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Clearwater Paper Corp
Form 10-K

March 18, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____

Commission File Number: 001-34146

CLEARWATER PAPER CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

20-3594554

(State or other jurisdiction of incorporation or organization) (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
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Common Stock (\$0.0001 par value per share)	New York Stock Exchange
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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. 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 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. 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). 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.

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," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	x
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Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>	
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	Emerging growth company <input type="checkbox"/>	
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. "

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). " Yes No
As of June 30, 2018 (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 \$373.9 million. 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 March 11, 2019, 16,515,156 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 April 2, 2019, with the Securities and Exchange Commission in connection with the registrant's 2019 Annual Meeting of Stockholders are incorporated by reference in Part III hereof.

CLEARWATER PAPER CORPORATION

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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 production quality and quantity, costs and timing associated with the expansion of our Shelby, North Carolina facility; our strengths and related benefits; our strategy; pulp production and the continuous digester at our Idaho facility; competitive market conditions, raw materials and input usage and costs, including energy costs and usage; selling, general and administrative cost reduction benefits; strategic projects and related costs and benefits; energy conservation; cash flows; capital expenditures; return on investment from capital projects; tax rates; operating costs; selling, general and administrative expenses; timing of and costs related to major maintenance and repairs; liquidity; benefit plan funding levels; capitalized interest; and interest expenses. Words such as “anticipate,” “expect,” “intend,” “plan,” “target,” “project,” “believe,” “schedule,” “estimate,” “may,” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are based on management’s current expectations, estimates, assumptions and projections that are subject to change. Our actual results of operations may differ materially from those expressed or implied by the forward-looking statements contained in this report. Important factors that could cause or contribute to such differences in operating results include those risks discussed in Item 1A of this report, as well as the following: competitive pricing pressures for our products, including as a result of increased capacity as additional manufacturing facilities are operated by our competitors;

- the loss of, changes in prices in regard to, or reduction in, orders from a significant customer;
- changes in customer product preferences and competitors' product offerings;
- our ability to complete construction of our new tissue manufacturing operations in Shelby, North Carolina on time and within current cost expectations;
- customer acceptance and timing and quantity of purchases of our tissue products, including the existence of sufficient demand for and the quality of tissue produced by our expanded Shelby, North Carolina operations when they are completed;
- consolidation and vertical integration of converting operations in the paperboard industry;
- our ability to successfully implement our operational efficiencies and cost savings strategies, along with related capital projects, and achieve the expected operational or financial results of those projects, including from the continuous digester at our Lewiston, Idaho facility;
- changes in the cost and availability of wood fiber and wood pulp;
- changes in transportation costs and disruptions in transportation services;
- labor disruptions;
- changes in the U.S. and international economies and in general economic conditions in the regions and industries in which we operate;
- manufacturing or operating disruptions, including IT system and IT system implementation failures, equipment malfunctions and damage to our manufacturing facilities;
- changes in costs for and availability of packaging supplies, chemicals, energy and maintenance and repairs;
- larger competitors having operational and other advantages;
- cyclical industry conditions;
- changes in expenses, required contributions and potential withdrawal costs associated with our pension plans;
- environmental liabilities or expenditures;
- cyber-security risks;
- reliance on a limited number of third-party suppliers for raw materials;
- our ability to attract, motivate, train and retain qualified and key personnel;
- material weaknesses in our internal control over financial reporting;
- our substantial indebtedness and ability to service our debt obligations;
- restrictions on our business from debt covenants and terms; and
- changes in laws, regulations or industry standards affecting our business.

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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.

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ITEM 1.

Business

GENERAL

Clearwater Paper manufactures quality consumer tissue, away-from-home (or AFH) tissue, parent roll tissue, bleached paperboard and pulp at manufacturing facilities across the nation. The Company is a premier supplier of private label tissue to major retailers and wholesale distributors, including grocery, drug, mass merchants and discount stores. In addition, the company produces bleached paperboard used by quality-conscious printers and packaging converters, and offers services that include custom sheeting, slitting and cutting. Clearwater Paper's employees build shareholder value by developing strong customer relationships through quality and service.

On December 16, 2016, we acquired Manchester Industries, or Manchester, an independently-owned paperboard sales, sheeting and distribution supplier to the packaging and commercial print industries. The addition of Manchester's customers to our paperboard business extended our reach and service platform to small and mid-sized folding carton plants, as we now offer a range of converting services that include custom sheeting, slitting and cutting. These converting operations include five strategically located facilities in Virginia, Pennsylvania, Indiana, Texas and Michigan.

On March 31, 2017, we permanently closed our Oklahoma City, Oklahoma converting facility.

On August 21, 2018, we completed the sale of our Ladysmith, Wisconsin tissue manufacturing facility to a private buyer.

Company Strengths

Leading private label tissue manufacturer with a broad U.S. footprint. Our Consumer Products business is a premier private label tissue manufacturer. We have through-air-dried, or TAD, tissue manufacturing facilities in Shelby, North Carolina and Las Vegas, Nevada, and non-TAD manufacturing facilities located in Lewiston, Idaho and Neenah, Wisconsin, as well as converting operations strategically located across the United States. In addition, in 2019 we expect to complete construction of a new NTT machine at our Shelby facility that will produce a variety of high-quality ultra-premium and premium bath, paper towel and napkin products. We believe we were the seventh largest tissue manufacturer in the North American tissue market as of December 31, 2018, based on tissue parent roll capacity. Our broad manufacturing footprint allows us to service a diverse customer base, on a cost effective basis, including major grocery store chains and retailers across the 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 tissue products, as well as recycled tissue and tissue parent rolls.

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 characteristics. Products are available in several thicknesses to provide the level of 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 ice cream containers, drink cups, health and beauty packaging, pharmaceutical packaging, and point of purchase displays.

Long-standing customer relationships. Our Consumer Products business supplies private label tissue products to several of the largest national retail chains. Our top 10 Consumer Products customers in 2018 accounted for approximately 80% of our total consumer products net sales. The average tenure of these customer relationships was approximately 12 years. Our Consumer Products business served 69 customers in 2018 across a broad geographic area. We also have long-standing customer relationships with our paperboard customers. Our top 10 paperboard customers in 2018 accounted for approximately 40% of our total paperboard net sales. The average tenure of these customer relationships was approximately 30 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, cups and liquid packaging products. This facility's geographic location reduces transportation costs to customers in North America as well as Asia, which allows us to compete on a cost-advantaged basis relative to East Coast producers. Our

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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.

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Largely integrated pulp and tissue operations. Our Consumer Products business sources a significant portion of its pulp supply internally from our pulp and paperboard operations in Idaho. This relationship provides our Consumer Products business with a secure pulp supply as well as significant transportation and drying cost savings, provides our pulp and paperboard business with a steady demand source and helps mitigate input cost volatility associated with purchasing external pulp.

Strategy

Our long-term strategy is to expand our business to meet the needs of our customers and optimize the profitability of both our consumer products business and our paperboard business. In the near-term, our focus is on successfully completing strategic capital projects, optimizing the operating efficiency and cost effectiveness of both segments of our company and reducing debt.

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 2016-2018, as well as geographic information regarding our net sales, is set forth in Note 19, "Segment Information" 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 customers. In 2018, our Consumer Products segment had net sales of \$884.8 million. A listing of our Consumer Products segment facilities is included under Part I, Item 2 of this report.

Tissue Industry Overview

The U.S. tissue market can be divided into two market segments: the at-home or consumer retail purchase segment, which represented approximately two-thirds of our U.S. tissue sales in 2018; and the AFH segment, which represents the remaining one-third of U.S. tissue market sales and includes tissue for locations such as 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 manufacturing 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 manufacture tissue products for 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 largely due to population growth in the U.S., that occur in a number of other paper industry segments. In addition to economic and demographic drivers, tissue demand is affected by product innovations and shifts in distribution channels.

Our Consumer Products Business

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. Because we do not mass 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 utilize independent companies to routinely test our product quality.

In bathroom tissue, the majority of our sales are high quality two-ply ultra and premium products. In paper towels, we produce and sell ultra quality 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. Value grade products utilizing recycled fiber are also produced for 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 90% of our Consumer Products segment sales in 2018.

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. As of December 31, 2018, our consumer products were manufactured on 8 paper machines at four facilities located throughout the U.S. Parent rolls from our paper machines are then converted and packaged at our converting facilities located across the U.S. Two of our paper machines, located in Las Vegas, Nevada and Shelby, North Carolina, produce TAD tissue that we convert into national brand comparable, ultra quality towels and bath tissue. Our new paper machine in Shelby, which we expect to be completed in early 2019 and will be fully operational in 2020, will provide national brand comparable ultra-premium and premium quality towels and bath tissue.

We had one customer in the Consumer Products segment, the Kroger Company, that accounted for approximately 11.1% of our total consolidated net sales in 2018, approximately 15.3%, of our total consolidated net sales in 2017, and approximately 13.4%, of our total company net sales in 2016.

We sell private label tissue products through our own sales force and compete 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. It also offers services that include custom sheeting, slitting and cutting of paperboard. This segment also produces hardwood and softwood pulp, which is primarily used as the basis for our paperboard products, and slush pulp, which supplies to our Consumer Products segment. In 2018, our Pulp and Paperboard segment had net sales of \$839.4 million. A listing of our Pulp and Paperboard segment 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, blister and carded packaging, top sheet, and commercial printing items. SBS paperboard is used for such 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. We also have the capability to produce targeted grades with a percentage of post-consumer furnish. SBS paperboard can also be extrusion coated with a barrier film to provide moisture protection for some uses.

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 converting to final end users. 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 Category. Folding carton is the largest portion of the SBS category of the U.S. paperboard industry, comprising approximately 40% of the category in 2018. 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 Category. 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 a wide range of consumable liquids, including alcoholic beverages. 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, hot noodle and dry food products.

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Commercial Printing Category. Commercial printing applications use bleached bristols, which are heavyweight paper grades, to produce postcards, signage and promotional literature. Bristols can be clay coated on one side or both sides for applications such as brochures, presentation folders and paperback book covers. 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 used in paper and paperboard production, usually at the same mill location. In those cases where a paper mill is not paired with pulp production operations or requires pulp with different production qualities, it must purchase pulp 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 pulp and paperboard facilities in Idaho, which has two paperboard machines, and Arkansas, which has one paperboard machine. As of December 31, 2018, we were one of the four largest producers of bleached paperboard in North America with approximately 14% of the available production capacity. Additionally, we provide custom sheeting, slitting, and cutting of paperboard products from five converting facilities.

Our overall pulp and paperboard production consists primarily of folding carton, liquid packaging, cup and plate products, blister and carded packaging, top sheet, 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 product quality requirements provide for differentiation among suppliers, generally resulting in margins that are more attractive than less demanding 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 standard food service products.

With the exception of our capability to supply just-in-time sheeting and narrow rolls, we do not produce converted paperboard end-products, so we are not simultaneously a supplier of and a competitor to our customers in key market segments, notably folding carton and cup. Of the five largest SBS paperboard producers in the U.S., we are the only producer that does not convert SBS paperboard into folding cartons, cups, plates, or liquid packaging end-use products. We position our independent status to attract a diverse group of loyal customers because when there is increased market demand for paperboard, we do not divert our production to internal uses.

We can convert paperboard parent rolls to flat sheets and narrow rolls, which expands our in-market service capabilities and allows us to support small and mid-sized folding carton converters that buy sheeted paperboard to convert into packaging end-products. Providing a service platform in this way expands the key folding carton segment of our business and does not compete with our customers in other key market segments.

At our Idaho facility we produce bleached softwood pulp primarily for internal use, including in our Consumer Products segment.

With the recent installation of a continuous pulp digester at our Idaho facility, our pulp mills are capable of producing approximately 904,000 tons of pulp on an annual basis. We completed the continuous pulp digester installation at our Idaho facility at the end of the third quarter of 2017. In 2018, we produced approximately 838,000 tons of pulp in the aggregate and utilized approximately 81% of that production, or approximately 680,000 tons, to produce approximately 810,000 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 approximately 19% of our pulp production, or approximately 156,000 tons, in our Consumer Products segment to produce tissue products. The remaining pulp production of less than 1%, or approximately 2,000 tons, was sold externally by our Consumer Products segment. 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 managers located throughout the U.S., with a

smaller percentage channeled through distribution to commercial printers. Additionally, we directly sell sheeted paperboard products to folding carton converters, merchants and 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. In 2018, our Consumer Products segment sourced approximately 51% of its total pulp supply internally, with the remainder purchased from external suppliers. We own and operate a wood chipping facility located in Clarkston, Washington, near our Lewiston, Idaho, facility, which we believe bolsters our wood fiber position and provides 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. A portion of the chemicals used in our manufacturing processes, particularly in the pulp-making process, are petroleum-based or are impacted by petroleum prices.

Transportation is a significant cost input for our business. Fuel prices, mileage driven and line-haul rates impact our transportation costs for delivery of raw materials to our manufacturing facilities, internal inventory transfers and delivery of our finished products to customers.

We consume substantial amounts of energy, such as electricity, hog fuel, steam and natural gas. 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 maintenance and repairs 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.

Further information regarding our raw material and input costs is included under "Operating Costs" within Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report.

SEASONALITY

Our Consumer Products segment experiences a decrease 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 certain grades of our Pulp and Paperboard segment during the first and fourth quarters, when compared to the 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.

EMPLOYEES

As of December 31, 2018, we had approximately 3,130 employees, of which approximately 1,750 were employed by our Consumer Products segment, approximately 1,230 were employed by our Pulp and Paperboard segment, and approximately 150 were corporate administration employees. This workforce consisted of approximately 710 salaried employees and approximately 2,420 hourly and fixed rate employees. As of December 31, 2018, approximately 48% of our workforce was covered under collective bargaining agreements.

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Unions represent hourly employees at three of our manufacturing sites. We had three hourly union labor contracts that expired in 2017 and 2018 and are currently being renegotiated:

CONTRACT EXPIRATION DATE	DIVISION AND LOCATION	UNION	APPROXIMATE NUMBER OF HOURLY EMPLOYEES
August 31, 2017	Consumer Products Division & Pulp & Paperboard Division - Lewiston, Idaho	United Steel Workers (USW)	855
August 31, 2017	Consumer Products Division & Pulp & Paperboard Division - Lewiston, Idaho	International Brotherhood of Electrical Workers (IBEW)	60
May 31, 2018	Pulp & Paperboard Division - Lewiston, Idaho, No. 4 Power Boiler Unit	International Association of Machinists (IAM)	30

The following hourly union labor contract expires in 2019:

CONTRACT EXPIRATION DATE	DIVISION AND LOCATION	UNION	APPROXIMATE NUMBER OF HOURLY EMPLOYEES
July 31, 2019	Pulp & Paperboard Division - Cypress Bend, Arkansas	United Steel Workers (USW)	260

EXECUTIVE OFFICERS OF THE REGISTRANT

The following individuals are deemed our “executive officers” under the Securities Exchange Act of 1934 as of December 31, 2018. 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 52), has served as President and Chief Executive Officer, as well as a director, since January 2013. Ms. Massman served as President and COO from November 2011 to December 2012. She served as CFO and Senior Vice President, Finance from May 2011 to November 2011, and as CFO and Vice President, Finance from December 2008 to May 2011. From September 2008 to December 2008, Ms. Massman served as Vice President of Potlatch Corporation pending completion of the spin-off of Clearwater Paper Corporation. From May 2002 to August 2008, Ms. Massman was Group Vice President, Finance and Corporate Planning, for SUPERVALU Inc., a grocery retail company. In 2017, Ms. Massman served in the position of board chair for the American Forest & Paper Association (AF&PA), the national trade association of the forest products industry. Ms. Massman has served as a director of TreeHouse Foods, Inc. (NYSE:THS) since July 2016 and is a member of its Audit Committee. She served as a member of their Nominating and Governance Committee from 2016 to 2018. Ms. Massman also served as a director of Black Hills Corporation (NYSE: BKH), an energy company, from January 2015 to July 2018 and was a member of its Compensation Committee.

John D. Hertz (age 52) 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. From June 2010 to June 2012, Mr. Hertz was the Vice President and Chief Financial Officer of Novellus Systems, Inc. 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 LLP.

Steve M. Bowden (age 55) has served as Senior Vice President, General Manager, Pulp and Paperboard Division since October 1, 2018. Prior to joining the company, from September 2016 to November 2017, Mr. Bowden was the North American Region Vice President - Labels for Constantia Fleibles, which was subsequently acquired by the Multi-Color Corporation at which he served as President, North America Food and Beverage Division from November 2017 to September 2018. From March 2013 to September 2016, Mr. Bowden was President and COO of Quality Associates, a contract packager. From March 2010 to September 2013, Mr. Bowden was the Executive Vice President, Marketing and Strategy of xpedx, a division of International Paper focused on the print, packaging, and facility supplies product segments. Mr. Bowden worked for International Paper for more than twenty-six years, including in sales management and as a manager of a coated paperboard mill.

Michael S. Gadd (age 54) has served as Senior Vice President since May 2011 and General Counsel and Corporate Secretary since December 2008. 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 January 2001 to January 2006, Mr. Gadd was an attorney with Perkins Coie, LLP in Portland, Oregon.

Arsen S. Kitch (age 37) has served as Senior Vice President, General Manager, Consumer Products Division since May 2018 and served as Vice President, General Manager, Consumer Products Division from January 2018 to May 2018. He served as Vice President, Finance from January 2015 through December 2017, and served as Senior Director, Strategy and Planning from August 2013 through December 2014. Mr. Kitch was with Nestlé, a food manufacturer, from 2011 to 2013 including as a Finance Director in his final position.

Kari G. Moyes (age 51) has served as Senior Vice President, Human Resources since February 2015, and served as Vice President, Labor Relations from July 2013 through January 2015. From November 2010 through June 2013, Ms. Moyes served as National Director of Human Resources for Nestlé. Prior to her tenure with Nestle, Ms. Moyes spent 10 years with Pepsico in various capacities.

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.

Increases in tissue supply, particularly in the premium and ultra categories, could adversely affect our operating results and financial condition.

Over the past few years, several new or refurbished premium and ultra-quality tissue paper machines have been completed or announced by us and by our competitors, including private label competitors, which will result in a substantial increase in the supply of premium and ultra-quality tissue in the North American market. Additionally, several new or refurbished conventional tissue machines have been installed or announced, including as a result of foreign competitors increasing their presence and operations in North America. We believe that increasing tissue capacity, together with intensifying competition experienced by our retail customers, has made it difficult for us to pass through to our customers the significant increases in input costs we have experienced in the last several years. If demand for tissue products in the North American market does not increase or consumer purchasing of premium and ultra-quality tissue do not increase commensurate with the increased capacity, the increase in supply of ultra-quality tissue products could have a material adverse affect on the price of premium and ultra-quality tissue products. In addition, increased supply of premium and ultra-quality tissue may adversely affect the market prices for such tissue and result in the displacement of demand for conventional tissue, which could adversely affect the market price for conventional tissue products, which will continue to represent a significant portion 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.

We derive a substantial amount of revenues from a concentrated group of customers. For example, our top 10 consumer products customers in 2018 accounted for approximately 80% of our total consumer products net sales. We have experienced increased price and promotion competition in our consumer products business, particularly in regards to ultra-quality products, and this competition has decreased our gross margins and adversely affected our financial condition. Our paperboard sales are also concentrated, with the top 10 paperboard customers in 2018 accounting for approximately 40% of our total paperboard net sales. If we lose any of these customers or a substantial portion of their business or if the terms of our relationshi