Clearwater Paper Corp
Form 10-Q
August 03, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2012

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _________ to _________

Commission File Number: 001-34146

CLEARWATER PAPER CORPORATION

(Exact name of registrant as specified in its charter)

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

The number of shares of common stock of the registrant outstanding as of July 25, 2012 was 23,253,968.

Table of Contents

CLEARWATER PAPER CORPORATION

Index to Form 10-Q

Table of Contents

Part I

ITEM 1. Condensed Consolidated Financial Statements

Clearwater Paper Corporation

Condensed Consolidated Statements of Operations

Unaudited (Dollars in thousands - except per-share amounts)

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales	**$ 473,572**	$ 494,627	**$ 931,370**	$ 960,457
Costs and expenses:				
Cost of sales	**(398,546)**	(433,358)	**(801,622)**	(848,278)
Selling, general and administrative expenses	**(30,529)**	(27,476)	**(59,603)**	(54,840)
Total operating costs and expenses	**(429,075)**	(460,834)	**(861,225)**	(903,118)
Income from operations	**44,497**	33,793	**70,145**	57,339
Interest expense, net	**(9,147)**	(10,992)	**(18,875)**	(22,325)
Other, net		(229)		(705)
Earnings before income taxes	**35,350**	22,572	**51,270**	34,309
Income tax provision	**(13,861)**	(8,649)	**(26,055)**	(14,782)
Net earnings	**$ 21,489**	$ 13,923	**$ 25,215**	$ 19,527
Net earnings per common share:				
Basic	**$ 0.92**	$ 0.60	**$ 1.08**	$ 0.85
Diluted	**0.91**	0.59	**1.07**	0.82

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

Table of Contents

Clearwater Paper Corporation

Condensed Consolidated Statements of Comprehensive Income

Unaudited (Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Net earnings	**$ 21,489**	$ 13,923	**$ 25,215**	$ 19,527
Other comprehensive income:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax expense of $1,095, $632, $2,381 and $1,634	**1,684**	989	**3,662**	2,556
Amortization of prior service credit included in net periodic cost, net of tax benefit of $289, $58, $403 and $117	**(444)**	(92)	**(620)**	(184)
Foreign currency translation adjustment		117		1,289
Amortization of deferred taxes related to actuarial gain on other postretirement employee benefit obligations		(57)		(115)
Other comprehensive income, net of tax	**1,240**	957	**3,042**	3,546
Comprehensive income	**$ 22,729**	$ 14,880	**$ 28,257**	$ 23,073

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

Table of Contents

Clearwater Paper Corporation

Condensed Consolidated Balance Sheets

Unaudited (Dollars in thousands except per-share amounts)

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash	**$ 17,215**	$ 8,439
Restricted cash	**770**	769
Short-term investments	**20,000**	55,001
Receivables, net	**171,394**	176,189
Taxes receivable	**13,813**	10,000
Inventories	**237,623**	244,071
Deferred tax assets	**25,878**	39,466
Prepaid expenses	**8,446**	11,396
Total current assets	**495,139**	545,331
Property, plant and equipment, net	**801,818**	735,566
Goodwill	**229,533**	229,533
Intangible assets, net	**46,485**	49,748
Other assets, net	**10,088**	11,140
TOTAL ASSETS	**$ 1,583,063**	$ 1,571,318
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$ 151,997**	$ 144,631
Current liability for pensions and other postretirement employee benefits	**9,861**	9,861
Total current liabilities	**161,858**	154,492
Long-term debt	**523,810**	523,694
Liability for pensions and other postretirement employee benefits	**199,196**	215,932
Other long-term obligations	**47,435**	48,474
Accrued taxes	**77,990**	74,464
Deferred tax liabilities	**70,528**	69,358
Stockholders equity:		
Preferred stock, par value $0.0001 per share, 5,000,000 authorized shares, no shares issued		
Common stock, par value $0.00005 per share, 100,000,000 authorized shares, 23,825,750 and 23,101,710 shares issued	**1**	1
Additional paid-in capital	**312,519**	315,965
Retained earnings	**320,768**	295,553
Treasury stock, at cost, common shares-571,782 and 333,300 shares repurchased	**(18,819)**	(11,350)
Accumulated other comprehensive loss, net of tax	**(112,223)**	(115,265)
Total stockholders equity	**502,246**	484,904
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 1,583,063**	$ 1,571,318

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

Table of Contents

Clearwater Paper Corporation

Condensed Consolidated Statements of Cash Flows

Unaudited (Dollars in thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	**$ 25,215**	$ 19,527
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	**39,278**	37,539
Deferred tax expense	**12,780**	10,653
Equity-based compensation expense	**3,631**	3,000
Employee benefit plans	**4,040**	4,170
Changes in working capital, net	**22,621**	(26,832)
Change in taxes receivable, net	**(3,813)**	(1,803)
Excess tax benefits from equity-based payment arrangements	**(5,793)**	
Change in non-current accrued taxes	**3,526**	1,362
Funding of qualified pension plans	**(15,525)**	(8,500)
Other, net	**2,340**	5,776
Net cash provided by operating activities	**88,300**	44,892
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in short-term investments, net	**35,001**	34,095
Additions to plant and equipment	**(100,919)**	(64,299)
Proceeds from sale of assets	**1,035**	
Net cash used for investing activities	**(64,883)**	(30,204)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of Cellu Tissue debt		(380)
Purchase of treasury stock	**(7,469)**	
Excess tax benefits from equity-based payment arrangements	**5,793**	
Payment of tax withholdings on equity-based payment arrangements	**(12,965)**	(1,498)
Other, net		2,783
Net cash (used for) provided by financing activities	**(14,641)**	905
Effect of exchange rate changes		(45)
Increase in cash	**8,776**	15,548
Cash at beginning of period	**8,439**	18,928
Cash at end of period	**$ 17,215**	$ 34,476
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	**$ 16,454**	$ 22,215
Cash paid for income taxes	**11,440**	35,469
Cash received from income tax refunds	**1,607**	29,282
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES:		

Increase in accrued plant and equipment	**$ 2,284**	$
Property acquired under capital lease		11,691

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

Table of Contents

Clearwater Paper Corporation

Notes to Condensed Consolidated Financial Statements

Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

We are engaged in the manufacturing and selling of pulp-based products. We currently manufacture quality consumer tissue, away-from-home tissue, parent roll tissue, machine-glazed tissue, bleached paperboard and pulp at 15 manufacturing locations in the U.S. and Canada. Our private label tissue products, such as 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 and is ultimately used by our customers to make packaging for products ranging from liquids to pharmaceuticals to consumer goods packaging, all of which demand high quality construction and print surfaces for graphics. Our products primarily utilize pulp made from wood fiber. In addition to wood fiber, other major cost categories include chemicals, transportation, energy, packaging, and costs associated with our manufacturing facilities.

On December 27, 2010, we acquired Cellu Tissue Holdings, Inc., or Cellu Tissue, and consolidated the acquisition in our financial statements as of that date. The financial position and results of Cellu Tissue s operations and cash flows are fully reflected in these condensed consolidated financial statements.

On November 28, 2011, we sold our Lewiston, Idaho sawmill to Idaho Forest Group, or IFG, of Coeur d Alene, Idaho. The transaction included the sale of our sawmill, planer mill, dry kilns and related assets along with log and finished goods inventories and timber under contract, in the aggregate amount of approximately $30 million. This sawmill was our only wood products facility.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Condensed Consolidated Balance Sheets at June 30, 2012 and December 31, 2011, the related Condensed Consolidated Statements of Operations and Comprehensive Income for the three months and six months ended June 30, 2012 and 2011, and the Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011, 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, 2011, as filed with the Securities and Exchange Commission, or SEC, on February 24, 2012.

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 period. Significant areas requiring the use of estimates and measurement of uncertainty include determination of net realizable value for deferred tax assets, assessment of impairment of long-lived assets and goodwill, assessment of environmental matters, equity-based compensation and pension and postretirement obligation assumptions. Actual results could differ from those estimates and assumptions.

RESTRICTED CASH AND SHORT-TERM INVESTMENTS

As of June 30, 2012, all restricted cash was classified as current and included in Restricted cash on our Condensed Consolidated Balance Sheet. Our short-term investments are invested largely in demand deposits, which have very short maturity periods, and they therefore earn an interest rate commensurate with low-risk instruments. We do not attempt to hedge our exposure to interest rate risk for our short-term investments.

Table of Contents

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 both June 30, 2012 and December 31, 2011, we had an allowance for doubtful accounts of $1.7 million.

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 $1,378.9 million and $1,342.7 million at June 30, 2012 and December 31, 2011, respectively.

For the three months and six months ended June 30, 2012, we capitalized $2.8 million and $4.9 million, respectively, of interest expense associated with the construction of our new tissue manufacturing and converting facilities in Shelby, North Carolina and improvements to our tissue manufacturing facility in Las Vegas, Nevada, compared to $1.0 million and $1.5 million for the same periods in 2011, respectively.

STOCKHOLDERS EQUITY

On July 28, 2011, we announced that our Board of Directors had declared a two-for-one stock split of our outstanding shares of common stock, which was effected in the form of a stock dividend distributed on August 26, 2011 to shareholders of record on August 12, 2011. On the August 26, 2011 distribution date, there were 11,373,460 shares of common stock outstanding. Immediately following the distribution date, there were 22,746,920 outstanding shares of common stock. All common share and per share amounts disclosed in our notes to the condensed consolidated financial statements have been adjusted for the stock split effected in the form of a stock dividend.

In addition, we also announced on July 28, 2011, that our Board of Directors had authorized the repurchase of up to $30.0 million of our common stock. Under our stock repurchase program, we may repurchase shares in the open market or as otherwise may be determined by management, subject to market conditions, business opportunities and other factors. We did not repurchase any shares in the first quarter of 2012. During the second quarter of 2012, we repurchased 238,482 shares of our outstanding common stock. As of June 30, 2012, we had $11.2 million of authorization remaining pursuant to our share repurchase program. We account for share repurchases under the program as treasury stock and record the amounts paid to repurchase shares at cost as a component of stockholders equity. We have not retired any treasury shares and may choose to reissue shares held in treasury stock in a future period.

DERIVATIVES

We had no activity during the three months and six months ended June 30, 2012 and 2011 that required hedge or derivative accounting treatment. However, to partially 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 June 30, 2012, these contracts covered approximately 29% of our expected average monthly natural gas requirements for the remainder of 2012, plus lesser amounts for 2013. These contracts qualify for treatment as normal purchases or normal sales under authoritative guidance and thus require no mark-to-market adjustment.

NOTE 2 Recently Adopted and New Accounting Standards

There were no new accounting standards adopted during the three months ended June 30, 2012. We reviewed all new accounting pronouncements issued in the period and concluded that there are none that could have a significant or material impact to our current or future financial statements or disclosures.

Table of Contents

NOTE 3 Inventories

Inventories at the balance sheet dates consist of:

(In thousands)	June 30, 2012	December 31, 2011
Pulp, paperboard and tissue products	**$ 161,027**	$ 162,426
Materials and supplies	**63,518**	62,376
Logs, pulpwood, chips and sawdust	**13,078**	17,713
Lumber		1,556
	$ 237,623	$ 244,071

Inventories are stated at the lower of market or current average cost using the average cost method. The last-in, first-out, or LIFO, method was previously used to determine cost of logs, wood fiber and the majority of lumber until the sale of our sawmill in November 2011. During the period ended March 31, 2012, the remaining lumber inventory from the sawmill was sold. The sale of this inventory, which was valued at costs prevailing in prior years under the LIFO method, had the effect of increasing earnings in the period ended March 31, 2012 by an immaterial amount.

NOTE 4 Intangible Assets

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

		June 30, 2012		
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 50,000	$ (8,460)	**$ 41,540**
Trade names and trademarks	10.0	5,300	(795)	**4,505**
Non-compete agreements	2.5	1,100	(660)	**440**
Total intangible assets		$ 56,400	$ (9,915)	**$ 46,485**

		December 31, 2011		
(Dollars in thousands, lives in years)	Useful Life	Historical Cost	Accumulated Amortization	Net Balance
Customer relationships	9.0	$ 50,000	$ (5,682)	$ 44,318
Trade names and trademarks	10.0	5,300	(530)	4,770
Non-compete agreements	2.5	1,100	(440)	660
Total intangible assets		$ 56,400	$ (6,652)	$ 49,748

NOTE 5 Taxes

Consistent with authoritative guidance, our estimated annual effective tax rate is used to allocate expected annual income tax expense to interim periods. The rate is the ratio of estimated annual income tax expense 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 expense 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 estimated annual effective tax rate for the second quarter of 2012 is 35.1%, compared with 35.2% for the comparable interim period in 2011. We recorded income tax expense of $13.9 million and $26.1 million in the three and six months ended June 30, 2012 compared to $8.6 million and $14.8 million in the three and six months ended June 30, 2011. The actual rates for the three and six months ended June 30, 2012 were 39.2% and 50.8%, respectively, compared to rates of 38.3% and 43.1% for the same periods of 2011. As discussed below, the higher rates for the six month periods resulted from the net impact of reporting discrete items in each reporting period totaling net expense of $8.1 million and $2.7 million, respectively.

Table of Contents

The net increase to our tax expense and effective tax rate for the six months ended June 30, 2012 was primarily the result of $5.5 million in tax expense related to our decision to convert certain gallons of alternative fuel originally claimed in 2009 under the Alternative Fuel Mixture Tax Credit, or AFMTC, which had been converted by us in 2010 to the Cellulosic Biofuel Producer Credit, or CBPC, back to gallons under the AFMTC. As further described in our Form 10-Q for the three months ended March 31, 2012, the $5.5 million was comprised of $2.5 million relating to the conversion back to the AFMTC and a resulting additional $3.0 million increase in our liabilities for uncertain tax positions. The remaining discrete expense of $2.6 million recorded in the six months ended June 30, 2012 was primarily interest accrued on uncertain tax positions.

The net increase to our tax expense and effective tax rate in the six months ended June 30, 2011 was primarily the result of discrete expenses for interest accrued on uncertain tax positions and the impact of reevaluating our state tax structure as Cellu Tissue was being integrated into our operations, partially offset by a benefit associated with certain transaction costs relating to the Cellu Tissue acquisition that were determined to be deductible under the Internal Revenue Code.

We have tax benefits relating to excess equity-based compensation that are being utilized to reduce our U.S. taxable income. Our Condensed Consolidated Balance Sheet reflects deferred tax assets comprised of net operating losses and tax credit carryforwards excluding amounts impacted by excess equity-based compensation. We have historically elected to follow the with-and-without or incremental method for ordering tax benefits derived from employee equity-based compensation awards. As a result of this method, net operating loss carryforwards and tax credit carryforwards not generated from equity-based compensation are utilized before the current period s equity-based tax deduction (excess tax benefits from equity-based compensation awards are recognized last). Excess tax benefits from equity-based compensation awards that are determined to reduce U.S. taxable income following this method are recognized when realized as increases to additional paid-in capital as a component of stockholders equity. During the six months ended June 30, 2012, we generated additional excess tax benefits of $13.9 million relating to the release of vested performance share and restricted stock unit awards to employees. For the six months ended June 30, 2012, $5.8 million of excess tax benefits have been allocated to additional paid-in capital and reduced income taxes payable based on the incremental method. As of June 30, 2012, we had a total amount of excess tax benefits that are not recognized on our condensed consolidated balance sheet of $11.4 million.

NOTE 6 Accounts Payable and Accrued Liabilities

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

(In thousands)	June 30, 2012	December 31, 2011
Trade accounts payable	**$ 77,691**	$ 65,040
Accrued wages, salaries and employee benefits	**36,309**	37,430
Accrued taxes other than income taxes payable	**7,103**	11,257
Accrued utilities	**6,895**	7,265
Accrued discounts and allowances	**5,726**	5,588
Accrued interest	**5,218**	5,245
Accrued transportation	**4,007**	3,801
Other	**9,048**	9,005
	$ 151,997	$ 144,631

NOTE 7 Debt

$375 MILLION SENIOR NOTES DUE 2018

On October 22, 2010, we sold $375.0 million aggregate principal amount of senior notes, which we refer to as the 2010 Notes. The 2010 Notes mature on November 1, 2018, have an interest rate of 7.125% and were issued at their face value.

The 2010 Notes are guaranteed by certain of our existing and future direct and indirect domestic subsidiaries. The 2010 Notes are equal in right of payment with all other existing and future unsecured senior indebtedness and are senior in right of payment to any future subordinated indebtedness. The 2010 Notes are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our secured revolving credit facility, which is secured by certain of our accounts receivable, inventory and cash. The terms of the 2010 Notes limit our ability and the ability of any restricted subsidiaries to borrow money; pay dividends; redeem or repurchase capital stock; make investments;

sell assets; create restrictions on the payment of dividends or other amounts to us from any restricted subsidiaries; enter into transactions with affiliates; enter into sale and lease back transactions; create liens; and consolidate, merge or sell all or substantially all of our assets.

Table of Contents

Prior to November 1, 2013, we may redeem up to 35% of the 2010 Notes at a redemption price equal to 107.125% of the principal amount plus accrued and unpaid interest with the proceeds from one or more qualified equity offerings. We have the option to redeem all or a portion of the 2010 Notes at any time before November 1, 2014 at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest and a make whole premium. On or after November 1, 2014, we may redeem all or a portion of the 2010 Notes at specified redemption prices plus accrued and unpaid interest. In addition, we may be required to make an offer to purchase the 2010 Notes upon the sale of certain assets and upon a change of control.

$150 MILLION SENIOR NOTES DUE 2016

In June 2009, we issued senior unsecured notes, which we refer to as the 2009 Notes, in the aggregate principal amount of $150.0 million. The 2009 Notes are due on June 15, 2016 and have an interest rate of 10.625%. The 2009 Notes were issued at a price equal to 98.792% of their face value.

The 2009 Notes are guaranteed by each of our existing and future direct and indirect domestic subsidiaries. The 2009 Notes are general unsecured obligations and are therefore not secured by our assets and are effectively subordinated to all of our existing and future secured indebtedness, including borrowings under our secured revolving credit facility, which is secured by certain of our accounts receivable, inventory and cash. The terms of the 2009 Notes limit our ability and the ability of any restricted subsidiaries to borrow money; pay dividends; redeem or repurchase capital stock; make investments; sell assets; create restrictions on the payment of dividends or other amounts to us from any restricted subsidiaries; enter into transactions with affiliates; enter into sale and lease back transactions; create liens; and consolidate, merge or sell all or substantially all of our assets.

We have the option to redeem all or a portion of the 2009 Notes at any time prior to June 15, 2013 at a redemption price equal to 100% of the principal amount thereof plus a make whole premium and accrued and unpaid interest. On or after June 15, 2013, we may redeem all or a portion of the 2009 Notes at specified redemption prices plus accrued and unpaid interest. In addition, we may be required to make an offer to purchase the 2009 Notes upon the sale of certain assets and upon a change of control.

REVOLVING CREDIT FACILITY

On November 26, 2008, we entered into a $125 million revolving credit facility with certain financial institutions. On September 28, 2011, we amended our revolving credit facility, among other things, (i) to extend the term of the revolving loan to the earlier of September 30, 2016 or 90 days prior to the maturity date of the 2009 Notes; (ii) to increase permitted capital expenditures limits; and (iii) to change the interest rate margins applicable to base rate loans and LIBOR loans in circumstances based on our fixed charge coverage ratio from time to time, and to reduce the fees paid by us on undrawn amounts. The amount available to us under the revolving credit facility is based on the lesser of 85% of our eligible accounts receivable plus approximately 65% of our eligible inventory, or $125 million.

As of June 30, 2012, there were no borrowings outstanding under the credit facility, but approximately $5.9 million of the credit facility was being used to support outstanding standby letters of credit. Loans under the credit facility bear interest at LIBOR plus between 1.75% and 2.25% for LIBOR loans, and a base rate effectively equal to the agent bank s prime rate plus between 0.25% and 0.75% for other loans. The percentage margin on all loans is based on our fixed charge coverage ratio for the last twelve months, which is recalculated on a quarterly basis. As of June 30, 2012, we would have been permitted to draw approximately $119.1 million under the credit facility at LIBOR plus 1.75%.

A minimum fixed charge coverage ratio is the only financial covenant requirement under our credit facility and is triggered when there are any commitments or obligations outstanding and availability falls below 12.5% or an event of default exists, at which time the minimum fixed charge coverage ratio must be at least 1.0-to-1.0. As of June 30, 2012, the fixed charge coverage ratio for the last twelve months was 3.1-to-1.0.

Our obligations under the revolving credit facility are secured by certain of our accounts receivable, inventory and cash. The terms of the credit facility agreement contain various provisions that limit our discretion in the operations of our business by restricting our ability to, among other things pay dividends; redeem or repurchase capital stock; create, incur or guarantee certain debt; incur liens on certain properties; make capital expenditures in amounts in excess of those permitted under the revolving credit agreement; enter into certain affiliate transactions; enter into certain hedging arrangements; and consolidate with or merge with another entity.

Table of Contents

NOTE 8 Other Long-Term Obligations

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

(In thousands)	June 30, 2012	December 31, 2011
Long-term lease obligations, net of current portion	**$ 25,421**	$ 25,546
Deferred proceeds	**11,945**	13,040
Deferred compensation	**8,417**	8,100
Other	**1,652**	1,788
	$ 47,435	$ 48,474

NOTE 9 Pension and Other Postretirement Employee Benefit Plans

The following table details the components of net periodic cost of our pension and other postretirement employee benefit, or OPEB, plans for the periods presented:

	Three months ended June 30:			
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
(In thousands)	2012	2011	2012	2011
Service cost	**$ 642**	$ 2,220	**$ 145**	$ 83
Interest cost	**3,684**	3,787	**1,274**	1,515
Expected return on plan assets	**(4,943)**	(4,956)		
Amortization of prior service cost (credit)	**158**	298	**(891)**	(448)
Amortization of actuarial loss (gain)	**3,095**	2,144	**(316)**	(523)
Net periodic cost	**$ 2,636**	$ 3,493	**$ 212**	$ 627

	Six months ended June 30:			
	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
(In thousands)	2012	2011	2012	2011
Service cost	**$ 1,242**	$ 3,863	**$ 347**	$ 351
Interest cost	**7,347**	7,546	**2,907**	3,429
Expected return on plan assets	**(9,843)**	(9,766)		
Amortization of prior service cost (credit)	**317**	596	**(1,340)**	(897)
Amortization of actuarial loss	**6,043**	4,190		
Net periodic cost	**$ 5,106**	$ 6,429	**$ 1,914**	$ 2,883

As discussed in the notes to our consolidated financial statements in our 2011 Form 10-K, our company-sponsored pension plans were underfunded by $89.1 million at December 31, 2011. The underfunded status as of December 31, 2011 increased by $33.7 million over the underfunded status as of December 31, 2010, primarily due to lower discount rates and low returns on pension asset investments. As a result of being underfunded, we are required to make contributions to our qualified pension plans. During the six months ended June 30, 2012, we contributed $15.5 million to these pension plans. In July 2012, we contributed an additional $2.1 million. Our remaining required contributions to our qualified pension plans in 2012 are currently expected to be approximately $3.0 million (plus interest).

During the six months ended June 30, 2012, we made approximately $0.1 million of contributions to our non-qualified pension plan, and we estimate contributions will total $0.2 million in 2012. We do not anticipate funding our OPEB plans in 2012 except to pay benefit costs as incurred during the year by plan participants.

Table of Contents

NOTE 10 Earnings per Common Share

Earnings per common share is computed by dividing net earnings by the weighted average number of common shares outstanding in accordance with accounting guidance related to earnings per share. The following table reconciles the number of common shares used in calculating the basic and diluted net earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Basic average common shares outstanding[1]	**23,459,784**	23,038,436	**23,325,406**	23,032,482
Incremental shares due to:				
Restricted stock units	**40,522**	263,624	**37,802**	263,002
Performance shares	**196,938**	406,504	**184,608**	414,476