Clearwater Paper Corp
Form 10-Q
October 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)
ý Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number: 001-34146
CLEARWATER PAPER CORPORATION
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

The number of shares of common stock of the registrant outstanding as of October 21, 2016 was 16,723,173.

CLEARWATER PAPER CORPORATION
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Part I
ITEM 1.
Consolidated
Financial
Statements
Clearwater Paper Corporation
Consolidated Statements of Operations
Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$435,320	$442,222	$1,309,195	$1,320,806
Costs and expenses:				
Cost of sales	(396,605)	(373,892)	(1,127,103)	(1,148,071)
Selling, general and administrative expenses	(29,435)	(28,284)	(94,885)	(85,379)
Total operating costs and expenses	(426,040)	(402,176)	(1,221,988)	(1,233,450)
Income from operations	9,280	40,046	87,207	87,356
Interest expense, net	(7,520)	(7,882)	(22,559)	(23,438)
Earnings before income taxes	1,760	32,164	64,648	63,918
Income tax provision	(859)	(9,100)	(24,437)	(19,500)
Net earnings	$901	$23,064	$40,211	$44,418
Net earnings per common share:				
Basic	$0.05	$1.22	$2.35	$2.33
Diluted	0.05	1.21	2.33	2.30

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net earnings	$901	$23,064	$40,211	$44,418
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax of $248, $1,233, $1,113, and $3,700	384	1,922	1,723	5,764
Amortization of prior service credit included in net periodic cost, net of tax of $(165), $(206), $(497), and $(617)	(257)	(321)	(770)	(962)
Settlement, net of tax of $1,054, $ -, $1,054 and $ -	1,632	—	1,632	—
Other comprehensive income, net of tax	1,759	1,601	2,585	4,802
Comprehensive income	$2,660	$24,665	$42,796	$49,220

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

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 331	$ 5,610
Restricted cash	—	2,270
Short-term investments	—	250
Receivables, net	134,384	139,052
Taxes receivable	7,634	14,851
Inventories	252,126	255,573
Other current assets	5,414	9,331
Total current assets	399,889	426,937
Property, plant and equipment, net	914,945	866,538
Goodwill	209,087	209,087
Intangible assets, net	16,280	19,990
Pension assets	2,035	596
Other assets, net	5,578	4,221
TOTAL ASSETS	$ 1,547,814	$ 1,527,369
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Revolving credit facility borrowings	$ 13,012	$ —
Accounts payable and accrued liabilities	223,803	220,368
Current liability for pensions and other postretirement employee benefits	7,559	7,559
Total current liabilities	244,374	227,927
Long-term debt	569,563	568,987
Liability for pensions and other postretirement employee benefits	85,991	89,057
Other long-term obligations	42,310	46,738
Accrued taxes	1,523	1,676
Deferred tax liabilities	132,850	118,118
Stockholders' equity:		
Preferred stock, par value $0.0001 per share, 5,000,000 authorized shares, no shares issued	—	—
Common stock, par value $0.0001 per share, 100,000,000 authorized shares-24,209,150 and 24,193,098 shares issued	2	2
Additional paid-in capital	345,164	340,095
Retained earnings	560,518	520,307
Treasury stock, at cost, common shares-7,478,877 and 6,380,309 shares repurchased	(381,518)	(329,990)
Accumulated other comprehensive loss, net of tax	(52,963)	(55,548)
Total stockholders' equity	471,203	474,866
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,547,814	$ 1,527,369

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

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

	Nine Months Ended September 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$40,211	$44,418
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	65,921	62,844
Equity-based compensation expense	9,826	2,495
Deferred tax provision (benefit)	12,329	(12,403)
Employee benefit plans	(500)	2,122
Deferred issuance costs on long-term debt	637	714
Disposal of plant and equipment, net	30	1,109
Non-cash adjustments to unrecognized taxes	(153)	(1,123)
Changes in working capital, net	4,045	15,471
Changes in taxes receivable, net	7,217	1,255
Excess tax benefits from equity-based payment arrangements	(157)	(3,848)
Funding of qualified pension plans	—	(3,179)
Other, net	(523)	(2,320)
Net cash flows from operating activities	138,883	107,555
CASH FLOWS FROM INVESTING ACTIVITIES		
Changes in short-term investments, net	250	40,000
Additions to plant and equipment	(105,514)	(78,461)
Proceeds from sale of assets	—	587
Net cash flows from investing activities	(105,264)	(37,874)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(51,528)	(84,305)
Borrowings on revolving credit facility	944,844	—
Repayments of revolving credit facility borrowings	(931,832)	—
Payment of tax withholdings on equity-based payment arrangements	(488)	(3,129)
Excess tax benefits from equity-based payment arrangements	157	3,848
Other, net	(51)	(9)
Net cash flows from financing activities	(38,898)	(83,595)
Decrease in cash and cash equivalents	(5,279)	(13,914)
Cash and cash equivalents at beginning of period	5,610	27,331
Cash and cash equivalents at end of period	$331	$13,417
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest, net of amounts capitalized	$27,240	$28,429
Cash paid for income taxes	16,050	18,886
Cash received from income tax refunds	10,543	2,104
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Changes in accrued plant and equipment	$3,834	$5,165
Unsettled repurchases of common stock	—	9,527

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

Clearwater Paper Corporation
Condensed Notes to Consolidated Financial Statements
Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

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

In the third quarter of 2016, an indemnity escrow account established in connection with the December 2014 sale of our former specialty business and mills was settled, resulting in the release of $2.3 million from a restricted cash escrow account. We recorded a net $1.8 million gain in "Selling, general and administrative expenses" in our Consolidated Statement of Operations for the three and nine months ended September 30, 2016, which included the release of the escrow account less $0.5 million of other settlement related costs.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Consolidated Balance Sheets at September 30, 2016 and December 31, 2015, the related Consolidated Statements of Operations and Comprehensive Income for the three and nine months ended September 30, 2016 and 2015, and the Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015, have been prepared in conformity with accounting principles generally accepted in the United States of America, or GAAP. We believe that all adjustments necessary for a fair statement of the results of the interim periods presented have been included. The results of operations for any interim period are not necessarily indicative of the results of operations to be expected for the full year.

This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission, or SEC, on February 22, 2016.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SIGNIFICANT ESTIMATES

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

CASH AND CASH EQUIVALENTS

We consider all highly liquid instruments with maturities of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS AND RESTRICTED CASH

Our short-term investments are invested primarily in demand deposits, which have very short maturity periods, and therefore earn an interest rate commensurate with low-risk instruments. Our restricted cash in which the underlying instrument has a term of greater than twelve months from the balance sheet date is classified as non-current and is included in “Other assets, net” on our Consolidated Balance Sheet. As discussed above, the indemnity escrow related to the sale of our former specialty business and mills was settled during the three months ended September 30, 2016. Consequently, the $2.3 million restricted cash escrow account, reflected in "Restricted cash" on our Consolidated Balance Sheet at December 31, 2015, was released during the third quarter of 2016, and we had no restricted cash on our Consolidated Balance Sheet at September 30, 2016.

TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We generally determine the allowance based on a combination of actual historical write-off experience and an analysis of specific customer accounts. As of September 30, 2016 and

December 31, 2015, we had allowances for doubtful accounts of $1.3 million and $1.4 million, respectively.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost, including any interest costs capitalized, less accumulated depreciation. Depreciation of buildings, equipment and other depreciable assets is determined using the straight-line method. Assets we acquire through business combinations have estimated lives that are typically shorter than the assets we construct or buy new. Accumulated depreciation totaled $1,571.9 million and $1,512.1 million at September 30, 2016 and December 31, 2015, respectively.

For the three and nine months ended September 30, 2016, we capitalized $0.7 million and $1.6 million, respectively, of interest expense associated with the construction of a continuous pulp digester at our Lewiston, Idaho pulp and paperboard facility. For the three and nine months ended September 30, 2015, we capitalized $0.1 million and $0.2 million, respectively, of interest expense associated with this project.

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

STOCKHOLDERS’ EQUITY

On December 15, 2015, we announced that our Board of Directors had approved a new stock repurchase program authorizing the repurchase of up to $100 million of our common stock. The repurchase program authorizes purchases of our common stock from time to time through open market purchases, negotiated transactions or other means, including accelerated stock repurchases and 10b5-1 trading plans in accordance with applicable securities laws and other restrictions. We have no obligation to repurchase stock under this program and may suspend or terminate the program at any time. In total, we have repurchased 1,098,568 shares of our outstanding common stock as of September 30, 2016, pursuant to this repurchase program, of which 263,537 shares were repurchased during the third quarter of 2016 at an average price of $62.08 per share. As of September 30, 2016, we had up to $48.5 million of authorization remaining pursuant to this stock repurchase program.

On December 15, 2014, we announced that our Board of Directors had approved a stock repurchase program authorizing the repurchase of up to $100 million of our common stock. We completed that program during the fourth quarter of 2015. In total, we repurchased 1,881,921 shares of our outstanding common stock under that program at an average price of $53.13 per share.

DERIVATIVES

We had no activity during the nine months ended September 30, 2016 and 2015 that required hedge or derivative accounting treatment. However, to help mitigate our exposure to market risk for changes in utility commodity pricing, we use firm price contracts to supply a portion of the natural gas requirements for our manufacturing facilities. As of September 30, 2016, these contracts covered approximately 21% of our expected average monthly natural gas requirements for the remainder of 2016. Historically, these contracts have qualified for treatment as “normal purchases or normal sales” under authoritative guidance and thus required no mark-to-market adjustment.

NOTE 2 Recently Adopted and New Accounting Standards

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The update amends the guidance in Accounting Standards Codification 230, Statement of Cash Flows, and clarifies how entities should classify certain cash receipts and cash payments on the statement of cash flows with the objective of reducing the existing diversity in practice related to eight specific cash flow issues. The amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted; however, we currently anticipate adopting the standard on its effective date. We do not expect the adoption of ASU 2016-15 to have a material impact on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (Topic 326), which establishes guidance on the measurement and recognition of credit losses on most financial assets. For trade receivables, loans, and held-to-maturity debt securities, the current probable loss recognition methodology is being replaced by an expected credit loss model. The guidance will become effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The guidance is consistent with our current methodology for calculating the allowance on trade receivables, and therefore, we do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting (Topic 718). Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"), which simplifies several aspects related to the accounting for share-based payment transactions, including the accounting for income taxes, statutory tax withholding requirements and classification on the statement of cash flows. The standard requires all excess tax benefits and deficiencies to be recognized discretely as income tax expenses or benefits in the reporting period in which they occur. The standard is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. We will adopt ASU 2016-09 in the first quarter of 2017 and, based on our preliminary assessment, currently believe the most significant impact of our adoption of ASU 2016-09 to our consolidated financial statements will be to recognize in our provision for income taxes line on our Consolidated Statement of Operations, instead of to consolidated equity, certain tax benefits or tax shortfalls upon a restricted stock award vesting, performance share award settlement, or stock option exercise relative to the deferred tax asset position established.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The new standard establishes a right-of-use (ROU) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Based on our preliminary assessment, we determined the adoption will increase both our assets and liabilities presented on our Consolidated Balance Sheets to reflect the ROU assets and corresponding lease liabilities, as well as increase our leasing disclosures. We are continuing our assessment, which may identify other impacts, and we are addressing necessary policy and process changes in preparation for adoption.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The core principle of the new standard is for companies to recognize revenue in a manner that depicts the transfer of goods or services to customers in amounts that reflect the consideration, or payment, to which the company expects to be entitled in exchange for those goods or services. The standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively, such as service revenue and contract modifications, and clarify guidance for multiple-element arrangements. This standard was originally issued as effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption prohibited. However, in July 2015, the FASB approved deferring the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. In its approval, the FASB also permitted the early adoption of the standard, but not before the original effective date of fiscal years beginning after December 15, 2016.

The standard may be applied under either a retrospective or cumulative effect adoption method. We plan on adopting the standard on the deferred effective date under the cumulative effect adoption method. Additionally, the new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. Based on our preliminary assessment, we do not anticipate the adoption of this standard will have a material impact on our consolidated financial statements. We anticipate enhancing our disclosures upon the adoption of this standard. We are continuing our assessment, which may identify other impacts.

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

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)	September 30, 2016	December 31, 2015
Pulp, paperboard and tissue products	$ 151,184	$ 156,055
Materials and supplies	80,111	80,020
Logs, pulpwood, chips and sawdust	20,831	19,498
	$ 252,126	$ 255,573

NOTE 4 Intangible Assets

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

	September 30, 2016			
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 41,001	$ (26,195)	$ 14,806
Trade names and trademarks	10.0	3,286	(1,889)	1,397
Non-compete agreements	5.0	574	(497)	77
		$ 44,861	$ (28,581)	$ 16,280

	December 31, 2015			
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 41,001	$ (22,778)	$ 18,223
Trade names and trademarks	10.0	3,286	(1,643)	1,643
Non-compete agreements	5.0	574	(450)	124
		$ 44,861	$ (24,871)	$ 19,990

For the three months ended September 30, 2016 and 2015, intangible assets amortization expense was $1.1 million and $1.0 million, respectively. For the nine months ended September 30, 2016 and 2015, intangible assets amortization expense was $3.2 million and $3.0 million, respectively.

NOTE 5 Income Taxes

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

Our quarterly tax provision and our quarterly estimate of our annual effective tax rate is subject to significant variation due to several factors, including variability in our pre-tax and taxable income. During the quarter, we recorded the year-to-date impact of a 0.4% increase to the estimated annual effective tax rate. For the three months ended September 30, 2016, low pre-tax income due primarily to our major maintenance in the period, coupled with immaterial adjustments to permanent items in the period arising from the change in the estimated annual effective rate, resulted in a quarterly tax rate of 48.8%. Our estimated annual effective tax rate for 2016 is approximately 36%.

NOTE 6 Accounts Payable and Accrued Liabilities

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

(In thousands)	September 30, 2016	December 31, 2015
Trade accounts payable	$ 145,475	$ 128,045
Accrued wages, salaries and employee benefits	40,368	43,997
Accrued discounts and allowances	11,848	8,954
Accrued utilities	6,576	7,536
Accrued taxes other than income taxes payable	6,312	5,112
Accrued interest	4,874	11,981
Other	8,350	14,743
	$ 223,803	$ 220,368

NOTE 7 Debt

REVOLVING CREDIT FACILITY

As of September 30, 2016 there were $13.0 million in borrowings outstanding under the credit facility. As of December 31, 2015, there were no borrowings outstanding under the credit facility. As of September 30, 2016, $4.8 million of the credit facility was being used to support outstanding standby letters of credit. Loans under the credit facility bear interest (i) for LIBOR loans, at LIBOR plus between 1.25% and 1.75% and (ii) for base rate loans, a per annum rate equal to the greater of the following rates plus between 0.25% and 0.75%: (a) the rate of interest announced by Bank of America from time to time as its prime rate for such day; (b) the weighted average of interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers for such day, plus 0.50%; or (c) LIBOR for a 30-day interest period as determined on such day, plus 1.00%. The percentage margin on all loans is based on our fixed charge coverage ratio for the most recent four quarters. As of September 30, 2016, we would have been permitted to draw an additional $107.1 million under the credit facility at LIBOR plus 1.25%, or base rate plus 0.25%.

NOTE 8 Other Long-Term Obligations

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

(In thousands)	September 30, 2016	December 31, 2015
Long-term lease obligations, net of current portion	$ 23,395	$ 24,054
Deferred compensation	8,724	10,755
Deferred proceeds	7,687	9,386
Other	2,504	2,543
	$ 42,310	$ 46,738

NOTE 9 Accumulated Other Comprehensive Loss

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

(In thousands)	Pension and Other Post Retirement Employee Benefit Plan Adjustments	Total
Balance at December 31, 2015	$ (55,548)	$ (55,548)
Other comprehensive income, before reclassifications[1]	953	953
Amounts reclassified from accumulated other comprehensive loss[2]	1,632	1,632
Other comprehensive income, net of tax	2,585	2,585
Balance at September 30, 2016	$ (52,963)	$ (52,963)

	Pension and Other Post Retirement Employee Benefit Plan Adjustments	Total
Balance at December 31, 2014	$ (70,863)	$ (70,863)
Other comprehensive income, net of tax[1]	4,802	4,802
Balance at September 30, 2015	$ (66,061)	$ (66,061)

1 For the nine months ended September 30, 2016 and 2015, net periodic costs associated with our pension and other postretirement employee benefit, or OPEB, plans included in other comprehensive income and reclassified from accumulated other comprehensive loss included $2.8 million and $9.5 million, respectively, of actuarial loss amortization, as well as $1.3 million and $1.6 million, respectively, of prior service credit amortization, all net of tax totaling $0.6 million and $3.1 million, respectively. These accumulated other comprehensive loss components are included in the computation of net periodic pension and OPEB costs in Note 10, “Pension and Other Postretirement Employee Benefit Plans.”

2 Included in "Amounts reclassified from accumulated other comprehensive loss" above for the nine months ended September 30, 2016 is settlement expense of $3.5 million associated with the remeasurement of our salaried pension plan, which is discussed further in Note 10, “Pension and Other Postretirement Employee Benefit Plans.” The remeasurement resulted in a settlement loss of $0.8 million recorded to the pension liability and reclassified from accumulated other comprehensive loss. The settlement expense and corresponding remeasurement are net of tax totaling $1.1 million.

NOTE 10 Pension and Other Postretirement Employee Benefit Plans

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

	Three Months Ended September 30,			
(In thousands)	2016	2015	2016	2015
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$ 391	$ 311	$ 62	$ 91
Interest cost	3,518	3,483	730	970
Expected return on plan assets	(4,847)	(5,029)	—	—
Amortization of prior service cost (credit)	6	18	(428)	(545)
Amortization of actuarial loss (gain)	2,865	3,155	(2,233)	—

Settlement	3,482	—	—	—
Net periodic cost	$5,415	$1,938	$ (1,869)	$ 516

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	Nine Months Ended September 30,			
(In thousands)	2016	2015	2016	2015
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
Service cost	$1,171	$934	$187	$272
Interest cost	10,779	10,448	2,306	2,910
Expected return on plan assets	(14,608)	(15,087)	(1)	—
Amortization of prior service cost (credit)	17	54	(1,284)	(1,633)
Amortization of actuarial loss (gain)	8,510	9,464	(5,674)	—
Settlement	3,482	—	—	—
Net periodic cost	$9,351	$5,813	$(4,466)	$1,549

During the nine months ended September 30, 2016, we made no contributions to our qualified pension plans. During the nine months ended September 30, 2015, we made contributions of $3.2 million to our qualified pension plans. We do not expect, nor are we required, to make contributions in 2016.

During the nine months ended September 30, 2016, we made contributions of $0.3 million to our company-sponsored non-qualified pension plan. We estimate contributions will total $0.4 million in 2016. We do not anticipate funding our OPEB plans in 2016 except to pay benefit costs as incurred during the year by plan participants.

During the three and nine months ended September 30, 2016, less than $0.1 million and $0.8 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales," and $0.1 million and $0.6 million, respectively, were charged to "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations, excluding the settlement charge discussed below. During the three and nine months ended September 30, 2015, $1.7 million and $5.1 million, respectively, of net periodic pension and OPEB costs were charged to "Cost of sales" and $0.8 million and $2.3 million, respectively, were charged to "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations.

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

As a result of the plan remeasurement, the net salaried plan liability, included in the "Liabilities for pensions and other postretirement employee benefits" balance in our accompanying Consolidated Balance Sheet, increased $0.8 million primarily due to a decrease in the discount rate. The discount rate used in the salaried plan remeasurement was 3.80%, compared to 4.70% at December 31, 2015. The increase in the net salaried plan liability was offset by asset returns and other year to date activity for the salaried pension plan.

Additionally, as a result of settlement accounting, we recognized a pro-rata portion of the unamortized net actuarial loss, after remeasurement, resulting in a $3.5 million non-cash charge to our earnings in the third quarter of 2016. This settlement charge was recorded to "Cost of sales" and "Selling, general and administrative expenses" for $1.9 million and $1.6 million, respectively, in our Consolidated Statement of Operations for the three and nine months ended September 30, 2016.

NOTE 11 Earnings per Common Share

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic average common shares outstanding[1]	16,844,920	18,860,017	17,141,329	19,988,348
Incremental shares due to:				
Restricted stock units	54,796	89,727	35,853	78,147
Performance shares	104,476	140,851	74,604	117,543
Stock options	55,466	—	1,148	54
Diluted average common shares outstanding	17,059,658	19,090,595	17,252,934	20,184,092
Basic net earnings per common share	$0.05	$ 1.22	$2.35	$ 2.33
Diluted net earnings per common share	0.05	1.21	2.33	2.30
Anti-dilutive shares excluded from calculation	5,783	282,769	502,293	309,018

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

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NOTE 12 Equity-Based Compensation

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

EMPLOYEE AWARDS

Employee equity-based compensation expense was recognized as follows:

(In thousands)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Restricted stock units	$352	$572	$1,012	$1,535
Performance shares	877	1,182	2,313	3,225
Stock options	792	636	2,076	1,577
Total employee equity-based compensation	$2,021	$2,390	$5,401	$6,337

During the first nine months of 2016, 3,000 RSUs were settled and distributed in the first quarter, 20,000 were settled and distributed in the second quarter, and 1,250 were settled and distributed in the third quarter. After adjusting for minimum tax withholdings, a net 1,892 shares, 13,252 shares, and 908 shares were issued during each respective period. For the nine months ended September 30, 2016, the minimum tax withholding payments made totaled $0.5 million.

The following table summarizes the number of share-based awards granted under the Clearwater Paper Corporation 2008 Stock Incentive Plan during the nine months ended September 30, 2016 and the grant-date fair value of the awards:

	Nine Months Ended September 30, 2016 Number of Shares Subject to Award	Average Fair Value of Award Per Share
Restricted stock units	44,627	$ 39.10
Performance shares	93,397	39.70
Stock options	280,191	14.42

DIRECTOR AWARDS

Annually, each outside member of our Board of Directors receives deferred equity-based awards that are measured in units of our common stock and ultimately settled in cash at the time of payment. Accordingly, the compensation expense associated with these awards is subject to fluctuations each quarter based on mark-to-market adjustments at each reporting period in line with changes in the market price of our common stock. As a result of the mark-to-market adjustment, we recorded director equity-based compensation expense of $0.1 million and a benefit of $1.9 million for the three months ended September 30, 2016 and 2015, respectively. For the nine months ended September 30, 2016 and 2015, we recorded director equity-based compensation expense of $4.4 million and a benefit of $3.8 million, respectively.

As of September 30, 2016, the liability amounts associated with director equity-based compensation included in "Other long-term obligations" and "Accounts payable and accrued liabilities" on the accompanying Consolidated Balance Sheet were $7.6 million and $3.2 million, respectively. At December 31, 2015, all liability amounts associated with director equity-based compensation were included in "Other long-term obligations" totaled $9.4 million.

NOTE 13 Fair Value Measurements

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

	September 30, 2016		December 31, 2015	
(In thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents, restricted cash and short-term investments (Level 1)	$ 331	$ 331	$ 8,130	$ 8,130
Revolving credit facility borrowings (Level 1)	13,012	13,012	—	—
Long-term debt (Level 1)	575,000	580,875	575,000	558,250

Accounting guidance establishes a framework for measuring the fair value of financial instruments, providing a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, or “Level 1” measurements, followed by quoted prices of similar assets or observable market data, or “Level 2” measurements, and the lowest priority to unobservable inputs, or “Level 3” measurements.

The asset’s or liability’s fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used should seek to maximize the use of observable inputs and minimize the use of unobservable inputs.

NOTE 14 Business Interruption and Insurance Recovery

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

The claim was settled in its entirety in September 2016, and, net of the policy deductible and certain exclusions totaling $3.5 million, we received $5.0 million from our property insurance provider as final payment of the claim.

NOTE 15 Segment Information

The table below presents information about our reportable segments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2016	2015	2016	2015
Segment net sales:				
Consumer Products	$253,319	$247,039	$746,249	$721,606
Pulp and Paperboard	182,001	195,183	562,946	599,200
Total segment net sales	$			