,304	$1,927,973	$1,372,965	$1,250,069
Income from operations[1]	99,328	145,387	115,445	98,767	297,440
Net earnings	106,955	64,131	39,674	73,800	182,464
Working capital[2]	375,975	293,733	390,839	394,346	452,583
Long-term debt, net of current portion	650,000	523,933	523,694	538,314	148,285
Stockholders' equity	605,094	540,894	484,904	468,349	363,736
Capital expenditures[3]	86,508	207,115	137,743	47,033	19,328
Property, plant and equipment, net	884,698	877,377	735,566	654,456	364,024
Total assets	1,744,825	1,633,456	1,571,318	1,545,336	947,463
Basic net earnings per common share	$4.84	$2.75	$1.73	$3.22	$8.03
Basic average common shares outstanding	22,081	23,299	22,914	22,947	22,721
Diluted net earnings per common share	$4.80	$2.72	$1.66	$3.12	$7.75
Diluted average common shares outstanding	22,264	23,614	23,952	23,670	23,540

[1] Income from operations for the year ended December 31, 2009, included $170.6 million associated with the Alternative Fuel Mixture Tax Credit.

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

[3] Capital expenditures in 2012, 2011 and 2010 primarily include expenditures related to our through-air-dried tissue expansion project at our Shelby, North Carolina, and Las Vegas, Nevada, manufacturing and converting facilities.

table of contents

ITEM 7.
Management's Discussion and Analysis of Financial Condition and Results of Operations
The following discussion and analysis should be read in conjunction with our audited consolidated financial statements and notes thereto that appear elsewhere in this report. This discussion contains forward-looking statements reflecting our current expectations that involve risks and uncertainties. Actual results may differ materially from those discussed in these forward-looking statements due to a number of factors, including those set forth in the section entitled "Risk Factors" and elsewhere in this report.
Unless the context otherwise requires or unless otherwise indicates, references in this report to "Clearwater Paper Corporation," "we," "our," "the company" and "us" refer to Clearwater Paper Corporation and its subsidiaries.
OVERVIEW
2013 Highlights
Consumer Products Expansion
In December 2012, we announced the start-up of our new through-air-dried, or TAD, paper machine and the completion of two additional converting lines that became operational in Shelby, North Carolina during the fourth quarter of 2012. With the completion of two additional converting lines at that facility in 2013, bringing the total to six, and upgrades to our TAD tissue manufacturing facility in Las Vegas, Nevada, we expect to increase our ultra and premium offerings to existing and new customers.
Overall, our TAD tissue expansion project, or TAD project, will allow us to supply a full range of TAD products, including paper towels and bath tissue, to customers across the U.S., while reducing transportation costs. We believe this project, along with our existing manufacturing capabilities, establishes us as the only private label tissue products company in the U.S. to offer a full line of tissue products to customers.
Capital Allocation
On February 5, 2014, in an event subsequent to the close of our 2013 fiscal year, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100.0 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time.
On January 23, 2013, we issued $275 million aggregate principal amount of 4.5% senior notes, which we refer to as the 2013 Notes. Approximately $166 million of the net proceeds from the issuance was used to redeem all of our $150 million aggregate principal amount of 10.625% senior notes due 2016, which we refer to as the 2009 Notes.
On January 17, 2013, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100.0 million of our common stock, which was completed in fourth quarter. The repurchases were authorized to be carried out by the utilization of a number of different methods, including but not limited to, open market purchases, accelerated buybacks and negotiated block purchases. On March 1, 2013, we entered into an accelerated stock buyback, or ASB, agreement with a major financial institution to repurchase an aggregate of $50.0 million of our outstanding common stock. In total, 1,039,513 shares of our outstanding common stock were delivered under the ASB agreement at an average repurchase price of $48.10 per share. In addition to the ASB agreement, we also made repurchases of 1,030,657 shares of our outstanding common stock on the open market at a total cost of $50.0 million, representing an an average price of $48.51 per share.
Facility Closures
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 having ceased at the end of 2013. We incurred $6.0 million of costs associated with the closure in 2013.
On February 17, 2014, in an event subsequent to the close of our 2013 fiscal year, we announced the permanent and immediate closure of our Long Island, New York, tissue converting and distribution facility. We expect the total impact of non-recurring exit related costs to be approximately $12 million to $15 million, of which approximately $10 million is expected to be incurred in 2014 and the remainder in 2015.

21

table of contents

Business

We are a leading producer of private label tissue and premium bleached paperboard products. Our products are primarily wood pulp-based and predominately manufactured in the U.S.

Our business is organized into two reporting segments:

- Our Consumer Products segment manufactures and sells a complete line of at-home tissue products in each tissue category, including bathroom tissue, paper towels, napkins and facial tissue. We also manufacture away-from-home tissue, or AFH, machine-glazed tissue and parent rolls for external sales. Our integrated manufacturing and converting operations and geographic footprint enable us to deliver a broad range of cost-competitive products with brand equivalent quality to our consumer products customers. In 2013, our Consumer Products segment had net sales of $1.1 billion, representing approximately 61% of our total net sales.
- Our Pulp and Paperboard segment manufactures and markets bleached paperboard for the high-end segment of the packaging industry and is a leading producer of solid bleach sulfate paperboard. This segment also produces hardwood and softwood pulp, which is primarily used as the basis for our paperboard products, and slush pulp, which it supplies to our Consumer Products segment. In 2013, our Pulp and Paperboard segment had net sales of $740.1 million, representing approximately 39% of our total net sales.

Developments and Trends in our Business

Net Sales

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

Our pulp and paperboard business experiences cyclical market conditions and is affected by macro-economic conditions around the world. As a result, historical prices for our products and sales volumes have been volatile. Product pricing is significantly affected by the relationship between supply and demand for our products. Product supply in the industry is influenced primarily by fluctuations in available manufacturing production, which tends to increase during periods when prices remain strong. In addition, currency exchange rates affect U.S. supplies of paperboard, as non-U.S. manufacturers are attracted to the U.S. market when the dollar is relatively strong. Our paperboard business, through exports denominated in U.S. dollars, has benefited significantly from general weakness in the U.S. dollar over the past few years. Paperboard pricing was relatively flat when comparing 2013 to 2012.

The markets for our products are highly competitive and companies that have substantially greater financial resources than we do compete with us in each of our markets. In addition, our businesses are capital intensive, which leads to high fixed costs, large capital outlays and generally results in continued production as long as prices are sufficient to cover variable costs. These conditions have contributed to substantial price competition, particularly during periods of reduced demand. Some of our competitors have lower production costs and greater buying power and, as a result, may be less adversely affected than we are by price decreases.

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

table of contents

Operating Costs

Prices for our principal operating cost items are variable and directly affect our results of operations. For example, as economic conditions improve, we normally would expect at least some upward pressure on these operating costs. Competitive market conditions can limit our ability to pass cost increases through to our customers.

	Years Ended December 31,					
	2013		2012		2011	
(Dollars in thousands)	Cost	Percentage of Cost of Sales	Cost	Percentage of Cost of Sales	Cost	Percentage of Cost of Sales
Purchased pulp	$294,911	17.6 %	$242,921	15.1 %	$291,595	17.1 %
Chemicals	191,473	11.5	183,606	11.5	174,660	10.3
Transportation[1]	180,188	10.8	171,114	10.6	185,329	10.9
Chips, sawdust and logs	139,456	8.3	162,904	10.1	196,017	11.5
Energy	126,687	7.6	109,592	6.8	130,179	7.6
Packaging supplies	103,286	6.2	86,282	5.4	94,926	5.6
Maintenance and repairs[2]	97,006	5.8	98,217	6.1	99,775	5.9
Depreciation	80,758	4.8	69,880	4.3	70,564	4.1
	$1,213,765	72.6 %	$1,124,516	69.9 %	$1,243,045	73.0 %

[1] Includes internal and external transportation costs.

[2] Excluding related labor costs.

Purchased pulp. We purchase a significant amount of the pulp needed to manufacture our consumer products, and to a lesser extent our paperboard, from external suppliers. For 2013, total purchased pulp costs were 17.6% of our cost of sales, representing a 2.5 percentage point increase compared to 2012. The higher purchased pulp costs were due primarily to increased usage associated with the ramp up of our North Carolina TAD paper machine. In addition, higher purchased pulp costs were driven by increased pricing, as well as the need to purchase additional pulp from external suppliers to offset the reduction from internal sources resulting from the planned major maintenance at our Idaho pulp and paperboard facility during the third quarter of 2013 and the machine downtime taken at our Arkansas pulp and paperboard facility in the first quarter of 2013.

Chemicals. We consume a substantial amount of chemicals in the production of pulp and paperboard, as well as in the production of our tissue products. The chemicals we generally use include polyethylene, caustic, starch, sodium chlorate, latex and specialty paper process chemicals. A large portion of the chemicals used in our manufacturing processes, particularly in the pulp-making process, are petroleum-based and are impacted by petroleum prices.

Our chemical costs increased $7.9 million compared to 2012, due to increased pricing for polyethylene and other processing chemicals, as well as higher chemical consumption resulting from the first year of production on our North Carolina TAD paper machine. In addition, chemical consumption increased in 2013 at our Arkansas pulp and paperboard facility due to recovery boiler operational issues in the second quarter.

Transportation. Fuel prices impact transportation costs related to delivery of raw materials to our manufacturing facilities, internal inventory transfers and delivery of our finished products to customers. Changing fuel prices particularly affect our margins for consumer products because we supply customers throughout the U.S. and transport unconverted parent rolls from our tissue mills to our tissue converting facilities. Our transportation costs for 2013, compared to 2012, were $9.1 million higher as a result of increased shipping costs related to an increase in average miles shipped and increased shipments of converted TAD products, as well as lower first quarter inventory levels for our Consumer Products segment related to our TAD transition. The reduced inventory levels required multiple shifts in regional distributions for our tissue product lines, and as a result we incurred an overall increase of internal tons shipped.

Chips, sawdust and logs. We purchase chips, sawdust and logs used to manufacture pulp. We source residual wood fibers under both long-term and short-term supply agreements, as well as in the spot market. Overall costs decreased by $23.4 million for chips, sawdust and logs for 2013, compared to 2012. The overall decline in the 2013 period was primarily attributable to lower overall pricing at our Idaho pulp and paperboard facility and decreased usage due to our planned major maintenance during the third quarter of 2013 at the same facility. In addition, we experienced decreased usage at our Arkansas pulp and paperboard facility due to recovery boiler operational issues, which were partially offset by higher overall pricing at our Arkansas facility due primarily to supply limitations caused by wet weather conditions in the region for part of 2013.

table of contents

Energy. We use energy in the form of electricity, hog fuel, steam and natural gas to operate our mills. Energy prices have fluctuated widely over the past decade. We have taken steps, and intend to continue to take steps, to reduce our exposure to volatile energy prices through conservation. In addition, cogeneration facilities that produce steam and electricity at our East Hartford, Connecticut, Lewiston, Idaho and Menominee, Michigan manufacturing sites help to lower our energy costs. TAD tissue production, however, involves increased natural gas usage as compared to conventional tissue manufacturing and, as a result, our natural gas requirements have increased with the ramp up our North Carolina TAD paper machine. Energy costs for 2013 were 15.6% higher than 2012 due to the first full year of production on our North Carolina TAD paper machine, as well as an increase in average market pricing for natural gas. To help mitigate our exposure to changes in natural gas prices, from time to time we have used firm-price contracts to supply a portion of our natural gas requirements. As of December 31, 2013, these contracts covered approximately 55% of the expected average monthly requirements for the first quarter of 2014. Our energy costs in future periods will depend principally on our ability to produce a substantial portion of our electricity needs internally, on changes in market prices for natural gas and on our ability to reduce our energy usage through conservation.

Packaging supplies. As a significant producer of private label consumer tissue products, we package to order for retail chains, wholesalers and cooperative buying organizations. Under our agreements with those customers, we are responsible for the expenses related to the unique packaging of our products for direct retail sale to consumers. For 2013, packaging costs were $17.0 million higher than 2012 primarily due to higher retail case shipments of facial and bathroom tissue and an increase in prices for poly wrapping and corrugated cardboard.

Maintenance and repairs. We regularly incur significant costs to maintain our manufacturing equipment. We perform routine maintenance on our machines and periodically replace a variety of parts such as motors, pumps, pipes and electrical parts.

Major equipment maintenance and repairs in our Pulp and Paperboard segment also require maintenance shutdowns approximately every 18 to 24 months, which increase costs and may reduce net sales in the quarters in which the major maintenance shutdowns occur. Our next planned major maintenance outage is scheduled for the spring of 2015. During the first quarter of 2013, we had four days of machine downtime costing $5.0 million, excluding labor, at our Arkansas facility. During the third quarter of 2013, we incurred 11 days of paper machine downtime, costing $17.5 million, for the planned major maintenance at our Idaho facility. There was no major maintenance in the second and fourth quarters of 2013.

In addition to ongoing maintenance and repair costs, we make capital expenditures to increase our operating capacity and efficiency, to improve safety at our facilities and to comply with environmental laws. Excluding $11.9 million of expenditures for our TAD project, we spent $74.5 million on capital expenditures during 2013.

Depreciation. We record substantially all of our depreciation expense associated with our plant and equipment in "Cost of sales" on our Consolidated Statements of Operations. Depreciation expense for 2013 was $10.9 million higher than 2012 due primarily to $10.7 million of additional depreciation expense associated with our North Carolina TAD paper machine, which started up in December 2012.

Other. Other costs not included in the above table primarily consist of wage and benefit expenses and miscellaneous operating costs. Although period cut-offs and inventory levels can impact cost of sales amounts, we would expect this impact to be relatively steady as a percentage of costs on a period-over-period basis. We experienced an increase in wage and benefit expenses in 2013, compared to 2012, due largely to the incremental costs associated with the startup of our North Carolina TAD facility, as well as higher overall employee costs.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of compensation and associated costs for sales and administrative personnel, as well as commission expenses related to sales of our products. Our total selling, general and administrative costs were $119.1 million in 2013 compared to $121.0 million in 2012. The lower expense for 2013 was due primarily to a decrease in profit-dependent compensation accruals and lower legal expenses during 2013, partially offset by a $2.7 million increase in mark-to-market expense related to our directors' common stock units in 2013 compared to 2012.

Interest expense

Interest expense is mostly comprised of interest on the 2013 Notes and our $375 million aggregate principal amount of 7.125% senior notes due 2018 issued in October 2010, which we refer to as the 2010 Notes. Interest expense also includes amortization of deferred issuance costs associated with all of our notes and our revolving credit facility. As a result of the issuance of the 2013 Notes at an interest rate significantly lower than that of our former 2009 Notes, which were redeemed in the first quarter of 2013 using a portion of the proceeds from the 2013 Notes, our interest expense decreased by approximately $3.6 million on an annual basis. However, this favorable change in interest expense associated with our notes was more than offset by a decrease in capitalized interest, as no interest was capitalized in 2013 compared to total capitalized interest of $12.6 million in 2012.

table of contents

Income taxes

Income taxes are based on reported earnings and tax rates in jurisdictions in which our operations occur and offices are located, adjusted for available credits, changes in valuation allowances and differences in reported earnings and taxable income using current law and enacted tax rates. The annual rate, including discrete items, for the year ended December 31, 2013, was a benefit of 179.7%, compared to expense of 42.5% and 44.1% for 2012 and 2011, respectively. The reasons for the change in the tax rate from 2013 compared to 2012 and 2011 were primarily due to three items. The first was a decrease in the rate attributable to the release of uncertain tax positions, resulting in a benefit to the rate of 180.9%. The second was a decrease due to the additional Cellulosic Biofuel Producer Credits, or CBPC, identified as part of an Internal Revenue Service audit that were previously unclaimed, as well as a conversion from the Alternative Fuel Mixture Tax Credit, or AFMTC, to CBPC, which resulted in benefits to the rate of 26.7%. Finally, a decrease in the rate due to state tax credits resulted in a benefit to the rate of 5.9%.

The estimated annual effective tax rate for 2014 is expected to be approximately 38%.

table of contents

RESULTS OF OPERATIONS

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

YEAR ENDED DECEMBER 31, 2013 COMPARED TO YEAR ENDED DECEMBER 31, 2012

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

	Years Ended December 31,					
(Dollars in thousands)	2013			2012		
Net sales	$1,889,830	100.0	%	$1,874,304	100.0	%
Costs and expenses:						
Cost of sales	(1,671,371)	88.4		(1,607,872)		