MANAGEMENT DISCUSSION SECTION

Operator: Good day everyone, and welcome to the Clearwater Paper Second Quarter 2010 Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the conference over to Ms. Linda Massman. Please go ahead.

Linda K. Massman, Chief Financial Officer

Thank you. Good morning, and welcome to Clearwater Paper's second quarter 2010 conference call. A press release this morning includes the detail regarding our second quarter, and you'll find a presentation of supplemental information posted on the Investor Relations area of our website at clearwaterpaper.com.

Additionally, we provide certain non-GAAP information in this morning's discussion. A reconciliation of the non-GAAP information to comparable GAAP information is included in the supplemental material provided on our website and the schedules attached to our earnings release.

Before we get started, I would like to remind you that this presentation may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. These forward-looking statements are based on current expectations, estimates, assumptions and projections that are subject to change, and actual results may differ materially from the forward-looking statements.

Factors that could cause actual results to differ materially include those expressed or implied by risks and uncertainties described from time-to-time in our filings with the Securities and Exchange Commission, including our Form 10-K for the year ended December 31, 2009. Any forward-looking statements are made only as of this date, and we undertake no obligation to update any forward-looking statements.

On today's call with me is Gordon Jones, Chairman, President and CEO. I will begin today's call with financial highlights for the quarter and will be followed by Gordon, who will provide commentary on the different business segments and comment on the 2010 outlook for the business before we take questions.

We reported net earnings of $20.6 million or $1.75 of earnings per diluted share for the second quarter of 2010, compared to net earnings of $75.4 million or $6.43 of earnings per share in the second quarter of last year. Excluding alternative fuel mixture tax credits, renewable energy tax credits and debt retirement costs in the second quarter of 2009, last year's net earnings were $21.5 or $1.83 per diluted share.

EBITDA for Q2 2010 increased 13.2% to $49.2 million versus $43.4 million for Q2 2009, excluding the alternative fuel mixture tax credits for black liquor. Our EBITDA margins were 14.3% and 13.7% respectively for second quarter 2010 and second quarter of 2009.

Our consumer products segment had second quarter 2010 net sales of $145.4 million, for the quarter, which is an increase of 4.3% over Q2, 2009 net sales of $139.4 million. Segment operating income was $20.8 million for the quarter as compared to $32.2 million for the second quarter of 2009. The reduction in operating income was primarily attributable to higher pulp costs.

Our pulp and paperboard segment reported net sales of $217.9 million for the quarter, an increase of 14.9% over Q2, 2009 net sales of $189.7 million. This segment had operating income of $27.5 million for the second quarter of 2010 versus $83.3 million last year, which included alternative fuel mixture tax credits of $76.4 million. Excluding alternative fuel mixture tax credits, operating income would have been $6.9 million in the second quarter of 2009.

Our income tax provision was 12.6 million or a 38% effective tax rate for the second quarter of 2010, slightly higher than our annual estimated effective tax rate of 35%. Regarding the Cellulosic Biofuel Production Credit that you may have heard about, all we can really tell you at this point is it there are number of factors that need to be evaluated to determine which credit is best for the company and we are still reviewing the details of these two credits with our tax advisors.

Regarding our balance sheet and liquidity, we had $333 million of cash and short-term investments at June 30, 2010, representing an increase of $142.2 million from December 31, 2009. This was driven by strong operational performance and the receipt of $99.5 million in taxes receivable related primarily to the alternative fuel mixture tax credits. As a result, we had a $184.6 million net cash position, which includes cash in short term investments less outstanding debt providing us liquidity and capacity to fuel our growth objectives.

Our financial ratios remain very strong. Total debt-to-total capitalization excluding accumulated and other comprehensive loss was 22.4%, while EBITDA to net interest expense for the second quarter of 2010 was 11.9 times.

I will now turn the call over to Gordon.

Gordon L. Jones, Chairman, President and Chief Executive Officer

Thanks, Linda. We continue to have solid performance in both of our segments. Our consumer product segment continued to show revenue growth driven by a 7.2% increase in volume shift, which was partially offset by a 2.7% reduction in net selling prices. We maintained very high production levels and shipped 3749 more tons than we did in the second quarter of 2009. As a reminder these volume and pricing figures are available on our website as supplemental materials in the events and presentation section of the Investor Relations page.

Pricing has continued to remain relatively stable with a little more promotional spending as compared to last year. We experienced excellent production in paper making and converting, but experienced much higher input cost for pulp, which was the driver of lower earnings for the quarter in this segment.

Our pulp and paperboard segment had net sales 14.9% higher than the same quarter last year. The increase was attributable to a paperboard volume increase of 4.9% and a pricing increase of 3.5%. Adding to these gains were high dollar pulp sales driven by a 78.2% increase in market pulp pricing, which was reduced by a decrease of shipments compared to the second quarter of 2009. As it relates to our growth strategy, the better meet demand in our consumer product segment, we broke ground in early July on the site at Shelby, North Carolina our new converting facility. We estimate that the converting facility will be operational in the second half of next year and currently anticipate that the adjacent paper machine facility will begin initial production in the fourth quarter of 2012.

In support of selecting our Shelby, North Carolina site location, we were able to secure approximately $50 million of tax incentives. There is approximately 6 million of this that we benefit from upfront for the locations with the balance coming from potential tax reductions during operations. This does not change our overall cost estimate for the operation provided earlier.

I would now like to revise some comments on our outlook for the rest of 2010. In our consumer products business, the promotional environment continues to be competitive and volumes are expected to remain steady. In the pulp and paperboard segment, we expect continued solid performance. We expect the gains in pulp prices to moderate in the second half of 2010 with the rest of input costs expected to remain relatively stable.

Year-to-date 2010, we've had capital expenditures of 15.5 million and still expect to spend 40 to 45 million in total for the year. This 40 to $45 million number includes 11 million related for the construction of the two converting lines in North Carolina. We still expect to have scheduled major maintenance costs of 20 to 25 million in total in 2010, 16.9 million of which was already incurred in the first half of 2010.

In closing, we've had good financial results for the first half of the year and feel good about to state of our business. On a final note, we will be attending the Oppenheimer 5th Annual Industrials Conference in New York in late September and hope to see you there. Thank you for your attention and your interest in our company.

Operator, we will now take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instruction]. And the first question comes from Steve Chercover with D.A. Davidson Stock.

<Q – Steven Chercover>: Hi, good morning everyone.

<A – Gordon Jones>: Good morning Steve

<Q – Steve Chercover>: First question, it appears that tissue prices at least from Clearwater's realizations peaked in the fourth quarter of 2008, since that time has the gradual decline been a function of mix or increased promotional activity or can you give us some color please?

<A – Gordon Jones>: Steve, basically, I think yes and yes, it's a bit of the function of mix, the demand changes a little bit over time. When you start making comparisons from one period to the next, but there has been some increased promotional activity. We talked about that little bit on some other calls and the – I think that is probably the major cause for that little slippage. Overall when we look at it, if we look back at our supplementals there, which I am sure you have seen that are attached to this. There are not much movement on a price per ton basis here in the last couple of quarters and of course more movements on the second quarter of 2009, but I think generally based on promotions is probably a good way to look at that.

<Q – Steven Chercover>: And it's amazing to me as pulp prices were spiking some of the larger the branded names who are also non-integrated, didn't raise price, and I guess the pulp now rolling over, it's unlikely they will do so now. So when do you think. I mean this is almost to see change in their behavior, you know why they are not trying to try to maximize revenues anymore?

<A – Gordon Jones>: I really don't know Steve the answer to that question is. That of course will be a good one for them. But, from our aspect we've always said that we're good followers. We're always trying to do the best thing in the interest of our customers and all of our shareholders. So we are going to follow the market, follow the pricing trends as they happen. But, the brands will do, what the brands do. So, I just don't have a good answer for you.

<Q – Steven Chercover>: Yeah, okay. And then, you don't get the lumbers breakout anymore as a segment. Could you tell us, how lumber did in the quarter, what was the – was it profitable or – actually tell us what it was?

<A – Gordon Jones>: Yeah, absolutely. And I don't – we don't want that to be confusing for you. On that same supplemental chart which I think we listed like page 5 where it's got the sales price per unit. You probably notice a spike in pricing there on lumber and then down a little bit on the lumber board feet that we ran, that we had a bit of a spike in the second quarter on pricing with dimension, dimensional lumber, but we don't want to confuse that with an improving lumber situation because we really don't have an improving housing market and maybe a little better than it was over several months ago. But, it's not much better. Our numbers really reflect a switch to cedar, and when we run cedar, we run less of it. So our lumber board feet goes down a little bit as that happens and our price of course spikes. So, that's difference in price there it's not related to some huge change in lumber business. Lumber business is still struggling and is going to be struggling until housing market returns.

<Q – Steven Chercover>: Sure. I mean, was it profitable, how much did it make or lose?

<A – Gordon Jones>: Yeah, it's just not something that we're putting on anymore. It's a separate segment but it's – it's still part of ever since first quarter, our pulp and paperboard division. So we are incorporating it inside of everything.

<Q – Steven Chercover>: Yeah, gee. I wish you would pretty consider on them actually but – Okay. And then finally, on – unfortunately you had a bit of a – you had a fatality in the current quarter, do you loss a lot of time and has it – your investigation determined what happened there?

<A – Gordon Jones>: We're very – we feel very sorry about the tragedy that happened there and we're still investigating it Steve, it's a difficult one for all of us and no one feels good about that situation. So we've – we have been very careful to try to investigate the cause of that and they are still in the middle of doing that.

<Q – Steven Chercover>: And so, what's – I mean sticking to answers to the individual in the extended Clearwater family but did you loose a lot of production?

<A – Gordon Jones>: No, no. We did some but not anything that we would consider material.

<Q – Steven Chercover>: Okay. Thanks, I'll get back in the queue.

<A – Gordon Jones>: Okay.

Operator: And next we will go to Ian Zaffino with Oppenheimer.

<Q – Ian Zaffino>: Great. Thank you. I just wanted to follow up on last question about the pricing from your competitors, if they were really raising prices, when pulp is going up? Is there a risk that they are going to take pricing down or become even more promotional as pulp comes down?

<A – Gordon Jones>: Ian, it's a good question I just don't know I guess I would do as I mentioned to Steve, I'd have you focus on that with them. Our focus is about trying to meet our customer needs of course, our customers are using branded products, as well as our support through private label. So we are clearly trying to respond to them and our promotional activity comes from our customers who say that they need a little bit more here or a little bit more there or whatever that situation is. So we take our cues from our customers on that.

<Q – Ian Zaffino>: Okay. And then, the next question would be is and maybe this is a little too early maybe you could refresh our memories as to the process of how it works. The converting line that you've broken ground on, when do you begin to gauge demand, have you and if you have has anything really changed in your decision to do so? If you could just kind of give some color on that, that would be helpful. Thanks.

<A – Gordon Jones>: Yeah. Nothing has really changed relative to our RPL for the market, I think I've said in many public forums before that this is a growing market that tissue's a growing market, it grows at a depending on what range you want to pick but around 2% a year. In an eight million ton market, you need 160,000 tons just to keep up with the amount of demand that comes from population growth. So we still feel very good about the segment and don't really have any different assumptions relative to the demand for us on either converting or the paper machine, right now or last time.

<Q – Ian Zaffino>: Okay. Great. Thank you very much. Very good quarter.

Operator: And the following question comes from Kevin Cohen with Imperial Capital.

<Q – Kevin Cohen>: Good morning. Very nice quarter, guys. I'm wondering if you could talk a little bit about sort of the competitive dynamics out there in private label tissue gaining share and expense of the branded producers, one of the large producers talked about that, what are you guys kind of seeing out there on that side?

<A – Gordon Jones>: Well, we obviously were a bit prejudiced, but we feel very good about private label and our support of our customer base with private label. Private label has been doing well. And we think on behalf of our customers, it's been a good strategy that they've employed. So we're trying to support their particular strategy. We feel good about the kinds and types of quality that we're able to offer them so that we believe those competitive qualities make a difference in private label and make a difference on behalf of those customers. So I think as long as we can continue and we have every expectation to make high quality product on behalf of them, private label should do very well.

<Q – Kevin Cohen>: Is there anything that you could point to that might explain why the rate of market share gain seems to have accelerated for the private label guys?

<A – Gordon Jones>: Well, there's lots of speculation. I'm sure that folks have talked about, what about the economy, what about all of those kinds of things. But for us, it's really been – and as you know, we're highly concentrated in grocery stores, it's been about what the customers need relatively to quality. And when we try to focus on those particular needs and those particular SKUs required in those stores and the mix of product, those – that's the thing that's made the difference for us. So, we think and speaking obviously – strictly for ourselves, we think that that growth comes from our ability to satisfy customer needs as they want to use that private label in their store environments.

<Q – Kevin Cohen>: And do you think the gains of private label in terms of market share, do you think that might be causing some of the increased promotional activity that you alluded to in the prepared comments?

<A – Gordon Jones>: Well, it could – sort of a chicken and egg kind of thing, but it certainly could. The retailers themselves, as you listen to them, talk about their focus on private label. And of course, the private label for them isn't just about paper. Their private label is in a lot of goods that are in those stores. So, paper is certainly an important part of it. But I think that those folks as they tell us are very interested in offering good customer value and they believe private label does that and we want to support them in that belief.

<Q – Kevin Cohen>: And then, can you talk a little bit about the pulp cost side of the equation? Is there any way to sort of quantify in rough terms maybe the year-over-year change in pulp costs as we look at the consumer segment specifically?

<A – Gordon Jones>: Well, just a quick comment about the pulp market. You know – the pulp market we've said in our script, I believe that it's beginning to moderate. The pulp costs to us are an important indicator of what's really happened relative to CPT results for instance and PPD results. That's important to both, and we transfer that market between those two divisions. So, we watch pulp close. Something though that to remind the audience about is that we are net buyers of pulp. So, we buy about 85,000 tons a year of pulp. So, what happens is those pulp costs go up. We do get impacted by that net buying position of pulp. We're able to mitigate it a bit because we have a pulp drier that allows us to take advantage of the market. And – go back on that schedule on page 5, you can see what we've been able to do with external sales on pulp tons and pulp pricing which certainly is similar to what's happened to the rest of the market. But we mitigate the rising pulp market a bit with our pulp drier. But overall, we're still a net buyer of pulp; so we get impacted negatively when the pulp market resumes as it did in the last several months.

<Q – Kevin Cohen>: Sure, yeah, I was kind of sort of back into maybe what type of price improvement the company would need in tissue to sort of broadly speaking to recover that lost margin that was sort of the view there. And then especially on paperboard, any thoughts that? You did really well in the quarter.

<A – Gordon Jones>: Well, paperboard has been a very good performing segment for us for the entire year. They've done very well. They've run very well. Both of our operations, both in Cypress Bend and in Lewiston are running well. Pulp mill is running well. That's been very helpful to us. The general market for paperboard has been very good. There is a lot of demand out there from customers and we're working hard to try to satisfy that demand. That's really where the issue has been. The demand issue is significantly different than the demand last year, and fortunately, our Paperboard division has been performing up to that need.

<Q – Kevin Cohen>: Great, thanks. Good luck guys.

<A – Gordon Jones>: Thank you.

Operator: David Woodyatt with Keeley Asset Management has the next question.

<Q – David Woodyatt>: Yes, just a follow-up on what you just discussed. Can you run through when there have been price increases in paperboard and whether anything is scheduled for the third quarter?

<A – Gordon Jones>: Yeah, the – David, well, good morning first of all. But the – on paperboard, there were some increases in 2008. I believe there were four increases in 2008 and no increases in 2009. And then in 2010, there was some increase done early. Some suppliers were able to accomplish it, some learned and of course it was very mix-sensitive on whether or not that price could go up. So by looking at our numbers, you'd see that we improved our price a little bit in the first quarter over our fourth quarter and then we improved it a little bit more in the second quarter over the first quarter. So industry-wise, there has been kind of one general increase, if you will, over that particular time although we took it in a couple of different stages and based upon mix and where it made sense for us to do that.

There is, however, another movement in the industry relative to a price increase, and that is currently in the midst of implementation. And that would be, what I would call, sort of the second major industry effort although we did the first major industry effort kind of in two pieces here, overall industry was doing it basically at two pieces so far this year; so, kind of one across the first and second quarter and another, which is beginning in the third quarter.

<Q – David Woodyatt>: Generally, your good competitors in that area, are they generally integrated into pulp?

<A – Gordon Jones>: Yes.

<Q – David Woodyatt>: Pretty much the same as you are or are they...

<A – Gordon Jones>: They are. Yeah, they really are. Most of the competitors, when we look across the segment and see the major competitors of MeadWestvaco and IP and Georgia-Pacific, and Rock-Tenn and other companies like that, they all do have their own pulping operations. So they are integrated with pulp same way we are on our paperboard system.

<Q – David Woodyatt>: Okay, one last question. If we could think about a normal year, if we ever have such a thing again, and assuming no maintenance downtime, could you discuss a little bit whether or not there is any meaningful seasonality in your overall business?

<A – Gordon Jones>: Boy, that's probably the $64,000 question. That's a tough one. There is some seasonality, not so much in tissue. I mean tissue is tissue. There is a little seasonality when it comes to napkins or something like that relative to a picnic season or those kinds of things. But in facial tissue and maybe a little bit in facial tissue, but on household towels and toilet tissue, not much seasonality there. So really again the demand on tissue comes from population, not a whole lot of seasonality.

On paperboard, there is some more seasonality associated with that. Our demand curves look different in the spring and summer and early fall than they do across the winter months. We'll typically accelerate backlogs a little bit higher beginning in early spring and then last through sort of late fall and then they'll be a little bit lower across the holiday period and into the beginning of the year and then start to back up again. So there is a little seasonality associated with the paperboard business, but not much in CPD, our Consumer Products business.

<Q – David Woodyatt>: Okay, and lumber tends to be a little higher in the summer, I assume.

<A – Gordon Jones>: Right. Lumber would be a little bit higher; if we had a good housing market, that would certainly help pick up in the spring and summer and then taper off again in the winter.

<Q – David Woodyatt>: Okay. And any variation for market pulp?

<A – Gordon Jones>: No, market pulp is – it's very hard to predict that because market pulp is a global entity. And what happens of course there is you get everybody's climate, whether you're shipping it to Europe or South America or South Africa or wherever. So I wouldn't call it really seasonal. It's very market pulp, in my opinion, it's very just demand related based upon individual product line. And that whole market pulp segment really responds to what's the state of the uncoated free sheet business, what's the state of tissue business, what's the state of containerboard business, what's paperboard and all of the things that would use market pulp, those businesses really determine the demand curve there and not really the seasonality.

<Q – David Woodyatt>: Okay. Thank you.

<A – Gordon Jones>: Okay. Thanks, Dave.

Operator: And now, we'll go to Roger Spitz with Merrill Lynch.

<Q – Roger Spitz>: Thank you. Good morning.

<A – Gordon Jones>: Good morning, Roger.

<Q – Roger Spitz>: The 11.5 million sequential drop to Consumer Products' Costs and Other from Q1 '10, can you give us any sense of – of that 11.5 million, how much of that was due to the rising pulp price?

<A – Gordon Jones>: Yeah, a significant amount of it. I mean the, when you – you're talking about the overall profitability that I mentioned in the segment, and it's very much related to pulp. In fact it's virtually all pulp, Roger.

<Q – Roger Spitz>: Okay, great. And then looking further down on page three, the Costs and Other under – paper – Pulp and Paperboard in the same comparison Q2 to Q1, the 28 positive comparison, I suspect maybe 17 million perhaps was due to the major maintenance or lack thereof. Is that true and what would be the rest of the positive there?

<A – Linda Massman>: Roger, it is related to the maintenance, which was $16.9 million in the first quarter and the balance of that would just be good operating performance.

<Q – Roger Spitz>: Okay great. Thank you very much.

<A – Gordon Jones>: Thanks Roger.

Operator: Next we'll go to Dan Winn with Jersey Capital.

<Q>: Thank you very much for taking the call and a great quarter. My question – first question is around your capital structure. And your balance sheet, even when factoring in the CapEx for the TAD facility seems to be under-levered, and I'm wondering if you've thought incrementally now that majority of the initial planning for the TAD facility is probably behind you on what you will be doing with your incremental free cash flow, and if you're entertaining either a dividend or any sort of buyback at this period – at this time?

<A – Linda Massman>: Yeah Dan, with regard to our capital structure, clearly it appears as though we have a little bit of excess cash on our balance sheet. But even after that paper machine and converting announcement, I would just say that we continue to consider how we're going to deploy that cash, and we are evaluating all options. What we've said in the past is we deploy a pretty strategic set of alternatives that we go through and look at before deploying cash and those would range from organic growth expansion to dividend, to acquisition, to share buyback, and all of those are part of that evaluation process. And it's an ongoing exercise for us. And obviously, we also need to consider that cash deployment in light of the under-funded pension and our uncertain tax position, but all of that is under evaluation. Yes.

<Q>: Okay. Thank you for that. And could you give any clarity on what you're seeing in wood fiber costs? Where that is trending and what it was in the second quarter versus the first?

<A – Gordon Jones>: Well, it's been a little bit better for us. We do anticipate that there might be some changes going forward that – which might increase it a little bit, but don't know that for sure. Certainly, I mean our overall wood costs have been basically flat, if you will, basically stable. And that is not all that bad of course considering that we've had a pulp market that's accelerated pretty rapidly, albeit now going to moderate a little bit would be the expectation. But generally from a wood standpoint, we're not overly concerned about it.

<Q>: Okay. My last question is, when you look ahead two, three years from now when your TAD facility is fully up and running, is it your expectation that you will be getting incremental shelf space with your retail customers or are they demanding the TAD product in lieu of some of the product that you're selling them now? Thank you.

<A – Gordon Jones>: It's – again a good question, it just – it really of course depends on how our customers feel about and what they want to do with their shelf spaces and SKUs at that particular time. I mean our overriding concept here is that we think that's an important part of our mix offering to those customers to be able to offer that high quality, high quality product, to be able to run into that ultra tissue segment. So, and of course the plant in North Carolina is geographically positioned to do just that.

But with all of that having been said, we're still in a growing tissue environment, we feel very good about the overall tissue environment. It isn't just the ultra paper, it's also growing demand for conventional paper driven by population growth. So, you may have some customers that want to focus on the ultra, some that want to focus on conventional. We don't know if they would displace one with the other. Obviously, maybe my best guess is that they will want both – and because there is demand in both and each of those.

<Q>: I guess a quick follow-up. Are there any accounts or geographies that you are not in now you think you will be able to service once you have this new product offering?

<A – Gordon Jones>: Well, we're really taking a look at it all. I mean we are heavily oriented right now into the grocery stores segment across the country, and that's really – we're even limited by our capabilities in having to buy in paper. I've mentioned on the previous quarterly call that we purchase paper from the outside in order to be able to support our needs. So one of the things that will help us when that new machine comes up in North Carolina is we will have more paper and more converting capacity. So, at that time it's going to be a function of what do the grocery stores need and what do the other categories in paper need. And now we will be there. There is a – we think a real need in the East Coast and for more of what we have to offer and we're counting on that extra paper coming out of North Carolina and extra converting to satisfy that need on the East. So whether or not we jump into different categories is going to be dependent very much upon the market situation where we are at that time. But right now, we feel very good about where demand is.

<Q>: Thank you.

<A – Gordon Jones>: You bet.

Operator: The next question comes from Michael Wasserman with SPRING SEEDS Capital .

<Q>: Hey, good morning. Congratulations on a great quarter.

<A – Gordon Jones>: Thank you, Michael.

<Q>: Welcome. One quick question. As you expand eastward with the addition of this new North Carolina facility, are there going to be any material distribution savings in your Consumer segment, any inter-milling that you're going to be saving on?

<A – Gordon Jones>: Yes, there's a lot of opportunity for that. In fact, that's one of the reasons why we feel good about putting that in North Carolina. I mean, right now, we have a national footprint. And as you know, we have paper making capacity in Lewiston, Idaho and also Las Vegas, that's where our paper making is. And then, of course, we're buying some kind of rolls of paper to support us to. And we have converting facilities in Chicago but until the North Carolina plant comes up, that's as far east as we actually have manufacturing capability, and we only have paper making capabilities in Idaho and Las Vegas. So when we get that kind of paper making capacity in the east, we will certainly have those parent rolls of paper much closer to our customer base than they are today. And that should help us a lot on freight savings. We're looking for logistics to help us out a lot.

<Q>: Do you have any idea on that annualized number?

<A – Gordon Jones>: I don't – we do, but we really haven't disclosed what that particularly is. It's all in our minds and the justification for why that plant is where it is.

<Q>: Okay. And when you get these converting lines up and running, you mentioned earlier that you sourced strategically on the parent rolls. Do you have any long term agreements where you're going to be able to supply this through 2012, up until the TMs are running?

<A – Gordon Jones>: No, I don't know that we've disclosed that other than just say that, we do have plans on how do we integrate that new paper machine in, Michael, and we're comfortable about it. One of the things that of course weighs on how much you need there is, is how well do our existing paper machines run and then – compare it to the market demand. So, it's pretty hard to know exactly what we're going to need during that time, but our projections all say that we're going to be able to source what we need in order to have a smooth transition into that paper machine.

<Q>: Okay. And one final question. Reading through your Qs and your Ks, I didn't see anything about this. So maybe you can comment, but are there any long term hedging agreements for the 85,000 tons of pulp that you currently source in the open market?

<A – Gordon Jones>: No. There's really not. We're doing that in the open market, we're doing it under arrangements with a number of suppliers. We think we're doing it very effectively and agreements that we have with them. But there is not really any good, in our opinion, no good way of really formally hedging that in a market, that there used to be some activity on that regard in the London Exchange a few years ago. But that never really panned out. So I've – no, we really don't do an official formal kind of hedging, we just stay very close to our suppliers and make sure they know what we need.

<Q>: Great. Thank you very much, and congratulations, again.

<A – Gordon Jones>: Great. Thanks, Michael.

Operator: We'll take the next question from [inaudible].

<Q>: Good morning.

<A – Gordon Jones>: Good morning.

<Q>: I have three questions actually. You talked about $6 million that you're going to recognize upfront with the North Carolina facility and I was curious where that's going to show up, and how it's going to show up, and when it's going to show up, I guess?

<A – Linda Massman>: Yeah, Russ, that is associated with like for example, the cost of land and what not. So it doesn't really "show up". Our estimate of 260 to $280 million cost for this facility had already factored that in. So that's still a good number to use when looking at that investment.

<Q>: Okay. And then, of the $27 million associated in terms of the operating income of both the pulp and the paper board, I was curious, how much of that was associated with pulp?

<A – Gordon Jones>: From the pure external pulp sales, besides that?

<Q>: Yeah.

<A – Gordon Jones>: Well, let me – let's find our number here. That's not one that's jumping right off the page on us relative to pulp and it's not that easy frankly for us to get it because of the integrated nature of our business. So, we'll move around on that a little bit, why don't you ask your questions while we try to come up with that one?

<Q>: And then – I'm relatively new to the company, I just can't understand. So the 85,000 tons that you acquire outside of your total consumption of pulp on an annual basis, what does that represent?

<A – Gordon Jones>: Well, if we start with the two major operations, of course, and not counting Las Vegas. Las Vegas is going to make about 35, 36,000 tons a year, but – and they're going to be running without a pulp mill. The two large paper board and pulping operations [inaudible]. We're pushing almost about 1 million tons there across both of those types of operations. So when we break that down, and let's say, we've got about a little more than half of it heads into the paper board operation in Lewiston and the balance of it goes to cyber spend and then we bring in outside pulp, where it gets a little bit confusing is that we actually purchase outside pulp both for our paper board division to help give us the smoothness on our softwood sheet in Idaho and we also purchase pulp for our tissue operations to run not only in Las Vegas but to support us at Lewiston.

So, how we get to that 85,000 net number is really after we produce all the pulp that we need and after we buy it in for both divisions, we end up with that net sort of 85,000 position and that of course, includes the subtraction out of what we sold. So we're a bigger buyer, if you will, than

85,000 tons. We're closer to at least double that on the buy side but it's a net position across the company after we subtract away what we're selling on the – outside in external pulp. Is that confusing enough for you?

<Q>: No, I think I understand that. I guess, the million tons is what you produce and consume internally, so if you have a net buyer of 85,000 that will in essence represent the 8.5% of your pulp, so to speak, is purchase outside. Is that way to look at it?

<A – Gordon Jones>: Yeah, I think you could say purchase outside is more like 10% of our total usage and 90% of our new finance. That might be just a simpler or more simplified way

<Q>: Okay. Okay, thank you very much.

<A – Gordon Jones>: Okay.

Operator: [Operator Instructions] The next we'll go to Jonathon Goldrath with Fortress.

<A – Gordon Jones>: Hi, Jonathan.

<Q>: Hey, guys. Good morning.

<A – Gordon Jones>: Good morning

<Q>: Good morning. Great quarter and especially in regards to cash. Can you guys – just following up on the previous question. Can you guys go into the under funded pension issue and how that sort of effects your cash flow needs going forward?

<A – Linda Massman>: Yeah. Jonathan, that's difficult to predict, I would say, I think, our expectation is that we'll take some funding and you saw us contribute about $6.1 million so far through second quarter, and we actually contributed a bit more in third quarter for a total of $15.1 million this year. So it's really going to be dependent on what happens to the market and how the liability grows which is incredibly difficult to know at this time.

<Q>: Okay. Can you guys discuss if you have a threshold of a new expansion deal or any CapEx projects versus returning to shareholders cash in any other ways?

<A – Linda Massman>: Yeah, I think my previous comment about how we look at deployment of cash and capital, we still stand through we really look at it in more in the light of the best way to strategically deploy cash to return the best long-term value to the shareholders. And we look at that across the strategic options that we have available to us

<Q>: And do you guys have a timeframe for when you make those decisions as the cash $330 million just sitting there as you guys pay 10.625 coupon on $150 million of debt?

<A – Linda Massman>: Yeah, it's something that we routinely look at. So it's an ongoing exercise for us. It's the best way to describe that.

<Q>: Okay. Thanks, guys.

<A – Gordon Jones>: Okay. Thanks, Jonathan

Operator: Following question from Eric Hollowaty with Stephens Incorporated.

<Q – Eric Hollowaty>: Hi. I'm working four conference calls simultaneously this morning, so if any of these are repeats, please just direct to me to the transcript to the recording. But a couple, just start off, did you guys addressed to cellulosic biofuel credit issue?

<A – Linda Massman>: Yeah we did touch on it just ever so briefly just mentioning that there's obviously a lot of moving parts associated with that credit and that we're currently working with our tax advisors to determine what the best answer is for Clearwater Paper.

<Q – Eric Hollowaty>: Okay, great. And on the paper board business, couple of questions, again, if you already addressed these, I'm happy to be waked off. In terms of backlog several of your peers in the industry have reported very strong order backlogs on SPS, in the range in 5 to 9 weeks. Is that something you guys are seeing as well? And then also on pricing, you mentioned in Q1 you thought there was a price realization that could happen in Q2, and do you think that going forward into Q3 and maybe beyond, there's also small price realization that can happen? Thanks.

<A – Gordon Jones>: Sure let me address that, Eric. First on backlog, is that, I would say, it's fair that we're consistent with the industry relative to the backlog level. We're not typically releasing what those backlog levels are but we have very strong backlog. So, we're consistent with the industry there. On pricing, and I did mentioned a little bit about before but just I think it might be helpful to restate it, the pricing for our paper board business, we moved a little bit in the first quarter from the fourth quarter and then moved a little bit more in the second quarter. So we really took the first industry paper board increase kind of in two pieces, if you will, and some other folks did whatever they did, but we kind of did it in pieces depending upon mix. And there is a current second paper board increase that is being executed now sort of across the industry and of course, we're participating with that. So that's really where we are. Think of us as participating in two industry changes in price although our first industry change in price, we really took in two segments a little bit in first quarter and a little bit in the second quarter.

<Q – Eric Hollowaty>: Yeah. Would it be reasonable to expect that for future increases you kind of see it roll through the P&L in a similar format, meaning, spread over maybe two to three quarters?

<A – Gordon Jones>: Well, it could happen because we have different relationships with different customers and the different categorize. So yeah, it could happen if not necessarily been our history to see it all just goes planned right at one particular moment in time.

<Q – Eric Hollowaty>: Right.

<A – Gordon Jones>: So it does kind of happen depending upon the mix of business we have at that point in time.

<Q – Eric Hollowaty>: Sure. One other one, while I have you here on the major maintenance and repair. Originally, in the fourth quarter, I think it was when you gave guidance on that for the year, I think it was a bit higher than what you disclosed in your most recent 10-Q for the first quarter, where I believe you said you're expecting 5 to $6 million in total I assumed that was for the back half of 2010. Is that still a reasonable run rate to expect in 2H?

<A – Linda Massman>: Yeah, our current forecast is that we'll spend between 20 to $25 million during 2010 of which we spent $16.9 million in Q1, the balance will likely be spread equally over Q3 and Q4.

<Q – Eric Hollowaty>: Okay.

<A – Linda Massman>: Okay.

<Q – Eric Hollowaty>: Thanks much.

<A – Gordon Jones>: Okay. Thanks, Eric

Operator: And our final question will come from Chris Orski with [inaudible].

<Q>: Hey, good morning, guys.

<A – Gordon Jones>: Good morning, Chris.

<Q>: Hey. So – actually, all my questions were answered in the last 10 minutes. I think just one issue I was sort of just curious about, on a relative basis, you guys are obviously a pretty new company. And you look at – obviously, your revenue and even on a mark-to-cap basis you aren't that small. So, I was just wondering, if there is anything proactive that you're thinking about in terms of marketing the company and really getting the Clearwater story out to the rest of the street.

<A – Gordon Jones>: Well, we are very interested in that and one of the things I had mentioned in my script is that we're going to attend the Oppenheimer Annual Industrials Conference in New York in late September. So, I mean, we're working hard on a number of Investor Relations fronts here to get the story out because – and why I think you're absolutely right, I think that we would serve our shareholders and all of our stakeholders better, the better we are communicating our message. So we are going to do a number of things and have started to do a number of things in our opinion that are proactively getting on message out.

<Q>: Okay, great. Yeah. That's all I had.

<A – Gordon Jones>: Great, thank you

<Q>: Thanks.

Operator: And this does conclude today's Q&A session. I would now like to turn the conference back over to our speakers for any additional or close remark

Gordon L. Jones, Chairman, President and Chief Executive Officer

We thank everyone for listening today. We very much appreciate the questions. Obviously, we feel good about our financial results for the quarter, and we look forward to talking to you again next quarter. Thank you very much for your participation.

Operator: Once again this does conclude today's conference. We do thank you for joining us.