

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-Q

(Mark One)

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended September 30, 2010

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 ☒ 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 ☐ 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 ☐

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 ☒

The number of shares of common stock of the registrant outstanding as of October 29, 2010 was 11,478,909.

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CLEARWATER PAPER CORPORATION

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Part I

ITEM 1. Condensed Financial Statements

Clearwater Paper Corporation

Condensed Statements of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$352,927	\$331,484	\$1,027,408	\$935,089
Costs and expenses:				
Cost of sales	303,542	282,485	891,921	795,152
Selling, general and administrative expenses	20,886	18,627	59,124	52,655
	324,428	301,112	951,045	847,807
Alternative fuel mixture tax credit	—	47,137	—	123,510
Earnings before interest, debt retirement costs and income taxes	28,499	77,509	76,363	210,792
Interest expense, net	(3,819)	(4,277)	(12,236)	(11,271)
Debt retirement costs	—	—	—	(6,250)
Earnings before income taxes	24,680	73,232	64,127	193,271
Income tax provision	9,692	27,023	28,113	57,967
Net earnings	\$ 14,988	\$ 46,209	\$ 36,014	\$135,304
Net earnings per common share:				
Basic	\$ 1.31	\$ 4.07	\$ 3.14	\$ 11.91
Diluted	1.27	3.92	3.05	11.54

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

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

	September 30, 2010	December 31, 2009
ASSETS		
Current assets:		
Cash	\$ 21,507	\$ 2,824
Short-term investments	335,168	187,926
Receivables, net	111,235	94,458
Taxes receivable	2,936	101,343
Inventories	145,276	169,761
Deferred tax assets	11,419	12,926
Prepaid expenses	3,970	3,053
Total current assets	631,511	572,291
Land	5,228	4,729
Plant and equipment, net	349,012	359,295
Deferred tax assets	10,155	4,205
Other assets	7,427	6,943
	<u>\$1,003,333</u>	<u>\$ 947,463</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 122,939	\$ 109,775
Current liability for pensions and other postretirement employee benefits	9,933	9,933
Total current liabilities	132,872	119,708
Long-term debt	148,429	148,285
Liability for pensions and other postretirement employee benefits	224,438	236,422
Other long-term obligations	10,150	5,825
Accrued taxes	75,414	73,487
Stockholders' equity:		
Preferred stock, par value \$0.0001 per share, 5,000,000 authorized shares, no shares issued	—	—
Common stock, par value \$0.0001 per share, 100,000,000 authorized shares, 11,478,909 and 11,366,129 shares issued	1	1
Additional paid-in capital	311,178	308,618
Retained earnings	218,093	182,079
Accumulated other comprehensive loss, net of tax	(117,242)	(126,962)
Total stockholders' equity	412,030	363,736
	<u>\$1,003,333</u>	<u>\$ 947,463</u>

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

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

	Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATIONS		
Net earnings	\$ 36,014	\$ 135,304
Adjustments to reconcile net earnings to net operating cash flows:		
Depreciation and amortization	35,507	35,170
Debt retirement costs	—	6,250
Deferred taxes	626	(298)
Equity-based compensation expense	6,394	3,679
Employee benefit plans	8,062	7,819
Change in taxes receivable	98,407	(69,715)
Working capital changes	18,264	13,165
Excess tax benefit from equity-based payment arrangements	(2,615)	(18)
Change in non-current accrued taxes	1,927	52,267
Funding of qualified pension plans	(15,100)	—
Other, net	2,268	(575)
Net cash provided by operating activities	189,754	183,048
CASH FLOWS FROM INVESTING		
Change in short-term investments	(147,072)	(135,203)
Additions to plant and equipment	(23,111)	(14,498)
Net cash used for investing activities	(170,183)	(149,701)
CASH FLOWS FROM FINANCING		
Change in book overdrafts	256	(4,360)
Net proceeds from long-term debt	—	145,188
Repayment of notes payable	—	(50,000)
Repayment of note payable to Potlatch	—	(106,250)
Repayment of payable to Potlatch	—	(16,529)
Deferred loan fees	—	(1,232)
Excess tax benefit from equity-based payment arrangements	2,615	18
Payment of employee restricted stock tax withholdings	(3,470)	—
Other, net	(289)	(751)
Net cash used for financing activities	(888)	(33,916)
Increase (decrease) in cash	18,683	(569)
Balance at beginning of period	2,824	3,218
Balance at end of period	\$ 21,507	\$ 2,649

Cash payments for income taxes for the nine months ended September 30, 2010 and 2009 were \$26.0 million and \$42.8 million, respectively. Cash received from income tax refunds for the nine months ended September 30, 2010 was \$99.5 million. Net interest payments for the nine months ended September 30, 2010 and 2009 were \$8.0 million and \$6.9 million, respectively.

Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net earnings	\$14,988	\$46,209	\$36,014	\$135,304
Other comprehensive income, net of tax:				
Defined benefit pension and other postretirement employee benefits:				
Amortization of actuarial loss included in net periodic cost, net of tax expense of \$1,048, \$1,127, \$3,145 and \$3,040	1,640	1,762	4,920	4,754
Amortization of prior service credit included in net periodic cost, net of tax benefit of \$57, \$60, \$172 and \$195	(90)	(93)	(270)	(304)
Recognition of deferred taxes related to actuarial gain on other postretirement employee benefit obligations	—	—	5,070	—
Other comprehensive income, net of tax	1,550	1,669	9,720	4,450
Comprehensive income	\$16,538	\$47,878	\$45,734	\$139,754

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

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Clearwater Paper Corporation
Notes to Condensed Financial Statements
Unaudited

NOTE 1 Nature of Operations and Basis of Presentation

GENERAL

Clearwater Paper is principally engaged in the manufacturing and selling of pulp-based products. We are a leading producer of private label tissue products sold in grocery stores in the United States, and we manufacture and market bleached paperboard for the high-end segment of the packaging industry. We also manufacture and market bleached pulp and wood products, including appearance grade cedar and dimensional framing lumber products.

Our businesses were owned by, and we were a subsidiary of, Potlatch Corporation, to which we refer in this report as Potlatch, until our spin-off on December 16, 2008.

ANNOUNCED ACQUISITION OF CELLU TISSUE HOLDINGS, INC.

On September 16, 2010, we announced our agreement to acquire Cellu Tissue Holdings, Inc., or Cellu Tissue, for approximately \$518 million, including equity value of approximately \$247 million and net debt of approximately \$271 million. Cellu Tissue is an Alpharetta, Georgia-based integrated manufacturer of tissue products and reported \$511.3 million in net sales for its fiscal year ended February 28, 2010.

The acquisition has been unanimously approved by both companies' boards of directors and is expected to close in the fourth quarter of 2010, following Cellu Tissue stockholder approval and other customary closing conditions. We expect to pay \$12.00 per share in cash for Cellu Tissue's outstanding common stock and intend to fund the acquisition using a combination of existing cash on hand and proceeds from the \$375 million of debt financing that was completed on October 22, 2010 (see discussion regarding new debt issuance in Note 5). In connection with the acquisition of Cellu Tissue, we intend to tender for, or defease, Cellu Tissue's outstanding 11.50% senior secured notes due in 2014.

FINANCIAL STATEMENT PREPARATION AND PRESENTATION

The accompanying Condensed Balance Sheets at September 30, 2010 and December 31, 2009, and the related Condensed Statements of Operations, Cash Flows, and Comprehensive Income for the three months and nine months ended September 30, 2010 and 2009 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, 2009, as filed with the Securities and Exchange Commission, or SEC, on February 26, 2010.

We evaluated all subsequent events through the date these financial statements are being filed with the SEC. Except as described in Notes 3 and 5, there were no events or transactions occurring during this subsequent event reporting period that require disclosure in the notes to condensed financial statements.

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 the determination of net realizable value for deferred tax assets, environmental matters, and pension and postretirement obligation assumptions. Actual results could differ from those estimates and assumptions.

TRADE ACCOUNTS RECEIVABLE

As of September 30, 2010 and December 31, 2009, we had an allowance of \$1.0 million for doubtful accounts based on our estimates of the collectability of outstanding receivables as of those dates.

INVENTORIES

Inventories are stated at the lower of current average cost or market, except that the last-in, first-out method is used to determine cost of logs, chips, sawdust and the majority of our lumber. The average cost method is used to determine the cost of all other inventories.

PROPERTIES

Land, 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. Estimated useful lives range from 30 to 40 years for buildings and structures, and 2 to 25 years for equipment. Accumulated depreciation totaled \$1,281.2 million and \$1,251.3 million at September 30, 2010 and December 31, 2009, respectively.

During the three months ended September 30, 2010, we received a land grant from the local government valued at \$0.5 million in connection with the building of our new tissue manufacturing facilities in Shelby, North Carolina.

NOTE 2 Recently Adopted and New Accounting Standards

There were no new accounting standards adopted during the three months ended September 30, 2010. We reviewed all new accounting pronouncements issued in the period and concluded that they are not applicable to our business.

NOTE 3 Taxes

The effective income tax rate was 43.8% for the nine months ended September 30, 2010, compared to an effective income tax rate of 30.0% for the same period of 2009. The higher effective tax rate for the nine months ended September 30, 2010, is primarily due to two discrete items: the passage of the Patient Protection and Affordable Care Act of 2010, as discussed below, which had an unfavorable impact of 5.5%; and an increase in the reserve for uncertain tax positions due to accrued interest, which had an unfavorable impact of 3.3%. Excluding these and other discrete items, the annual effective tax rate for the year is estimated to be 34.8%.

As a result of the March 2010 enactment of the Patient Protection and Affordable Care Act of 2010, as modified by the Health Care and Education Reconciliation Act of 2010, we were required to reverse deferred tax assets of \$4.4 million through the tax provision as a result of the elimination of the income tax deduction related to prescription drug benefits provided to retirees and reimbursed under the Medicare Part D retiree drug subsidy beginning in January 2013.

In the nine months ended September 30, 2010, we did not record any income in connection with the alternative fuel mixture tax credit related to black liquor due to the termination of the tax credit for such use at the end of 2009. During the nine months ended September 30, 2010, we received \$99.5 million from the Federal Government, of which \$83.2 million reflects amounts related to the alternative fuel mixture tax credit earned in 2009 that was included in "Taxes receivable" on our December 31, 2009 balance sheet.

Subsequent to September 30, 2010, the Internal Revenue Service issued guidance clarifying the treatment of the cellulosic biofuel producer credit, or CBPC, and the alternative fuel mixture tax credit in regards to the production or use of black liquor at the same facility, in the same tax year. Under the guidance provided, both credits may be claimed in the same year as long as the credits are not claimed for the same gallons of fuel. Given this clarification, and because we have been registered as a CBPC producer, we intend to amend our 2009 corporate income tax return and claim approximately 24.5 million gallons of fuel under the CBPC for that portion of black liquor produced in 2009 for which we did not claim the alternative fuel mixture tax credit. We estimate that this will equate to an additional federal income tax credit of \$24.7 million, which we expect to recognize in the fourth quarter of 2010. The CBPC is a non-refundable income tax credit which is deemed to be taxable income in the year the benefit is received. Thus any CBPC benefit we receive will be reduced by the related corporate income tax obligation. We continue to evaluate our options in regards to those periods after early 2009, for which we already claimed the alternative fuel mixture tax credit, in light of the availability of the CBPC.

[Table of Contents](#)**NOTE 4 Inventories**

Inventories at the balance sheet dates consist of:

(Dollars in thousands)	September 30, 2010	December 31, 2009
Logs, pulpwood, chips and sawdust	\$ 17,437	\$ 24,120
Lumber	13,434	12,068
Pulp, paperboard and tissue products	73,160	92,293
Materials and supplies	41,245	41,280
	<u>\$ 145,276</u>	<u>\$ 169,761</u>

NOTE 5 Debt**\$375 MILLION SENIOR NOTES DUE 2018**

On October 22, 2010, we sold \$375 million aggregate principal amount of senior unsecured notes, which we refer to as the 2010 Notes. The gross proceeds were placed into escrow pending our acquisition of Cellu Tissue. If the closing of the acquisition of Cellu Tissue does not occur on or prior to February 1, 2011, or if the merger agreement relating to the acquisition is terminated at any time prior thereto (any such date, the "Trigger Date"), we will be required to redeem the 2010 Notes. The redemption price will be equal to (i) 100% of the aggregate principal amount of the 2010 Notes, if the Trigger Date occurs on or prior to December 31, 2010, and (ii) 101% of the aggregate principal amount of the 2010 Notes, if the Trigger Date occurs after December 31, 2010, in either case plus accrued and unpaid interest to, but not including, the redemption date. If the closing of the acquisition occurs on or prior to February 1, 2011, then upon closing, the net proceeds from the issuance of the 2010 Notes will be released to finance in part our acquisition of Cellu Tissue, to refinance certain existing indebtedness of Cellu Tissue, and to pay fees and expenses incurred as part of the 2010 Note offering, acquisition of Cellu Tissue and related transactions.

The 2010 Notes are due on November 1, 2018, and have an interest rate of 7.125% payable semi-annually in arrears on May 1 and November 1, commencing on May 1, 2011. The 2010 Notes will be guaranteed by Cellu Tissue and certain of its existing and future domestic direct and indirect subsidiaries. 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 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 on or after 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, 2016, we may redeem all or a portion of the 2010 Notes at 100% of the principal amount 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. The 2010 Notes are equal in right of payment with all of our existing and future unsecured senior indebtedness and senior in right of payment to any of our future debt that is expressly subordinated to the 2010 Notes or guarantees.

The terms of the 2010 Notes limit our ability to pay dividends or repurchase equity interests from our stockholders; borrow money; 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.

\$150 MILLION SENIOR NOTES DUE 2016

In June 2009, we issued senior unsecured notes, which we refer to as the 2009 Notes, in aggregate principal amount of \$150.0 million. The 2009 Notes are due on September 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 issuance of the 2009 Notes generated net proceeds after offering expenses of \$144.0 million, which were used to fully repay credit sensitive debentures of \$100.0 million originally issued by an affiliate of Potlatch and subsequently assumed by us. In our 2009 Statement of Cash Flows as presented in prior filings, we previously reflected the proceeds from the debt issuance on a net basis. In the accompanying Condensed Statements of Cash Flows, we have reclassified such 2009 amounts to reflect the proceeds on a gross basis rather than a net basis. Such reclassification had no effect on net cash used for financing activities.

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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 all accounts receivable, inventory and cash. The terms of the 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.

REVOLVING CREDIT FACILITY

During the three months ended September 30, 2010, we amended the terms of our revolving credit facility by (i) permitting our acquisition of Cellu Tissue, (ii) permitting the construction of our new tissue manufacturing facilities in Shelby, North Carolina, (iii) increasing our ability to acquire capital and (iv) modifying the factors used in the minimum fixed charge coverage ratio. These amendments resulted in the removal of the \$10 million borrowing capacity reserve. As of September 30, 2010 and December 31, 2009, we had no borrowing outstanding under the revolving credit facility.

NOTE 6 Equity-Based Compensation

We record employee equity-based compensation expense for awards of restricted stock units, or RSUs, and performance shares. We expense equity-based compensation using the straight-line method, generally over the vesting requirement period. We are authorized to issue up to approximately 1.7 million shares. At September 30, 2010, approximately 0.7 million shares were available for future issuance under the Clearwater Paper Corporation 2008 Stock Incentive Plan, or Stock Plan.

Employee equity-based compensation expense was recognized as follows:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Restricted stock units	\$ 392	\$ 598	\$1,113	\$1,651
Performance shares	912	241	2,303	526
Total employee equity-based compensation	<u>\$ 1,304</u>	<u>\$ 839</u>	<u>\$3,416</u>	<u>\$2,177</u>
Related tax benefit	<u>\$ 440</u>	<u>\$ 310</u>	<u>\$1,175</u>	<u>\$ 803</u>

RESTRICTED STOCK UNITS

RSUs granted under our Stock Plan are generally subject to a vesting period of one to three years. RSU awards will accrue dividend equivalents based on dividends paid, if any, during the RSU vesting period. The dividend equivalents will be converted into additional RSUs that will vest in the same manner as the underlying RSUs to which they relate.

A summary of the status of outstanding RSU awards as of September 30, 2010, and changes during the first nine months of 2010, is presented below:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (In thousands)
Unvested shares outstanding at January 1, 2010	424,756	\$ 14.07	
Granted	16,214	48.45	
Vested	(208,550)	16.20	
Forfeited	(9,556)	14.28	
Unvested shares outstanding at September 30, 2010	222,864	\$ 14.56	\$ 16,955

For RSU awards granted during 2010, the fair value of each share was estimated on the date of grant using the grant date market price of our common stock. The total fair value of share awards that vested during the first nine months of 2010 was \$3.4 million.

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As of September 30, 2010, there was \$1.4 million of total unrecognized compensation cost related to outstanding RSU awards. The cost is expected to be recognized over a weighted average period of 1.0 years.

PERFORMANCE SHARES

Performance share awards granted under our Stock Plan have a three-year performance period, and shares are issued after the end of the period if the performance measure is met. The performance measure is a comparison of the percentile ranking of our total shareholder return compared to the total shareholder return performance of a selected peer group. The number of shares actually issued, as a percentage of the amount subject to the performance share award, could range from 0%—200%. Performance share awards granted under our Stock Plan do not represent common stock, and therefore the holders do not have voting rights unless and until shares are issued upon settlement. During the performance period, dividend equivalents accrue based on dividends paid, if any, and are converted into additional performance shares, which vest or are forfeited in the same manner as the underlying performance shares to which they relate.

The fair value of performance share awards is estimated using a Monte Carlo simulation model. For performance shares granted in 2010, the following assumptions were used in our Monte Carlo model:

Closing price of stock on date of grant	\$ 48.32
Risk free rate	1.30%
Measurement period	3 years
Volatility	105%

In addition to the above assumptions, the dividend yields for all companies were assumed to be zero since dividends are included in the definition of total shareholder return.

A summary of the status of outstanding performance share awards as of September 30, 2010, and changes during the first nine months of 2010 is presented below:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (In thousands)
Unvested shares outstanding at January 1, 2010	262,294	\$ 11.27	
Granted	70,761	78.71	
Vested	—	—	
Forfeited	(13,620)	16.28	
Unvested shares outstanding at September 30, 2010	319,435	\$ 26.00	\$ 24,303

As of September 30, 2010 there was \$4.9 million of unrecognized compensation cost related to outstanding performance share awards. The cost is expected to be recognized over a weighted average period of 1.4 years.

DIRECTOR AWARDS

In connection with joining our board of directors, in January 2009 our outside directors were granted an award of phantom common stock units, which were credited to an account established on behalf of each director and will vest ratably over a three-year period. In May 2009 and 2010, our outside directors were granted equity awards in the form of phantom common stock units as part of their annual compensation, which were credited to their accounts. Certain of the awards granted will vest ratably over a one-year period. These accounts will be credited with additional phantom common stock units equal in value to dividends paid, if any, on the same amount of common stock. Upon separation from service as a director, the vested portion of the phantom common stock units held by the director in a stock unit account will be converted to cash based upon the then market price of the common stock and paid to the director. Due to the cash-settlement feature of the awards, we recognize equity-based compensation expense or income at the end of each reporting period based on the portion of the award that is vested and the increase or decrease in the value of our common stock. We recorded director equity-based compensation expense totaling \$2.0 million and \$0.8 million for the three months ended September 30, 2010 and 2009, respectively. We recorded director equity-based compensation expense totaling \$3.0 million and \$1.5 million for the nine months ended September 30, 2010 and 2009, respectively.

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NOTE 7 Earnings per Common Share

Earnings per common share are 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic average common shares outstanding	11,478,765	11,361,700	11,471,927	11,358,562
Incremental shares due to:				
Restricted stock units	154,179	280,638	167,288	288,279
Performance shares	158,732	137,700	168,710	82,606
Diluted average common shares outstanding	11,791,676	11,780,038	11,807,925	11,729,447
Basic net earnings per common share	\$ 1.31	\$ 4.07	\$ 3.14	\$ 11.91
Diluted net earnings per common share	1.27	3.92	3.05	11.54
Anti-dilutive shares excluded from calculation	—	1,285	57,556	15,387

NOTE 8 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 September 30:

(Dollars in thousands)	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
	2010	2009	2010	2009
Service cost	\$ 2,004	\$ 1,817	\$ 248	\$ 243
Interest cost	3,844	4,016	1,928	2,110
Expected return on plan assets	(4,848)	(5,153)	—	—
Amortization of prior service cost (credit)	301	375	(448)	(528)
Amortization of actuarial loss	2,168	2,002	520	887
Net periodic cost	\$ 3,469	\$ 3,057	\$ 2,248	\$ 2,712

Nine months ended September 30:

(Dollars in thousands)	Pension Benefit Plans		Other Postretirement Employee Benefit Plans	
	2010	2009	2010	2009
Service cost	\$ 6,013	\$ 5,283	\$ 746	\$ 729
Interest cost	11,531	11,497	5,784	6,331
Expected return on plan assets	(14,543)	(14,911)	—	—
Amortization of prior service cost (credit)	904	1,085	(1,346)	(1,584)
Amortization of actuarial loss	6,503	5,132	1,562	2,662
Net periodic cost	\$ 10,408	\$ 8,086	\$ 6,746	\$ 8,138

As discussed in the notes to our financial statements as of and for the year ended December 31, 2009, our company-sponsored pension plans were underfunded by \$95.9 million at December 31, 2009. As a result, we are required to make contributions to our qualified pension plans. In April 2010, we contributed \$9.0 million to these pension plans, which covered all of the 2009 tax year requirements and a portion of our expected required contributions for the 2010 tax year. In July 2010, we contributed \$6.1 million

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to these pension plans, which fulfilled our remaining requirement for the 2010 tax year. During the nine months ended September 30, 2010, we contributed approximately \$0.2 million to our non-qualified pension plan and we estimate contributions will total approximately \$0.3 million in 2010. We do not anticipate funding our OPEB plans in 2010 except to pay benefit costs as incurred during the year by plan participants.

NOTE 9 Fair Value Measurements

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

(Dollars in thousands)	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments (Level 1)	\$356,505	\$356,505	\$190,750	\$190,750
Foreign exchange forward contracts (Level 2)	170	170	—	—
Long-term debt (Level 1)	148,429	168,375	148,285	166,500

The fair value accounting guidance establishes a framework for measuring fair value, which provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities, or “Level 1” measurements, and the lowest priority to unobservable inputs, or “Level 3” measurements.

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

Foreign exchange forward contracts and cash and short-term investments are the only items measured at fair value on a recurring basis. The carrying amount of our short-term investments approximates fair value due to their very short maturity periods, and such investments are at or near market yields. For a description of our methods and assumptions used in determining the fair value of our foreign exchange forward contracts, see Note 12.

NOTE 10 Business Interruption and Insurance Recovery

Following the scheduled major maintenance at our Idaho pulp and paperboard mill, on March 22, 2010, a fiberline blow tank collapsed causing a portion of this mill to cease operations for a period of 14 days. We maintain business interruption insurance and filed a claim with our insurance provider to recover costs of the damaged plant and equipment and estimated lost profits due to the disruption of operations during the repair period. In addition to repair and asset replacement costs, we also incurred various other costs, including incremental pulp replacement costs, lost electrical generation, incremental natural gas costs, and incremental chip storage and handling costs with our external chip suppliers. All costs and insurance recoveries were recorded through the cost of sales line item in our condensed statements of operations. The insurance claim for this event totaled \$7.8 million, net of the policy deductible of \$1.0 million, and was settled in its entirety in June 2010. We received \$6.2 million from our property insurance provider during the three months ended June 30, 2010 and \$1.6 million as final payment of the claim in July 2010.

NOTE 11 Segment Information

As of December 31, 2009, we were organized into three reportable operating segments: Consumer Products, Pulp and Paperboard and Wood Products. Commencing on January 1, 2010, the Wood Products operating results have been consolidated into the Pulp and Paperboard segment in order to conform to our new management structure beginning in 2010. We have reclassified applicable segment data of the prior period to reflect this segment change.

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(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Segment net sales:				
Consumer Products	\$143,958	\$140,190	\$ 427,199	\$415,692
Pulp and Paperboard	231,459	204,210	657,376	558,472
	375,417	344,400	1,084,575	974,164
Elimination of intersegment net sales	(22,490)	(12,916)	(57,167)	(39,075)
Total segment net sales	<u>\$352,927</u>	<u>\$331,484</u>	<u>\$1,027,408</u>	<u>\$935,089</u>
Intersegment net sales or transfers:				
Consumer Products	\$ 20	\$ 18	\$ 65	\$ 57
Pulp and Paperboard	22,470	12,898	57,102	39,018
Total intersegment net sales or transfers	<u>\$ 22,490</u>	<u>\$ 12,916</u>	<u>\$ 57,167</u>	<u>\$ 39,075</u>
Operating income:				
Consumer Products	\$ 10,809	\$ 32,080	\$ 56,486	\$ 93,398
Pulp and Paperboard ¹	28,155	53,462	48,851	138,949
	38,964	85,542	105,337	232,347
Corporate and eliminations	(10,465)	(8,033)	(28,974)	(21,555)
Earnings before interest, debt retirement costs and income taxes	<u>\$ 28,499</u>	<u>\$ 77,509</u>	<u>\$ 76,363</u>	<u>\$210,792</u>
Depreciation and amortization:				
Consumer Products	\$ 4,268	\$ 3,911	\$ 12,481	\$ 11,708
Pulp and Paperboard	7,048	7,338	21,642	22,393
Corporate	464	443	1,384	1,069
Total depreciation and amortization	<u>\$ 11,780</u>	<u>\$ 11,692</u>	<u>\$ 35,507</u>	<u>\$ 35,170</u>

¹ Operating income for the three and nine months ended September 30, 2009, for the Pulp and Paperboard segment included \$47.1 million and \$123.5 million, respectively, associated with the alternative fuel mixture tax credit.

NOTE 12 Foreign Exchange Hedging Activities

As part of the construction of our North Carolina tissue facilities, we entered into contracts to purchase equipment denominated in the euro. In accordance with our risk management strategy, we use derivative instruments to hedge certain foreign currency exposures. During the three months ended September 30, 2010, we entered into eight foreign exchange forward transactions with notional amounts ranging from less than \$0.1 million to \$1.0 million and maturing at various dates over the next nine months. The total notional amount as of September 30, 2010 was \$2.9 million. The fair values of our foreign exchange contracts are determined using the income approach and significant other observable inputs, (also known as “Level 2”), as defined by accounting standards. The key inputs used at September 30, 2010 included foreign exchange spot and forward rates, which are available in an active market. We have not designated our foreign exchange forward contracts as hedging instruments, therefore any gain or loss that arises from the exchange rate fluctuations are included in the Condensed Statements of Operations within “Interest expense, net.” We classify cash flows from our derivative programs as cash flows from operating activities within “Other, net” in the Condensed Statements of Cash Flows. The fair values of our foreign exchange hedging contracts at September 30, 2010 were \$0.2 million. These foreign exchange contracts are recorded on the Condensed Balance Sheets within “Short-term investments.” We had no foreign exchange hedging activities during the three and nine months ended September 30, 2009.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

FORWARD-LOOKING STATEMENTS

This report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended, including without limitation, statements regarding the pending acquisition of Cellu Tissue, the combined results of the companies following the acquisition, the cost and timing to complete the acquisition, the debt financing related to the acquisition, our construction of additional converting and paper making capacity, the cost and timing to complete the new paper-making facilities, the pricing and demand for our products, major maintenance costs and capital expenditures, liquidity and future growth opportunities, future revenues, cash flows, energy and chemical costs, wood fiber costs, annual tax rates, benefit plan funding, and our expectation regarding the need to periodically draw upon our credit facility to meet cash requirements. Words such as "anticipate," "expect," "will," "intend," "plan," "target," "project," "believe," "seek," "schedule," "estimate," "could," "can," "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 include the risk factors described in Item 1A of Part II of our Annual Report on Form 10-K for the year ended December 31, 2009, as well as the following:

- risks and uncertainties arising from the possibility that the closing of the Cellu Tissue acquisition may be delayed or may not occur;
- difficulties with the integration process or the realization of the benefits expected from the proposed acquisition of Cellu Tissue;
- exposure of our operations to unidentified liabilities of Cellu Tissue or its subsidiaries;
- our ability to implement our growth strategies;
- changes in raw material costs and energy availability and costs;
- changes in the United States and international economies;
- changes in customer product preferences;
- cyclical industry conditions;
- our qualification to retain the alternative fuel mixture tax credit and the tax treatment associated with receipt of such credit;
- our ability to utilize the cellulosic biofuel producer credit and the amount of such credit available to us;
- unanticipated manufacturing disruptions, including equipment malfunction and damage to our manufacturing facilities caused by fire or weather related events;
- the loss of business from any of our three largest Consumer Products segment customers or a large Pulp and Paperboard segment customer;
- competitive pricing pressures for our products;
- changes in the relationship between supply and demand in the forest products industry, including the amount of available manufacturing capacity and wood fiber used in manufacturing products;
- changes in freight costs and disruptions in transportation services;
- unforeseen environmental liabilities or expenditures;
- changes in expenses and required cash contributions associated with our pension plans;
- changes in laws, regulations or industry standards affecting our business;
- labor disruptions;
- changes in the level of construction activity; and
- changes in exchange rates between the U.S. dollar and other currencies.

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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.

OVERVIEW

Background

Clearwater Paper is principally engaged in the manufacturing and selling of pulp-based products. We are a leading producer of private label tissue products sold in grocery stores in the United States, and we manufacture and market bleached paperboard for the high-end segment of the packaging industry. We also manufacture and market bleached pulp and wood products, including appearance grade cedar and dimensional framing lumber products.

Our businesses were owned by, and we were a subsidiary of Potlatch Corporation, or Potlatch, until our spin-off on December 16, 2008.

Recent Developments

Announced Acquisition of Cellu Tissue Holdings, Inc.

On September 16, 2010, we announced our agreement to acquire Cellu Tissue Holdings, Inc., or Cellu Tissue, for approximately \$518 million, including equity value of approximately \$247 million and net debt of approximately \$271 million. Cellu Tissue is an Alpharetta, Georgia-based integrated manufacturer of tissue products and reported \$511.3 million in net sales for the fiscal year ended February 28, 2010.

Cellu Tissue is a private label and specialty tissue business with ten sites in the Eastern and Midwestern United States and Canada. We believe the acquisition will allow us to better serve existing private label grocery customers and expand into new private label channels by increasing our national manufacturing footprint.

The acquisition has been unanimously approved by both companies' boards of directors and is expected to close in the fourth quarter of 2010, following Cellu Tissue stockholder approval and other customary closing conditions. Certain of Cellu Tissue's shareholders, which collectively own approximately 56% of Cellu Tissue's outstanding common stock, have agreed to vote their shares in favor of the transaction. We expect to pay \$12.00 per share in cash for Cellu Tissue's outstanding common stock and intend to fund the acquisition using a combination of existing cash on hand and proceeds from the \$375 million note offering described below.

In connection with the acquisition of Cellu Tissue, we intend to tender for Cellu Tissue's outstanding 11.50% senior secured notes due in 2014.

2010 Note Offering

On October 22, 2010, we sold \$375 million aggregate principal amount of senior unsecured notes, which we refer to as the 2010 Notes, the gross proceeds of which were placed into escrow pending our acquisition of Cellu Tissue. If the closing of the acquisition of Cellu Tissue does not occur on or prior to February 1, 2011, or if the merger agreement relating to the acquisition is terminated at any time prior thereto, we will be required to redeem the 2010 Notes. If the closing of the acquisition occurs on or prior to February 1, 2011, then upon closing, the net proceeds from the issuance of the 2010 Notes will be released to us to finance in part our acquisition of Cellu Tissue, to refinance certain existing indebtedness of Cellu Tissue, and to pay fees and expenses incurred as part of the 2010 Note offering, acquisition of Cellu Tissue and related transactions.

The 2010 Notes are due on November 1, 2018, and have an interest rate of 7.125% payable semi-annually in arrears on May 1 and November 1, commencing on May 1, 2011. The 2010 Notes will be guaranteed by Cellu Tissue and certain of its existing and future domestic direct and indirect subsidiaries.

Announced Site Location and Paper Machine Purchase

On June 10, 2010, we announced our decision to build new tissue manufacturing facilities in Shelby, North Carolina as part of our plans to expand our Consumer Products segment in the Eastern United States. This site will include a Through-Air-Dried, or TAD, paper machine and is currently expected to have seven converting lines capable of producing ultra grades of private label tissue products. We have estimated the project will cost approximately \$260 million to \$280 million. Of that amount, we expect to incur approximately \$12 million of the project costs, and potentially an additional \$6 to \$8 million in connection with an advance payment on the TAD paper machine, in 2010. Substantially all of the remainder amounts will be spent in 2011 and 2012.

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Components and Trends in our Business

Net sales

Net sales consist of sales of consumer tissue, pulp and paperboard and wood products, net of discounts, returns and allowances and any sales taxes collected. Prices for our consumer tissue products primarily tend to follow the prices of branded tissue products. Demand and pricing for our pulp and paperboard products is largely determined by general global market conditions. Sales price realization for pulp in the third quarter of 2010 increased 42.8% compared to the same period in 2009 due to continued strong pulp pricing attributable to the sustained strong world-wide demand in the pulp market.

Operating costs

(Dollars in thousands)	Three Months Ended September 30,			
	2010		2009	
	Cost	Percentage of Cost of Sales	Cost	Percentage of Cost of Sales
Wood fiber ¹	\$ 77,149	25.4%	\$ 66,700	23.6%
Maintenance and repairs ²	19,744	6.5	17,818	6.3
Energy	23,223	7.7	24,954	8.8
Chemicals	34,198	11.3	30,584	10.8
Transportation	30,698	10.1	26,630	9.4

(Dollars in thousands)	Nine Months Ended September 30,			
	2010		2009	
	Cost	Percentage of Cost of Sales	Cost	Percentage of Cost of Sales
Wood fiber ¹	\$236,147	26.5%	\$201,171	25.3%
Maintenance and repairs ²	65,918	7.4	49,905	6.3
Energy	69,127	7.8	71,571	9.0
Chemicals	97,569	10.9	92,333	11.6
Transportation	87,713	9.8	74,600	9.4

¹ Excluding intersegment amounts.

² Excluding related labor costs.

Wood fiber. Our most significant operating cost is the cost of wood fiber, including pulp, needed to supply our manufacturing facilities. Pulp costs increased significantly in both the three and nine months ended September 30, 2010, compared to the same periods of 2009. As discussed above, the higher costs are partially attributable to continued high demand in the global pulp markets. However, overall lumber production in Idaho increased in the third quarter of 2010 compared to the same period in 2009, creating more residual chips and sawdust and decreasing our need for higher priced whole log chips.

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

Major equipment maintenance and repair in our Pulp and Paperboard segment also requires maintenance shutdowns generally lasting up to one week per year at our Idaho facility and up to one week approximately every 18 months at our Arkansas facility, which increases costs and may reduce net sales in the quarters in which the major maintenance shutdowns occur. In March 2010 we had machine downtime of eight days at our Idaho pulp and paperboard mill due to scheduled major maintenance costing \$16.9 million. In the third quarter of 2010, we had two days of machine downtime during scheduled major maintenance at our Arkansas pulp and paperboard mill and spent \$4.0 million. Major maintenance and repair costs are expected to be approximately \$2 to \$3 million for the remainder of 2010.

In addition to ongoing maintenance and repair costs, we make capital expenditures to increase our operating capacity and efficiency, improve our safety and to comply with environmental laws. During the three and nine

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months ended September 30, 2010, we spent \$7.6 million and \$23.1 million, respectively, on capital expenditures compared to \$4.8 million and \$14.5 million, respectively, in the same periods in 2009. Our capital expenditures for 2010 are expected to be between \$40 million and \$45 million, including an estimated \$12 million associated with our North Carolina TAD paper machine and tissue converting lines. We may also spend an additional \$6 to \$8 million in connection with an advance payment on the TAD paper machine in 2010.

Energy. We use energy in the form of electricity, hog fuel, steam and natural gas. Energy prices have fluctuated widely over the past decade. We have taken steps to reduce our exposure to volatile energy prices through conservation and by increasing our internal electrical production at our cogeneration facility that produces steam and electricity in Idaho. In addition, to help mitigate our exposure to changes in natural gas prices, we have used firm-price contracts to supply a portion of our natural gas requirements. As of September 30, 2010, these contracts covered approximately 26% of our expected average monthly natural gas requirements for the Pulp and Paperboard and Consumer Products segments for the remainder of 2010, plus lesser amounts for 2011. Our energy costs in future periods will depend principally on our ability to produce a substantial portion of our electricity needs internally, on changes in market prices for natural gas and on our ability to reduce our energy usage.

Chemicals. We consume a significant amount of chemicals in the production of pulp and paperboard including polyethylene, caustic, starch, sodium chlorate, latex and specialty process paper chemicals. Many of our chemicals are purchased under long-term contracts, which provide more stability than open-market purchases. However, many of these contracts have pricing mechanisms that adjust with published price indices.

Transportation. Petroleum prices also impact our operating results. For example, high fuel prices result in increased transportation costs related to delivery of raw materials to our manufacturing facilities and for the delivery of our finished products to customers. In addition, many of the chemicals used in our manufacturing processes, particularly in the pulp-making process, are petroleum-based and are indirectly impacted by petroleum prices.

Selling, general and administrative expenses

Selling, general and administrative expenses primarily consist of compensation and associated costs for sales and administrative personnel, as well as commission expenses related to sales of our products. We expect our selling, general and administrative expenses to increase due to the acquisition of Cellu Tissue, our expansion in the Eastern United States and as we continue to properly staff our administrative functions and implement additional cost controls.

Interest expense

Interest expense is the result of our \$150.0 million aggregate principal amount of unsecured senior notes, or 2009 Notes, issued by us in June 2009 and interest on any outstanding amounts under our revolving credit facility. Interest expense also includes amortization of deferred finance costs associated with our 2009 Notes and credit facility. We expect future quarterly gross interest expense to increase significantly due to the 2010 Notes sold in October 2010, which will be partially offset by the capitalization of interest during the construction phase of our North Carolina tissue facilities.

Income taxes

Income taxes are based on reported earnings and tax rates in the jurisdictions in which our operations occur and offices are located, adjusted for available credits, changes in valuation allowances and differences between reported earnings and taxable income using current tax laws and rates. We generally expect our effective income tax rate to remain fairly constant, but it could fluctuate due to changes to the Internal Revenue Code.

In the nine months ended September 30, 2010, we did not record any income in connection with the alternative fuel mixture tax credit related to black liquor due to the termination of the tax credit for such use at the end of 2009. During the nine months ended September 30, 2010, we received \$99.5 million from the Federal Government, of which \$83.2 million related to the alternative fuel mixture tax credit earned in 2009.

Subsequent to September 30, 2010, the Internal Revenue Service issued guidance clarifying the treatment of the cellulosic biofuel producer credit, or CBPC, and the alternative fuel mixture tax credit in regards to the production or use of black liquor at the same facility, in the same tax year. Under the guidance provided, both credits may be claimed in the same year as long as the credits are not claimed for the same gallons of fuel. Given this clarification, and because we have been registered as a CBPC producer, we intend to amend our 2009 corporate income tax return and claim approximately 24.5 million gallons of fuel under the CBPC for that portion of black liquor produced in 2009 for which we did not claim the alternative fuel mixture tax credit. We estimate that this will equate to an additional federal income tax credit of \$24.7 million, which we expect to

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recognize in the fourth quarter of 2010. The CBPC is a non-refundable income tax credit which is deemed to be taxable income in the year the benefit is received. Thus any CBPC benefit we receive will be reduced by the related corporate income tax obligation. We continue to evaluate our options in regards to those periods after early 2009, for which we already claimed the alternative fuel mixture tax credit, in light of the availability of the CBPC.

RESULTS OF OPERATIONS

As of December 31, 2009, we were organized into three reportable operating segments: Consumer Products, Pulp and Paperboard and Wood Products. Commencing on January 1, 2010, the Wood Products operating results have been included in the Pulp and Paperboard segment in order to conform with our new management structure beginning in 2010. We have reclassified applicable segment data of the prior period to reflect this segment change. Sales or transfers between segments are recorded as intersegment net sales based on prevailing market prices.

Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

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

(Dollars in thousands)	Three Months Ended September 30,			
	2010		2009	
Net sales	\$352,927	100.0%	\$331,484	100.0%
Costs and expenses:				
Cost of sales	303,542	86.0	282,485	85.2
Selling, general and administrative expenses	20,886	5.9	18,627	5.6
Total operating costs and expenses	324,428	91.9	301,112	90.8
Alternative fuel mixture tax credit	—	—	47,137	14.2
Earnings before interest, debt retirement costs and income taxes	28,499	8.1	77,509	23.4
Interest expense, net	(3,819)	1.1	(4,277)	1.3
Earnings before income taxes	24,680	7.0	73,232	22.1
Income tax provision	9,692	2.7	27,023	8.2
Net earnings	\$ 14,988	4.3	\$ 46,209	13.9

Net sales—We experienced increased shipments of our consumer products, wood products, and pulp, as well as higher net selling prices for our pulp and paperboard in the third quarter of 2010, compared to the same period in 2009. These improvements were partially offset by lower net selling prices for consumer products and decreased shipments for paperboard. These items are discussed further below under “Business Segment Discussion.”

Cost of sales—Cost of sales was 86.0% of net sales for the quarter ended September 30, 2010 and 85.2% of net sales for the same period in 2009. The increase in cost of sales of \$21.1 million in the 2010 period compared to 2009 was primarily due to higher pulp costs.

Selling, general and administrative expenses—Selling, general and administrative expenses increased 0.3% as a percentage of sales for the third quarter of 2010, compared to the same period in 2009. The increase was mostly attributable to expenses associated with the pending acquisition of Cellu Tissue and the development of our North Carolina tissue facilities.

Interest expense—Interest expense decreased \$0.5 million in the third quarter of 2010 compared to the same period in 2009. The decrease was due to capitalized interest of \$0.1 million associated with the construction of our North Carolina tissue facilities and increased interest income due to higher cash and short-term investment balances compared to the prior period.

Income tax expense—The effective tax rates were 39.3% and 36.9% for the quarters ended September 30, 2010 and 2009, respectively. The effective tax rate in the prior year period was lower primarily due to a federal income tax benefit of \$9.8 million attributable to electricity produced from qualifying energy resources and recognized in 2009 for the 2006 to 2008 tax years.

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BUSINESS SEGMENT DISCUSSION

Consumer Products

(Dollars in thousands)	Three Months Ended September 30,	
	2010	2009
Net sales (before intersegment net sales eliminations)	\$143,958	\$140,190
Operating income	10,809	32,080
Percent of net sales	7.5%	22.9%

The Consumer Products segment reported a \$3.8 million, or 2.7%, increase in net sales and a \$21.3 million decrease in operating income for the third quarter of 2010 compared to the third quarter of 2009. The increase in net sales was due to a 4.3% increase in shipment volumes, offset by 1.6% lower net selling prices resulting primarily from increased promotional activity. The decrease in operating income was primarily due to higher pulp costs in the third quarter of 2010 compared to 2009.

Pulp and Paperboard

(Dollars in thousands)	Three Months Ended September 30,	
	2010	2009
Net sales (before intersegment net sales eliminations)	\$231,459	\$204,210
Operating income	28,155	53,462
Percent of net sales	12.2%	26.2%

Net sales for the Pulp and Paperboard segment were \$27.2 million, or 13.3% higher in the third quarter of 2010 compared to the third quarter of 2009. The increase in net sales over 2009 was largely due to an increase of 12.6% in paperboard prices, a 42.8% increase in pulp prices associated with the strong market conditions due to a worldwide shortage of pulp, and increases in wood products shipments. These increases were slightly offset by a 7.0% decrease in paperboard shipments due to scheduled major maintenance downtime during the third quarter of 2010.

Excluding the alternative fuel mixture tax credit of \$47.1 million recorded in the third quarter of 2009, operating income increased \$21.8 million in the third quarter of 2010 compared to the same period in 2009. The increase in operating income was largely attributable to higher net sales and was partially offset by higher wood fiber, chemical, maintenance and transportation costs.

Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

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

(Dollars in thousands)	Nine Months Ended September 30,			
	2010		2009	
Net sales	\$1,027,408	100.0%	\$935,089	100.0%
Costs and expenses:				
Cost of sales	891,921	86.8	795,152	85.0
Selling, general and administrative expenses	59,124	5.8	52,655	5.7
Total operating costs and expenses	951,045	92.6	847,807	90.7
Alternative fuel mixture tax credit	—	—	123,510	13.2
Earnings before interest, debt retirement costs and income taxes	76,363	7.4	210,792	22.6
Interest expense, net	(12,236)	1.2	(11,271)	1.2
Debt retirement costs	—	—	(6,250)	0.7
Earnings before income taxes	64,127	6.2	193,271	20.7
Income tax provision	28,113	2.7	57,967	6.2
Net earnings	\$ 36,014	3.5	\$135,304	14.5

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Net sales—We experienced increased shipments of all our products as well as higher net selling prices for our pulp, paperboard and wood products in the nine months ended September 30, 2010, compared to the same period in 2009. These improvements were partially offset by lower net selling prices for consumer products. These items are discussed further below under “Business Segment Discussion.”

Cost of sales—Cost of sales was 86.8% of net sales for the nine months ended September 30, 2010, and 85.0% of net sales for the same period in 2009. The increase in the 2010 period compared to the 2009 period was primarily due to higher wood fiber costs, scheduled major maintenance performed at the Idaho and Arkansas pulp and paperboard mills and higher transportation and chemical costs.

Selling, general and administrative expenses—Selling, general and administrative expenses increased 0.1% as a percentage of sales for the nine months ended September 30, 2010, compared to the same period in 2009. The increase was primarily due to expenses related to our pending acquisition of Cellu Tissue and the construction of our North Carolina tissue facilities, expenses associated with additional administrative headcount, additional payroll burden due primarily to higher pension expense and increased director equity-based compensation expense.

Interest expense—Interest expense increased \$1.0 million in the nine months ended September 30, 2010 compared to the same period in 2009. The increase was due to a higher interest rate on our long-term debt outstanding in the nine months ended September 30, 2010 compared to the average interest rate on our credit facility and long-term debt outstanding during the nine months ended September 30, 2009, as well as amortization of deferred finance fees in the nine months ended September 30, 2010 associated with our 2009 Notes. This increase was partially offset by capitalized interest during the construction phase of our converting facility in North Carolina of \$0.2 million, increased interest income due to higher cash and short-term investments balances compared to the prior period and gains in foreign exchange derivative contracts.

Debt retirement costs—We recorded \$6.3 million of expenses in the first half of 2009 associated with the retirement of our \$100 million note payable obligation to Potlatch. The \$100 million note payable represented the principal amount of credit sensitive debentures originally issued by an affiliate of Potlatch. Prior to our spin-off, we agreed to retain the obligation to pay all amounts due to the holders of the debentures. The \$6.3 million represented the interest payment, estimated as of June 2009, owing on the December 1, 2009 maturity date of the credit sensitive debentures.

Income tax expense—The effective tax rates were 43.8% and 30.0% for the nine months ended September 30, 2010 and 2009, respectively. The increase in the effective tax rate as compared with the prior year was primarily due to discrete items in each respective year: (i) an income tax charge recognized in 2010 of \$4.4 million as a result of the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010; and (ii) a federal income tax benefit of \$9.8 million attributable to electricity produced from qualifying energy resources recognized in 2009 for the 2006 to 2008 tax years.

BUSINESS SEGMENT DISCUSSION

Consumer Products

(Dollars in thousands)	Nine Months Ended September 30,	
	2010	2009
Net sales (before intersegment net sales eliminations)	\$427,199	\$415,692
Operating income	56,486	93,398
Percent of net sales	13.2%	22.5%

The Consumer Products segment reported an \$11.5 million, or 2.8%, increase in net sales and a \$36.9 million decrease in operating income for the nine months ended September 30, 2010 compared to the same period in 2009. The slight increase in

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net sales was due to a 5.1% increase in shipment volumes, which was partially offset by 2.2% lower net selling prices resulting primarily from increased promotional activity. The decrease in operating income was due to a significant increase in pulp costs and higher purchased paper costs in the nine months ended September 30, 2010.

Pulp and Paperboard

(Dollars in thousands)	Nine Months Ended September 30,	
	2010	2009
Net sales (before intersegment net sales eliminations)	\$657,376	\$558,472
Operating income	48,851	138,949
Percent of net sales	7.4%	24.9%

Net sales for the Pulp and Paperboard segment were \$98.9 million or 17.7% higher in the nine months ended September 30, 2010 compared to the same period in 2009. The increase in net sales over 2009 was largely due to a 52.3% increase in pulp prices, a 6.2% increase in paperboard shipments, a 29.5% increase in pulp shipments, and increases in net selling prices and shipments for wood products. These increases were slightly offset by the downtime associated with the scheduled major maintenance shutdown of both the Idaho and Arkansas pulp and paperboard mills during the nine months ended September 30, 2010.

Excluding the alternative fuel mixture tax credit of \$123.5 million recorded in the nine months ended September 30, 2009, operating income increased \$33.4 million in the nine months ended September 30, 2010 compared to the same period in 2009. The increase in adjusted operating income for the segment was due to higher net sales as a result of increased pulp and paperboard pricing and shipments during the nine months ended September 30, 2010. These improvements were partially offset by \$20.9 million of costs associated with the scheduled major maintenance performed during the nine months ended September 30, 2010 compared to major maintenance costs of \$4.4 million in the same period of 2009, as well as higher wood fiber, transportation and chemical costs in the nine months ended September 30, 2010.

LIQUIDITY AND CAPITAL RESOURCES

The following table presents information regarding our cash flows for the nine months ended September 30, 2010 and 2009.

Cash Flows Summary

(Dollars in thousands)	2010	2009
Net cash provided by operating activities	\$ 189,754	\$ 183,048
Net cash used for investing activities	(170,183)	(149,701)
Net cash used for financing activities	(888)	(33,916)
Increase (decrease) in Cash	\$ 18,683	\$ (569)

Net cash provided by operating activities increased 3.7% for the nine months ended September 30, 2010 compared with the same period in 2009. The increase was mostly attributable to the receipt of \$99.5 million in cash from the Federal Government during the nine months ended September 30, 2010 primarily related to the alternative fuel mixture tax credit claimed in 2009, as well as changes in inventory. These increases were partially offset by lower earnings in the nine months ended September 30, 2010, higher trade receivables during the period and \$15.1 million of contributions to our qualified pension plans. The earnings for 2009 included pre-tax income of \$123.5 million recorded in the nine months ended September 30, 2009 related to the alternative fuel mixture tax credit.

For the nine months ended September 30, 2010, net cash used for investing activities was \$170.2 million, compared to \$149.7 million for the same period in 2009. The increased use of cash in 2010 was due largely to an increase of \$147.1 million in short-term investments reflecting the investment of our cash assets, including cash generated from operations and the alternative fuel mixture tax credit. Capital expenditures were \$23.1 million during the nine months ended September 30, 2010, compared to \$14.5 million in the same period of 2009. The increased expenditures were primarily related to the cash outlays associated with our new tissue facilities in North Carolina.

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Net cash used for financing activities was \$0.9 million for the nine months ended September 30, 2010, compared with \$33.9 million during the same period in 2009. Cash used for financing activities in the nine months ended September 30, 2010 primarily consisted of the cash used to pay employee minimum withholding requirements associated with shares issued in settlement of vested restricted stock units during the period, partially offset by the excess tax benefits from equity-based payment arrangements. Cash used for financing activities in the nine months ended September 30, 2009 primarily consisted of repayments of payables to Potlatch and the repayment of \$50 million in borrowings under our revolving credit facility, partially offset by net proceeds from the issuance of \$150 million principal amount of Senior Notes in the first half of 2009.

Capital Resources

Due to an environment of economic uncertainty, as well as the competitive and cyclical nature of the markets in which we operate, there is uncertainty regarding the amount of cash flows we will generate during the next twelve months. However, we believe that our cash flows from operations as well as our cash on hand and available borrowing capacity under our credit facility will be adequate to fund debt service requirements and provide cash required to support our ongoing operations, capital expenditures, and working capital needs for the next twelve months.

We cannot be certain, however, that our business will generate sufficient cash flow from operations or that future borrowing will be available to us under the revolving credit facility in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. If we make substantial capital expenditures or consummate an additional acquisition, our debt service requirements could increase. We may be required to refinance all or a portion of our indebtedness on or before maturity. We cannot be certain that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. As of September 30, 2010, our short-term investments are not restricted and are invested in time or demand deposits, certificates of deposit and U.S. Treasury and U.S. government agency obligations, all of which have very short maturity periods.

Debt Arrangements

Our expected debt service obligation, consisting of cash payments for interest related to our 2010 Notes and 2009 Notes, is estimated to be approximately \$15.9 million for 2010 and \$43.2 million for 2011.

The terms of each of our 2009 Notes and 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; enter into certain hedging arrangements; and consolidate, merge or sell all or substantially all of our assets.

Credit Arrangements

As of September 30, 2010, there were no borrowings outstanding under our revolving credit facility, and approximately \$1.7 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 2.25% and 2.75% for LIBOR loans, and a base rate effectively equal to the agent bank's prime rate plus between 0.75% and 1.25% 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 September 30, 2010, we would have been permitted to draw \$123.3 million under the credit facility. As of September 30, 2010, we were eligible to borrow under the credit facility at LIBOR plus 2.50%.

CONTRACTUAL OBLIGATIONS

As of September 30, 2010, with the exception of the lease associated with our new tissue converting facility being built in Shelby, North Carolina, there have been no significant changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

The table below outlines our contractual obligations associated with the lease for our new tissue converting facility in Shelby, North Carolina:

(In thousands)	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating lease	\$50,924	\$ 1,048	\$ 4,276	\$ 4,449	\$ 41,151

OFF- BALANCE SHEET ARRANGEMENTS

We currently are not a party to off-balance sheet arrangements that would require disclosure under this section.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires our management to select and apply accounting policies that best provide the framework to report the results of operations and financial position. The selection and application of those policies requires management to make difficult, subjective and complex judgments concerning reported amounts of revenue and expenses during the reporting period and the reported amounts of assets and liabilities at the date of the financial statements. As a result, it is possible that materially different amounts would be reported under different conditions or using different assumptions.

As of September 30, 2010, there have been no significant changes with regard to the critical accounting policies disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

See Note 2 “Recently Adopted and New Accounting Standards” to the condensed financial statements included in Item 1 of this Quarterly Report on Form 10-Q for additional information regarding recently adopted and new accounting pronouncements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risks on financial instruments includes interest rate risk on our revolving credit facility. As of September 30, 2010, there were no borrowings outstanding under that facility. The interest rates applied to borrowings under the credit facility are adjusted often and therefore react quickly to any movement in the general trend of market interest rates. For example, a 1% increase or decrease in interest rates, based on assumed outstanding credit facility borrowings of \$10.0 million, would have a \$0.1 million annual effect on interest expense. We currently do not attempt to mitigate the effects of short-term interest rate fluctuations on our credit facility borrowings through the use of derivative financial instruments.

Commodity Risk

We are exposed to market risk for changes in natural gas commodity pricing, which we partially mitigate through the use of firm price contracts for a portion of our natural gas requirements for our manufacturing facilities. As of September 30, 2010, these contracts covered approximately 26% of our expected average monthly natural gas requirements for the Pulp and Paperboard and Consumer Products segments for the remainder of 2010, plus lesser amounts for 2011.

Foreign Currency Risk

Virtually all of our non-U.S. sales are denominated in U.S. dollars and accordingly we are not subject to currency exchange risks associated with the receipt of payments in foreign currencies. However, we are currently subject to foreign exchange currency risks associated with overseas purchases of equipment for our North Carolina tissue converting facility. As part of our risk management strategy, we may use derivative financial instruments to hedge this foreign currency risk. In the third quarter of 2010, we began entering into foreign exchange forward contracts, not designated for hedge accounting, with the intent to reduce foreign exchange exposure associated with these equipment purchases. As of September 30, 2010, the notional amount of our outstanding forward contracts ranged from less than \$0.1 million to \$1.0 million offsetting our exposures to the euro. The total notional amount as of September 30, 2010 was \$2.9 million. We use derivative contracts only to manage existing underlying exposures. Accordingly, we do not use derivative contracts for trading or speculative purposes.

ITEM 4. Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities and Exchange Act of 1934, or the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of disclosure controls and procedures is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Subject to the limitations noted above, our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the third quarter of 2010. Based on that evaluation, the CEO and CFO have concluded that, as of September 30, 2010, our disclosure controls and procedures were effective to meet the objective for which they were designed and operated at the reasonable assurance level.

There has been no change in our internal control over financial reporting that occurred during the nine months ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II

ITEM 1. Legal Proceedings

We are party to various legal proceedings arising in the ordinary course of business, which we do not believe to be material to our business, financial condition or liquidity.

ITEM 1A. Risk Factors

With the exception of the items below, there are no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009. See Part I, Item 1A in our Annual Report on Form 10-K for the year ended December 31, 2009, entitled “Risk Factors.”

Risks Related to the Expansion of Consumer Products Business

The expansion of our business through the acquisition of Cellu Tissue and construction of new paper making and converting facilities may not proceed as anticipated and we may have difficulties integrating these operations or acquisitions or realizing anticipated benefits.

Our long-term growth strategy involves expanding our Consumer Products segment in both size and geographic reach. To accomplish this, we intend to acquire Cellu Tissue and build a new TAD paper machine and converting facilities in Shelby, North Carolina. Additionally, we may build other converting and papermaking facilities, pursue acquisitions of new facilities or businesses in addition to the acquisition of Cellu Tissue, or both. Building new, or acquiring and modifying existing manufacturing facilities entails numerous risks, including difficulties in completing such projects on time due to construction and permitting issues, financing the project, completing the project within budget and integrating new operations and personnel. For example, the paper machine facility under construction in Shelby, North Carolina, is highly complex and costly and the paper machine can be manufactured by only a few companies in the world. As a result, the purchase and installation of this paper machine would be delayed in the event the manufacturer is not able to meet our timelines, and we do not expect that we would be able to find a replacement without significant additional cost and delay.

The acquisition of Cellu Tissue and similar transactions that we may enter into involve numerous risks, including inaccurate assessment of undisclosed liabilities, difficulties in integrating the operations, technologies, services and personnel of the acquired business, and personnel turnover. Large construction projects or acquisitions can result in a decrease in our cash, an increase in our indebtedness, or both, and also may limit our ability to access additional capital when needed and divert management’s attention from other business concerns.

We may be unable to identify future suitable building locations or acquisition targets. In addition, we may be unable to achieve anticipated benefits or cost savings from construction projects or acquisitions in the timeframe we anticipate, or at all. Any inability by us to integrate and manage any new or acquired facilities or businesses in a timely and efficient manner, any inability to achieve anticipated cost savings or other anticipated benefits from these projects or acquisitions in the time frame we anticipate or any unanticipated required increases in trade, promotional or capital spending could adversely affect our business, financial condition, results of operations or liquidity.

We may not realize the expected benefits of the acquisition of Cellu Tissue because of integration difficulties and other challenges.

The success of the acquisition of Cellu Tissue will depend, in part, on our ability to realize the anticipated benefits from integrating Cellu Tissue’s business with our existing businesses. The integration process may be complex, costly and time-consuming. The difficulties of integrating the operations of Cellu Tissue’s business include, among others:

- failure to implement our business plan for the combined business;
- unanticipated issues in integrating financial, manufacturing, logistics, information, communications and other systems;
- failure to retain key employees;

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- failure to retain key customers;
- inconsistencies in standards, controls, procedures and policies, including internal control and regulatory requirements under the Sarbanes-Oxley Act of 2002; and
- unanticipated issues, expenses and liabilities.

Further, the integration of Cellu Tissue's business will require the focused attention of our management team, including a significant commitment of their time and resources. The need for our management to focus on integration matters could have a material and adverse impact on the sales and operating results of the combined company.

Following completion of the acquisition, we may not be able to maintain the levels of revenue, earnings or operating efficiency that each of Clearwater Paper and Cellu Tissue had achieved or might achieve separately. In addition, the success of the acquisition will depend, in part, on the combined company's ability to realize the anticipated benefits from the acquisition, including anticipated synergies and costs savings.

The acquisition of Cellu Tissue may expose our operations to unidentified liabilities.

As a result of the acquisition of Cellu Tissue, we will indirectly acquire all of Cellu Tissue's liabilities, including its contingent liabilities. If there are unknown Cellu Tissue obligations, our business could be materially and adversely affected.

We may learn additional information about Cellu Tissue's business that adversely affects us or the combined company, such as unknown liabilities or issues that could affect our ability to comply with applicable laws. As a result, we cannot assure that the acquisition will be successful or will not, in fact, harm our business. Among other things, if Cellu Tissue's liabilities are greater than expected, or if there are material obligations of which we do not become aware of until after the completion of the acquisition, our business could be materially and adversely affected.

We have no indemnification rights under the merger agreement we entered into with Cellu Tissue. Accordingly, if there are unknown Cellu Tissue liabilities, we could suffer severe consequences that could substantially reduce our revenues, earnings and cash flows, and for which we do not have recourse against the former stockholders of Cellu Tissue.

We have incurred substantial indebtedness in order to finance the acquisition of Cellu Tissue, which could adversely affect our business and limit our ability to plan for or respond to changes in our business.

In order to finance the acquisition of Cellu Tissue, we have incurred additional debt of \$375 million through the sale of the 2010 Notes, the proceeds of which have been placed in escrow pending the closing of the acquisition. As a result, upon the closing of the acquisition, we will have outstanding indebtedness under the 2009 Notes and the 2010 Notes as well as approximately \$16 million of indebtedness of a subsidiary of Cellu Tissue that we expect to assume. These substantial debt obligations could have important consequences to our business. For example:

- we may not be able to generate sufficient cash flow to meet our substantial debt service obligations;
- we may be required to dedicate a substantial portion of our cash flows from operations to payments on our indebtedness, thereby reducing the availability of our cash flow for other purposes, including business development efforts, capital expenditures or strategic acquisitions; and
- our flexibility in planning for, or reacting to, changes in our business and industry may be limited, thereby placing us at a competitive disadvantage compared to our competitors that have less indebtedness.

Our ability to make payments on and to refinance our debt obligations and to fund planned capital expenditures depends on our ability to generate cash from our future operations. This, to a certain extent, is subject to financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, if we cannot service our indebtedness, we may have to take actions such as selling assets, seeking additional equity or reducing or delaying capital expenditures, strategic acquisitions, investments and alliances, any of which could impede the implementation of our business strategy or prevent us from entering into transactions that would otherwise benefit our business. We may not be able to refinance our indebtedness or take such other actions, if necessary, on commercially reasonable terms, or at all.

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Business uncertainties and contractual restrictions while the acquisition of Cellu Tissue is pending may have an adverse effect on us.

Uncertainty about the effect of the acquisition of Cellu Tissue on employees, suppliers, partners, regulators and customers may have an adverse effect on our business. These uncertainties may impair our ability to attract, retain and motivate key personnel until the acquisition is consummated and could cause suppliers, customers and others that deal with us to defer purchases or other decisions concerning our business or seek to change existing business relationships with us.

Risks Related to Our Indebtedness

The indentures for the 2009 Notes and the 2010 Notes, and the credit agreement governing our senior secured revolving credit facility, contain various covenants that limit our discretion in the operation of our business.

The indentures governing the 2009 Notes and the 2010 Notes, and the credit agreement governing our senior secured revolving credit facility contain various provisions that limit our discretion in the operation of our business by restricting our ability to:

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

These restrictions on our ability to operate our business at our discretion could seriously harm our business by, among other things, limiting our ability to take advantage of financing, merger and acquisition and other corporate opportunities. In addition, our senior secured revolving credit facility requires, among other things, that we maintain a minimum fixed charge coverage ratio of at least 1.0-to-1.0 when availability falls below \$50 million or an event of default exists. Events beyond our control could affect our ability to meet this financial test.

Despite current indebtedness levels, we may still be able to incur substantially more debt. This could further increase the risks associated with our substantial leverage.

We may incur substantial additional indebtedness in the future. The terms of our credit agreement governing our senior secured revolving credit facility, and the indentures governing the 2009 Notes and the 2010 Notes, allow us and our subsidiaries to incur additional indebtedness subject to limitations. If new debt is added to our current debt levels, or any debt is incurred by our subsidiaries, the related risks that we and they now face could increase.

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

Our ability to make payments on and to refinance our indebtedness, including the 2009 Notes and the 2010 Notes, and to fund planned capital expenditures, will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured revolving credit facility in an amount sufficient to enable us to pay our indebtedness or to fund our other liquidity needs. We cannot assure you that we will be able to refinance any of our indebtedness, including our senior secured revolving credit facility, the 2009 Notes or the 2010 Notes, on commercially reasonable terms or at all.

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Our failure to comply with the covenants contained in our secured revolving credit facility or the indentures governing the 2009 Notes and the 2010 Notes, including as a result of events beyond our control, could result in an event of default that could cause repayment of the debt to be accelerated.

If we are not able to comply with the covenants and other requirements contained in the indenture governing the 2009 Notes and 2010 Notes, our secured revolving credit facility or other debt instruments, an event of default under the relevant debt instrument could occur. If an event of default does occur, it could trigger a cross default under our other debt instruments, prohibit us from accessing additional borrowings, and permit the holders of the defaulted debt to declare amounts outstanding with respect to that debt to be immediately due and payable. Our assets and cash flow may not be sufficient to fully repay borrowings under our outstanding debt instruments. In addition, we may not be able to refinance or restructure the payments on the applicable debt. Even if we were able to secure additional financing, it may not be available on favorable terms.

Other Risks

We rely on a limited number of third-party suppliers for certain of the raw materials required for the production of our products. Furthermore, in some cases we rely on a single supplier.

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

ITEM 6. Exhibits

The exhibit index is located on page 30 of this Form 10-Q.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEARWATER PAPER CORPORATION
(Registrant)

Date: November 4, 2010

By /s/ Linda K. Massman
Linda K. Massman
Vice President, Finance and
Chief Financial Officer
(Duly Authorized Officer; Principal Financial Officer)

Date: November 4, 2010

By /s/ Johnathan D. Hunter
Johnathan D. Hunter
Corporate Controller
(Duly Authorized Officer; Principal Accounting Officer)

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CLEARWATER PAPER CORPORATION

EXHIBIT INDEX

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
2.1*	Agreement and Plan of Merger, dated as of September 15, 2010, by and among Clearwater Paper Corporation, Cellu Tissue Holdings, Inc., and Sand Dollar Acquisition Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed by Clearwater Paper Corporation with the SEC on September 21, 2010).
10.1*	Voting Agreement, dated as of September 15, 2010, by and among Clearwater Paper Corporation, Weston Presidio V, L.P., Russell C. Taylor, Chipping Wood Fund, LLC and Taylor Investment Partners (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by Clearwater Paper Corporation with the SEC on September 21, 2010).
10.2*	Commitment Letter, dated as of September 15, 2010, signed by Banc of America Bridge LLC and Banc of America Securities LLC in favor of Clearwater Paper Corporation (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed by Clearwater Paper Corporation with the SEC on September 21, 2010).
10.3	Loan and Security Agreement, dated as of November 26, 2008, by and among Clearwater Paper Corporation and Bank of America, N.A., as administrative agent, and the lenders party thereto.
10.4*	First Amendment to Loan and Security Agreement, dated as of September 15, 2010, by and among the financial institutions signatory thereto, Bank of America, N.A. and Clearwater Paper Corporation (incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K filed by Clearwater Paper Corporation with the SEC on September 21, 2010).
10.5	Employee Matters Agreement, dated as of December 15, 2008, between Clearwater Paper Corporation and Potlatch Corporation.
10.6 ¹	Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Performance Share Award, as amended and restated May 12, 2009, to be used for performance share awards approved subsequent to May 12, 2009.
10.7 ¹	Clearwater Paper Corporation 2008 Stock Incentive Plan—Form of Performance Share Award, as amended and restated December 1, 2009, to be used for annual performance share awards approved subsequent to December 31, 2009.
(31)	Rule 13a-14(a)/15d-14(a) Certifications.
(32)	Furnished statements of the Chief Executive Officer and Chief Financial Officer under 18 U.S.C. Section 1350.

* Incorporated by reference.

¹ Management contract or compensatory plan, contract or arrangement.

CLEARWATER PAPER CORPORATION,

as Borrower

LOAN AND SECURITY AGREEMENT

Dated as of November 26, 2008

\$125,000,000

CERTAIN FINANCIAL INSTITUTIONS,

as Lenders

and

BANK OF AMERICA, N.A.,

as Agent

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Schedule 9.1.15	Restrictive Agreements
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Schedule 10.2.2	Existing Liens
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LOAN AND SECURITY AGREEMENT

This **LOAN AND SECURITY AGREEMENT** (this “Agreement”) is dated as of November 26, 2008, among **POTLATCH FOREST PRODUCTS CORPORATION**, which will change its name prior to the Closing Date to **CLEARWATER PAPER CORPORATION**, a Delaware corporation (“Clearwater” and together with any other Person that at any time after the date hereof becomes a Borrower in accordance with the terms hereof, each individually a “Borrower” and collectively, “Borrowers”), the financial institutions party to this Agreement from time to time as lenders (each individually a “Lender” and collectively, “Lenders”), and **BANK OF AMERICA, N.A.**, a national banking association, as agent for the Lenders (“Agent”).

RECITALS:

Borrowers have requested that Lenders provide a credit facility to Borrowers to finance their mutual and collective business enterprise. Lenders are willing to provide the credit facility on the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for valuable consideration hereby acknowledged, the parties agree as follows:

SECTION 1. DEFINITIONS; RULES OF CONSTRUCTION

1.1. Definitions. As used herein, the following terms have the meanings set forth below:

Account: as defined in the UCC, and all rights to payment for goods sold or leased, or for services rendered.

Account Debtor: a Person who is obligated under an Account or General Intangible.

Accounts Formula Amount: 85% of the Value of Eligible Accounts.

Acquisition: the purchase or other acquisition by a Borrower of all or substantially all of the assets of any other Person, or the purchase or other acquisition (whether by means of a merger, consolidation, or otherwise) by a Borrower of all or substantially all of the Equity Interests of any other Person.

Affiliate: with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified. “Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have correlative meanings.

Agent Fee Letter: the fee letter agreement between Agent and Borrowers.

Agent Indemnitees: Agent and its officers, directors, employees, Affiliates, agents and attorneys.

Agent Professionals: attorneys, accountants, appraisers, auditors, business valuation experts, environmental engineers or consultants, turnaround consultants, and other professionals and experts retained by Agent.

Allocable Amount: as defined in **Section 5.11.3**.

Anti-Terrorism Laws: any laws relating to terrorism or money laundering, including the Patriot Act.

Applicable Law: with respect to a Person, all laws, rules, regulations and governmental guidelines applicable to such Person or its conduct, transaction, agreement or matter in question, including all applicable statutory law, common law and equitable principles, and all provisions of constitutions, treaties, statutes, rules, regulations, orders and decrees of Governmental Authorities.

Applicable Margin: with respect to any Type of Loan, the margin set forth below, as determined by the Fixed Charge Coverage Ratio for the last Fiscal Quarter:

Level	Fixed Charge Coverage Ratio	Base Rate Revolver Loans	LIBOR Revolver Loans
I	Greater than or equal to 1.50 to 1.00	1.00%	2.75%
II	Less than 1.50 to 1.00 but greater than or equal to 1.25 to 1.00	1.25%	3.00%
III	Less than 1.25 to 1.00 but greater than or equal to 1.00 to 1.00	1.50%	3.25%
IV	Less than 1.00 to 1.00	1.75%	3.50%

Notwithstanding the forgoing, from the date hereof until the first day of the month following receipt by Agent pursuant to **Section 10.1.2** of the financial statements and corresponding Compliance Certificate for the Fiscal Quarter ending March 31, 2009, margins shall be determined as if Level II were applicable regardless of the Fixed Charge Coverage Ratio for the last Fiscal Quarter. Thereafter, the margins shall be subject to increase or decrease upon receipt by Agent pursuant to **Section 10.1.2** of the financial statements and corresponding Compliance Certificate for the last Fiscal Quarter, which change shall be effective on the first day of the calendar month following receipt. If, by the first day of a month, any financial statements and Compliance Certificate due in the preceding month have not been received, then, at the option of Agent or Required Lenders, the margins shall be determined as if Level IV were applicable, from such day until the first day of the calendar month following actual receipt.

Approved Fund: any Person (other than a natural person) that is engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in its ordinary course of activities, and is administered or managed by a Lender, an entity that administers or manages a Lender, or an Affiliate of either.

Asset Disposition: a sale, lease, license, consignment, transfer or other disposition of Property of an Obligor, including a disposition of Property in connection with a sale-leaseback transaction or synthetic lease, but excluding any (i) damage to, or loss of or destruction, or loss of title to, physical property of any Borrower or Guarantor, and (ii) taking of any property of any Borrower or Guarantor or any portion thereof, in or by condemnation or other eminent domain proceedings pursuant to any law, general or special, or by reason of the temporary requisition or use of any property of any Borrower or any Guarantor or any portion thereof by an Governmental Authority.

Assignment and Acceptance: an assignment agreement between a Lender and Eligible Assignee, in the form of **Exhibit B**.

Availability: the Borrowing Base minus the principal balance of all Revolver Loans.

Availability Block: \$10,000,000.

Availability Reserve: the sum (without duplication) of (a) the Inventory Reserve; (b) the Rent and Charges Reserve; (c) the LC Reserve; (d) the Bank Product Reserve; (e) all accrued Royalties (if any), whether or not then due and payable by a Borrower, arising under any license or agreement under which a Borrower is authorized to use Intellectual Property in connection with any manufacture, marketing, distribution or disposition of Collateral; (f) the Repurchase Reserve; (g) the Pension Reserve (h) the Availability Block; (i) the aggregate amount of liabilities secured by Liens upon Collateral that are senior to Agent's Liens (but imposition of any such reserve shall not waive an Event of Default arising therefrom); (j) the Dilution Reserve; and (k) such additional reserves, in such amounts and with respect to such matters, as Agent in its Credit Judgment may elect to impose from time to time.

Bank of America: Bank of America, N.A., a national banking association, and its successors and assigns.

Bank of America-WFF Fee Letter: the fee letter agreement among Bank of America, WFF, and Borrowers.

Bank of America Indemnities: Bank of America and its officers, directors, employees, Affiliates, agents and attorneys.

Bank Product: any of the following products, services or facilities extended to any Borrower or Subsidiary by Bank of America, WFF, or any of their respective Affiliates: (a) Cash Management Services; (b) products under Hedging Agreements; (c) commercial credit card and merchant card services; and (d) leases and other banking products or services as may be requested by any Borrower or Subsidiary, other than Letters of Credit; provided, however, that for any of the foregoing to be included as an "Obligation" for purposes of a distribution under Section 5.6.1, the applicable Secured Party and Obligor must have previously provided written notice to Agent of (i) the existence of such Bank Product, (ii) the maximum dollar amount of obligations arising thereunder to be included as a Bank Product Reserve ("Bank Product Amount"), and (iii) the methodology to be used by such parties in determining the Bank Product Debt owing from time to time. The Bank Product Amount may be changed from time to time upon written notice to Agent by the Secured Party and Obligor. No Bank Product Amount may be established or increased at any time that a Default or Event of Default exists, or if a reserve in such amount would cause an Overadvance.

Bank Product Debt: Debt and other obligations of a Borrower or Guarantor relating to Bank Products.

Bank Product Reserve: the aggregate amount of reserves established by Agent from time to time in its discretion in respect of Bank Product Debt, which shall be at least equal to the sum of all Bank Product Amounts.

Bankruptcy Case: with respect to any Borrower or Guarantor, any bankruptcy case (whether for liquidation or reorganization of such Borrower or Guarantor) under the Bankruptcy Code in which such Borrower or Guarantor is the debtor or any analogous proceeding under the laws of any jurisdiction other than the United States.

Bankruptcy Code: Title 11 of the United States Code.

Bankruptcy Rejection: the entry of an order in a Bankruptcy Case with respect to the owner of any Intellectual Property authorizing the rejection by such owner (or a trustee for such owner or such owner as debtor in possession) of the IP License or any analogous event in a Bankruptcy Case under the laws of any jurisdiction other than the United States; provided, however, that nothing herein shall be deemed to be an acknowledgment or agreement by any party hereto that the IP License may be rejected under the Bankruptcy Code or subject to any analogous event in a Bankruptcy Case under the laws of any jurisdiction other than the United States.

Base Rate: for any day, a per annum rate equal to the greater of (a) the Prime Rate for such day; (b) the Federal Funds Rate for such day, plus 0.50%; or (c) LIBOR for a 30 day interest period as determined on such day, plus 1.0%.

Base Rate Loan: any Loan that bears interest based on the Base Rate.

Base Rate Revolver Loan: a Revolver Loan that bears interest based on the Base Rate.

Board of Governors: the Board of Governors of the Federal Reserve System.

Borrowed Money: with respect to any Borrower or Guarantor, without duplication, its (a) Debt that (i) arises from the lending of money by any Person to such Borrower or Guarantor, (ii) is evidenced by notes, drafts, bonds, debentures, credit documents or similar instruments, (iii) accrues interest or is a type upon which interest charges are customarily paid (excluding trade payables owing in the Ordinary Course of Business), or (iv) was issued or assumed as full or partial payment for Property; (b) Capital Leases; (c) reimbursement obligations with respect to letters of credit; and (d) guaranties of any Debt of the foregoing types owing by another Person.

Borrower Agent: as defined in **Section 4.4**.

Borrowing: a group of Loans of one Type that are made on the same day or are converted into Loans of one Type on the same day.

Borrowing Base: on any date of determination, an amount equal to the lesser of (a) the aggregate amount of Revolver Commitments, minus the LC Reserve, minus the Availability Block; or (b) the sum of the Accounts Formula Amount, plus the Inventory Formula Amount, minus the Availability Reserve.

Borrowing Base Certificate: a certificate, in form and substance satisfactory to Agent, by which Borrowers certify calculation of the Borrowing Base.

Business Day: any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the laws of, or are in fact closed in, North Carolina and California, and if such day relates to a LIBOR Loan, any such day on which dealings in Dollar deposits are conducted between banks in the London interbank Eurodollar market.

Capital Expenditures: all liabilities incurred, expenditures made or payments due (whether or not made) by a Borrower or Subsidiary for the acquisition of any fixed assets, or any improvements, replacements, substitutions or additions thereto with a useful life of more than one year, including the principal portion of Capital Leases; provided that "Capital Expenditures" shall not include expenditures made or payments due with respect to property to the extent (and only to the extent) such expenditures or payments are made from the proceeds of (i) property insurance used to restore or replace property that has been the subject of a casualty event covered by such insurance, (ii) a disposition of property which is a Permitted Asset Disposition, or (iii) compensation made with respect to any taking of any property in or by condemnation or other eminent domain proceedings pursuant to any law, general or special, or by reason of the temporary requisition or use of any property.

Capital Lease: any lease that is required to be capitalized for financial reporting purposes in accordance with GAAP.

Cash Collateral: cash, and any interest or other income earned thereon, that is delivered to Agent to Cash Collateralize any Obligations.

Cash Collateral Account: a demand deposit, money market or other account established by Agent at such financial institution as Agent may select in its discretion, which account shall be subject to Agent's Liens for the benefit of Secured Parties.

Cash Collateralize: the delivery of cash to Agent, as security for the payment of Obligations, in an amount equal to (a) with respect to LC Obligations, 105% of the aggregate LC Obligations, and (b) with respect to any inchoate, contingent or other Obligations (including Obligations arising under Bank Products), Agent's good faith estimate of the amount due or to become due, including all fees and other amounts relating to such Obligations. "Cash Collateralization" has a correlative meaning.

Cash Equivalents: (a) marketable obligations issued or unconditionally guaranteed by, and backed by the full faith and credit of, the United States government, maturing within 12 months of the date of acquisition; (b) certificates of deposit, time deposits and bankers' acceptances maturing within 12 months of the date of acquisition, and overnight bank deposits, in each case which are issued by a commercial bank organized under the laws of the United States or any state or district thereof, rated A-1 (or better) by S&P or P-1 (or better) by Moody's at the time of acquisition, and (unless issued by a Lender) not subject to offset rights; (c) repurchase obligations with a term of not more than 30 days for underlying investments of the types described in clauses (a) and (b) entered into with any bank meeting the qualifications specified in clause (b); (d) commercial paper rated A-1 (or better) by S&P or P-1 (or better) by Moody's, and maturing within nine months of the date of acquisition; and (e) shares of any money market fund that has substantially all of its assets invested continuously in the types of investments referred to above, has net assets of at least \$500,000,000 and has the highest rating obtainable from either Moody's or S&P.

Cash Management Services: any services provided from time to time by Bank of America, WFF, or any of their respective Affiliates to any Borrower or Subsidiary in connection with operating, collections, payroll, trust, or other depository or disbursement accounts, including automated clearinghouse, e-payable, electronic funds transfer, wire transfer, controlled disbursement, overdraft, depository, information reporting, lockbox and stop payment services.

CERCLA: the Comprehensive Environmental Response Compensation and Liability Act (42 U.S.C. § 9601 et seq.).

Change in Law: the occurrence, after the date hereof, of (a) the adoption or taking effect of any law, rule, regulation or treaty; (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority; or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

Change of Control: any "person" or "group" (within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Securities Exchange Act of 1934), directly or indirectly, of 35%, or more, of the Equity Interests of Clearwater having the right to vote for the election of members of the board of directors of Clearwater.

Claims: all liabilities, obligations, losses, damages, penalties, judgments, proceedings, interest, costs and expenses of any kind (including remedial response costs, reasonable attorneys' fees and Extraordinary Expenses) at any time (including after Full Payment of the Obligations, resignation or replacement of Agent, or replacement of any Lender) incurred by or asserted against any Indemnitee in any way relating to (a) any Loans, Letters of Credit, Loan Documents, or the use thereof or transactions relating thereto, (b) any action taken or omitted to be taken by any Indemnitee in connection with any Loan Documents, (c) the existence or perfection of any Liens, or realization upon any Collateral, (d) exercise of any rights or remedies under any Loan Documents or Applicable Law, or (e) failure by any Obligor to perform or observe any terms of any Loan Document, in each case including all costs and expenses relating to any investigation, litigation, arbitration or other proceeding (including an Insolvency Proceeding or appellate proceedings), whether or not the applicable Indemnitee is a party thereto.

Closing Date: as defined in **Section 6.1**.

Code: the Internal Revenue Code of 1986.

Collateral: all Property described in **Section 7.1**, all Property described in any Security Documents as security for any Obligations, and all other Property that now or hereafter secures (or is intended to secure) any Obligations.

Collateral Related Intellectual Property: Intellectual Property used in connection with any manufacture, marketing, distribution or disposition of Collateral.

Commitment: for any Lender, the aggregate amount of such Lender's Revolver Commitment. "Commitments" means the aggregate amount of all Revolver Commitments.

Commitment Termination Date: the earliest to occur of (a) the Revolver Termination Date; (b) the date on which Borrowers terminate the Revolver Commitments pursuant to **Section 2.1.4**; or (c) the date on which the Revolver Commitments are terminated pursuant to **Section 11.2**.

Compliance Certificate: a certificate, in form and substance satisfactory to Agent, by which Borrowers certify compliance with **Sections 10.2.3** and **10.3** and calculate the applicable "Level" for the Applicable Margin (as set forth in the definition thereof).

Contingent Obligation: any obligation of a Person arising from a guaranty, indemnity or other assurance of payment or performance of any Debt, lease, dividend or other obligation ("primary obligations") of another obligor ("primary obligor") in any manner, whether directly or indirectly, including any obligation of such Person under any (a) guaranty, endorsement, co-making or sale with recourse of an obligation of a primary obligor; (b) obligation to make take-or-pay or similar payments regardless of nonperformance by any other party to an agreement; and (c) arrangement (i) to purchase any primary obligation or security therefor, (ii) to supply funds for the purchase or payment of any primary obligation, (iii) to maintain or assure working capital, equity capital, net worth or solvency of the primary obligor, (iv) to purchase Property or services for the purpose of assuring the ability of the primary obligor to perform a primary obligation, or (v) otherwise to assure or hold harmless the holder of any primary obligation against loss in respect thereof. The amount of any Contingent Obligation shall be deemed to be the stated or determinable amount of the primary obligation (or, if less, the maximum amount for which such Person may be liable under the instrument evidencing the Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated liability with respect thereto.

Credit Judgment: Agent's judgment exercised in good faith, based upon its consideration of any factor that it believes (a) could adversely affect the quantity, quality, mix or value of Collateral (including any Applicable Law that may inhibit collection of an Account), the enforceability or priority of Agent's Liens, or the amount that Agent and Lenders could receive in liquidation of any Collateral; (b) suggests that any collateral report or financial information delivered by any Obligor is incomplete, inaccurate or misleading in any material respect; (c) materially increases the likelihood of any Insolvency Proceeding involving an Obligor; or (d) creates or could result in a Default or Event of Default. In exercising such judgment, Agent may consider any factors that could increase the credit risk of lending to Borrowers on the security of the Collateral.

CWA: the Clean Water Act (33 U.S.C. §§ 1251 et seq.).

Debt: as applied to any Person, without duplication, (a) all items that would be included as liabilities on a balance sheet in accordance with GAAP, including Capital Leases, but excluding trade payables incurred and being paid in the Ordinary Course of Business; (b) all Contingent Obligations; (c) all reimbursement obligations in connection with letters of credit issued for the account of such Person; and (d) in the case of a Borrower, the Obligations. The Debt of a Person shall include any recourse Debt of any partnership in which such Person is a general partner or joint venturer.

Default: an event or condition that, with the lapse of time or giving of notice, would constitute an Event of Default.

Default Rate: for any Obligation (including, to the extent permitted by law, interest not paid when due), 2% plus the interest rate otherwise applicable thereto.

Defaulting Lender: any Lender that (a) fails to make any payment or provide funds to Agent or any Borrower as required hereunder or fails otherwise to perform its obligations under any Loan Document, and such failure is not cured within one Business Day, or (b) is the subject of any Insolvency Proceeding.

Deposit Account: as defined in the UCC, excluding the Potlatch Escrow Account.

Deposit Account Control Agreements: the Deposit Account control agreements to be executed by each institution maintaining a Deposit Account for a Borrower, in favor of Agent, for the benefit of Secured Parties, as security for the Obligations.

Dilution Percent: the percent, determined for Borrowers' most recent trailing twelve month period, equal to (a) bad debt write-downs or write-offs, discounts, returns, promotions, credits, credit memos and other dilutive items with respect to Accounts, divided by (b) gross sales.

Dilution Reserve: as of any date of determination, an amount sufficient to reduce the advance rate against Eligible Accounts by one (1) percentage point for each one-half of one (0.50) percentage point by which the Dilution Percent is in excess of 7.5%.

Distribution: any declaration or payment of a distribution, interest or dividend on any Equity Interest (other than payment-in-kind); any distribution, advance or repayment of Debt to a holder of Equity Interests; or any purchase, redemption, or other acquisition or retirement for value of any Equity Interest.

Dollars: lawful money of the United States.

Dominion Account: a special account established by Borrowers at Bank of America or another bank acceptable to Agent, over which Agent has exclusive control for withdrawal purposes during each Trigger Period.

EBITDA: with respect to any period, determined on a consolidated basis for Borrowers and Subsidiaries, net income for such period, calculated before interest expense, provision for income taxes, depreciation and amortization expense, any non-cash items relating to stock based employee compensation or equity or stock option plans, gains or losses arising from the sale of capital assets, gains arising from the write-up of assets, and any extraordinary gains (in each case, to the extent included in determining net income for such period).

Eligible Account: an Account owing to a Borrower that arises in the Ordinary Course of Business from the sale of goods or rendition of services, is payable in Dollars and is deemed by Agent, in its Credit Judgment, to be an Eligible Account. Without limiting the foregoing, no Account shall be an Eligible Account if (a) it is unpaid for more than 60 days after the original due date, or more than 90 days after the original invoice date; (b) 50% or more of the Accounts owing by the Account Debtor are not Eligible Accounts under the foregoing clause; (c) when aggregated with other Accounts owing by the Account Debtor, it exceeds 15% of the aggregate Eligible Accounts (or such higher percentage as Required Lenders may establish for the Account Debtor from time to time); (d) it does not conform with a covenant

or representation herein; (e) it is owing by a creditor or supplier, or is otherwise subject to a potential offset, counterclaim, dispute, deduction, discount (other than an early pay discount offered as part of the normal course selling terms), recoupment, reserve, defense, chargeback, credit or allowance (but ineligibility shall be limited to the amount thereof); (f) an Insolvency Proceeding has been commenced by or against the Account Debtor; or the Account Debtor has failed, has suspended or ceased doing business, is liquidating, dissolving or winding up its affairs, or is not Solvent; or the Borrower is not able to bring suit or enforce remedies against the Account Debtor through judicial process; (g) the Account Debtor is organized or has its principal offices or assets outside the United States or Canada unless (i) such Account is supported by an irrevocable letter of credit satisfactory to Agent (as to form, substance, and issuer or domestic confirming bank); and (ii) upon Agent's request to Borrower Agent after a Default or an Event of Default, such letter of credit has been delivered to Agent and is directly drawable by Agent; provided, however, that up to \$3,750,000 of such Accounts shall not be excluded under this clause (g); (h) it is owing by a Government Authority, unless the Account Debtor is the United States or any State, department, agency or instrumentality thereof and the Assignment of Claims Act or any similar State or local law, if applicable, has been complied with in a manner satisfactory to Agent; (i) it is not subject to a duly perfected, first priority Lien in favor of Agent, or is subject to any other Lien; (j) the goods giving rise to it have not been delivered to and accepted by the Account Debtor, the services giving rise to it have not been accepted by the Account Debtor, or it otherwise does not represent a final sale; (k) it is evidenced by Chattel Paper or an Instrument of any kind, or has been reduced to judgment; (l) the Account Debtor has made a partial payment and Agent believes in its Credit Judgment that its collection is doubtful; (m) it arises from a sale on a cash-on-delivery basis; (n) it arises from a sale to an Affiliate, from a sale on a bill-and-hold, guaranteed sale, sale-or-return, sale-on-approval, consignment, or other repurchase or return basis, or from a sale to a Person for personal, family or household purposes; (o) it represents a progress billing or retainage; or (p) it includes a billing for interest, fees or late charges, but ineligibility shall be limited to the extent thereof. In calculating delinquent portions of Accounts under clauses (a) and (b), credit balances more than 90 days old will be excluded.

Eligible Assignee: a Person that is (a) a Lender, U.S.-based Affiliate of a Lender or Approved Fund; (b) any other financial institution approved by Agent and Borrower Agent (which approval by Borrower Agent shall not be unreasonably withheld or delayed, and shall be deemed given if no objection is made within five Business Days after notice of the proposed assignment), that is organized under the laws of the United States or any state or district thereof, has total assets in excess of \$5 billion, extends asset-based lending facilities in its ordinary course of business and whose becoming an assignee would not constitute a prohibited transaction under Section 4975 of the Code or any other Applicable Law; and (c) during any Event of Default, any Person acceptable to Agent in its discretion.

Eligible Inventory: Inventory owned by a Borrower that Agent, in its Credit Judgment, deems to be Eligible Inventory. Without limiting the foregoing, no Inventory shall be Eligible Inventory unless it (a) is finished goods or raw materials, and not work-in-process, packaging or shipping materials, labels, samples, display items, bags, replacement parts or manufacturing supplies; (b) is not held on consignment, nor subject to any deposit or downpayment; (c) is in new and saleable condition and is not damaged, defective, shopworn or otherwise unfit for sale; (d) is not slow-moving, obsolete or unmerchantable, and does not constitute returned or repossessed goods; (e) meets all standards imposed by any Governmental Authority, and does not constitute hazardous materials under any Environmental Law; (f) conforms with the covenants and representations herein; (g) is subject to Agent's duly perfected, first priority Lien, and no other Lien; (h) is within the continental United States or Canada, is not in transit except between locations of Borrowers, and is not consigned to any Person; (i) is not subject to any warehouse receipt or negotiable Document, unless Agent shall have received a Lien Waiver from the Person who has possession of the Inventory subject to such warehouse receipt or negotiable Document; (j) is not subject to any License or other arrangement that restricts such Borrower's or Agent's right to dispose of such Inventory, unless Agent has received an appropriate Lien Waiver; (k) is not located on leased premises or in the possession of a warehouseman, processor, repairman, mechanic, shipper, freight forwarder or other Person, unless the lessor or such Person has delivered a Lien Waiver or an appropriate

Rent and Charges Reserve has been established; (l) is located at a location where the Value of all Inventory at such location exceeds \$100,000; (m) does not consist of parent rolls or rough lumber; (n) does not consist of chemicals, fuel oil, polyethylene, hog fuel, and other similar Inventory as determined by Agent in its Credit Judgment; (o) is not located at a customer of any Borrower; and (p) is reflected in the details of a current perpetual inventory report.

Eligible Semi-Finished Inventory: Inventory of Borrowers which does not qualify as Eligible Inventory *solely* because it is excluded under clause (m) of the definition of “Eligible Inventory”.

Enforcement Action: any action to enforce any Obligations or Loan Documents or to realize upon any Collateral (whether by judicial action, self-help, notification of Account Debtors, exercise of setoff or recoupment, or otherwise).

Environmental Laws: all Applicable Laws (including all programs, permits and guidance promulgated by regulatory agencies), relating to public health (but excluding occupational safety and health, to the extent regulated by OSHA) or the protection or pollution of the environment, including CERCLA, RCRA and CWA.

Environmental Notice: a written notice from any Governmental Authority of any possible noncompliance with, investigation of a possible violation of, litigation relating to, or potential fine or liability under any Environmental Law, or with respect to any Environmental Release, environmental pollution or hazardous materials, including any complaint, summons, citation, order, claim, demand or request for correction, remediation or otherwise.

Environmental Release: a release as defined in CERCLA or under any other Environmental Law.

Equity Interest: the interest of any (a) shareholder in a corporation; (b) partner in a partnership (whether general, limited, limited liability or joint venture); (c) member in a limited liability company; or (d) other Person having any other form of equity security or ownership interest.

ERISA: the Employee Retirement Income Security Act of 1974.

ERISA Affiliate: any trade or business (whether or not incorporated) under common control with an Obligor within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

ERISA Event: (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by any Obligor or ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by any Obligor or ERISA Affiliate from a Multiemployer Plan or notification to the Multiemployer Plan that such plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) any Obligor or ERISA Affiliate fails to meet any minimum funding obligations with respect to any Pension Plan or Multiemployer Plan, or requests a minimum funding waiver; (f) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (g) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon any Obligor or ERISA Affiliate.

Event of Default: as defined in **Section 11**.

Excluded Tax: with respect to Agent, any Lender, Issuing Bank or any other recipient of a payment to be made by or on account of any Obligation, (a) Taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the jurisdiction (or any political subdivision thereof) under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable Lending Office is located; (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which Borrower Agent is located; (c) any backup withholding tax required by the Code to be withheld from amounts payable to a Lender that has failed to comply with **Section 5.10**; and (d) in the case of a Foreign Lender, any United States withholding tax that is (i) required pursuant to laws in force at the time such Lender becomes a Lender (or designates a new Lending Office) hereunder, or (ii) attributable to such Lender's failure or inability (other than as a result of a Change in Law) to comply with **Section 5.10**, except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from Borrowers with respect to such withholding tax.

Extraordinary Expenses: all costs, expenses or advances that Agent may incur during a Default or Event of Default, or during the pendency of an Insolvency Proceeding of a Borrower or a Guarantor, including those relating to (a) any audit, inspection, repossession, storage, repair, appraisal, insurance, manufacture, preparation or advertising for sale, sale, collection, or other preservation of or realization upon any Collateral; (b) any action, arbitration or other proceeding (whether instituted by or against Agent, any Lender, any Obligor, any representative of creditors of an Obligor or any other Person) in any way relating to any Collateral (including the validity, perfection, priority or avoidability of Agent's Liens with respect to any Collateral), Loan Documents, Letters of Credit or Obligations, including any lender liability or other Claims; (c) the exercise, protection or enforcement of any rights or remedies of Agent in, or the monitoring of, any Insolvency Proceeding; (d) settlement or satisfaction of any taxes, charges or Liens with respect to any Collateral; (e) any Enforcement Action; (f) negotiation and documentation of any modification, waiver, workout, restructuring or forbearance with respect to any Loan Documents or Obligations; and (g) Protective Advances. Such costs, expenses and advances include transfer fees, Other Taxes, storage fees, insurance costs, permit fees, utility reservation and standby fees, legal fees, appraisal fees, brokers' fees and commissions, auctioneers' fees and commissions, accountants' fees, environmental study fees, wages and salaries paid to employees of any Obligor or independent contractors in liquidating any Collateral, and travel expenses.

Federal Funds Rate: (a) the weighted average of interest rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on the applicable Business Day (or on the preceding Business Day, if the applicable day is not a Business Day), as published by the Federal Reserve Bank of New York on the next Business Day; or (b) if no such rate is published on the next Business Day, the average rate (rounded up, if necessary, to the nearest $\frac{1}{8}$ of 1%) charged to Bank of America on the applicable day on such transactions, as determined by Agent.

Fee Letters: collectively, the Agent Fee Letter and the Bank of America-WFF Fee Letter.

Fiscal Quarter: each period of three months, commencing on the first day of a Fiscal Year.

Fiscal Year: the fiscal year of Borrowers and Subsidiaries for accounting and tax purposes, ending on December 31 of each year.

Fixed Charge Coverage Ratio: with respect to any period, the ratio, determined on a consolidated basis for Borrowers and Subsidiaries, of (a) EBITDA for such period to (b) Fixed Charges for such period.

Fixed Charges: the sum of interest expense (other than payment-in-kind), principal payments made on Borrowed Money (other than: (i) repayments of the Revolver Loans; and (ii) repayments of the Potlatch Indebtedness to the extent permitted under **Section 10.2.8(c)**), cash taxes paid, Capital Expenditures (except those financed with Borrowed Money other than Revolver Loans), and Distributions made.

FLSA: the Fair Labor Standards Act of 1938.

Foreign Lender: any Lender that is organized under the laws of a jurisdiction other than the laws of the United States, or any state or district thereof.

Foreign Plan: any employee benefit plan or arrangement (a) maintained or contributed to by any Obligor or Subsidiary that is not subject to the laws of the United States; or (b) mandated by a government other than the United States for employees of any Obligor or Subsidiary.

Foreign Subsidiary: a Subsidiary that is a “controlled foreign corporation” under Section 957 of the Code, such that a guaranty by such Subsidiary of the Obligations or a Lien on the assets of such Subsidiary to secure the Obligations would result in material tax liability to Borrowers.

Full Payment: with respect to any Obligations, (a) the full and indefeasible cash payment thereof, including any interest, fees and other charges accruing during an Insolvency Proceeding (whether or not allowed in the proceeding); and (b) if such Obligations are LC Obligations or inchoate or contingent in nature, Cash Collateralization thereof (or delivery of a standby letter of credit acceptable to Agent in its discretion, in the amount of required Cash Collateral). No Loans shall be deemed to have been paid in full until all Commitments related to such Loans have expired or been terminated.

GAAP: generally accepted accounting principles in effect in the United States from time to time.

Governmental Approvals: all authorizations, consents, approvals, licenses and exemptions of, registrations and filings with, and required reports to, all Governmental Authorities.

Governmental Authority: any federal, state, municipal, foreign or other governmental department, agency, commission, board, bureau, court, tribunal, instrumentality, political subdivision, or other entity or officer exercising executive, legislative, judicial, regulatory or administrative functions for or pertaining to any government or court, in each case whether associated with the United States, a state, district or territory thereof, or a foreign entity or government.

Guarantor Payment: as defined in **Section 5.11.3**.

Guarantors: Each Person who guarantees payment or performance of any Obligations.

Guaranty: each guaranty agreement executed by a Guarantor in favor of Agent.

Hedging Agreement: an agreement relating to any swap, cap, floor, collar, option, forward, cross right or obligation, or combination thereof or similar transaction, with respect to interest rate, foreign exchange, currency, commodity, credit or equity risk.

Indemnified Taxes: Taxes other than Excluded Taxes.

Indemnities: Agent Indemnities, Lender Indemnities, Issuing Bank Indemnities and Bank of America Indemnities.

Insolvency Proceeding: any case or proceeding commenced by or against a Person under any state, federal or foreign law for, or any agreement of such Person to, (a) the entry of an order for relief under the Bankruptcy Code, or any other insolvency, debtor relief or debt adjustment law; (b) the appointment of a receiver, trustee, liquidator, administrator, conservator or other custodian for such Person or any part of its Property; or (c) an assignment or trust mortgage for the benefit of creditors.

Intellectual Property: all intellectual and similar Property of a Person, including inventions, designs, patents, copyrights, trademarks, service marks, trade names, trade secrets, confidential or proprietary information, customer lists, know-how, software and databases; all embodiments or fixations thereof and all related documentation, applications, registrations and franchises; all licenses or other rights to use any of the foregoing; and all books and records relating to the foregoing.

Intellectual Property Claim: any claim or assertion (whether in writing, by suit or otherwise) that a Borrower's or Subsidiary's ownership, use, marketing, sale or distribution of any Inventory, Equipment, Intellectual Property or other Property violates another Person's Intellectual Property.

Interest Period: as defined in **Section 3.1.3**.

Intercreditor Agreement: the Intercreditor Agreement dated on or about the date hereof, by and between Potlatch and Agent.

Interest Rate Contract: any interest rate swap, collar or cap agreement, or other agreement or arrangement by any Borrower or Subsidiary with Bank of America that is designed to protect against fluctuations in interest rates.

Inventory: as defined in the UCC, including all goods intended for sale, lease, display or demonstration; all work in process; and all raw materials, and other materials and supplies of any kind that are or could be used in connection with the manufacture, printing, packing, shipping, advertising, sale, lease or furnishing of such goods, or otherwise used or consumed in a Borrower's business (but excluding Equipment).

Inventory Formula Amount: the lesser of:

- (a) the sum of:
 - (i) the lesser of: (A) 50% of the Value of Eligible Inventory consisting of raw materials; or (B) 85% of the NOLV Percentage of the Value of Eligible Inventory consisting of raw materials; plus
 - (ii) the lesser of: (A) 50% of the Value of Eligible Semi-Finished Inventory; or (B) 85% of the NOLV Percentage of the Value of Eligible Semi-Finished Inventory; plus
 - (iii) the lesser of: (A) 65% of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' pulp and paperboard business; or (B) 85% of the NOLV Percentage of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' pulp and paperboard business; plus
 - (iii) the lesser of: (A) 65% of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' wood product business; or (B) 85% of the NOLV Percentage of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' wood product business; plus
 - (iv) the lesser of: (A) 70% of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' consumer tissue products business; or (B) 85% of the NOLV Percentage of the Value of Eligible Inventory consisting of finished goods relating to the Borrowers' consumer tissue products business; or

(b) an amount equal to 150% of the Accounts Formula Amount.

Inventory Reserve: reserves established by Agent in its Credit Judgment to reflect factors that may negatively impact the Value of Inventory, including change in salability, obsolescence, seasonality, theft, shrinkage, imbalance, change in composition or mix, markdowns and vendor chargebacks.

Investment: any acquisition of all or substantially all assets of a Person; any acquisition of record or beneficial ownership of any Equity Interests of a Person; or any advance or capital contribution to or other investment in a Person.

IP License: as defined in **Section 11.3**.

IRS: the United States Internal Revenue Service.

Issuing Bank: Bank of America or an Affiliate of Bank of America.

Issuing Bank Indemnitees: Issuing Bank and its officers, directors, employees, Affiliates, agents and attorneys.

LC Application: an application by Borrower Agent to Issuing Bank for issuance of a Letter of Credit, in the form used by Issuing Bank.

LC Conditions: the following conditions necessary for issuance of a Letter of Credit: (a) each of the conditions set forth in **Section 6**; (b) after giving effect to such issuance, total LC Obligations do not exceed the Letter of Credit Subline, no Overadvance exists and, if no Revolver Loans are outstanding, the LC Obligations do not exceed the Borrowing Base (without giving effect to the LC Reserve for purposes of this calculation); (c) the expiration date of such Letter of Credit is (i) no more than 365 days from issuance, in the case of standby Letters of Credit, (ii) no more than 120 days from issuance, in the case of documentary Letters of Credit, and (iii) at least 20 Business Days prior to the Revolver Termination Date; (d) the Letter of Credit and payments thereunder are denominated in Dollars; and (e) the purpose and form of the proposed Letter of Credit is satisfactory to Agent and Issuing Bank in their discretion.

LC Documents: all documents, instruments and agreements (including LC Requests and LC Applications) delivered by Borrowers or any other Person to Issuing Bank or Agent in connection with issuance, amendment or renewal of, or payment under, any Letter of Credit.

LC Obligations: the sum (without duplication) of (a) all amounts owing by Borrowers for any drawings under Letters of Credit; (b) the stated amount of all outstanding Letters of Credit; and (c) all fees and other amounts owing with respect to Letters of Credit.

LC Request: a request for issuance of a Letter of Credit, to be provided by Borrower Agent to Issuing Bank, in form satisfactory to Agent and Issuing Bank.

LC Reserve: the aggregate of all LC Obligations, other than (a) those that have been Cash Collateralized; and (b) if no Default or Event of Default exists, those constituting fees and other amounts owing to the Issuing Bank.

Lender Indemnitees: Lenders and their officers, directors, employees, Affiliates, agents and attorneys.

Lenders: as defined in the preamble to this Agreement, including Agent in its capacity as a provider of Swingline Loans and any other Person who hereafter becomes a "Lender" pursuant to an Assignment and Acceptance.

Lending Office: the office designated as such by the applicable Lender at the time it becomes party to this Agreement or thereafter by notice to Agent and Borrower Agent.

Letter of Credit: any standby or documentary letter of credit issued by Issuing Bank for the account of a Borrower, or any indemnity, guarantee, exposure transmittal memorandum or similar form of credit support issued by Agent or Issuing Bank for the benefit of a Borrower.

Letter of Credit Subline: \$20,000,000.

LIBOR: for any Interest Period with respect to a LIBOR Loan, the per annum rate of interest (rounded upward, if necessary, to the nearest $\frac{1}{32}$ th of 1%), determined by Agent at approximately 11:00 a.m. (London time) two Business Days prior to commencement of such Interest Period, for a term comparable to such Interest Period, equal to (a) the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source designated by Agent); or (b) if BBA LIBOR is not available for any reason, the interest rate at which Dollar deposits in the approximate amount of the LIBOR Loan would be offered by Bank of America's London branch to major banks in the London interbank Eurodollar market. If the Board of Governors imposes a Reserve Percentage with respect to LIBOR deposits, then LIBOR shall be the foregoing rate, divided by 1 minus the Reserve Percentage.

LIBOR Loan: each set of LIBOR Revolver Loans having a common length and commencement of Interest Period.

LIBOR Revolver Loan: a Revolver Loan that bears interest based on LIBOR.

License: any license or agreement under which an Obligor is authorized to use Intellectual Property in connection with any manufacture, marketing, distribution or disposition of Collateral, any use of Property or any other conduct of its business.

License Rejection Liabilities: all damages of Agent or any Lender (a) arising from the diminution of value of the Inventory of any Borrower in connection with any disposition thereof, or (ii) as determined by a court of competent jurisdiction, in each case, resulting from any Bankruptcy Rejection of the IP License.

Licensor: any Person from whom an Obligor obtains the right to use any Intellectual Property.

Lien: any Person's interest in Property securing an obligation owed to, or a claim by, such Person, whether such interest is based on common law, statute or contract, including liens, security interests, pledges, hypothecations, statutory trusts, reservations, exceptions, encroachments, easements, rights-of-way, covenants, conditions, restrictions, leases, and other title exceptions and encumbrances affecting Property.

Lien Waiver: an agreement, in form and substance satisfactory to Agent, by which (a) for any Collateral located on leased premises, the lessor waives or subordinates any Lien it may have on the Collateral, and agrees to permit Agent to enter upon the premises and remove the Collateral or to use the premises to store or dispose of the Collateral; (b) for any Collateral held by a warehouseman, processor, shipper, customs broker or freight forwarder, such Person waives or subordinates any Lien it may have on the Collateral, agrees to hold any Documents in its possession relating to the Collateral as agent for Agent, and agrees to deliver the Collateral to Agent upon request; (c) for any Collateral held by a repairman, mechanic or bailee, such Person acknowledges Agent's Lien, waives or subordinates any Lien it may have on the Collateral, and agrees to deliver the Collateral to Agent upon request; and (d) for any Collateral subject to a Licensor's Intellectual Property rights, the Licensor grants to Agent the right, vis-à-vis such Licensor, to enforce Agent's Liens with respect to the Collateral, including the right to dispose of it with the benefit of the Intellectual Property, whether or not a default exists under any applicable License.

Line Usage: for any period, the percent equal to (a) the average daily amount of outstanding Obligations for such period divided by (b) the average amount of Revolver Commitments (minus the Availability Block) during such period.

Loan: a Revolver Loan.

Loan Account: the loan account established by each Lender on its books pursuant to **Section 5.8**.

Loan Documents: this Agreement, Other Agreements and Security Documents.

Loan Year: each 12 month period commencing on the Closing Date and on each anniversary of the Closing Date.

Margin Stock: as defined in Regulation U of the Board of Governors.

Material Adverse Effect: the effect of any event or circumstance that (a) has or could be reasonably expected to have a material adverse effect on the business, operations, Properties or condition (financial or otherwise) of any Obligor, on the value of any material Collateral, on the enforceability of any Loan Documents, or on the validity or priority of Agent's Liens on any Collateral; (b) impairs the ability of any Borrower or Guarantor to perform any obligations under the Loan Documents, including repayment of any Obligations; or (c) otherwise impairs the ability of Agent or any Lender to enforce or collect any Obligations or to realize upon any Collateral.

Material Contract: any agreement or arrangement to which a Borrower or Subsidiary is party (other than the Loan Documents) (a) that is deemed to be a material contract under any securities law applicable to such Obligor, including the Securities Act of 1933; (b) for which breach, termination, nonperformance or failure to renew could reasonably be expected to have a Material Adverse Effect; or (c) that relates to Subordinated Debt, or Debt in an aggregate amount of \$5,000,000 or more.

Modified Availability: on any date of determination, an amount equal to the sum of (a) Availability, plus (b) the lesser of (i) Suppressed Availability; or (ii) \$25,000,000.

Moody's: Moody's Investors Service, Inc., and its successors.

Multiemployer Plan: any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which any Obligor or ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

Net Proceeds: with respect to an Asset Disposition, proceeds (including, when received, any deferred or escrowed payments) received by a Borrower or Subsidiary in cash from such disposition, net of (a) reasonable and customary costs and expenses actually incurred in connection therewith, including legal fees and sales commissions; (b) amounts applied to repayment of Debt secured by a Permitted Lien senior to Agent's Liens on Collateral sold; (c) any Taxes reasonably attributable to such Asset Disposition (including any withholding in respect of such Taxes) and reasonably estimated by Clearwater to be actually payable; and (d) reserves for indemnities, until such reserves are no longer needed.

NOLV Percentage: with respect to any category of Inventory, the net orderly liquidation value of such Inventory, expressed as a percentage, expected to be realized at an orderly, negotiated sale held within a reasonable period of time, net of all liquidation expenses, as determined from the most recent appraisal of Borrowers' Inventory performed by an appraiser and on terms satisfactory to Agent.

Notes: each Revolver Note or other promissory note executed by a Borrower to evidence any Obligations.

Notice of Borrowing: a Notice of Borrowing to be provided by Borrower Agent to request a Borrowing of Revolver Loans, in form satisfactory to Agent.

Notice of Conversion/Continuation: a Notice of Conversion/Continuation to be provided by Borrower Agent to request a conversion or continuation of any Loans as LIBOR Loans, in form satisfactory to Agent.

Obligations: all (a) principal of and premium, if any, on the Loans, (b) LC Obligations and other obligations of Obligor with respect to Letters of Credit, (c) interest, expenses, fees and other sums payable by Obligor under Loan Documents, (d) obligations of Obligor under any indemnity for Claims, (e) Extraordinary Expenses, (f) Bank Product Debt, and (g) other Debts, obligations and liabilities of any kind owing by Obligor pursuant to the Loan Documents, whether now existing or hereafter arising, whether evidenced by a note or other writing, whether allowed in any Insolvency Proceeding, whether arising from an extension of credit, issuance of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, and whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, or joint or several.

Obligor: each Borrower, Guarantor, or other Person that is liable for payment of any Obligations or that has granted a Lien in favor of Agent on its assets to secure any Obligations.

Ordinary Course of Business: the ordinary course of business of any Borrower or Subsidiary, consistent with past practices and undertaken in good faith.

Organic Documents: with respect to any Person, its charter, certificate or articles of incorporation, bylaws, articles of organization, limited liability agreement, operating agreement, members agreement, shareholders agreement, partnership agreement, certificate of partnership, certificate of formation, voting trust agreement, or similar agreement or instrument governing the formation or management of such Person.

OSHA: the Occupational Safety and Hazard Act of 1970.

Other Agreement: each Note; LC Document; the Intercreditor Agreement; each Fee Letter; Lien Waiver; Borrowing Base Certificate, Compliance Certificate, financial statement or report delivered hereunder; or other document, instrument or agreement (other than this Agreement or a Security Document) now or hereafter delivered by an Obligor or other Person to Agent or a Lender in connection with any transactions relating hereto.

Other Taxes: all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

Overadvance: as defined in **Section 2.1.5**.

Overadvance Loan: a Base Rate Revolver Loan made when an Overadvance exists or is caused by the funding thereof.

Participant: as defined in **Section 13.2**.

Patriot Act: the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001, Pub. L. No. 107-56, 115 Stat. 272 (2001).

Payment Item: each check, draft or other item of payment payable to a Borrower, including those constituting proceeds of any Collateral.

PBGC: the Pension Benefit Guaranty Corporation.

Pension Plan: any employee pension benefit plan (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by any Obligor or ERISA Affiliate or to which the Obligor or ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the preceding five plan years.

Pension Reserve: a reserve in an initial amount equal to \$0, and increased on the first day of any month when Availability is less than \$25,000,000 as of such day by an amount equal to $\frac{1}{12}$ th of the aggregate unpaid required contributions of Borrowers to all Pension Plans and Multiemployer Plans as of such day; provided, however, that the Pension Reserve shall be decreased from time to time such that the Pension Reserve does not exceed the aggregate unpaid required contributions of Borrowers to all Pension Plans and Multiemployer Plans.

Permitted Acquisition: any Acquisition by any Borrower in a transaction that satisfies each of the following requirements: (a) such Acquisition is not a hostile acquisition or contested by the Person to be acquired; (b) the assets being acquired (other than a *de minimis* amount of assets in relation to Borrower's and its Subsidiaries' total assets), or the Person whose Equity Interests are being acquired, are useful in or engaged in, as applicable, the business of Borrower and its Subsidiaries or a business reasonably related thereto; (c) both before and after giving effect to such Acquisition, each of the representations and warranties in the Loan Documents is true and correct; (d) no Default or Event of Default shall have occurred and be continuing or would result from the consummation of such Acquisition; (e) as soon as available, but not less than 30 days prior to such Acquisition, the Borrowers have provided Agent (i) notice of such Acquisition and (ii) a copy of all available business and financial information reasonably requested by Agent including pro forma financial statements, statements of cash flow, and Availability projections; (f) not later than 15 Business Days prior to the anticipated closing date of such Acquisition, Borrowers shall have provided the Agent with copies of the acquisition agreement and other material documents relative to such Acquisition, which agreement and documents must be reasonably acceptable to Agent; (g) the aggregate purchase consideration payable (including deferred payment obligations, but excluding issuances of Equity Interests of Clearwater) in respect of all Acquisitions made during the term of this Agreement shall not exceed \$50,000,000; (h) if such Acquisition is an acquisition of the Equity Interests of a Person, the Acquisition is structured so that the acquired Person shall become a wholly-owned Subsidiary of a Borrower and, in accordance with **Section 10.1.9**, an Obligor pursuant to the terms of this Agreement; (i) if such Acquisition is an acquisition of assets, the Acquisition is structured so that an Obligor (or a newly organized Subsidiary that becomes an Obligor) shall acquire such assets; (j) the assets being acquired (other than a *de minimis* amount of assets in relation to the assets being acquired) are located within the United States, or the Person whose Equity Interests are being acquired is organized in a jurisdiction located within the United States; (k) no Debt will be incurred, assumed, or would exist with respect to Borrower or its Subsidiaries as a result of such Acquisition, other than Debt permitted under **Section 10.2.1** and no Liens will be incurred, assumed, or would exist with respect to the assets of Borrower or its Subsidiaries as a result of such Acquisition other than Permitted Liens; and (l) both before and after giving effect to any such Acquisition, Modified Availability is greater than \$50,000,000. In no event will assets acquired pursuant to a Permitted Acquisition constitute Eligible Accounts, Eligible Inventory or Eligible Semi-Finished Inventory prior to completion of a field examination and other due diligence acceptable to Agent in its discretion.

Permitted Asset Disposition: as long as: (x) no Default or Event of Default exists (provided that, in the case of clauses (a) and (c) only, such Asset Dispositions will continue to be permitted unless Agent has given Borrower Agent notice otherwise), and (y) in the case of clauses (a) and (c) only, all Net

Proceeds are remitted to a Dominion Account, an Asset Disposition that is: (a) a sale of Inventory in the Ordinary Course of Business; (b) a disposition of Equipment that, in the aggregate during any 12 month period, has a fair market or book value (whichever is more) of \$10,000,000 or less; (c) a disposition of Inventory that is obsolete, unmerchantable or otherwise unsalable in the Ordinary Course of Business; (d) termination of a lease of real or personal Property that is not necessary for the Ordinary Course of Business, could not reasonably be expected to have a Material Adverse Effect and does not result from an Obligor's default; (e) a disposition of Property (other than any Collateral) that is exchanged for credit against the purchase price of similar replacement property; (f) a transfer of Property by: (i) a Borrower to another Borrower; (ii) a Guarantor to another Guarantor; or (iii) a Guarantor to a Borrower; (g) a sale of Property in one transaction, the proceeds of which will be used to satisfy and discharge or make arrangements for the satisfaction and discharge or prepayment of Clearwater's obligations under the Retained Obligation Agreement so long as: (i) the aggregate fair market or book value (whichever is more) of all Collateral sold in such transaction does not exceed \$10,000,000; (ii) such transaction could not reasonably be expected to have a Material Adverse Effect; (iii) Borrowers remit to Agent for application to the Obligations an amount equal to the fair market or book value (whichever is more) of all Collateral sold in such transaction; (iv) not later than thirty (30) days prior to the anticipated closing date of such transaction, Borrowers shall have provided the Agent with written notice of such proposed transaction; (v) the proceeds of the proposed transaction which can be allocated to the Collateral being sold in such transaction exceed the amount of the Borrowing Base attributable to such Collateral; and (vi) not later than 15 Business Days prior to the anticipated closing date of such transaction, Borrowers shall have provided the Agent with copies of the sale agreement and other material documents relative to such transaction, which agreement and documents must be reasonably acceptable to Agent; (h) a transfer of Property by Clearwater to Retainco prior to the "Distribution" (as defined in the Separation Agreement) in accordance with the terms of the Spin-Off Documents; (i) a distribution of Retainco to Potlatch in accordance with the terms of the Spin-Off Documents; or (j) approved in writing by Agent and Required Lenders.

Permitted Contingent Obligations: Contingent Obligations (a) arising from endorsements of Payment Items for collection or deposit in the Ordinary Course of Business; (b) arising from Hedging Agreements permitted hereunder; (c) existing on the Closing Date, and any extension or renewal thereof that does not increase the amount of such Contingent Obligation when extended or renewed; (d) incurred in the Ordinary Course of Business with respect to surety, appeal or performance bonds, or other similar obligations; (e) arising from customary indemnification obligations in favor of purchasers in connection with dispositions of Equipment permitted hereunder; (f) arising under the Loan Documents; (g) in an aggregate amount of \$3,000,000 or less at any time; (h) consisting of customary indemnification obligations included in contracts entered into in the Ordinary Course of Business, (i) to the extent considered Debt permitted by **Section 10.2.1**, (j) pursuant to guaranties by an Obligor of the obligations of another Obligor with respect to lease, contracts and other commitments entered into in the Ordinary Course of Business; (k) arising under (i) contracts that Clearwater has assigned to Potlatch or an Affiliate of Potlatch in connection with the Spin-Off and as to which Clearwater has not been released and (ii) contracts for the supply of goods or services or for the lease of equipment that were initially entered into by Clearwater, Potlatch or an Affiliate of Potlatch and to which, in the case of the contracts initially entered into by Clearwater, Potlatch or an Affiliate of Potlatch has been added as a party, and in the case of the contracts initially entered into by Potlatch or an Affiliate of Potlatch, Clearwater has been added as a party; and in all cases, (1) such Persons have been added as parties in connection with the Spin-Off to enable their businesses which such Persons have after the Spin-Off to continue to receive goods and services and to lease the equipment such businesses received or leased before the Spin-Off, and (2) Clearwater's liability under such contracts will not result in a Material Adverse Effect; or (l) consisting of obligations to make take or pay or similar payments pursuant to supply agreements entered into in the Ordinary Course of Business.

Permitted Lien: as defined in **Section 10.2.2**.

Permitted Purchase Money Debt: Purchase Money Debt of Borrowers and Subsidiaries that is unsecured or secured only by a Purchase Money Lien, as long as the aggregate amount incurred in any fiscal year of Clearwater does not exceed \$30,000,000.

Person: any individual, corporation, limited liability company, partnership, joint venture, joint stock company, land trust, business trust, unincorporated organization, Governmental Authority or other entity.

Plan: any employee benefit plan (as such term is defined in Section 3(3) of ERISA), other than a Foreign Plan, established by an Obligor or, with respect to any such plan that is subject to Section 412 of the Code or Title IV of ERISA, an ERISA Affiliate.

Potlatch: Potlatch Corporation, a Delaware corporation.

Potlatch Escrow Account: the “Escrow Account” as defined under, and established pursuant to, the Retained Obligation Agreement.

Potlatch Indebtedness: the obligations of Clearwater under (i) Section 3.1(a) of the Contribution and Assumption Agreement, dated December 30, 2005, between Potlatch and Clearwater and (ii) the Retained Obligation Agreement.

Prime Rate: the rate of interest announced by Bank of America from time to time as its prime rate. Such rate is set by Bank of America on the basis of various factors, including its costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above or below such rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

Pro Rata: with respect to any Lender, a percentage (carried out to the ninth decimal place) determined (a) while Revolver Commitments are outstanding, by dividing the amount of such Lender’s Revolver Commitment by the aggregate amount of all Revolver Commitments; and (b) at any other time, by dividing the amount of such Lender’s Loans and LC Obligations by the aggregate amount of all outstanding Loans and LC Obligations.

Proceeds: as defined in **Section 7.1**.

Properly Contested: with respect to any obligation of an Obligor, (a) the obligation is subject to a bona fide dispute regarding amount or the Obligor’s liability to pay; (b) the obligation is being properly contested in good faith by appropriate proceedings promptly instituted and diligently pursued; (c) appropriate reserves have been established in accordance with GAAP; (d) non-payment could not have a Material Adverse Effect, nor result in forfeiture or sale of any assets of the Obligor; (e) no Lien is imposed on assets of the Obligor, unless bonded and stayed to the satisfaction of Agent; and (f) if the obligation results from entry of a judgment or other order, such judgment or order is stayed pending appeal or other judicial review.

Property: any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

Protective Advances: as defined in **Section 2.1.6**.

Purchase Money Debt: (a) Debt (other than the Obligations) for payment of any of the purchase price of fixed assets; (b) Debt (other than the Obligations) incurred within 30 days before or after acquisition of any fixed assets, for the purpose of financing any of the purchase price thereof; and (c) any renewals, extensions or refinancings (but not increases) thereof.

Purchase Money Lien: a Lien that secures Purchase Money Debt, encumbering only the fixed assets acquired with such Debt and constituting a Capital Lease or a purchase money security interest under the UCC.

RCRA: the Resource Conservation and Recovery Act (42 U.S.C. §§ 6991-6991i).

Real Estate: all right, title and interest (whether as owner, lessor or lessee) in any real Property or any buildings, structures, parking areas or other improvements thereon.

Refinancing Conditions: the following conditions for Refinancing Debt: (a) it is in an aggregate principal amount that does not exceed the principal amount of the Debt being extended, renewed or refinanced; (b) it has a final maturity no sooner than, a weighted average life no less than, and an interest rate no greater than, the Debt being extended, renewed or refinanced; (c) it is subordinated to the Obligations at least to the same extent as the Debt being extended, renewed or refinanced; (d) the financial covenants and payment defaults applicable to it are no less favorable to Borrowers than those applicable to the Debt being extended, renewed or refinanced; (e) no additional Lien is granted to secure it; (f) no additional Person is obligated on such Debt; and (g) upon giving effect to it, no Default or Event of Default exists.

Refinancing Debt: Borrowed Money that is the result of an extension, renewal or refinancing of Debt permitted under **Section 10.2.1(b)** or **(d)**.

Reimbursement Date: as defined in **Section 2.3.2**.

Rent and Charges Reserve: the aggregate of (a) all past due rent and other amounts owing by an Obligor to any landlord, warehouseman, processor, repairman, mechanic, shipper, freight forwarder, broker or other Person who possesses any Collateral or could assert a Lien on any Collateral; and (b) a reserve at least equal to three months' rent and other charges that could be payable to any such Person, unless it has executed a Lien Waiver.

Report: as defined in **Section 12.2.3**.

Reportable Event: any of the events set forth in Section 4043(c) of ERISA, other than (i) events for which the 30 day notice period has been waived; and (ii) to the extent disclosed to Agent, the transactions contemplated by the Spin-Off Documents, including but not limited to any transfers of assets and liabilities from any of the Pension Plans to plans sponsored by Potlatch or an Affiliate thereof pursuant to the Spin-Off Documents.

Repurchase Reserve: a reserve in an initial amount equal to \$400,000, and increased by \$400,000 on the first of each month after the Closing Date until such time as the Repurchase Reserve equals \$1,000,000; provided, however, that the Repurchase Reserve shall be decreased by the amount of any repurchases of Equity Interests permitted to be made under **Section 10.2.4(a)(iii)**.

Required Lenders: Lenders (subject to **Section 4.2**) having (a) Revolver Commitments in excess of 50% of the aggregate Revolver Commitments; and (b) if the Revolver Commitments have terminated, Loans in excess of 50% of all outstanding Loans; provided, however, that at any time there are 2 or more Lenders, "Required Lenders" must include at least 2 Lenders. In addition to the foregoing, Required Lenders must include WFF for as long as WFF holds thirty three and one-third percent (33-1/3%) or more of: (i) the aggregate Revolver Commitments, and (ii) if the Revolver Commitments have terminated, all outstanding Loans.

Reserve Percentage: the reserve percentage (expressed as a decimal, rounded upward to the nearest 1/8th of 1%) applicable to member banks under regulations issued from time to time by the Board of Governors for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to Eurocurrency funding (currently referred to as "Eurocurrency liabilities").

Restricted Investment: any Investment by a Borrower or Subsidiary, other than (a) Investments in Subsidiaries to the extent existing on the Closing Date; (b) Cash Equivalents that are subject to Agent's Lien and control, pursuant to documentation in form and substance satisfactory to Agent; (c) loans and advances permitted under **Section 10.2.7**; (d) Permitted Acquisitions; (e) Investments consisting of accounts receivable created, acquired or made by any Obligor in the Ordinary Course of Business and payable or dischargeable in accordance with customary trade terms; (f) Investments consisting of Equity Interests, obligations, securities or other Property received by any Obligor in settlement of accounts receivable from bankrupt obligors; (g) Investments existing on the Closing Date and set forth on Schedule P-1; (h) Investments received as the non-cash portion of the consideration received in connection with a Permitted Asset Disposition; (i) Investments resulting from pledges and deposits constituting Permitted Liens; (j) Hedging Agreements to the extent permitted under **Section 10.2.15**; (k) Investments made in the Ordinary Course of Business in connection with obtaining, maintaining or renewing customer contracts; (l) Investments consisting of the establishment, deposit of funds (other than proceeds of any Revolver Loans) into, and investment of funds on deposit in, the Potlatch Escrow Account in accordance with the terms of the Retained Obligation Agreement (it being understood that this clause (l) shall not be deemed to be implied consent to any Asset Disposition or incurrence of Debt otherwise prohibited by the terms and conditions of this Agreement); (m) so long as both before and after giving effect to any such Investment, Modified Availability is greater than \$50,000,000, and so long as no Default or Event of Default shall have occurred and be continuing or would result from the making of such Investment, Investments in joint ventures in which a Borrower or a Guarantor acquires or has an Equity Interest, not to exceed at any time \$5,000,000, provided that such limitation shall be increased from time to time as such Borrower or Guarantor receives distributions or redemptions with respect to such an Equity Interest; (n) the transfer by Clearwater of \$50,000,000 to Retainco prior to the distribution of Retainco by Clearwater to Potlatch, all in accordance with the Spin-Off Documents; and (o) Investments otherwise permitted by Agent in writing.

Restrictive Agreement: an agreement (other than a Loan Document) that conditions or restricts the right of any Borrower, Subsidiary or other Obligor to incur or repay Borrowed Money, to grant Liens on any Borrower's or Guarantor's assets, to declare or make Distributions, to modify, extend or renew any agreement evidencing Borrowed Money, or to repay any intercompany Debt.

RetainCo: Potlatch Land & Lumber LLC, a Delaware limited liability company.

Retained Obligation Agreement: the Retained Obligation Agreement to be entered into between Clearwater and Potlatch substantially in the form of such agreement which has been filed as Exhibit 10.13 to Clearwater's Form 10 filed on November 19, 2008.

Revolver Commitment: for any Lender, its obligation to make Revolver Loans and to participate in LC Obligations up to the maximum principal amount shown on **Schedule 1.1**, or as hereafter determined pursuant to each Assignment and Acceptance to which it is a party, or as increased pursuant to **Section 2.1.7**. "**Revolver Commitments**" means the aggregate amount of such commitments of all Lenders.

Revolver Loan: a loan made pursuant to **Section 2.1**, and any Swingline Loan, Overadvance Loan or Protective Advance.

Revolver Note: a promissory note to be executed by Borrowers in favor of a Lender in the form of **Exhibit A**, which shall be in the amount of such Lender's Revolver Commitment and shall evidence the Revolver Loans made by such Lender.

Revolver Termination Date: the earlier of: (a) four (4) years from the date of this Agreement, or (b) ninety (90) days prior to the maturity date of the Potlatch Indebtedness.

Royalties: all royalties, fees, expense reimbursement and other amounts payable by a Borrower under a License.

S&P: Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and its successors.

Secured Parties: Agent, Issuing Bank, Lenders and providers of Bank Products.

Security Documents: the Guaranties, Deposit Account Control Agreements, and all other documents, instruments and agreements now or hereafter securing (or given with the intent to secure) any Obligations.

Senior Officer: the chairman of the board, president, chief executive officer or chief financial officer of a Borrower or, if the context requires, an Obligor.

Separation Agreement: that certain Separation and Distribution Agreement to be entered into between Potlatch and Clearwater substantially in the form of such agreement which has been filed as Exhibit 2.1 to Clearwater's Form 10 filed on November 19, 2008.

Settlement Report: a report delivered by Agent to Lenders summarizing the Revolver Loans and participations in LC Obligations outstanding as of a given settlement date, allocated to Lenders on a Pro Rata basis in accordance with their Revolver Commitments.

Solvent: as to any Person, such Person (a) owns Property whose fair salable value is greater than the amount required to pay all of its debts (including contingent, subordinated, unmatured and unliquidated liabilities); (b) owns Property whose present fair salable value (as defined below) is greater than the probable total liabilities (including contingent, subordinated, unmatured and unliquidated liabilities) of such Person as they become absolute and matured; (c) is able to pay all of its debts as they mature; (d) has capital that is not unreasonably small for its business and is sufficient to carry on its business and transactions and all business and transactions in which it is about to engage; (e) is not "insolvent" within the meaning of Section 101(32) of the Bankruptcy Code; and (f) has not incurred (by way of assumption or otherwise) any obligations or liabilities (contingent or otherwise) under any Loan Documents, or made any conveyance in connection therewith, with actual intent to hinder, delay or defraud either present or future creditors of such Person or any of its Affiliates. "Fair salable value" means the amount that could be obtained for assets within a reasonable time, either through collection or through sale under ordinary selling conditions by a capable and diligent seller to an interested buyer who is willing (but under no compulsion) to purchase.

Spin-Off: the Separation (as defined in the Separation Agreement) and the Distribution (as defined in the Separation Agreement) pursuant to the Separation Agreement.

Spin-Off Documents: the Separation Agreement and the Ancillary Agreements (as defined in the Separation Agreement).

Subordinated Debt: Debt incurred by a Borrower that is expressly subordinate and junior in right of payment to Full Payment of all Obligations, and is on terms (including maturity, interest, fees, repayment, covenants and subordination) satisfactory to Agent.

Subsidiary: any entity at least 50% of whose voting securities or Equity Interests is owned by a Borrower or any combination of Borrowers (including indirect ownership by a Borrower through other entities in which the Borrower directly or indirectly owns 50% of the voting securities or Equity Interests).

Suppressed Availability: on any date of determination, the difference between (a) the sum of the Accounts Formula Amount, plus the Inventory Formula Amount, minus the Availability Reserve, and (b) the aggregate amount of Revolver Commitments; provided, however, that if such difference is less than zero, Suppressed Availability shall be deemed to be zero.

Swingline Loan: any Borrowing of Base Rate Revolver Loans funded with Agent's funds, until such Borrowing is settled among Lenders or repaid by Borrowers.

Taxes: all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

Transferee: any actual or potential Eligible Assignee, Participant or other Person acquiring an interest in any Obligations.

Trigger Period: the period (a) commencing on the day that an Event of Default occurs, or Availability is less than, at any time, an amount equal to twenty percent (20%) of the then aggregate Revolver Commitments; and (b) continuing until, during the preceding 60 consecutive days, no Event of Default has existed and Availability has been greater than, at all times, an amount equal to twenty-five percent (25%) of the then aggregate Revolver Commitments.

Type: any type of a Loan (i.e., Base Rate Loan or LIBOR Loan) that has the same interest option and, in the case of LIBOR Loans, the same Interest Period.

UCC: the Uniform Commercial Code as in effect in the State of California or, when the laws of any other jurisdiction govern the perfection or enforcement of any Lien, the Uniform Commercial Code of such jurisdiction.

Unfunded Pension Liability: the excess of a Pension Plan's projected benefit obligation, over the fair current value of that Pension Plan's assets, in each case determined in accordance with Statement of Financial Accounting Standards ("SFAS") No. 87 (as modified by SFAS No. 158) as of the most recent financial statement of the applicable Pension Plan Sponsor.

Unused Line Margin: the percentage set forth below, as determined by the Line Usage for the prior month:

Level	Line Usage	Unused Line Margin
I	Greater than 67%	0.50%
II	Less than or equal to 67%, but greater than 25%	0.625%
III	Less than or equal to 25%	0.75%

Notwithstanding the forgoing, from the date hereof until the first day of the month immediately following the date which is 90 days after the date hereof, the Unused Line Margin shall be determined as if Level II were applicable regardless of the Line Usage for the last month. Thereafter, the Unused Line Margin shall be subject to increase or decrease based upon the Line Usage for the prior month, as determined by Agent. If by the first day of a month, any Borrowing Base Certificate due in the preceding month has not been received, then, at the option of Agent or Required Lenders, the Unused Line Margin shall be determined as if Level III were applicable, from such day until the first day of the calendar month following actual receipt.

Upstream Payment: a Distribution by a Subsidiary of a Borrower to such Borrower.

Value: (a) for Inventory, its value determined on the basis of the lower of cost or market, calculated on a first-in, first-out basis, and excluding any portion of cost attributable to intercompany profit among Borrowers and their Affiliates; and (b) for an Account, its face amount, net of any returns, rebates, discounts (calculated on the shortest terms), credits, allowances or Taxes (including sales, excise or other taxes) that have been or could be claimed by the Account Debtor or any other Person.

WFE: Wells Fargo Foothill, LLC, a Delaware limited liability company.

1.2. Accounting Terms. Under the Loan Documents (except as otherwise specified herein), all accounting terms shall be interpreted, all accounting determinations shall be made, and all financial statements shall be prepared, in accordance with GAAP applied on a basis consistent with the most recent audited financial statements of Borrowers delivered to Agent before the Closing Date and using the same inventory valuation method as used in such financial statements, except for any change required or permitted by GAAP if Borrowers' certified public accountants concur in such change, the change is disclosed to Agent, and **Section 10.3** is amended in a manner satisfactory to Required Lenders to take into account the effects of the change.

1.3. Uniform Commercial Code. As used herein, the following terms are defined in accordance with the UCC in effect in the State of California from time to time: "Chattel Paper," "Commercial Tort Claim," "Document," "Equipment," "General Intangibles," "Goods," "Instrument," "Investment Property," "Letter-of-Credit Right" and "Supporting Obligation."

1.4. Certain Matters of Construction. The terms "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular section, paragraph or subdivision. Any pronoun used shall be deemed to cover all genders. In the computation of periods of time from a specified date to a later specified date, "from" means "from and including," and "to" and "until" each mean "to but excluding." The terms "including" and "include" shall mean "including, without limitation" and, for purposes of each Loan Document, the parties agree that the rule of *ejusdem generis* shall not be applicable to limit any provision. Section titles appear as a matter of convenience only and shall not affect the interpretation of any Loan Document. All references to (a) laws or statutes include all related rules, regulations, interpretations, amendments and successor provisions; (b) any document, instrument or agreement include any amendments, waivers and other modifications, extensions or renewals (to the extent permitted by the Loan Documents); (c) any section mean, unless the context otherwise requires, a section of this Agreement; (d) any exhibits or schedules mean, unless the context otherwise requires, exhibits and schedules attached hereto, which are hereby incorporated by reference; (e) any Person include successors and assigns; (f) time of day mean time of day at Agent's notice address under **Section 14.3.1**; or (g) discretion of Agent, Issuing Bank or any Lender mean the sole and absolute discretion of such Person. All calculations of Value, fundings of Loans, issuances of Letters of Credit and payments of Obligations shall be in Dollars and, unless the context otherwise requires, all determinations (including calculations of Borrowing Base and financial covenants) made from time to time under the Loan Documents shall be made in light of the circumstances existing at such time. Borrowing Base calculations shall be consistent with historical methods of valuation and calculation, and otherwise satisfactory to Agent (and not necessarily calculated in accordance with GAAP). Borrowers shall have the burden of establishing any alleged negligence, misconduct or lack of good faith by Agent, Issuing Bank or any Lender under any Loan Documents. No provision of any Loan Documents shall be construed against any party by reason of such party having, or being deemed to have, drafted the provision. Whenever the phrase "to the best of Borrowers' knowledge" or words of similar import are used in any Loan Documents, it means actual knowledge of a Senior Officer, or knowledge that a Senior

Officer would have obtained if he or she had engaged in good faith and diligent performance of his or her duties, including reasonably specific inquiries of employees or agents and a good faith attempt to ascertain the matter to which such phrase relates.

SECTION 2. CREDIT FACILITIES

2.1. Revolver Commitment.

2.1.1. Revolver Loans. Each Lender agrees, severally on a Pro Rata basis up to its Revolver Commitment, on the terms set forth herein, to make Revolver Loans to Borrowers from time to time through the Commitment Termination Date. The Revolver Loans may be repaid and reborrowed as provided herein. In no event shall Lenders have any obligation to honor a request for a Revolver Loan if the unpaid balance of Revolver Loans outstanding at such time (including the requested Loan) would exceed the Borrowing Base.

2.1.2. Revolver Notes. The Revolver Loans made by each Lender and interest accruing thereon shall be evidenced by the records of Agent and such Lender. At the request of any Lender, Borrowers shall deliver a Revolver Note to such Lender.

2.1.3. Use of Proceeds. The proceeds of Revolver Loans shall be used by Borrowers solely (a) to pay fees and transaction expenses associated with the closing of this credit facility; (b) to pay Obligations in accordance with this Agreement; and (c) for working capital and other lawful corporate purposes of Borrowers, including payments of interest on the Potlatch Indebtedness.

2.1.4. Termination of Revolver Commitments.

(a) The Revolver Commitments shall terminate on the Revolver Termination Date, unless sooner terminated in accordance with this Agreement. Upon at least 30 days' prior written notice to Agent at any time, Borrowers may, at their option, terminate the Revolver Commitments and this credit facility. Any notice of termination given by Borrowers shall be irrevocable. On the termination date, Borrowers shall make Full Payment of all Obligations.

(b) Concurrently with any termination of the Revolver Commitments, for whatever reason (including an Event of Default), Borrowers shall pay to Agent, for the Pro Rata benefit of Lenders and as liquidated damages for loss of bargain (and not as a penalty), an amount equal to 0.50% of the Revolver Commitments being terminated if the termination occurs during the first Loan Year. No termination charge shall be payable if termination occurs in connection with a refinancing of this credit facility by Bank of America or any of its Affiliates.

2.1.5. Overadvances. If the aggregate Revolver Loans exceed the Borrowing Base ("Overadvance") or the aggregate Revolver Commitments at any time, the excess amount shall be payable by Borrowers **on demand** by Agent, but all such Revolver Loans shall nevertheless constitute Obligations secured by the Collateral and entitled to all benefits of the Loan Documents. Unless its authority has been revoked in writing by Required Lenders, Agent may require Lenders to honor requests for Overadvance Loans and to forbear from requiring Borrowers to cure an Overadvance, (a) when no other Event of Default is known to Agent, as long as (i) the Overadvance does not continue for more than 30 consecutive days (and no Overadvance may exist for at least five consecutive days thereafter before further Overadvance Loans are required), and (ii) the Overadvance is not known by Agent to exceed 10% of the Borrowing Base; and (b) regardless of whether an Event of Default exists, if Agent discovers an Overadvance not previously known by it to exist, as long as from the date of such discovery the Overadvance (i) is not increased by more than \$5,000,000, and (ii) does not continue for more than 30 consecutive days. In no event shall Overadvance Loans be required that would cause the outstanding Revolver Loans (including the Overadvances and any Protective Advances) and LC Obligations to exceed

the aggregate Revolver Commitments, or that would cause the sum of the outstanding Overadvances known by Agent to exist plus any outstanding Protective Advances to exceed \$15,000,000. Any funding of an Overadvance Loan or sufferance of an Overadvance shall not constitute a waiver by Agent or Lenders of the Event of Default caused thereby. In no event shall any Borrower or other Obligor be deemed a beneficiary of this Section nor authorized to enforce any of its terms.

2.1.6. **Protective Advances.** Agent shall be authorized, in its discretion, at any time that any condition in **Section 6** is not satisfied, to make Base Rate Revolver Loans ("Protective Advances") (a) up to an aggregate amount of \$12,500,000 outstanding at any time, if Agent deems such Loans necessary or desirable to preserve or protect Collateral, or to enhance the collectibility or repayment of Obligations; or (b) to pay any other amounts chargeable to Obligors under any Loan Documents, including costs, fees and expenses. Each Lender shall participate in each Protective Advance on a Pro Rata basis. Required Lenders may at any time revoke Agent's authority to make further Protective Advances by written notice to Agent. Absent such revocation, Agent's determination that funding of a Protective Advance is appropriate shall be conclusive. In no event shall Protective Advances be required that would cause the outstanding Revolver Loans (including the Protective Advances and any Overadvances) and LC Obligations to exceed the aggregate Revolver Commitments, or that would cause the sum of the outstanding Protective Advances plus any Overadvances known by Agent to exist, to exceed \$15,000,000.

2.1.7. **Increases in Revolver Commitments.** Notwithstanding anything to the contrary contained in this Agreement:

(a) Provided there exists no Default or Event of Default, and subject to the terms and conditions of this Section 2.1.7, on no more than 2 occasions, upon notice to Agent and Lenders, Borrowers may request an increase in the Revolver Commitments to an amount not more than \$150,000,000 in the aggregate. Each Lender shall notify Agent within 10 Business Days from the date of delivery of such notice whether or not it agrees to increase its Revolver Commitment and, if so, whether by an amount equal to, greater than, or less than its Pro Rata share of such requested increase. Any Lender not responding within such time period shall be deemed to have declined to increase such Revolver Commitment. Agent shall notify Borrowers and each Lender of the Lenders' responses to each request made hereunder. If the existing Lenders shall have declined to provide the full amount of the requested increase, to achieve the full amount of the requested increase, Agent may (in consultation with Borrowers), invite additional lending institutions that constitute Eligible Assignees to become Lenders pursuant to a joinder agreement in form and substance satisfactory to Agent and its counsel. Nothing in this Agreement shall be construed to obligate any Lender to increase its Revolver Commitment.

(b) If the Revolver Commitments are increased in accordance with this **Section 2.1.7**, Agent and Borrowers shall determine the effective date (the "**Increase Effective Date**"), and Agent shall determine the final allocation of such increase. Agent shall promptly notify Borrowers and the Lenders of the final allocation of such increase and the Increase Effective Date. As a condition precedent to such increase, (i) the Agent shall have received amendments to this Agreement and the Loan Documents, joinder agreements, and all other promissory notes, agreements, documents and instruments requested by Agent in its discretion; and (ii) Borrowers shall (A) pay to Agent (1) for the account of the Lenders that are increasing their Revolver Commitments, a closing fee, which closing fee shall be computed on the increase in aggregate Revolver Commitments as agreed by Borrowers and such Lenders, and (2) for Agent's own account the fees and reasonable expenses of Agent incurred in connection with such increase; and (B) deliver to Agent a certificate of each Obligor dated as of the Increase Effective Date signed by a Senior Officer or otherwise acceptable officer of such Obligor (1) certifying and attaching the resolutions adopted by such Obligor approving or consenting to such increase, and (2) in the case of Borrowers, certifying that, before and after giving effect to such increase, (x) the representations and warranties contained in **Section 9** and the other Loan Documents are true and correct in all material respects on and as of the Increase Effective Date, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct in all material respects as of such earlier date, and (y) no Default or Event of Default exists.

2.2. Intentionally Omitted.

2.3. Letter of Credit Facility.

2.3.1. Issuance of Letters of Credit. Issuing Bank agrees to issue Letters of Credit from time to time until 30 days prior to the Revolver Termination Date (or until the Commitment Termination Date, if earlier), on the terms set forth herein, including the following:

(a) Each Borrower acknowledges that Issuing Bank's willingness to issue any Letter of Credit is conditioned upon Issuing Bank's receipt of a LC Application with respect to the requested Letter of Credit, as well as such other instruments and agreements as Issuing Bank may customarily require for issuance of a letter of credit of similar type and amount. Issuing Bank shall have no obligation to issue any Letter of Credit unless (i) Issuing Bank receives a LC Request and LC Application at least three Business Days prior to the requested date of issuance; (ii) each LC Condition is satisfied; and (iii) if a Defaulting Lender exists, such Lender or Borrowers have entered into arrangements satisfactory to Agent and Issuing Bank to eliminate any funding risk associated with the Defaulting Lender. If Issuing Bank receives written notice from a Lender at least five Business Days before issuance of a Letter of Credit that any LC Condition has not been satisfied, Issuing Bank shall have no obligation to issue the requested Letter of Credit (or any other) until such notice is withdrawn in writing by that Lender or until Required Lenders have waived such condition in accordance with this Agreement. Prior to receipt of any such notice, Issuing Bank shall not be deemed to have knowledge of any failure of LC Conditions.

(b) Letters of Credit may be requested by a Borrower only (i) to support obligations of such Borrower incurred in the Ordinary Course of Business; or (ii) for other purposes as Agent and Lenders may approve from time to time in writing. The renewal or extension of any Letter of Credit shall be treated as the issuance of a new Letter of Credit, except that delivery of a new LC Application shall be required at the discretion of Issuing Bank.

(c) Borrowers assume all risks of the acts, omissions or misuses of any Letter of Credit by the beneficiary. In connection with issuance of any Letter of Credit, none of Agent, Issuing Bank or any Lender shall be responsible for the existence, character, quality, quantity, condition, packing, value or delivery of any goods purported to be represented by any Documents; any differences or variation in the character, quality, quantity, condition, packing, value or delivery of any goods from that expressed in any Documents; the form, validity, sufficiency, accuracy, genuineness or legal effect of any Documents or of any endorsements thereon; the time, place, manner or order in which shipment of goods is made; partial or incomplete shipment of, or failure to ship, any goods referred to in a Letter of Credit or Documents; any deviation from instructions, delay, default or fraud by any shipper or other Person in connection with any goods, shipment or delivery; any breach of contract between a shipper or vendor and a Borrower; errors, omissions, interruptions or delays in transmission or delivery of any messages, by mail, cable, telegraph, telex, telecopy, e-mail, telephone or otherwise; errors in interpretation of technical terms; the misapplication by a beneficiary of any Letter of Credit or the proceeds thereof; or any consequences arising from causes beyond the control of Issuing Bank, Agent or any Lender, including any act or omission of a Governmental Authority. The rights and remedies of Issuing Bank under the Loan Documents shall be cumulative. Issuing Bank shall be fully subrogated to the rights and remedies of each beneficiary whose claims against Borrowers are discharged with proceeds of any Letter of Credit.

(d) In connection with its administration of and enforcement of rights or remedies under any Letters of Credit or LC Documents, Issuing Bank shall be entitled to act, and shall be fully protected in acting, upon any certification, documentation or communication in whatever form believed by Issuing Bank, in good faith, to be genuine and correct and to have been signed, sent or made by a

proper Person, except to the extent Issuing Bank shall be grossly negligent in so doing. Issuing Bank may consult with and employ legal counsel, accountants and other experts to advise it concerning its obligations, rights and remedies, and shall be entitled to act upon, and shall be fully protected in any action taken in good faith reliance upon, any advice given by such experts, except to the extent Issuing Bank shall be grossly negligent in so doing. Issuing Bank may employ agents and attorneys-in-fact in connection with any matter relating to Letters of Credit or LC Documents, and shall not be liable for the negligence or misconduct of agents and attorneys-in-fact selected with reasonable care.

2.3.2. Reimbursement; Participations.

(a) If Issuing Bank honors any request for payment under a Letter of Credit, Borrowers shall pay to Issuing Bank, on the same day (“Reimbursement Date”), the amount paid by Issuing Bank under such Letter of Credit and if Borrowers fail to pay such amount on such day, Borrowers shall also pay interest in such amount at the interest rate for Base Rate Revolver Loans from the Reimbursement Date until payment by Borrowers. The obligation of Borrowers to reimburse Issuing Bank for any payment made under a Letter of Credit shall be absolute, unconditional, irrevocable, and joint and several, and shall be paid without regard to any lack of validity or enforceability of any Letter of Credit or the existence of any claim, setoff, defense or other right that Borrowers may have at any time against the beneficiary. Whether or not Borrower Agent submits a Notice of Borrowing, if Borrowers do not, on the Reimbursement Date, pay Issuing Bank the amount paid under the Letter of Credit, Borrowers shall be deemed to have requested a Borrowing of Base Rate Revolver Loans in an amount necessary to pay all amounts due Issuing Bank on any Reimbursement Date and each Lender agrees to fund its Pro Rata share of such Borrowing whether or not the Commitments have terminated, an Overadvance exists or is created thereby, or the conditions in **Section 6** are satisfied.

(b) Upon issuance of a Letter of Credit, each Lender shall be deemed to have irrevocably and unconditionally purchased from Issuing Bank, without recourse or warranty, an undivided Pro Rata interest and participation in all LC Obligations relating to the Letter of Credit. If Issuing Bank makes any payment under a Letter of Credit and Borrowers do not reimburse such payment on the Reimbursement Date, Agent shall promptly notify Lenders and each Lender shall promptly (within one Business Day) and unconditionally pay to Agent, for the benefit of Issuing Bank, the Lender's Pro Rata share of such payment. Upon request by a Lender, Issuing Bank shall furnish copies of any Letters of Credit and LC Documents in its possession at such time.

(c) The obligation of each Lender to make payments to Agent for the account of Issuing Bank in connection with Issuing Bank's payment under a Letter of Credit shall be absolute, unconditional and irrevocable, not subject to any counterclaim, setoff, qualification or exception whatsoever, and shall be made in accordance with this Agreement under all circumstances, irrespective of any lack of validity or unenforceability of any Loan Documents; any draft, certificate or other document presented under a Letter of Credit having been determined to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or the existence of any setoff or defense that any Obligor may have with respect to any Obligations. Issuing Bank does not assume any responsibility for any failure or delay in performance or any breach by any Borrower or other Person of any obligations under any LC Documents. Issuing Bank does not make to Lenders any express or implied warranty, representation or guaranty with respect to the Collateral, LC Documents or any Obligor. Issuing Bank shall not be responsible to any Lender for any recitals, statements, information, representations or warranties contained in, or for the execution, validity, genuineness, effectiveness or enforceability of any LC Documents; the validity, genuineness, enforceability, collectibility, value or sufficiency of any Collateral or the perfection of any Lien therein; or the assets, liabilities, financial condition, results of operations, business, creditworthiness or legal status of any Obligor.

(d) No Issuing Bank Indemnitee shall be liable to any Lender or other Person for any action taken or omitted to be taken in connection with any LC Documents except as a result of its actual

gross negligence or willful misconduct. Issuing Bank shall not have any liability to any Lender if Issuing Bank refrains from any action under any Letter of Credit or LC Documents until it receives written instructions from Required Lenders.

2.3.3. Cash Collateral. If any LC Obligations, whether or not then due or payable, shall for any reason be outstanding at any time (a) that an Event of Default exists, (b) that Availability is less than zero, (c) after the Commitment Termination Date, or (d) within 5 Business Days prior to the Revolver Termination Date, then Borrowers shall, at Issuing Bank's or Agent's request, Cash Collateralize the stated amount of all outstanding Letters of Credit and all other LC Obligations. Borrowers shall, **on demand** by Issuing Bank or Agent from time to time, Cash Collateralize the LC Obligations of any Defaulting Lender. If Borrowers fail to provide any Cash Collateral as required hereunder, Lenders may (and shall upon direction of Agent) advance, as Revolver Loans, the amount of the Cash Collateral required (whether or not the Commitments have terminated, an Overadvance exists or the conditions in **Section 6** are satisfied).

SECTION 3. INTEREST, FEES AND CHARGES

3.1. Interest.

3.1.1. Rates and Payment of Interest.

(a) The Obligations shall bear interest (i) if a Base Rate Loan, at the Base Rate in effect from time to time, plus the Applicable Margin; (ii) if a LIBOR Loan, at LIBOR for the applicable Interest Period, plus the Applicable Margin; and (iii) if any other Obligation (including, to the extent permitted by law, interest not paid when due), at the Base Rate in effect from time to time, plus the Applicable Margin for Base Rate Revolver Loans. Interest shall accrue from the date the Loan is advanced or the Obligation is incurred or payable, until paid by Borrowers. If a Loan is repaid on the same day made, one day's interest shall accrue.

(b) During an Insolvency Proceeding with respect to any Borrower, or during any other Event of Default if Agent or Required Lenders in their discretion so elect, Obligations shall bear interest at the Default Rate (whether before or after any judgment). Each Borrower acknowledges that the cost and expense to Agent and Lenders due to an Event of Default are difficult to ascertain and that the Default Rate is a fair and reasonable estimate to compensate Agent and Lenders for this.

(c) Interest accrued on the Loans shall be due and payable in arrears, (i) on the first day of each month; (ii) on any date of prepayment, with respect to the principal amount of Loans being prepaid; and (iii) on the Commitment Termination Date. Interest accrued on any other Obligations shall be due and payable as provided in the Loan Documents and, if no payment date is specified, shall be due and payable **on demand**. Notwithstanding the foregoing, interest accrued at the Default Rate shall be due and payable **on demand**.

3.1.2. Application of LIBOR to Outstanding Loans.

(a) Borrowers may on any Business Day, subject to delivery of a Notice of Conversion/Continuation, elect to convert any portion of the Base Rate Loans to, or to continue any LIBOR Loan at the end of its Interest Period as, a LIBOR Loan. During any Default or Event of Default, Agent may (and shall at the direction of Required Lenders) declare that no Loan may be made, converted or continued as a LIBOR Loan.

(b) Whenever Borrowers desire to convert or continue Loans as LIBOR Loans, Borrower Agent shall give Agent a Notice of Conversion/Continuation, no later than 11:00 a.m. at least three Business Days before the requested conversion or continuation date. Promptly after receiving any

such notice, Agent shall notify each Lender thereof. Each Notice of Conversion/Continuation shall be irrevocable, and shall specify the amount of Loans to be converted or continued, the conversion or continuation date (which shall be a Business Day), and the duration of the Interest Period (which shall be deemed to be 30 days if not specified). If, upon the expiration of any Interest Period in respect of any LIBOR Loans, Borrowers shall have failed to deliver a Notice of Conversion/Continuation, they shall be deemed to have elected to convert such Loans into Base Rate Loans.

3.1.3. Interest Periods. In connection with the making, conversion or continuation of any LIBOR Loans, Borrowers shall select an interest period ("Interest Period") to apply, which interest period shall be 30, 60, or 90 days; provided, however, that:

(a) the Interest Period shall commence on the date the Loan is made or continued as, or converted into, a LIBOR Loan, and shall expire on the numerically corresponding day in the calendar month at its end;

(b) if any Interest Period commences on a day for which there is no corresponding day in the calendar month at its end or if such corresponding day falls after the last Business Day of such month, then the Interest Period shall expire on the last Business Day of such month; and if any Interest Period would expire on a day that is not a Business Day, the period shall expire on the next Business Day; and

(c) no Interest Period shall extend beyond the Revolver Termination Date.

3.2. Fees.

3.2.1. Unused Line Fee. Borrowers shall pay to Agent, for the Pro Rata benefit of Lenders, a fee equal to the Unused Line Margin per annum times the amount by which the Revolver Commitments (minus the Availability Block) exceed the average daily balance of Revolver Loans and stated amount of Letters of Credit during any month. Such fee shall be payable in arrears, on the first day of each month and on the Commitment Termination Date.

3.2.2. LC Facility Fees. Borrowers shall pay (a) to Agent, for the Pro Rata benefit of Lenders, a fee equal to the Applicable Margin in effect for LIBOR Revolver Loans times the average daily stated amount of Letters of Credit, which fee shall be payable monthly in arrears, on the first day of each month; (b) to Agent, for its own account, a fronting fee equal to 0.125% per annum on the stated amount of each Letter of Credit, which fee shall be payable monthly in arrears, on the first day of each month; and (c) to Issuing Bank, for its own account, all customary charges associated with the issuance, amending, negotiating, payment, processing, transfer and administration of Letters of Credit, which charges shall be paid as and when incurred. During an Event of Default, the fee payable under clause (a) shall be increased by 2% per annum.

3.2.3. Agent Fees. In consideration of Agent's syndication of the Commitments and service as Agent hereunder, Borrowers shall pay to Agent, for its own account, the fees described in the Agent Fee Letter.

3.2.4. Other Fees. In consideration of Bank of America's and WFF's execution of this Agreement, Borrowers shall pay to Agent, for the account of Bank of America and WFF, the fees described in the Bank of America-WFF Fee Letter.

3.3. Computation of Interest, Fees, Yield Protection. All interest, as well as fees and other charges calculated on a per annum basis, shall be computed for the actual days elapsed, based on a year of 360 days. Each determination by Agent of any interest, fees or interest rate hereunder shall be final, conclusive and binding for all purposes, absent manifest error. All fees shall be fully earned when due

and shall not be subject to rebate, refund or proration. All fees payable under **Section 3.2** are compensation for services and are not, and shall not be deemed to be, interest or any other charge for the use, forbearance or detention of money. A certificate as to amounts payable by Borrowers under **Section 3.4, 3.6, 3.7, 3.9 or 5.9**, submitted to Borrower Agent by Agent or the affected Lender, as applicable, shall be final, conclusive and binding for all purposes, absent manifest error, and Borrowers shall pay such amounts to the appropriate party within 10 days following receipt of the certificate.

3.4. Reimbursement Obligations. Borrowers shall reimburse Agent for all Extraordinary Expenses. Borrowers shall also reimburse Agent for all legal, accounting, appraisal, consulting, and other fees, costs and expenses incurred by it in connection with (a) negotiation and preparation of any Loan Documents, including any amendment or other modification thereof; (b) administration of and actions relating to any Collateral, Loan Documents and transactions contemplated thereby, including any actions taken to perfect or maintain priority of Agent's Liens on any Collateral, to maintain any insurance required hereunder or to verify Collateral; and (c) subject to the limits of **Section 10.1.1(b)**, each inspection, audit or appraisal with respect to any Obligor or Collateral, whether prepared by Agent's personnel or a third party. All legal, accounting and consulting fees shall be charged to Borrowers by Agent's professionals at their full hourly rates, regardless of any reduced or alternative fee billing arrangements that Agent, any Lender or any of their Affiliates may have with such professionals with respect to this or any other transaction. If, for any reason (including inaccurate reporting on financial statements, a Borrowing Base Certificate, or a Compliance Certificate), it is determined that a higher Applicable Margin or Unused Line Margin should have applied to a period than was actually applied, then the proper margin shall be applied retroactively and Borrowers shall immediately pay to Agent, for the Pro Rata benefit of Lenders, an amount equal to the difference between the amount of interest and fees that would have accrued using the proper margin and the amount actually paid. All amounts payable by Borrowers under this Section shall be due **on demand**. If within thirty (30) days after the end of any month it is determined that a lower Applicable Margin or Unused Line Margin should have applied to the prior month than was actually applied, and Borrower Agent sends notice to Agent within such thirty (30) days, the Borrowers shall receive a credit from Agent in an amount equal to the difference between the amount actually paid for such month and the amount of interest and fees that would have accrued using the proper margin.

3.5. Illegality. If any Lender determines that any Applicable Law has made it unlawful, or that any Governmental Authority has asserted that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund LIBOR Loans, or to determine or charge interest rates based upon LIBOR, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to Agent, any obligation of such Lender to make or continue LIBOR Loans or to convert Base Rate Loans to LIBOR Loans shall be suspended until such Lender notifies Agent that the circumstances giving rise to such determination no longer exist. Upon delivery of such notice, Borrowers shall prepay or, if applicable, convert all LIBOR Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such LIBOR Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such LIBOR Loans. Upon any such prepayment or conversion, Borrowers shall also pay accrued interest on the amount so prepaid or converted.

3.6. Inability to Determine Rates. If Agent determines, or if Required Lenders notify Agent, for any reason in connection with a request for a Borrowing of, or conversion to or continuation of, a LIBOR Loan that (a) Dollar deposits are not being offered to banks in the London interbank Eurodollar market for the applicable amount and Interest Period of such Loan, (b) adequate and reasonable means do not exist for determining LIBOR for the requested Interest Period, or (c) LIBOR for the requested Interest Period does not adequately and fairly reflect the cost to such Lenders of funding such Loan, then Agent will promptly so notify Borrower Agent and each Lender. Thereafter, the obligation of Lenders to make or maintain LIBOR Loans shall be suspended until Agent revokes such

notice. Upon receipt of such notice, Borrower Agent may revoke any pending request for a Borrowing of, conversion to or continuation of a LIBOR Loan or, failing that, will be deemed to have submitted a request for a Base Rate Loan.

3.7. Increased Costs; Capital Adequacy.

3.7.1. Change in Law. If any Change in Law (other than any Change of Law by way of imposition or increase of Reserve Percentage included in determining LIBOR) shall:

(a) impose modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement reflected in LIBOR) or Issuing Bank;

(b) subject any Lender or Issuing Bank to any Tax with respect to any Loan, Loan Document, Letter of Credit or participation in LC Obligations, or change the basis of taxation of payments to such Lender or Issuing Bank in respect thereof (except for Indemnified Taxes or Other Taxes covered by **Section 5.9** and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or Issuing Bank); or

(c) impose on any Lender or Issuing Bank or the London interbank market any other condition, cost or expense affecting any Loan, Loan Document, Letter of Credit or participation in LC Obligations;

and the result thereof shall be to increase the cost to such Lender of making or maintaining any LIBOR Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or Issuing Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or Issuing Bank, Borrowers will pay to such Lender or Issuing Bank, as applicable, such additional amount or amounts as will compensate such Lender or Issuing Bank, as applicable, for such additional costs incurred or reduction suffered.

3.7.2. Capital Adequacy. If any Lender or Issuing Bank determines that any Change in Law affecting such Lender or Issuing Bank or any Lending Office of such Lender or such Lender's or Issuing Bank's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's, Issuing Bank's or holding company's capital as a consequence of this Agreement, or such Lender's or Issuing Bank's Commitments, Loans, Letters of Credit or participations in LC Obligations, to a level below that which such Lender, Issuing Bank or holding company could have achieved but for such Change in Law (taking into consideration such Lender's, Issuing Bank's and holding company's policies with respect to capital adequacy), then from time to time Borrowers will pay to such Lender or Issuing Bank, as the case may be, such additional amount or amounts as will compensate it or its holding company for any such reduction suffered.

3.7.3. Compensation. Failure or delay on the part of any Lender or Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of its right to demand such compensation, but Borrowers shall not be required to compensate a Lender or Issuing Bank for any increased costs incurred or reductions suffered more than nine months prior to the date that the Lender or Issuing Bank notifies Borrower Agent of the Change in Law giving rise to such increased costs or reductions and of such Lender's or Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the nine-month period referred to above shall be extended to include the period of retroactive effect thereof).

3.8. Mitigation. If any Lender gives a notice under **Section 3.5** or requests compensation under **Section 3.7**, or if Borrowers are required to pay additional amounts with respect to a Lender under **Section 5.9**, then such Lender shall use reasonable efforts to designate a different Lending Office or to assign its rights and obligations hereunder to another of its offices, branches or Affiliates, if, in the judgment of such Lender, such designation or assignment (a) would eliminate the need for such notice or reduce amounts payable or to be withheld in the future, as applicable; and (b) would not subject the Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to it. Borrowers shall pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

3.9. Funding Losses. If for any reason (other than default by a Lender) (a) any Borrowing of, or conversion to or continuation of, a LIBOR Loan does not occur on the date specified therefor in a Notice of Borrowing or Notice of Conversion/Continuation (whether or not withdrawn), (b) any repayment or conversion of a LIBOR Loan occurs on a day other than the end of its Interest Period, or (c) Borrowers fail to repay a LIBOR Loan when required hereunder, then Borrowers shall pay to Agent its customary administrative charge and to each Lender all losses and expenses that it sustains as a consequence thereof, including loss of anticipated profits and any loss or expense arising from liquidation or redeployment of funds or from fees payable to terminate deposits of matching funds. Lenders shall not be required to purchase Dollar deposits in the London interbank market or any other offshore Dollar market to fund any LIBOR Loan, but the provisions hereof shall be deemed to apply as if each Lender had purchased such deposits to fund its LIBOR Loans.

3.10. Maximum Interest. Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by Applicable Law ("maximum rate"). If Agent or any Lender shall receive interest in an amount that exceeds the maximum rate, the excess interest shall be applied to the principal of the Obligations or, if it exceeds such unpaid principal, refunded to Borrowers. In determining whether the interest contracted for, charged or received by Agent or a Lender exceeds the maximum rate, such Person may, to the extent permitted by Applicable Law, (a) characterize any payment that is not principal as an expense, fee or premium rather than interest; (b) exclude voluntary prepayments and the effects thereof; and (c) amortize, prorate, allocate and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

SECTION 4. LOAN ADMINISTRATION

4.1. Manner of Borrowing and Funding Revolver Loans.

4.1.1. Notice of Borrowing.

(a) Whenever Borrowers desire funding of a Borrowing of Revolver Loans, Borrower Agent shall give Agent a Notice of Borrowing. Such notice must be received by Agent no later than 11:00 a.m. (i) on the Business Day of the requested funding date, in the case of Base Rate Loans, and (ii) at least three Business Days prior to the requested funding date, in the case of LIBOR Loans. Notices received after 11:00 a.m. shall be deemed received on the next Business Day. Each Notice of Borrowing shall be irrevocable and shall specify (A) the amount of the Borrowing, (B) the requested funding date (which must be a Business Day), (C) whether the Borrowing is to be made as Base Rate Loans or LIBOR Loans, and (D) in the case of LIBOR Loans, the duration of the applicable Interest Period (which shall be deemed to be 30 days if not specified).

(b) Unless payment is otherwise timely made by Borrowers, the becoming due of any Obligations (whether principal, interest, fees or other charges, including Extraordinary Expenses, LC Obligations, Cash Collateral and Bank Product Debt) shall be deemed to be a request for Base Rate Revolver Loans on the due date, in the amount of such Obligations. The proceeds of such Revolver

Loans shall be disbursed as direct payment of the relevant Obligation. In addition, Agent may, at its option, charge such Obligations against any operating, investment or other account of a Borrower maintained with Agent or any of its Affiliates.

(c) If Borrowers establish a controlled disbursement account with Agent or any Affiliate of Agent, then the presentation for payment of any check or other item of payment drawn on such account at a time when there are insufficient funds to cover it shall be deemed to be a request for Base Rate Revolver Loans on the date of such presentation, in the amount of the check and items presented for payment. The proceeds of such Revolver Loans may be disbursed directly to the controlled disbursement account or other appropriate account.

4.1.2. Fundings by Lenders. Each Lender shall timely honor its Revolver Commitment by funding its Pro Rata share of each Borrowing of Revolver Loans that is properly requested hereunder. Except for Borrowings to be made as Swingline Loans, Agent shall endeavor to notify Lenders of each Notice of Borrowing (or deemed request for a Borrowing) by 12:00 noon on the proposed funding date for Base Rate Loans or by 3:00 p.m. at least two Business Days before any proposed funding of LIBOR Loans. Each Lender shall fund to Agent such Lender's Pro Rata share of the Borrowing to the account specified by Agent in immediately available funds not later than 2:00 p.m. on the requested funding date, unless Agent's notice is received after the times provided above, in which event Lender shall fund its Pro Rata share by 11:00 a.m. on the next Business Day. Subject to its receipt of such amounts from Lenders, Agent shall disburse the proceeds of the Revolver Loans as directed by Borrower Agent. Unless Agent shall have received (in sufficient time to act) written notice from a Lender that it does not intend to fund its Pro Rata share of a Borrowing, Agent may assume that such Lender has deposited or promptly will deposit its share with Agent, and Agent may disburse a corresponding amount to Borrowers. If a Lender's share of any Borrowing or of any settlement pursuant to **Section 4.1.3(b)** is not received by Agent, then Borrowers agree to repay to Agent **on demand** the amount of such share, together with interest thereon from the date disbursed until repaid, at the rate applicable to the Borrowing.

4.1.3. Swingline Loans; Settlement.

(a) Agent may, but shall not be obligated to, advance Swingline Loans to Borrowers, up to an aggregate outstanding amount of \$15,000,000, unless the funding is specifically required to be made by all Lenders hereunder. Each Swingline Loan shall constitute a Revolver Loan for all purposes, except that payments thereon shall be made to Agent for its own account. The obligation of Borrowers to repay Swingline Loans shall be evidenced by the records of Agent and need not be evidenced by any promissory note.

(b) To facilitate administration of the Revolver Loans, Lenders and Agent agree (which agreement is solely among them, and not for the benefit of or enforceable by any Borrower) that settlement among them with respect to Swingline Loans and other Revolver Loans may take place on a date determined from time to time by Agent, which shall occur at least once each week. On each settlement date, settlement shall be made with each Lender in accordance with the Settlement Report delivered by Agent to Lenders. Between settlement dates, Agent may in its discretion apply payments on Revolver Loans to Swingline Loans, regardless of any designation by Borrower or any provision herein to the contrary. Each Lender's obligation to make settlements with Agent is absolute and unconditional, without offset, counterclaim or other defense, and whether or not the Commitments have terminated, an Overadvance exists or the conditions in **Section 6** are satisfied. If, due to an Insolvency Proceeding with respect to a Borrower or otherwise, any Swingline Loan may not be settled among Lenders hereunder, then each Lender shall be deemed to have purchased from Agent a Pro Rata participation in each unpaid Swingline Loan and shall transfer the amount of such participation to Agent, in immediately available funds, within one Business Day after Agent's request therefor.

4.1.4. **Notices.** Each Borrower authorizes Agent and Lenders to extend, convert or continue Loans, effect selections of interest rates, and transfer funds to or on behalf of Borrowers based on telephonic or e-mailed instructions. Borrowers shall confirm each such request by prompt delivery to Agent of a Notice of Borrowing or Notice of Conversion/Continuation, if applicable, but if it differs in any material respect from the action taken by Agent or Lenders, the records of Agent and Lenders shall govern. Neither Agent nor any Lender shall have any liability for any loss suffered by a Borrower as a result of Agent or any Lender acting upon its understanding of telephonic or e-mailed instructions from a person believed in good faith by Agent or any Lender to be a person authorized to give such instructions on a Borrower's behalf.

4.2. Defaulting Lender. Agent may (but shall not be required to), in its discretion, retain any payments or other funds received by Agent that are to be provided to a Defaulting Lender hereunder, and may apply such funds to such Lender's defaulted obligations or readvance the funds to Borrowers in accordance with this Agreement. The failure of any Lender to fund a Loan, to make any payment in respect of LC Obligations or to otherwise perform its obligations hereunder shall not relieve any other Lender of its obligations, and no Lender shall be responsible for default by another Lender. Lenders and Agent agree (which agreement is solely among them, and not for the benefit of or enforceable by any Borrower) that, solely for purposes of determining a Defaulting Lender's right to vote on matters relating to the Loan Documents and to share in payments, fees and Collateral proceeds thereunder, a Defaulting Lender shall not be deemed to be a "Lender" until all its defaulted obligations have been cured.

4.3. Number and Amount of LIBOR Loans; Determination of Rate. Each Borrowing of LIBOR Loans when made shall be in a minimum amount of \$1,000,000, plus any increment of \$1,000,000 in excess thereof. No more than 10 Borrowings of LIBOR Loans may be outstanding at any time, and all LIBOR Loans having the same length and beginning date of their Interest Periods shall be aggregated together and considered one Borrowing for this purpose. Upon determining LIBOR for any Interest Period requested by Borrowers, Agent shall promptly notify Borrowers thereof by telephone or electronically and, if requested by Borrowers, shall confirm any telephonic notice in writing.

4.4. Borrower Agent. Each Borrower hereby designates Clearwater ("**Borrower Agent**") as its representative and agent for all purposes under the Loan Documents, including requests for Loans and Letters of Credit, designation of interest rates, delivery or receipt of communications, preparation and delivery of Borrowing Base and financial reports, receipt and payment of Obligations, requests for waivers, amendments or other accommodations, actions under the Loan Documents (including in respect of compliance with covenants), and all other dealings with Agent, Issuing Bank or any Lender. Borrower Agent hereby accepts such appointment. Agent and Lenders shall be entitled to rely upon, and shall be fully protected in relying upon, any notice or communication (including any notice of borrowing) delivered by Borrower Agent on behalf of any Borrower. Agent and Lenders may give any notice or communication with a Borrower hereunder to Borrower Agent on behalf of such Borrower. Each of Agent, Issuing Bank and Lenders shall have the right, in its discretion, to deal exclusively with Borrower Agent for any or all purposes under the Loan Documents. Each Borrower agrees that any notice, election, communication, representation, agreement or undertaking made on its behalf by Borrower Agent shall be binding upon and enforceable against it.

4.5. One Obligation. The Loans, LC Obligations and other Obligations shall constitute one general obligation of Borrowers and (unless otherwise expressly provided in any Loan Document) shall be secured by Agent's Lien upon all Collateral; provided, however, that Agent and each Lender shall be deemed to be a creditor of, and the holder of a separate claim against, each Borrower to the extent of any Obligations jointly or severally owed by such Borrower.

4.6. Effect of Termination. On the effective date of any termination of the Commitments, all Obligations shall be immediately due and payable, and any Borrower or any Lender may terminate its and its Affiliates' Bank Products (including, only with the consent of Agent, any Cash Management Services). All undertakings of Borrowers contained in the Loan Documents shall survive any termination, and Agent

shall retain its Liens in the Collateral and all of its rights and remedies under the Loan Documents until Full Payment of the Obligations. Notwithstanding Full Payment of the Obligations, Agent shall not be required to terminate its Liens in any Collateral unless, with respect to any damages Agent may incur as a result of the dishonor or return of Payment Items applied to Obligations, Agent receives (a) a written agreement, executed by Borrowers and any Person whose advances are used in whole or in part to satisfy the Obligations, indemnifying Agent and Lenders from any such damages; or (b) such Cash Collateral as Agent, in its discretion, deems necessary to protect against any such damages. **Sections 2.3, 3.4, 3.6, 3.7, 3.9, 5.5, 5.9, 5.10, 12, 14.2** and this Section, and the obligation of each Obligor and Lender with respect to each indemnity given by it in any Loan Document, shall survive Full Payment of the Obligations and any release relating to this credit facility.

SECTION 5. PAYMENTS

5.1. General Payment Provisions. All payments of Obligations shall be made in Dollars, without offset, counterclaim or defense of any kind, free of (and without deduction for) any Taxes, and in immediately available funds, not later than 12:00 noon on the due date. Any payment after such time shall be deemed made on the next Business Day. Any payment of a LIBOR Loan prior to the end of its Interest Period shall be accompanied by all amounts due under **Section 3.9**. Any prepayment of Loans shall be applied first to Base Rate Loans and then to LIBOR Loans.

5.2. Repayment of Revolver Loans. Revolver Loans shall be due and payable in full on the Revolver Termination Date, unless payment is sooner required hereunder. Revolver Loans may be prepaid from time to time, without penalty or premium. If any Asset Disposition during any Trigger Period includes the disposition of Accounts or Inventory, then Net Proceeds equal to the greater of (a) the net book value of such Accounts and Inventory, or (b) the reduction in the Borrowing Base upon giving effect to such disposition, shall be applied to the Revolver Loans. Notwithstanding anything herein to the contrary, if an Overadvance exists, Borrowers shall, on the sooner of Agent's demand or the first Business Day after any Borrower has knowledge thereof, repay the outstanding Revolver Loans in an amount sufficient to reduce the principal balance of Revolver Loans to the Borrowing Base.

5.3. Intentionally Omitted.

5.4. Payment of Other Obligations. Obligations other than Loans, including LC Obligations and Extraordinary Expenses, shall be paid by Borrowers as provided in the Loan Documents or, if no payment date is specified, **on demand**.

5.5. Marshaling; Payments Set Aside. None of Agent or Lenders shall be under any obligation to marshal any assets in favor of any Obligor or against any Obligations. If any payment by or on behalf of Borrowers is made to Agent, Issuing Bank or any Lender, or Agent, Issuing Bank or any Lender exercises a right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by Agent, Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other Person, then to the extent of such recovery, the Obligation originally intended to be satisfied, and all Liens, rights and remedies relating thereto, shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred.

5.6. Post-Default Allocation of Payments.

5.6.1. **Allocation.** Notwithstanding anything herein to the contrary, during an Event of Default, monies to be applied to the Obligations, whether arising from payments by Obligors, realization on Collateral, setoff or otherwise, shall be allocated as follows:

- (a) **first**, to all costs and expenses, including Extraordinary Expenses, owing to Agent;

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- (b) second, to all amounts owing to Agent on Swingline Loans;
 - (c) third, to all amounts owing to Issuing Bank on LC Obligations;
 - (d) fourth, to all Obligations constituting fees (excluding amounts relating to Bank Products);
 - (e) fifth, to all Obligations constituting interest (excluding amounts relating to Bank Products);
 - (f) sixth, to provide Cash Collateral for outstanding Letters of Credit;
 - (g) seventh, to all other Obligations, other than Bank Product Debt; and
 - (h) last, to Bank Product Debt.

Amounts shall be applied to each category of Obligations set forth above until Full Payment thereof and then to the next category. If amounts are insufficient to satisfy a category, they shall be applied on a pro rata basis among the Obligations in the category. Amounts distributed with respect to any Bank Product Debt shall be the lesser of the applicable Bank Product Amount last reported to Agent or the actual Bank Product Debt as calculated by the methodology reported to Agent for determining the amount due. Agent shall have no obligation to calculate the amount to be distributed with respect to any Bank Product Debt, but may rely upon written notice of the amount (setting forth a reasonably detailed calculation) from the Secured Party. In the absence of such notice, Agent may assume the amount to be distributed is the Bank Product Amount last reported to it. The allocations set forth in this Section are solely to determine the rights and priorities of Agent and Lenders as among themselves, and may be changed by agreement among them without the consent of any Obligor. This Section is not for the benefit of or enforceable by any Borrower.

5.6.2. Erroneous Application. Agent shall not be liable for any application of amounts made by it in good faith and, if any such application is subsequently determined to have been made in error, the sole recourse of any Lender or other Person to which such amount should have been made shall be to recover the amount from the Person that actually received it (and, if such amount was received by any Lender, such Lender hereby agrees to return it).

5.7. Application of Payments. The ledger balance in the main Dominion Account as of the end of a Business Day shall be applied to the Obligations at the beginning of the next Business Day, during any Trigger Period. If, as a result of such application, a credit balance exists, the balance shall not accrue interest in favor of Borrowers and, as long as no Default or Event of Default exists, such credit balance shall be remitted by Agent as soon as practicable to the Deposit Account directed by Borrower Agent in writing from time to time. Each Borrower irrevocably waives the right to direct the application of any payments or Collateral proceeds, and agrees that Agent shall have the continuing, exclusive right to apply and reapply same against the Obligations, in such manner as Agent deems advisable.

5.8. Loan Account; Account Stated.

5.8.1. Loan Account. Agent shall maintain in accordance with its usual and customary practices an account or accounts ("Loan Account") evidencing the Debt of Borrowers resulting from each Loan or issuance of a Letter of Credit from time to time. Any failure of Agent to record anything in the Loan Account, or any error in doing so, shall not limit or otherwise affect the obligation of Borrowers to pay any amount owing hereunder. Agent may maintain a single Loan Account in the name of Borrower Agent, and each Borrower confirms that such arrangement shall have no effect on the joint and several character of its liability for the Obligations.

5.8.2. Entries Binding. Entries made in the Loan Account shall constitute presumptive evidence of the information contained therein. If any information contained in the Loan Account is provided to or inspected by any Person, then such information shall be conclusive and binding on such Person for all purposes absent manifest error, except to the extent such Person notifies Agent in writing within 30 days after receipt or inspection that specific information is subject to dispute.

5.9. Taxes.

5.9.1. Payments Free of Taxes. All payments by Obligor of Obligations shall be free and clear of and without reduction for any Taxes. If Applicable Law requires any Obligor or Agent to withhold or deduct any Tax (including backup withholding or withholding Tax), the withholding or deduction shall be based on information provided pursuant to **Section 5.10** and Agent shall pay the amount withheld or deducted to the relevant Governmental Authority. If the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by Borrowers shall be increased so that Agent, Lender or Issuing Bank, as applicable, receives an amount equal to the sum it would have received if no such withholding or deduction (including deductions applicable to additional sums payable under this Section) had been made. Without limiting the foregoing, Borrowers shall timely pay all Other Taxes to the relevant Governmental Authorities.

5.9.2. Payment. Borrowers shall indemnify, hold harmless and reimburse (within 10 days after demand therefor) Agent, Lenders and Issuing Bank for any Indemnified Taxes or Other Taxes (including those attributable to amounts payable under this Section) withheld or deducted by any Obligor or Agent, or paid by Agent, any Lender or Issuing Bank, with respect to any Obligations, Letters of Credit or Loan Documents, whether or not such Taxes were properly asserted by the relevant Governmental Authority, and including all penalties, interest and reasonable expenses relating thereto, as well as any amount that a Lender or Issuing Bank fails to pay indefeasibly to Agent under **Section 5.10**. A certificate as to the amount of any such payment or liability delivered to Borrower Agent by Agent, or by a Lender or Issuing Bank (with a copy to Agent), shall be conclusive, absent manifest error. As soon as practicable after any payment of Taxes by a Borrower, Borrower Agent shall deliver to Agent a receipt from the Governmental Authority or other evidence of payment satisfactory to Agent.

5.10. Lender Tax Information.

5.10.1. Status of Lenders. Each Lender shall deliver documentation and information to Agent and Borrower Agent, at the times and in form required by Applicable Law or reasonably requested by Agent or Borrower Agent, sufficient to permit Agent or Borrowers to determine (a) whether or not payments made with respect to Obligations are subject to Taxes, (b) if applicable, the required rate of withholding or deduction, and (c) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes for such payments or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

5.10.2. Documentation. If a Borrower is resident for tax purposes in the United States, any Lender that is a "United States person" within the meaning of section 7701(a)(30) of the Code shall deliver to Agent and Borrower Agent IRS Form W-9 or such other documentation or information prescribed by Applicable Law or reasonably requested by Agent or Borrower Agent to determine whether such Lender is subject to backup withholding or information reporting requirements. If any Foreign Lender is entitled to any exemption from or reduction of withholding tax for payments with respect to the Obligations, it shall deliver to Agent and Borrower Agent, on or prior to the date on which it becomes a Lender hereunder (and from time to time thereafter upon request by Agent or Borrower Agent, but only if such Foreign Lender is legally entitled to do so), (a) IRS Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States is a party; (b) IRS Form W-8ECI; (c) IRS Form W-8IMY

and all required supporting documentation; (d) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, IRS Form W-8BEN and a certificate showing such Foreign Lender is not (i) a “bank” within the meaning of section 881(c)(3)(A) of the Code, (ii) a “10 percent shareholder” of any Obligor within the meaning of section 881(c)(3)(B) of the Code, or (iii) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Code; or (e) any other form prescribed by Applicable Law as a basis for claiming exemption from or a reduction in withholding tax, together with such supplementary documentation necessary to allow Agent and Borrowers to determine the withholding or deduction required to be made.

5.10.3. Lender Obligations. Each Lender and Issuing Bank shall promptly notify Borrowers and Agent of any change in circumstances that would change any claimed Tax exemption or reduction. Each Lender and Issuing Bank shall indemnify, hold harmless and reimburse (within 10 days after demand therefor) Borrowers and Agent for any Taxes, losses, claims, liabilities, penalties, interest and expenses (including reasonable attorneys’ fees) incurred by or asserted against a Borrower or Agent by any Governmental Authority due to such Lender’s or Issuing Bank’s failure to deliver, or inaccuracy or deficiency in, any documentation required to be delivered by it pursuant to this Section. Each Lender and Issuing Bank authorizes Agent to set off any amounts due to Agent under this Section against any amounts payable to such Lender or Issuing Bank under any Loan Document.

5.11. Nature and Extent of Each Borrower’s Liability.

5.11.1. Joint and Several Liability. Each Borrower agrees that it is jointly and severally liable for, and absolutely and unconditionally guarantees to Agent and Lenders the prompt payment and performance of, all Obligations and all agreements under the Loan Documents. Each Borrower agrees that its guaranty obligations hereunder constitute a continuing guaranty of payment and not of collection, that such obligations shall not be discharged until Full Payment of the Obligations, and that such obligations are absolute and unconditional, irrespective of (a) the genuineness, validity, regularity, enforceability, subordination or any future modification of, or change in, any Obligations or Loan Document, or any other document, instrument or agreement to which any Obligor is or may become a party or be bound; (b) the absence of any action to enforce this Agreement (including this Section) or any other Loan Document, or any waiver, consent or indulgence of any kind by Agent or any Lender with respect thereto; (c) the existence, value or condition of, or failure to perfect a Lien or to preserve rights against, any security or guaranty for the Obligations or any action, or the absence of any action, by Agent or any Lender in respect thereof (including the release of any security or guaranty); (d) the insolvency of any Obligor; (e) any election by Agent or any Lender in an Insolvency Proceeding for the application of Section 1111(b)(2) of the Bankruptcy Code; (f) any borrowing or grant of a Lien by any other Borrower, as debtor-in-possession under Section 364 of the Bankruptcy Code or otherwise; (g) the disallowance of any claims of Agent or any Lender against any Obligor for the repayment of any Obligations under Section 502 of the Bankruptcy Code or otherwise; or (h) any other action or circumstances that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, except Full Payment of all Obligations.

5.11.2. Waivers.

(a) Each Borrower expressly waives all rights that it may have now or in the future under any statute, at common law, in equity or otherwise, to compel Agent or Lenders to marshal assets or to proceed against any Obligor, other Person or security for the payment or performance of any Obligations before, or as a condition to, proceeding against such Borrower. Each Borrower waives all defenses available to a surety, guarantor or accommodation co-obligor other than Full Payment of all Obligations. It is agreed among each Borrower, Agent and Lenders that the provisions of this **Section 5.11** are of the essence of the transaction contemplated by the Loan Documents and that, but for such provisions, Agent and Lenders would decline to make Loans and issue Letters of Credit. Each Borrower acknowledges that its guaranty pursuant to this Section is necessary to the conduct and promotion of its business, and can be expected to benefit such business.

(b) Agent and Lenders may, in their discretion, pursue such rights and remedies as they deem appropriate, including realization upon Collateral by judicial foreclosure or non-judicial sale or enforcement, without affecting any rights and remedies under this **Section 5.11**. If, in taking any action in connection with the exercise of any rights or remedies, Agent or any Lender shall forfeit any other rights or remedies, including the right to enter a deficiency judgment against any Borrower or other Person, whether because of any Applicable Laws pertaining to “election of remedies” or otherwise, each Borrower consents to such action and waives any claim based upon it, even if the action may result in loss of any rights of subrogation that any Borrower might otherwise have had. Any election of remedies that results in denial or impairment of the right of Agent or any Lender to seek a deficiency judgment against any Borrower shall not impair any other Borrower’s obligation to pay the full amount of the Obligations. Each Borrower waives all rights and defenses arising out of an election of remedies, such as nonjudicial foreclosure with respect to any security for the Obligations, even though that election of remedies destroys such Borrower’s rights of subrogation against any other Person. Agent may bid all or a portion of the Obligations at any foreclosure or trustee’s sale or at any private sale, and the amount of such bid need not be paid by Agent but shall be credited against the Obligations. The amount of the successful bid at any such sale, whether Agent or any other Person is the successful bidder, shall be conclusively deemed to be the fair market value of the Collateral, and the difference between such bid amount and the remaining balance of the Obligations shall be conclusively deemed to be the amount of the Obligations guaranteed under this **Section 5.11**, notwithstanding that any present or future law or court decision may have the effect of reducing the amount of any deficiency claim to which Agent or any Lender might otherwise be entitled but for such bidding at any such sale.

5.11.3. Extent of Liability; Contribution.

(a) Notwithstanding anything herein to the contrary, each Borrower’s liability under this **Section 5.11** shall be limited to the greater of (i) all amounts for which such Borrower is primarily liable, as described below, and (ii) such Borrower’s Allocable Amount.

(b) If any Borrower makes a payment under this **Section 5.11** of any Obligations (other than amounts for which such Borrower is primarily liable) (a “Guarantor Payment”) that, taking into account all other Guarantor Payments previously or concurrently made by any other Borrower, exceeds the amount that such Borrower would otherwise have paid if each Borrower had paid the aggregate Obligations satisfied by such Guarantor Payments in the same proportion that such Borrower’s Allocable Amount bore to the total Allocable Amounts of all Borrowers, then such Borrower shall be entitled to receive contribution and indemnification payments from, and to be reimbursed by, each other Borrower for the amount of such excess, pro rata based upon their respective Allocable Amounts in effect immediately prior to such Guarantor Payment. The “Allocable Amount” for any Borrower shall be the maximum amount that could then be recovered from such Borrower under this **Section 5.11** without rendering such payment voidable under Section 548 of the Bankruptcy Code or under any applicable state fraudulent transfer or conveyance act, or similar statute or common law.

(c) Nothing contained in this **Section 5.11** shall limit the liability of any Borrower to pay Loans made directly or indirectly to that Borrower (including Loans advanced to any other Borrower and then re-loaned or otherwise transferred to, or for the benefit of, such Borrower), LC Obligations relating to Letters of Credit issued to support such Borrower’s business, and all accrued interest, fees, expenses and other related Obligations with respect thereto, for which such Borrower shall be primarily liable for all purposes hereunder. Agent and Lenders shall have the right, at any time in their discretion, to condition Loans and Letters of Credit upon a separate calculation of borrowing availability for each Borrower and to restrict the disbursement and use of such Loans and Letters of Credit to such Borrower.

5.11.4. Joint Enterprise. Each Borrower has requested that Agent and Lenders make this credit facility available to Borrowers on a combined basis, in order to finance Borrowers' business most efficiently and economically. Borrowers' business is a mutual and collective enterprise, and Borrowers believe that consolidation of their credit facility will enhance the borrowing power of each Borrower and ease the administration of their relationship with Lenders, all to the mutual advantage of Borrowers. Borrowers acknowledge and agree that Agent's and Lenders' willingness to extend credit to Borrowers and to administer the Collateral on a combined basis, as set forth herein, is done solely as an accommodation to Borrowers and at Borrowers' request.

5.11.5. Subordination. Each Borrower hereby subordinates any claims, including any rights at law or in equity to payment, subrogation, reimbursement, exoneration, contribution, indemnification or set off, that it may have at any time against any other Obligor, howsoever arising, to the Full Payment of all Obligations.

SECTION 6. CONDITIONS PRECEDENT

6.1. Conditions Precedent to Initial Loans. In addition to the conditions set forth in **Section 6.2**, Lenders shall not be required to fund any requested Loan, issue any Letter of Credit, or otherwise extend credit to Borrowers hereunder, until the date ("Closing Date") that each of the following conditions has been satisfied:

(a) Notes shall have been executed by Borrowers and delivered to each Lender that requests issuance of a Note. Each other Loan Document shall have been duly executed and delivered to Agent by each of the signatories thereto, and each Obligor shall be in compliance with all terms thereof.

(b) Agent shall have received acknowledgments of all filings or recordings necessary to perfect its Liens in the Collateral, as well as UCC and Lien searches and other evidence satisfactory to Agent that such Liens are the only Liens upon the Collateral, except Permitted Liens.

(c) Agent shall have received duly executed agreements establishing each Dominion Account and related lockbox, in form and substance satisfactory to Agent.

(d) Agent shall have received certificates, in form and substance satisfactory to it, from a knowledgeable Senior Officer of each Borrower certifying that, after giving effect to the initial Loans and transactions hereunder, (i) such Borrower is Solvent; (ii) no Default or Event of Default exists; (iii) the representations and warranties set forth in **Section 9** are true and correct; and (iv) such Borrower has complied with all agreements and conditions to be satisfied by it under the Loan Documents.

(e) Agent shall have received a certificate of a duly authorized officer of each Obligor, certifying (i) that attached copies of such Obligor's Organic Documents are true and complete, and in full force and effect, without amendment except as shown; (ii) that an attached copy of resolutions authorizing execution and delivery of the Loan Documents is true and complete, and that such resolutions are in full force and effect, were duly adopted, have not been amended, modified or revoked, and constitute all resolutions adopted with respect to this credit facility; and (iii) to the title, name and signature of each Person authorized to sign the Loan Documents. Agent may conclusively rely on this certificate until it is otherwise notified by the applicable Obligor in writing.

(f) Agent shall have received a written opinion of Pillsbury Winthrop Shaw Pittman LLP, in form and substance satisfactory to Agent.

(g) Agent shall have received copies of the charter documents of each Obligor, certified by the Secretary of State or other appropriate official of such Obligor's jurisdiction of organization. Agent shall have received good standing certificates for each Obligor, issued by the Secretary of State or other appropriate official of such Obligor's jurisdiction of organization and each jurisdiction where such Obligor's conduct of business or ownership of Property necessitates qualification.

(h) Agent shall have received copies of policies or certificates of insurance for the insurance policies carried by Borrowers, all in compliance with the Loan Documents, together with endorsements naming Agent as lender loss payee or additional insured, as appropriate, each in form and substance satisfactory to Agent.

(i) Agent shall have completed its business, financial and legal due diligence of Obligors, including a roll-forward of its previous field examination, with results satisfactory to Agent. No material adverse change in the business, operations, Properties, prospects or condition (financial or otherwise) of any Obligor or in the quality, quantity or value of any Collateral shall have occurred since December 31, 2007.

(j) Borrowers shall have paid all fees and expenses to be paid to Agent and Lenders on the Closing Date.

(k) Agent shall have received, each in form and substance satisfactory to Agent, (i) a pro forma balance sheet of Borrowers dated as of the Closing Date and giving effect to the consummation of the Spin-Off and the retention of the Potlatch Indebtedness, (ii) financial projections of the Borrowers, evidencing each Borrower's ability to comply with the financial covenants set forth herein, and (c) interim financial statements for the Borrowers as of a date not more than 30 days prior to the Closing Date.

(l) Agent shall have received duly executed copies of the Spin-Off Documents, the terms and conditions of which shall be satisfactory to Agent.

(m) Agent shall have received all documents, instruments and other agreements related to or executed in connection with the Potlatch Indebtedness, the terms and conditions of which shall be satisfactory to Agent.

(n) Agent shall have received evidence, in form and substance satisfactory to Agent, that (i) the "Separation" (as defined in the Separation Agreement) shall have occurred, (ii) Clearwater and its Subsidiaries have taken all actions and proceedings required by the Separation Agreement, applicable law and regulation for the "Distribution" (as defined in the Separation Agreement) to occur, and (iii) no further action on the part of any Person or Governmental Authority shall be necessary for the consummation of Spin-Off, other than the transfer by Clearwater of \$50,000,000 to Retainco prior to the "Distribution" (as defined in the Separation Agreement).

(o) There shall exist no action, suit, investigation, litigation or proceeding pending or threatened in any court or before any arbitrator or governmental instrumentality that in Agent's good faith judgment (i) could reasonably be expected to have a material adverse effect on any Borrower's business, assets, properties, liabilities, operations, condition or prospects, or could impair any Borrower's ability to perform satisfactorily under this Agreement and the other Loan Documents; or (ii) could reasonably be expected to materially and adversely affect this Agreement, the Spin-Off Documents, or the transactions contemplated hereby or thereby.

(p) No terms of **Sections 7, 8, 9, 10, or 11** have been violated between the date of this Agreement and the Closing Date.

(q) The Intercreditor Agreement shall have been duly executed and delivered to Agent by each of the signatories thereto, and be in form and substance satisfactory to each Lender in their sole discretion.

(r) Agent shall have received a Borrowing Base Certificate prepared as of the

Closing Date. Upon giving effect to the initial funding of Loans and issuance of Letters of Credit, and the payment by Borrowers of all fees and expenses incurred in connection herewith as well as any payables stretched beyond their customary payment practices, Availability shall be at least \$50,000,000.

(s) The initial Loans hereunder shall have been funded on or before February 28, 2009.

6.2. Conditions Precedent to All Credit Extensions. Agent, Issuing Bank and Lenders shall not be required to fund any Loans, arrange for issuance of any Letters of Credit or grant any other accommodation to or for the benefit of Borrowers, unless the following conditions are satisfied:

(a) No Default or Event of Default shall exist at the time of, or result from, such funding, issuance or grant;

(b) The representations and warranties of each Obligor in the Loan Documents shall be true and correct on the date of, and upon giving effect to, such funding, issuance or grant (except for representations and warranties that expressly relate to an earlier date);

(c) All conditions precedent in any other Loan Document shall be satisfied;

(d) No event shall have occurred or circumstance exist that has or could reasonably be expected to have a Material Adverse Effect; and

(e) With respect to issuance of a Letter of Credit, the LC Conditions shall be satisfied.

Each request (or deemed request) by Borrowers for funding of a Loan, issuance of a Letter of Credit or grant of an accommodation shall constitute a representation by Borrowers that the foregoing conditions are satisfied on the date of such request and on the date of such funding, issuance or grant. As an additional condition to any funding, issuance or grant, Agent shall have received such other information, documents, instruments and agreements as it deems appropriate in connection therewith.

6.3. Conditions Precedent Effectiveness of Certain Sections. Sections 7, 8, 9, 10, and 11 shall not be effective until the conditions precedent in Sections 6.1 and 6.2 have been satisfied or waived, and the Lenders are prepared to fund the initial Loans (for the avoidance of doubt, at any rate such Sections shall become effective no later than the funding of the initial Loans hereunder).

SECTION 7. COLLATERAL

7.1. Grant of Security Interest.

7.1.1. To secure the prompt payment and performance of all Obligations, each Borrower hereby grants to Agent, for the benefit of Secured Parties, a continuing security interest in and Lien upon all of the following Property of such Borrower, whether now owned or hereafter acquired, and wherever located:

(a) all Accounts;

(b) all Deposit Accounts;

(c) all Inventory;

(d) all supporting obligations in respect of Accounts, including letters of credit and guaranties issued in support of Accounts or Proceeds of Collateral;

(e) all securities accounts to the extent of the Cash Equivalents contained therein that were derived from Accounts, Inventory or Deposit Accounts;

(f) all certificates of title, documents or instruments evidencing ownership or title to any of the Property described in **Section 7.1.1(c) and (h)**;

(g) all monies, whether or not in the possession or under the control of Agent, a Lender, or a bailee or Affiliate of Agent or a Lender that were derived from or consist of any of the Property described in this **Section 7.1**, and any Cash Collateral;

(h) all accessions to, substitutions for, and all replacements, products, and cash and non-cash proceeds of the foregoing, including proceeds of and unearned premiums with respect to insurance policies, and claims against any Person for loss, damage or destruction of any of the Property described in this **Section 7.1** (the "**Proceeds**"); and

(i) all books and records (including customer lists, files, correspondence, tapes, computer programs, print-outs and computer records) pertaining to any of the Property described in this **Section 7.1**.

7.1.2. As security for the payment of all License Rejection Liabilities, each Borrower hereby assigns to Agent, for the benefit of the Secured Parties, and grants to Agent, for the benefit of the Secured Parties, a continuing security interest in all of such Borrower's Collateral Related Intellectual Property, whether now or hereafter owned, existing, acquired or arising and wherever now or hereafter located.

7.1.3. Notwithstanding anything contained in this **Section 7.1** to the contrary, Agent shall not have any security interest in the \$50,000,000 transferred by Clearwater to Retainco on the Closing Date in accordance with the Separation Agreement.

7.2. Lien on Deposit Accounts; Cash Collateral.

7.2.1. Deposit Accounts. To further secure the prompt payment and performance of all Obligations, each Borrower hereby grants to Agent, for the benefit of Secured Parties, a continuing security interest in and Lien upon all amounts credited to any Deposit Account of such Borrower, including any sums in any blocked or lockbox accounts or in any accounts into which such sums are swept. Each Borrower hereby authorizes and directs each bank or other depository to deliver to Agent, upon request, all balances in any Deposit Account maintained by such Borrower, without inquiry into the authority or right of Agent to make such request.

7.2.2. Cash Collateral. Any Cash Collateral may be invested, at Agent's discretion, in Cash Equivalents, but Agent shall have no duty to do so, regardless of any agreement or course of dealing with any Borrower, and shall have no responsibility for any investment or loss. Each Borrower hereby grants to Agent, for the benefit of Secured Parties, a security interest in all Cash Collateral held from time to time and all proceeds thereof, as security for the Obligations, whether such Cash Collateral is held in a Cash Collateral Account or elsewhere. Agent may apply Cash Collateral to the payment of any Obligations, in such order as Agent may elect, as they become due and payable. Each Cash Collateral Account and all Cash Collateral shall be under the sole dominion and control of Agent. No Borrower or other Person claiming through or on behalf of any Borrower shall have any right to any Cash Collateral, until Full Payment of all Obligations.

7.3. Intentionally Omitted.

7.4. Certain After-Acquired Collateral. Borrowers shall promptly notify Agent in writing if, after the Closing Date, any Borrower obtains any interest in any Collateral consisting of Deposit

Accounts, Chattel Paper, Documents, Instruments, Investment Property or Letter-of-Credit Rights and, upon Agent's request, shall promptly take such actions as Agent deems appropriate to effect Agent's duly perfected, first priority Lien upon such Collateral, including obtaining any appropriate possession, control agreement or Lien Waiver. If any Collateral is in the possession of a third party, at Agent's request, Borrowers shall obtain an acknowledgment that such third party holds the Collateral for the benefit of Agent.

7.5. No Assumption of Liability. The Lien on Collateral granted hereunder is given as security only and shall not subject Agent or any Lender to, or in any way modify, any obligation or liability of Borrowers relating to any Collateral.

7.6. Further Assurances. Promptly upon request, Borrowers shall deliver such instruments, assignments, title certificates, or other documents or agreements, and shall take such actions, as Agent reasonably deems appropriate under Applicable Law to evidence or perfect its Lien on any Collateral, or otherwise to give effect to the intent of this Agreement. Each Borrower authorizes Agent to file any financing statement that Agent deems reasonably desirable to preserve and perfect Agent's security interest in the Collateral of such Borrower, and ratifies any action taken by Agent before the Closing Date to effect or perfect its Lien on any Collateral.

SECTION 8. COLLATERAL ADMINISTRATION

8.1. Borrowing Base Certificates. By the 20th day of each month, Borrowers shall deliver to Agent (and Agent shall promptly deliver same to Lenders) a Borrowing Base Certificate prepared as of the close of business of the previous month, and at such other times as Agent may request; provided that during any Trigger Period, Borrowers shall be required to deliver to Agent weekly Borrowing Base Certificates by the second Business Day of each week which begins during such Trigger Period. All calculations of Availability in any Borrowing Base Certificate shall originally be made by Borrowers and certified by a Senior Officer, provided that Agent may from time to time review and adjust any such calculation (a) to reflect its reasonable estimate of declines in value of any Collateral, due to collections received in the Dominion Account or otherwise; (b) to adjust advance rates to reflect changes in dilution, quality, mix and other factors affecting Collateral; and (c) to the extent the calculation is not made in accordance with this Agreement or does not accurately reflect the Availability Reserve.

8.2. Administration of Accounts.

8.2.1. Records and Schedules of Accounts. Each Borrower shall keep accurate and complete records of its Accounts, including all payments and collections thereon, and shall submit to Agent sales, collection, reconciliation and other reports in form satisfactory to Agent, on such periodic basis as Agent may request. Each Borrower shall also provide to Agent, on or before the 20th day of each month, a detailed aged trial balance of all Accounts as of the end of the preceding month, specifying each Account's Account Debtor name, amount, invoice date and due date, showing any credit, authorized return or dispute, and upon request by Agent, including such proof of delivery, copies of invoices and invoice registers, copies of related documents, repayment histories, status reports and other information as Agent may reasonably request. If Accounts in an aggregate face amount of \$5,000,000 or more cease to be Eligible Accounts other than as a result of payment thereof, Borrowers shall notify Agent of such occurrence promptly (and in any event within one Business Day) after any Borrower has knowledge thereof. Upon request by Agent, each Borrower shall provide to Agent a listing of each Account Debtor's address.

8.2.2. Taxes. If an Account of any Borrower includes a charge for any Taxes and an Event of Default has occurred and is continuing, Agent is authorized, in its discretion, to pay the amount thereof to the proper taxing authority for the account of such Borrower and to charge Borrowers therefor; provided, however, that neither Agent nor Lenders shall be liable for any Taxes that may be due from Borrowers or with respect to any Collateral.

8.2.3. Account Verification. Whether or not a Default or Event of Default exists, Agent shall have the right at any time, in the name of Agent, any designee of Agent or any Borrower, to verify the validity, amount or any other matter relating to any Accounts of Borrowers by mail, telephone or otherwise. Borrowers shall cooperate fully with Agent in an effort to facilitate and promptly conclude any such verification process. Agent shall give Borrower Agent notice after any such verification; provided, however, that the failure by Agent to provide Borrower Agent such notice shall not give rise to any liability on its part or adversely affect any of the relative rights or obligations of Agent or any Obligor as provided herein.

8.2.4. Maintenance of Dominion Account. Borrowers shall maintain Dominion Accounts with Bank of America pursuant to lockbox or other arrangements acceptable to Agent. Borrowers shall obtain an agreement (in form and substance satisfactory to Agent) from each lockbox servicer and Dominion Account bank, establishing Agent's control over and Lien in the lockbox or Dominion Account, which may be exercised by Agent during any Trigger Period, requiring immediate deposit of all remittances received in the lockbox to a Dominion Account, and waiving offset rights of such servicer or bank, except for customary administrative charges. Agent and Lenders assume no responsibility to Borrowers for any lockbox arrangement or Dominion Account, including any claim of accord and satisfaction or release with respect to any Payment Items accepted by any bank.

8.2.5. Proceeds of Collateral. Borrowers shall request in writing and otherwise take all necessary steps to ensure that all payments on Accounts or otherwise relating to Collateral are made directly to a Dominion Account (or a lockbox relating to a Dominion Account). If any Borrower or Subsidiary receives cash or Payment Items with respect to any Collateral, it shall hold same in trust for Agent and promptly (not later than the next Business Day) deposit same into a Dominion Account.

8.3. Administration of Inventory

8.3.1. Records and Reports of Inventory. Each Borrower shall keep accurate and complete records of its Inventory, including costs and daily withdrawals and additions, and shall submit to Agent inventory and reconciliation reports in form satisfactory to Agent, on such periodic basis as Agent may request. Each Borrower shall conduct a physical inventory at least once per calendar year (and on a more frequent basis if requested by Agent when an Event of Default exists) and periodic cycle counts consistent with historical practices, and shall provide to Agent a report based on each such inventory and count promptly upon completion thereof, together with such supporting information as Agent may request. Agent may participate in and observe each physical count.

8.3.2. Returns of Inventory. No Borrower shall return any Inventory to a supplier, vendor or other Person, whether for cash, credit or otherwise, unless (a) such return is in the Ordinary Course of Business; (b) no Default, Event of Default or Overadvance exists or would result therefrom; (c) Agent is promptly notified if the aggregate Value of all Inventory returned in any month exceeds \$3,000,000; and (d) any payment received by a Borrower for a return during any Trigger Period is promptly remitted to Agent for application to the Obligations.

8.3.3. Maintenance. Each Borrower shall take all steps to assure that all Inventory it produces is produced in accordance with Applicable Law, including the FLSA. Borrowers shall use, store and maintain all Inventory with reasonable care and caution, in accordance with applicable standards of any insurance and in conformity with all Applicable Law, and shall make current rent payments (within applicable grace periods provided for in leases) at all locations where any Collateral is located.

8.4. Condition of Equipment. The Equipment necessary for the continued operation of Borrowers' business is in good operating condition and repair, and all necessary replacements and repairs have been made so that Borrowers can continue the operation of their business.

8.5. Administration of Deposit Accounts. Schedule 8.5 sets forth all Deposit Accounts maintained by Borrowers, including all Dominion Accounts. Each Borrower shall take all actions necessary to establish Agent's control of each such Deposit Account (other than an account exclusively used for payroll, payroll taxes or employee benefits). A Borrower shall be the sole account holder of each Deposit Account and shall not allow any other Person (other than Agent) to have control over a Deposit Account or any Property deposited therein. Each Borrower shall promptly notify Agent of any opening or closing of a Deposit Account and, with the consent of Agent, will amend **Schedule 8.5** to reflect same.

8.6. General Provisions.

8.6.1. Location of Collateral. All tangible items of Collateral, other than Inventory in transit or located with customers, shall at all times be kept by Borrowers at the business locations set forth in **Schedule 8.6.1**, except that Borrowers may (a) make sales or other dispositions of Collateral in accordance with **Section 10.2.6**; and (b) move Collateral to another location in the United States, upon 30 Business Days' prior written notice to Agent.

8.6.2. Insurance of Collateral; Condemnation Proceeds.

(a) Each Borrower shall maintain insurance with respect to the Collateral, covering casualty, hazard, theft, malicious mischief, flood and other risks, in amounts, with endorsements and with insurers (with a Best Rating of at least A7, unless otherwise approved by Agent) satisfactory to Agent. All proceeds under each policy shall be payable to Agent with respect to the Collateral. From time to time upon request, Borrowers shall deliver to Agent the originals or certified copies of its insurance policies and updated flood plain searches. Unless Agent shall agree otherwise, each policy shall include satisfactory endorsements (i) showing Agent as lender loss payee; (ii) requiring 30 days' prior written notice to Agent in the event of cancellation of the policy for any reason whatsoever; and (iii) specifying that the interest of Agent shall not be impaired or invalidated by any act or neglect of any Borrower or the owner of the Property, nor by the occupation of the premises for purposes more hazardous than are permitted by the policy. If any Borrower fails to provide and pay for any insurance, Agent may, at its option, but shall not be required to, procure the insurance and charge Borrowers therefor. While no Event of Default exists, Borrowers may settle, adjust or compromise any insurance claim, as long as the proceeds are delivered to Agent in accordance with **Section 8.6.2(b)**. If an Event of Default exists, only Agent shall be authorized to settle, adjust and compromise any claims involving any Collateral.

(b) Any proceeds of insurance relating to the Collateral and any awards arising from condemnation of any Collateral shall be paid to Agent. Any such proceeds or awards that relate to Inventory shall be applied to payment of the Revolver Loans, and then to any other Obligations outstanding.

8.6.3. Protection of Collateral. All expenses of protecting, storing, warehousing, insuring, handling, maintaining and shipping any Collateral, all Taxes payable with respect to any Collateral (including any sale thereof), and all other payments required to be made by Agent to any Person to realize upon any Collateral following the occurrence of an Event of Default or to prevent any Default or Event of Default, shall be borne and paid by Borrowers. Agent shall not be liable or responsible in any way for the safekeeping of any Collateral, for any loss or damage thereto (except for reasonable care in its custody while Collateral is in Agent's actual possession), for any diminution in the value thereof, or for any act or default of any warehouseman, carrier, forwarding agency or other Person whatsoever, but the same shall be at Borrowers' sole risk.

8.6.4. Defense of Title to Collateral. Each Borrower shall at all times defend its title to Collateral and Agent's Liens therein against all Persons, claims and demands whatsoever, except Permitted Liens.

8.7. Power of Attorney. Each Borrower hereby irrevocably constitutes and appoints Agent (and all Persons designated by Agent) as such Borrower's true and lawful attorney (and agent-in-fact) for the purposes provided in this Section. Agent, or Agent's designee, may, without notice and in either its or a Borrower's name, but at the cost and expense of Borrowers:

(a) Endorse a Borrower's name on any Payment Item or other proceeds of Collateral (including proceeds of insurance) that come into Agent's possession or control; and

(b) During an Event of Default, (i) notify any Account Debtors of the assignment of their Accounts, demand and enforce payment of Accounts by legal proceedings or otherwise, and generally exercise any rights and remedies with respect to Accounts; (ii) settle, adjust, modify, compromise, discharge or release any Accounts or other Collateral, or any legal proceedings brought to collect Accounts or Collateral; (iii) sell or assign any Accounts and other Collateral upon such terms, for such amounts and at such times as Agent deems advisable; (iv) collect, liquidate and receive balances in Deposit Accounts or investment accounts, and take control, in any manner, of proceeds of Collateral; (v) prepare, file and sign a Borrower's name to a proof of claim or other document in a bankruptcy of an Account Debtor, or to any notice, assignment or satisfaction of Lien or similar document; (vi) receive, open and dispose of mail addressed to a Borrower, and notify postal authorities to deliver any such mail to an address designated by Agent; (vii) endorse any Chattel Paper, Document, Instrument, bill of lading, or other document or agreement relating to any Accounts, Inventory or other Collateral; (viii) use a Borrower's stationery and sign its name to verifications of Accounts and notices to Account Debtors; (ix) use information contained in any data processing, electronic or information systems relating to Collateral; (x) make and adjust claims under insurance policies; (xi) take any action as may be necessary or appropriate to obtain payment under any letter of credit, banker's acceptance or other instrument for which a Borrower is a beneficiary; and (xii) take all other actions as Agent deems appropriate to fulfill any Borrower's obligations under the Loan Documents.

SECTION 9. REPRESENTATIONS AND WARRANTIES

9.1. General Representations and Warranties. To induce Agent and Lenders to enter into this Agreement and to make available the Commitments, Loans and Letters of Credit, each Borrower represents and warrants that:

9.1.1. **Organization and Qualification.** Each Borrower and Subsidiary is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization. Each Borrower and Subsidiary is duly qualified, authorized to do business and in good standing as a foreign corporation in each jurisdiction where failure to be so qualified could reasonably be expected to have a Material Adverse Effect.

9.1.2. **Power and Authority.** Each Obligor is duly authorized to execute, deliver and perform its Loan Documents. The execution, delivery and performance of the Loan Documents have been duly authorized by all necessary action, and do not (a) require any consent or approval of any holders of Equity Interests of any Obligor, other than those already obtained; (b) contravene the Organic Documents of any Obligor; (c) violate or cause a default under any Applicable Law or Material Contract; or (d) result in or require the imposition of any Lien (other than Permitted Liens) on any Property of any Obligor.

9.1.3. **Enforceability.** Each Loan Document is a legal, valid and binding obligation of each Obligor party thereto, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally.

9.1.4. Capital Structure. As of the Closing Date, **Schedule 9.1.4** shows, for each Borrower and Subsidiary, its name, its jurisdiction of organization, its authorized and issued Equity Interests and, for Borrowers and Subsidiaries other than Clearwater, the holders of its Equity Interests, and all agreements binding on such holders with respect to their Equity Interests); provided that upon request by Agent on dates after the Closing Date, Borrowers shall provide updated information with respect to the items required on **Schedule 9.1.4**. Except as disclosed on **Schedule 9.1.4**, in the five years preceding the Closing Date, no Borrower or Subsidiary has acquired any substantial assets from any other Person nor been the surviving entity in a merger or combination.

9.1.5. Title to Properties; Priority of Liens. Each Borrower and Subsidiary has good and marketable title to (or valid leasehold interests in) all of its Real Estate, and good title to all of its personal Property, including all Property reflected in any financial statements delivered to Agent or Lenders, in each case free of Liens except Permitted Liens. Each Borrower and Subsidiary has paid and discharged all lawful claims that, if unpaid, could become a Lien on its Properties, other than Permitted Liens. All Liens of Agent in the Collateral are duly perfected, first priority Liens, subject only to Permitted Liens that are expressly allowed to have priority over Agent's Liens.

9.1.6. Accounts. Agent may rely, in determining which Accounts are Eligible Accounts, on all statements and representations made by Borrowers with respect thereto. Borrowers warrant, with respect to each Account at the time it is shown as an Eligible Account in a Borrowing Base Certificate, that:

(a) it is genuine and in all respects what it purports to be, and is not evidenced by a judgment;

(b) it arises out of a completed, bona fide sale and delivery of goods or rendition of services in the Ordinary Course of Business, and substantially in accordance with any purchase order, contract or other document relating thereto;

(c) it is for a sum certain, maturing as stated in the invoice covering such sale or rendition of services, a copy of which has been furnished or is available to Agent on request;

(d) it is not subject to any offset, Lien (other than Agent's Lien), deduction, defense, dispute, counterclaim or other adverse condition except as arising in the Ordinary Course of Business and disclosed to Agent; and it is absolutely owing by the Account Debtor, without contingency in any respect;

(e) no purchase order, agreement, document or Applicable Law restricts assignment of the Account to Agent (regardless of whether, under the UCC, the restriction is ineffective), and the applicable Borrower is the sole payee or remittance party shown on the invoice;

(f) no extension, compromise, settlement, modification, credit, deduction or return has been authorized with respect to the Account, except discounts or allowances granted in the Ordinary Course of Business for prompt payment that are reflected on the face of the invoice related thereto and in the reports submitted to Agent hereunder; and

(g) to the best of Borrowers' knowledge, (i) there are no facts or circumstances that are reasonably likely to impair the enforceability or collectibility of such Account; (ii) the Account Debtor had the capacity to contract when the Account arose, continues to meet the applicable Borrower's customary credit standards, is Solvent, is not contemplating or subject to an Insolvency Proceeding, and has not failed, or suspended or ceased doing business; and (iii) there are no proceedings or actions threatened or pending against any Account Debtor that could reasonably be expected to have a material adverse effect on the Account Debtor's financial condition.

9.1.7. Financial Statements. The consolidated and consolidating balance sheets, and related statements of income, cash flow and shareholder's equity, of Borrowers and Subsidiaries that have been and are hereafter delivered to Agent and Lenders, are prepared in accordance with GAAP, and fairly present the financial positions and results of operations of Borrowers and Subsidiaries at the dates and for the periods indicated, subject to, in the case of unaudited financial statements, changes resulting from audit, normal year end audit adjustments and the absence of footnotes. All projections delivered from time to time to Agent and Lenders have been prepared in good faith, based on reasonable assumptions in light of the circumstances at such time, it being understood that forecasts and projections are subject to uncertainties and contingencies and no assurance can be given that any forecast or projection will be realized. Since December 31, 2007, there has been no change in the condition, financial or otherwise, of any Borrower or Subsidiary that could reasonably be expected to have a Material Adverse Effect. No financial statement delivered to Agent or Lenders at any time contains any untrue statement of a material fact, nor fails to disclose any material fact necessary to make such statement not materially misleading. Each Borrower and Subsidiary is Solvent.

9.1.8. Surety Obligations. No Borrower or Subsidiary is obligated as surety or indemnitor under any bond or other contract that assures payment or performance of any obligation of any Person, except as permitted hereunder.

9.1.9. Taxes. Each Borrower and Subsidiary has filed all federal, state and local tax returns and other reports that it is required by law to file, and has paid, or made provision for the payment of, all Taxes upon it, its income and its Properties that are due and payable, except to the extent being Properly Contested. The provision for Taxes on the books of each Borrower and Subsidiary is adequate for all years not closed by applicable statutes, and for its current Fiscal Year.

9.1.10. Brokers. There are no brokerage commissions, finder's fees or investment banking fees payable in connection with any transactions contemplated by the Loan Documents.

9.1.11. Intellectual Property. Each Borrower and Subsidiary owns or has the lawful right to use all Intellectual Property necessary for the conduct of its business, without conflict with any rights of others. There is no pending or, to any Borrower's knowledge, threatened Intellectual Property Claim with respect to any Borrower, any Subsidiary or any of their Property (including any Intellectual Property). Except as disclosed on **Schedule 9.1.11** (as the same may be updated in writing by Borrowers from time to time after the Closing Date), no Borrower or Subsidiary pays or owes any Royalty or other compensation to any Person with respect to any Collateral Related Intellectual Property. All Collateral Related Intellectual Property and other Intellectual Property, the loss of which could reasonably be expected to have a Material Adverse Effect, owned, used or licensed by, or otherwise subject to any interests of, any Borrower or Subsidiary is shown on **Schedule 9.1.11** (as the same shall be updated in writing by Borrowers after the Closing Date once each 120 days).

9.1.12. Governmental Approvals. Each Borrower and Subsidiary has, is in compliance with, and is in good standing with respect to, all Governmental Approvals necessary to conduct its business and to own, lease and operate its Properties, except where noncompliance could not reasonably be expected to have a Material Adverse Effect. All necessary import, export or other licenses, permits or certificates for the import or handling of any goods or other Collateral have been procured and are in effect, and Borrowers and Subsidiaries have complied with all foreign and domestic laws with respect to the shipment and importation of any goods or Collateral, except where noncompliance could not reasonably be expected to have a Material Adverse Effect.

9.1.13. Compliance with Laws. Each Borrower and Subsidiary has duly complied, and its Properties and business operations are in compliance, in all material respects with all Applicable Law, except where noncompliance could not reasonably be expected to have a Material Adverse Effect. There have been no citations, notices or orders of material noncompliance issued to any Borrower or Subsidiary under any Applicable Law which could reasonably be expected to have a Material Adverse Effect. No Inventory has been produced by any Borrower or Guarantor in violation of the FLSA.

9.1.14. Compliance with Environmental Laws. Except as disclosed on **Schedule 9.1.14**, no Borrower's or Subsidiary's past or present operations, Real Estate or other Properties are subject to any federal, state or local investigation to determine whether any remedial action is needed to address any environmental pollution, hazardous material or environmental clean-up and any such remedial action, if determined to be required, would have a Material Adverse Effect. No Borrower or Subsidiary has received any Environmental Notice which could reasonably be expected to have a Material Adverse Effect. No Borrower or Subsidiary has any contingent liability with respect to any Environmental Release, environmental pollution or hazardous material on any Real Estate now or previously owned, leased or operated by it which could reasonably be expected to have a Material Adverse Effect.

9.1.15. Burdensome Contracts. No Borrower or Subsidiary is a party or subject to any contract, agreement or charter restriction that could reasonably be expected to have a Material Adverse Effect. No Borrower or Subsidiary is party or subject to any Restrictive Agreement, except as shown on **Schedule 9.1.15**. No such Restrictive Agreement prohibits the execution, delivery or performance of any Loan Document by an Obligor.

9.1.16. Litigation. Except as shown on **Schedule 9.1.16**, there are no proceedings or investigations pending or, to any Borrower's knowledge, threatened against any Borrower or Subsidiary, or any of their businesses, operations, Properties, prospects or conditions, that (a) relate to any Loan Documents or transactions contemplated thereby; or (b) could reasonably be expected to have a Material Adverse Effect if determined adversely to any Borrower or Subsidiary. No Borrower or Subsidiary is in default with respect to any order, injunction or judgment of any Governmental Authority.

9.1.17. No Defaults. No event or circumstance has occurred or exists that constitutes a Default or Event of Default. No Borrower or Subsidiary is in default, and no event or circumstance has occurred or exists that with the passage of time or giving of notice would constitute a default, under any Material Contract or in the payment of any Borrowed Money. There is no basis upon which any party (other than a Borrower or Subsidiary) could terminate a Material Contract prior to its scheduled termination date.

9.1.18. ERISA. Except as disclosed on **Schedule 9.1.18**:

(a) Each Plan is in compliance in all material respects with the applicable provisions of ERISA, the Code, and other federal and state laws. Each Plan that is intended to qualify under Section 401(a) of the Code has received a favorable determination letter from the IRS or an application for such a letter is currently being processed by the IRS with respect thereto and, to the knowledge of Borrowers, nothing has occurred which would prevent, or cause the loss of, such qualification. Each Obligor and ERISA Affiliate has made all required contributions to each Plan subject to Section 412 of the Code, and no application for a funding waiver or an extension of any amortization period pursuant to Section 412 of the Code has been made with respect to any Plan.

(b) There are no pending or, to the knowledge of Borrowers, threatened claims, actions or lawsuits, or action by any Governmental Authority, with respect to any Plan or Foreign Plan that could reasonably be expected to have a Material Adverse Effect. There has been no prohibited transaction or a breach of fiduciary duties under ERISA or applicable state or foreign law with respect to any Plan or Foreign Plan that has resulted in or could reasonably be expected to have a Material Adverse Effect.

(c) Except as could not reasonably be expected to result in a liability of the Obligors in excess of \$1,000,000, (i) No ERISA Event has occurred or is reasonably expected to occur; (ii) no

Pension Plan has any Unfunded Pension Liability; (iii) no Obligor or ERISA Affiliate has incurred, or reasonably expects to incur, any liability under Title IV of ERISA with respect to any Pension Plan (other than premiums due and not delinquent under Section 4007 of ERISA); (iv) no Obligor or ERISA Affiliate has incurred, or reasonably expects to incur, any liability (and no event has occurred which, with the giving of notice under Section 4219 of ERISA, would result in such liability) under Section 4201 or 4243 of ERISA with respect to a Multiemployer Plan; and (v) no Obligor or ERISA Affiliate has engaged in a transaction that could be subject to Section 4069 or 4212(c) of ERISA.

(d) Except as could not reasonably be expected to result in a liability of the Obligors in excess of \$1,000,000, with respect to any Foreign Plan, (i) all employer and employee contributions required by law or by the terms of the Foreign Plan have been made, or, if applicable, accrued, in accordance with normal accounting practices; (ii) the fair market value of the assets of each funded Foreign Plan sponsored or maintained by an Obligor or Subsidiary (a "Sponsored Foreign Plan"), the liability of each insurer for any Sponsored Foreign Plan funded through insurance, or the book reserve established for any Sponsored Foreign Plan, together with any accrued contributions, is sufficient to procure or provide for the accrued benefit obligations with respect to all current and former participants in such Sponsored Foreign Plan according to the actuarial assumptions and valuations most recently used to account for such obligations in accordance with applicable generally accepted accounting principles; and (iii) each Sponsored Foreign Plan has been registered as required, has been maintained in good standing with applicable regulatory authorities, and satisfies all requirements of Applicable Law.

9.1.19. Trade Relations. There exists no actual or threatened termination, limitation or modification of any business relationship between any Borrower or Subsidiary and any customer or supplier, or any group of customers or suppliers, who individually or in the aggregate are material to the business of such Borrower or Subsidiary. There exists no condition or circumstance that could reasonably be expected to impair the ability of any Borrower or Subsidiary to conduct its business at any time hereafter in substantially the same manner as conducted on the Closing Date.

9.1.20. Labor Relations. Except as described on **Schedule 9.1.20**, no Borrower or Subsidiary is party to or bound by any collective bargaining agreement, management agreement or consulting agreement. There are no material grievances, disputes or controversies with any union or other organization of any Borrower's or Subsidiary's employees. To any Borrower's knowledge, there are no asserted or threatened strikes, work stoppages or demands for collective bargaining which if occurred would have a Material Adverse Effect.

9.1.21. Payable Practices. No Borrower or Subsidiary has made any material change in its historical accounts payable practices from those in effect on the Closing Date.

9.1.22. Not a Regulated Entity. No Obligor is (a) an "investment company" or a "person directly or indirectly controlled by or acting on behalf of an investment company" within the meaning of the Investment Company Act of 1940; or (b) subject to regulation under the Federal Power Act, the Interstate Commerce Act, any public utilities code or any other Applicable Law regarding its authority to incur Debt.

9.1.23. Margin Stock. No Borrower or Subsidiary is engaged, principally or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying any Margin Stock. No Loan proceeds or Letters of Credit will be used by Borrowers to purchase or carry, or to reduce or refinance any Debt incurred to purchase or carry, any Margin Stock or for any related purpose governed by Regulations T, U or X of the Board of Governors.

9.2. Complete Disclosure. No Loan Document contains any untrue statement of a material fact, nor fails to disclose any material fact necessary to make the statements contained therein not materially misleading (it being understood that forecasts and projections are subject to uncertainties and

contingencies and no assurance can be given that any forecast or projection will be realized). There is no fact or circumstance that any Obligor has failed to disclose to Agent in writing that could reasonably be expected to have a Material Adverse Effect.

SECTION 10. COVENANTS AND CONTINUING AGREEMENTS

10.1. Affirmative Covenants. As long as any Commitments or Obligations are outstanding, each Borrower shall, and shall cause each Subsidiary to:

10.1.1. Inspections; Appraisals.

(a) Permit Agent from time to time, subject (except when a Default or Event of Default exists) to reasonable notice and normal business hours, to visit and inspect the Properties of any Borrower or Subsidiary, inspect, audit and make extracts from any Borrower's or Subsidiary's books and records, and discuss with its officers, employees, agents, advisors and independent accountants such Borrower's or Subsidiary's business, financial condition, assets, prospects and results of operations. Lenders may participate in any such visit or inspection, at their own expense. Neither Agent nor any Lender shall have any duty to any Borrower to make any inspection, nor to share any results of any inspection, appraisal or report with any Borrower. Borrowers acknowledge that all inspections, appraisals and reports are prepared by Agent and Lenders for their purposes, and Borrowers shall not be entitled to rely upon them.

(b) Reimburse Agent for all charges, costs and expenses of Agent in connection with (i) examinations of any Obligor's books and records or any other financial or Collateral matters as Agent deems appropriate, up to four times per Loan Year; and (ii) appraisals of Inventory up to one time per Loan Year; provided, however, that if an examination or appraisal is initiated during a Default or Event of Default or while Availability is less than an amount equal to twenty percent (20%) of the then aggregate Revolver Commitments, all charges, costs and expenses therefor shall be reimbursed by Borrowers without regard to such limits. Subject to and without limiting the foregoing, Borrowers specifically agree to pay Agent's then standard charges for each day that an employee of Agent or its Affiliates is engaged in any examination activities, and shall pay the standard charges of Agent's internal appraisal group. This Section shall not be construed to limit Agent's right to conduct examinations or to obtain appraisals at any time in its discretion, nor to use third parties for such purposes.

10.1.2. Financial and Other Information. Keep adequate records and books of account with respect to its business activities, in which proper entries are made in accordance with GAAP reflecting all financial transactions; and furnish to Agent and Lenders:

(a) as soon as available, and in any event within 90 days after the close of each Fiscal Year, balance sheets as of the end of such Fiscal Year and the related statements of income, cash flow and shareholders' equity for such Fiscal Year, on consolidated and consolidating bases for Borrowers and Subsidiaries, which consolidated statements shall be audited and certified (without qualification) by a firm of independent certified public accountants of recognized standing selected by Borrowers and acceptable to Agent, and shall set forth in comparative form corresponding figures for the preceding Fiscal Year and other information acceptable to Agent;

(b) as soon as available, and in any event within 30 days after the end of each month, unaudited balance sheets as of the end of such month and the related statements of income and cash flow for such month and for the portion of the Fiscal Year then elapsed, on consolidated and consolidating bases for Borrowers and Subsidiaries, setting forth in comparative form corresponding figures for the preceding Fiscal Year and certified by the chief financial officer of Borrower Agent as prepared in accordance with GAAP and fairly presenting the financial position and results of operations for such month and period, subject to normal year-end adjustments and the absence of footnotes;

(c) concurrently with delivery of financial statements under clauses (a) and (b) above, or more frequently if requested by Agent while a Default or Event of Default exists, a Compliance Certificate executed by the chief financial officer of Borrower Agent;

(d) concurrently with delivery of financial statements under clause (a) above, copies of all management letters and other material reports submitted to Borrowers by their accountants in connection with such financial statements;

(e) not later than 30 days prior to the end of each Fiscal Year, projections of Borrowers' consolidated balance sheets, results of operations, cash flow and Availability for the next Fiscal Year, month by month;

(f) at Agent's request, a listing of each Borrower's trade payables, specifying the trade creditor and balance due, and a detailed trade payable aging, all in form satisfactory to Agent;

(g) promptly after the sending or filing thereof, copies of any proxy statements, financial statements or reports that any Borrower has made generally available to its shareholders; copies of any regular, periodic and special reports or registration statements or prospectuses that any Borrower files with the Securities and Exchange Commission or any other Governmental Authority, or any securities exchange; and copies of any press releases or other statements made available by a Borrower to the public concerning material changes to or developments in the business of such Borrower;

(h) promptly after the sending or filing thereof, copies of any annual report to be filed in connection with each Plan or Foreign Plan;

(i) such other reports and information (financial or otherwise) as Agent may request from time to time in connection with any Collateral or any Borrower's or Subsidiary's financial condition or business; and

(j) as soon as available, and in any event within 120 days after the close of each Fiscal Year, financial statements for each Guarantor, in form and substance satisfactory to Agent.

Documents required to be delivered pursuant to **Sections 10.1.2(a)** or **(b)** shall be deemed to have been delivered on the date on which Borrower Agent provides Agent and each Lender with notice that such documents are posted on Clearwater's behalf with the Securities Exchange Commission so long as: (i) Borrower Agent provides Agent and each Lender with a link to such documents; and (ii) such documents are easily accessible and printable and in a format acceptable to Agent.

10.1.3. Notices. Notify Agent and Lenders in writing, promptly after a Borrower's obtaining knowledge thereof, of any of the following that affects an Obligor: (a) the threat or commencement of any proceeding or investigation, whether or not covered by insurance, if an adverse determination is reasonably possible and could have a Material Adverse Effect; (b) any pending or threatened labor dispute, strike or walkout, or the expiration of any material labor contract; (c) any default under or termination of a Material Contract; (d) the existence of any Default or Event of Default; (e) any judgment in an amount exceeding \$1,000,000; (f) the assertion of any Intellectual Property Claim, if an adverse resolution could have a Material Adverse Effect; (g) the institution of any proceeding against a Borrower or Guarantor with respect to, or the receipt of notice by a Borrower or Guarantor of potential liability or responsibility for, any violation or asserted violation of any Applicable Law (including ERISA, OSHA, FLSA, or any Environmental Laws), if an adverse resolution could have a Material Adverse Effect; (h) any Environmental Release by a Borrower or Guarantor or on any Property owned, leased or occupied by a Borrower or Guarantor if such Environmental Release could have a Material Adverse Effect; or receipt of any Environmental Notice if an adverse resolution could have a Material Adverse Effect; (i) the occurrence of any ERISA Event; (j) the discharge of or any withdrawal or resignation by Borrowers' independent accountants; or (k) any opening of a new office or place of business, at least 30 days prior to such opening.

10.1.4. Landlord and Storage Agreements. Upon request, provide Agent with copies of all existing agreements, and promptly after execution thereof provide Agent with copies of all future agreements, between an Obligor and any landlord, warehouseman, processor, shipper, bailee or other Person that owns any premises at which any Collateral may be kept or that otherwise may possess or handle any Collateral.

10.1.5. Compliance with Laws. Comply with all Applicable Laws, including ERISA, Environmental Laws, FLSA, OSHA, Anti-Terrorism Laws, and laws regarding collection and payment of Taxes, and maintain all Governmental Approvals necessary to the ownership of its Properties or conduct of its business, unless failure to comply (other than failure to comply with Anti-Terrorism Laws) or maintain could not reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, if any Environmental Release occurs which could have a Material Adverse Effect at or on any Properties of any Borrower or Subsidiary, it shall act promptly and diligently to investigate and report to Agent and, to the extent required by Applicable Law, all appropriate Governmental Authorities the extent of, and to make appropriate remedial action to eliminate, such Environmental Release, whether or not directed to do so by any Governmental Authority.

10.1.6. Taxes. Pay and discharge all Taxes prior to the date on which they become delinquent or penalties attach, unless such Taxes are being Properly Contested.

10.1.7. Insurance. In addition to the insurance required hereunder with respect to Collateral, maintain insurance with insurers (with a Best Rating of at least A7, unless otherwise approved by Agent) satisfactory to Agent, (a) with respect to the Properties and business of Borrowers and Subsidiaries of such type (including product liability, workers' compensation, larceny, embezzlement, or other criminal misappropriation insurance), in such amounts, and with such coverages and deductibles as are customary for companies similarly situated; and (b) business interruption insurance in an amount not less than \$20,000,000, with deductibles satisfactory to Agent.

10.1.8. Licenses. Keep each License affecting any Inventory (including the manufacture, distribution or disposition of Inventory) or any other material Property of Borrowers and Subsidiaries in full force and effect; once every 120 days, notify Agent of any modifications to any such Licenses, or entry into any new Licenses affecting any Inventory; pay all Royalties under such Licenses when due; and notify Agent of any default or breach asserted by any Person to have occurred under any such License.

10.1.9. Future Subsidiaries. Promptly notify Agent upon any Person becoming a Subsidiary and, if such Person is not a Foreign Subsidiary and Agent so requests, cause it to guaranty the Obligations in a manner satisfactory to Agent, and to execute and deliver such documents, instruments and agreements and to take such other actions as Agent shall require to evidence and perfect a Lien in favor of Agent (for the benefit of Secured Parties) on all assets of such Person which are of the same type as the Collateral, including delivery of such legal opinions, in form and substance satisfactory to Agent, as it shall deem appropriate.

10.1.10. Spin-Off. Within one (1) Business Day of the Closing Date, provide Agent with evidence, in form and substance satisfactory to Agent, that the "Distribution" (as defined in the Separation Agreement) has occurred.

10.2. Negative Covenants. As long as any Commitments or Obligations are outstanding, each Borrower shall not, and shall cause each Subsidiary not to:

10.2.1. Permitted Debt. Create, incur, guarantee or suffer to exist any Debt, except:

(a) the Obligations;

(b) Subordinated Debt;

(c) Permitted Purchase Money Debt;

(d) Borrowed Money (other than the Obligations, Subordinated Debt and Permitted Purchase Money Debt), but only to the extent outstanding on the Closing Date and not satisfied with proceeds of the initial Loans;

(e) Bank Product Debt;

(f) subject to the terms of the Intercreditor Agreement, the Potlatch Indebtedness;

(g) Borrowed Money, the principal purpose of which is to satisfy and discharge Clearwater's obligations under the Retained Obligations Agreement; provided that: (i) it is in an aggregate principal amount that does not exceed \$175,000,000, (ii) it has a final maturity date no sooner than ninety (90) days following the Revolver Termination Date, (iii) if it is secured, it is subject to an intercreditor agreement in form and substance satisfactory to Required Lenders, (iv) no Liens are granted on any Collateral to secure it, (v) upon giving effect to it, no Default or Event of Default exists, and (vi) the proceeds are first, used to satisfy the Potlatch Indebtedness in its entirety, and second, remitted to Agent for application to the Obligations; provided, however, that no more than \$50,000,000 of proceeds shall be required to be remitted to Agent under this clause (vi);

(h) Permitted Contingent Obligations;

(i) So long as upon fair and reasonable terms and no less favorable than would be obtained in a comparable arm's-length transaction with a non-Affiliate: (i) Borrowed Money of any Borrower owing to another Borrower or Guarantor, and (ii) Borrowed Money of any Guarantor owing to another Guarantor;

(j) Debt and cash management obligations in respect of netting services, automatic clearinghouse arrangements, overdraft protectors, employee credit card programs and other cash management an similar arrangements, in the Ordinary Course of Business;

(k) Debt arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the Ordinary Course of Business or other cash management services in the Ordinary Course of Business;

(l) Debt with respect to deferred compensation to employees of Borrowers and Subsidiaries in the Ordinary Course of Business;

(m) subject to the aggregate cap on Permitted Acquisitions, as set forth in clause (g) of the definition thereof, earn-out obligations, working capital adjustments, purchase price and similar adjustments and indemnification obligations under the agreements entered into in connection with any Permitted Acquisition;

(n) Refinancing Debt as long as each Refinancing Condition is satisfied; and

(o) Debt (other than Borrowed Money) consisting of retirement liabilities incurred in the Ordinary Course of Business; and

(p) Debt that is not included in any of the preceding clauses of this Section, is not secured by a Lien and does not exceed \$10,000,000 in the aggregate at any time.

For purposes of determining compliance with this **Section 10.2.1**, in the event that an item of Debt meets the criteria of more than one of the categories of Debt described in clause (a) through (o) above, Borrowers may, in their sole discretion, classify and reclassify or later divide, classify or reclassify such item of Debt (or any portion thereof) and will only be required to include the amount and type of such Debt in one or more of the above clauses.

10.2.2. **Permitted Liens.** Create or suffer to exist any Lien upon any of its Property, except the following (collectively, "**Permitted Liens**"):

(a) Liens in favor of Agent;

(b) Purchase Money Liens securing Permitted Purchase Money Debt;

(c) Liens for Taxes not yet due or being Properly Contested;

(d) statutory Liens (including statutory Liens of landlords and Liens of carriers, warehousemen, mechanics and materialmen and other Liens imposed by law, but excluding Liens for Taxes or imposed under ERISA) arising in the Ordinary Course of Business, but only if (i) payment of the obligations secured thereby is not yet due or is being Properly Contested, and (ii) such Liens do not materially impair the value or use of the Property or materially impair operation of the business of any Borrower or Subsidiary;

(e) statutory Liens of suppliers imposed by law or pursuant to customary reservations or retentions of title provided that: (i) such Liens do not attach to Collateral with a value of more than \$250,000 at any time, (ii) such Liens arise in the Ordinary Course of Business, and (iii) any such Liens are not perfected and are subordinated under law to the Liens in favor of Agent;

(f) Liens incurred or deposits made in the Ordinary Course of Business to secure the performance of tenders, bids, leases, contracts (except those relating to Borrowed Money), statutory obligations and other similar obligations, or arising as a result of progress payments under government contracts, as long as such Liens are at all times junior to Agent's Liens;

(g) Liens arising in the Ordinary Course of Business that are subject to Lien Waivers;

(h) Liens arising by virtue of a judgment or judicial order against any Borrower or Subsidiary, or any Property of a Borrower or Subsidiary, as long as such Liens are (i) in existence for less than 20 consecutive days or being Properly Contested, and (ii) at all times junior to Agent's Liens;

(i) easements, rights-of-way, restrictions, covenants or other agreements of record, and other similar charges or encumbrances on Real Estate, that do not secure any monetary obligation and do not interfere with the Ordinary Course of Business;

(j) normal and customary rights of setoff upon deposits in favor of depository institutions, and Liens of a collecting bank on Payment Items in the course of collection;

(k) subject to the terms of the Intercreditor Agreement, Liens securing the Potlatch Indebtedness;

(l) existing Liens shown on **Schedule 10.2.2**;

(m) leases or subleases of Real Estate granted to others not interfering in any material respect with the business of any Borrower or Subsidiary;

(n) any interest of title of a lessor under, and Liens arising from UCC financing statements (or equivalent filings, registrations or agreements in foreign jurisdictions) relating to, leases permitted by this Agreement;

(o) Liens arising in the Ordinary Course of Business in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods (it being understood that any Inventory subject to such Liens shall not constitute Eligible Inventory);

(p) Liens of a collection bank arising under Section 4208 of the UCC on items in the course of collection;

(q) Liens imposed on the Potlatch Escrow Account to secure the obligations of Clearwater to Potlatch under the Retained Obligation Agreement and to the financial institution at which such account is established; and

(r) any extension, renewal or replacement, in whole or in part, of any Lien described in the foregoing clauses (a) through (q); provided that any such extension, renewal or replacement shall be no more restrictive in any material respect than the Lien extended, renewed or replaced and shall not extend to any other Property of Borrowers or Subsidiaries other than such item of Property originally covered by such Lien or by improvement thereof or additions or accessions thereto.

10.2.3. Capital Expenditures. Make Capital Expenditures in excess of the greater of, for a Fiscal Year: (a) (i) \$25,000,000 in the aggregate during the 2008 Fiscal Year, (ii) \$35,000,000 in the aggregate during the 2009 Fiscal Year, (iii) \$35,000,000 in the aggregate during the 2010 Fiscal Year, (iv) \$40,000,000 in the aggregate during the 2011 Fiscal Year or (v) \$40,000,000 in the aggregate during the 2012 Fiscal Year, or (b) the depreciation Borrowers record on their books and records for such Fiscal Year; provided, however, that if the amount of Capital Expenditures permitted to be made in any Fiscal Year exceeds the amount actually made, up to \$5,000,000 of such excess may be carried forward to the next Fiscal Year.

10.2.4. Distributions; Upstream Payments. (a) Declare or make any Distributions, except: (i) the distribution by Clearwater of Retainco to Potlatch in accordance with the terms of the Separation Agreement; (ii) Upstream Payments; (iii) repurchases of Equity Interests of Borrowers owned by former, present or future employees, officers and directors of Borrowers or Subsidiaries or their assigns, estates and heirs, so long as: (A) the agreements setting forth such repurchase obligations were entered into by the applicable Borrower prior to the Spin-Off; (B) the Revolver Commitments have not been terminated; (C) to the extent a Default or Event of Default exists before or after giving effect to any such repurchase, the amount of such repurchase does not exceed the amount of the Repurchase Reserve then in effect; and (D) the aggregate amount of all such repurchases does not exceed \$1,000,000; and (iv) Clearwater may pay dividends to its shareholders or repurchase Equity Interests from its shareholders, in each case if (A) no Default or Event of Default has occurred and is continuing or would result therefrom, and (B) Modified Availability after giving effect to any such dividend or repurchase is not less than \$45,000,000; or (b) create or suffer to exist any encumbrance or restriction on the ability of a Subsidiary to make any Upstream Payment, except for restrictions under the Loan Documents, under Applicable Law or in effect on the Closing Date as shown on **Schedule 9.1.15**.

10.2.5. Restricted Investments. Make any Restricted Investment.

10.2.6. Disposition of Assets. Make any Asset Disposition, except a Permitted Asset Disposition.

10.2.7. Loans. Make any loans or other advances of money to any Person, except (a) advances to an officer or employee for salary, travel, relocation and other expenses, commissions and similar items in the Ordinary Course of Business; (b) prepaid expenses and extensions of trade credit made in the Ordinary Course of Business; (c) deposits with financial institutions permitted hereunder; and (d) as long as no Default or Event of Default exists, intercompany loans by a Borrower to another Borrower.

10.2.8. Restrictions on Payment of Certain Debt. Make any payments (whether voluntary or mandatory, or a prepayment, redemption, retirement, defeasance or acquisition) with respect to (a) any Subordinated Debt, except regularly scheduled payments of principal, interest and fees, but only to the extent permitted under any subordination agreement relating to such Debt (and a Senior Officer of Borrower Agent shall certify to Agent, not less than five Business Days prior to the date of payment, that all conditions under such agreement have been satisfied); (b) any Borrowed Money (other than the Obligations and the Potlatch Indebtedness) prior to its due date under the agreements evidencing such Debt as in effect on the Closing Date (or as amended thereafter with the consent of Agent) unless permitted under **Section 10.2.1(n)**; or (c) the Potlatch Indebtedness unless such repayment is made with the proceeds of (i) Debt permitted under **Section 10.2.1(g)**; (ii) an Asset Disposition permitted under clause (g) of the definition of Permitted Asset Disposition; or (iii) an issuance of Equity Interests by Clearwater not otherwise prohibited under the terms of this Agreement.

10.2.9. Fundamental Changes. (a) Merge, combine or consolidate with any Person, or liquidate, wind up its affairs or dissolve itself, in each case whether in a single transaction or in a series of related transactions, except for: (i) mergers or consolidations of a wholly-owned Subsidiary with another wholly-owned Subsidiary or into a Borrower; (ii) transactions otherwise permitted pursuant to **Section 10.2.5**; (iii) liquidation or dissolution of any Borrower (other than Clearwater) and any Subsidiary that Clearwater thereof determines in good faith that such action is in the best interest of it, the Borrowers and the Subsidiaries and is not materially disadvantageous to Agent or the Lenders so long as (A) the assets (other than any Collateral) of such Borrower or Subsidiary that are distributed as part of such liquidation or dissolution are distributed to the direct holders of the Equity Interests of such Borrower or Subsidiary on a pro rata basis; (B) any assets consisting of Collateral of such Borrower or Subsidiary are distributed to a Borrower; (C) both before and after giving effect to any such liquidation or dissolution, no Default or Event of Default has occurred and is continuing; and (D) Borrower Agent provides Agent with no less than thirty (30) days prior written notice of such liquidation or dissolution; and (iv) any Permitted Asset Disposition that is effected through the merger of a Subsidiary or Borrower (other than Clearwater) with a third party; or (b) change its name or conduct business under any fictitious name; change its tax, charter or other organizational identification number; or change its form or state of organization.

10.2.10. Subsidiaries. Form or acquire any Subsidiary after the Closing Date, except in accordance with **Sections 10.1.9** and **10.2.5**; or permit any existing Subsidiary to issue any additional Equity Interests except director's qualifying shares.

10.2.11. Organic Documents. Amend, modify or otherwise change any of its Organic Documents as in effect on the Closing Date where such amendment, modification or other change would materially adversely affect the interests of Agent or the Lenders.

10.2.12. Tax Consolidation. File or consent to the filing of any consolidated income tax return with any Person other than Borrowers and Subsidiaries.

10.2.13. Accounting Changes. Make any material change in accounting treatment or reporting practices, except as required by GAAP and in accordance with **Section 1.2**; or change its Fiscal Year.

10.2.14. Restrictive Agreements. Become a party to any Restrictive Agreement, except a Restrictive Agreement (a) in effect on the Closing Date; (b) relating to secured Debt permitted hereunder, as long as the restrictions apply only to collateral for such Debt; (c) constituting customary restrictions on assignment in leases and other contracts; or (d) any restrictions imposed on any Property pursuant to an agreement that has been entered into in connection with a Permitted Disposition of such Property.

10.2.15. Hedging Agreements. Enter into any Hedging Agreement, except to hedge risks arising in the Ordinary Course of Business and not for speculative purposes.

10.2.16. Conduct of Business. Engage in any business, other than its business as conducted on the Closing Date and any activities incidental thereto.

10.2.17. Affiliate Transactions. Enter into or be party to any transaction with an Affiliate, except (a) transactions contemplated by the Loan Documents; (b) payment of reasonable compensation and provisions of other reasonable benefits to officers and employees, and loans and advances permitted by **Section 10.2.7**; (c) payment of customary directors' fees and indemnities; (d) transactions: (i) solely among Borrowers; (ii) solely among Guarantors; and (iii) solely among Subsidiaries that are not Borrowers or Guarantors; (e) transactions with Affiliates that were consummated prior to the Closing Date, as shown on **Schedule 10.2.17**; (f) transactions permitted under **Section 10.2.7**; (g) agreements and arrangements entered into in the Ordinary Course of Business with officers and employees of Borrowers in connection with termination of their employment therewith; (h) transactions contemplated in the Spin-Off Documents; (i) indemnity and reimbursement provided on behalf of directors, officers and employees of any Borrower or Subsidiary in the Ordinary Course of Business; and (j) transactions with Affiliates in the Ordinary Course of Business, upon fair and reasonable terms fully disclosed to Agent and no less favorable than would be obtained in a comparable arm's-length transaction with a non-Affiliate.

10.2.18. Plans. Become party to any Multiemployer Plan or Foreign Plan, other than any in existence on the Closing Date and other than as disclosed to Agent upon thirty (30) days' prior written notice.

10.2.19. Amendments to Subordinated Debt; Potlatch Indebtedness. (a) Amend, supplement or otherwise modify any document, instrument or agreement relating to any Subordinated Debt, if such modification (i) increases the principal balance of such Debt, or increases any required payment of principal or interest; (ii) accelerates the date on which any installment of principal or any interest is due, or adds any additional redemption, put or prepayment provisions; (iii) shortens the final maturity date or otherwise accelerates amortization; (iv) increases the interest rate; (v) increases or adds any fees or charges; (vi) modifies any covenant in a manner or adds any representation, covenant or default that is more onerous or restrictive in any material respect for any Borrower or Subsidiary, or that is otherwise materially adverse to any Borrower, any Subsidiary or Lenders; or (vii) results in the Obligations not being fully benefited by the subordination provisions thereof, except that any acceleration or prepayment that would be prohibited under clause (ii) or (iii) and any fees or charges prohibited under clause (v) shall not be prohibited under this **Section 10.2.18** where such acceleration or prepayment is made, or such fees or charges are incurred, in connection with a refinancing of such Subordinated Debt permitted under **Section 10.2.1(n)**; or (b) amend, supplement or otherwise modify any document, instrument or agreement relating to the Potlatch Indebtedness without the consent of Agent.

10.3. Fixed Charge Coverage Ratio. As long as any Commitments or Obligations are outstanding, for each month ending during or immediately before any Trigger Period (each such month, a "Subject Month"), Borrowers shall maintain a Fixed Charge Coverage Ratio, when measured on a trailing twelve (12) month basis (or, in the case of any Subject Month ending prior to the first anniversary of the Closing Date, when measured for the period from the Closing Date through the end of such Subject Month), of at least 1.0 to 1.0.

SECTION 11. EVENTS OF DEFAULT; REMEDIES ON DEFAULT

11.1. Events of Default. Each of the following shall be an “Event of Default” hereunder, if the same shall occur for any reason whatsoever, whether voluntary or involuntary, by operation of law or otherwise:

- (a) A Borrower fails to pay any Obligations when due (whether at stated maturity, on demand, upon acceleration or otherwise);
- (b) Any representation, warranty or other written statement of a Borrower or Guarantor made in connection with any Loan Documents or transactions contemplated thereby is incorrect or misleading in any material respect when given;
- (c) A Borrower breaches or fail to perform any covenant contained in **Section 7.2, 8.1, 8.2.4, 8.2.5, 8.6.2** (to the extent insurance has not been maintained as required), **10.1.1, 10.1.2, 10.2** or **10.3**;
- (d) A Borrower or Guarantor breaches or fails to perform any other covenant contained in any Loan Documents, and such breach or failure is not cured within 15 Business Days after a Senior Officer of such Borrower or Guarantor has knowledge thereof or receives notice thereof from Agent, whichever is sooner; provided, however, that such notice and opportunity to cure shall not apply if the breach or failure to perform is not capable of being cured within such period or is a willful breach by a Borrower or Guarantor;
- (e) A Guarantor repudiates, revokes or attempts to revoke its Guaranty; an Obligor denies or contests the validity or enforceability of any Loan Documents or Obligations, or the perfection or priority of any Lien granted to Agent; or any Loan Document ceases to be in full force or effect for any reason (other than a waiver or release by Agent and Lenders);
- (f) Any breach or default of a Borrower or Guarantor occurs under any document, instrument or agreement to which it is a party or by which it or any of its Properties is bound, relating to any Debt (other than the Obligations) in excess of \$15,000,000 (including, without limitation, the Potlatch Indebtedness), if the maturity of or any payment with respect to such Debt may be accelerated or demanded due to such breach;
- (g) Any judgment or order for the payment of money is entered against a Borrower or Guarantor in an amount that exceeds, individually or cumulatively with all unsatisfied judgments or orders against all Borrowers and Guarantors, \$5,000,000 (net of any insurance coverage therefor acknowledged in writing by the insurer), unless: (i) a stay of enforcement of such judgment or order is in effect, by reason of a pending appeal or otherwise, or (ii) such judgment or order is satisfied within two (2) Business Days of it being entered;
- (h) A loss, theft, damage or destruction occurs with respect to any Collateral if the amount not covered by insurance exceeds \$5,000,000;
- (i) A Borrower or Guarantor is enjoined, restrained or in any way prevented by any Governmental Authority from conducting any material part of its business; a Borrower or Guarantor suffers the loss, revocation or termination of any material license, permit, lease or agreement necessary to its business; there is a cessation of any material part of a Borrower or Guarantor’s business for a material period of time; any material Collateral or Property of a Borrower or Guarantor is taken or impaired through condemnation; a Borrower or Guarantor agrees to or commences any liquidation, dissolution or winding up of its affairs except as permitted in Section 10.2.9; or a Borrower or Guarantor is not Solvent;

(j) An Insolvency Proceeding is commenced by a Borrower or Guarantor; a Borrower or Guarantor makes an offer of settlement, extension or composition to its unsecured creditors generally; a trustee is appointed to take possession of any substantial Property of or to operate any of the business of a Borrower or Guarantor; or an Insolvency Proceeding is commenced against a Borrower or Guarantor and such Borrower or Guarantor consents to institution of the proceeding, the petition commencing the proceeding is not timely contested by such Borrower or Guarantor, the petition is not dismissed within 30 days after filing, or an order for relief is entered in the proceeding;

(k) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan that has resulted or could reasonably be expected to result in liability of a Borrower or Guarantor to a Pension Plan, Multiemployer Plan or PBGC, or that constitutes grounds for appointment of a trustee for or termination by the PBGC of any Pension Plan or Multiemployer Plan; a Borrower, Guarantor or ERISA Affiliate fails to pay when due any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan; or any event similar to the foregoing occurs or exists with respect to a Foreign Plan; except that no event or condition described in this **Section 11.1(k)** shall constitute an Event of Default if it, together with all other such events or conditions at the time existing, has not resulted in, and could not reasonably be expected to result in, liability to Borrowers and Guarantors in excess of \$1,000,000;

(l) A Borrower or Guarantor or any of its Senior Officers is criminally indicted or convicted for (i) a felony committed in the conduct of such Borrower's or Guarantor's business, or (ii) violating any state or federal law (including the Controlled Substances Act, Money Laundering Control Act of 1986 and Illegal Exportation of War Materials Act) that could lead to forfeiture of any material Property or any Collateral; or

(m) A Change of Control occurs; or any event occurs or condition exists that has a Material Adverse Effect.

11.2. Remedies upon Default. If an Event of Default described in **Section 11.1(j)** occurs with respect to any Borrower, then to the extent permitted by Applicable Law, all Obligations shall become automatically due and payable and all Commitments shall terminate, without any action by Agent or notice of any kind. In addition, or if any other Event of Default exists, Agent may in its discretion (and shall upon written direction of Required Lenders) do any one or more of the following from time to time:

(a) declare any Obligations immediately due and payable, whereupon they shall be due and payable without diligence, presentment, demand, protest or notice of any kind, all of which are hereby waived by Borrowers to the fullest extent permitted by law;

(b) terminate, reduce or condition any Commitment, or make any adjustment to the Borrowing Base;

(c) require Obligors to Cash Collateralize LC Obligations, Bank Product Debt and other Obligations that are contingent or not yet due and payable, and, if Obligors fail promptly to deposit such Cash Collateral, Agent may (and shall upon the direction of Required Lenders) advance the required Cash Collateral as Revolver Loans (whether or not an Overadvance exists or is created thereby, or the conditions in **Section 6** are satisfied); and

(d) exercise any other rights or remedies afforded under any agreement, by law, at equity or otherwise, including the rights and remedies of a secured party under the UCC. Such rights and remedies include the rights to (i) take possession of any Collateral; (ii) require Borrowers to assemble Collateral, at Borrowers' expense, and make it available to Agent at a place designated by Agent; (iii) enter any premises where Collateral is located and store Collateral on such premises until sold (and if the premises are owned or leased by a Borrower, Borrowers agree not to charge for such storage); and (iv)

sell or otherwise dispose of any Collateral in its then condition, or after any further manufacturing or processing thereof, at public or private sale, with such notice as may be required by Applicable Law, in lots or in bulk, at such locations, all as Agent, in its discretion, deems advisable. Each Borrower agrees that 10 days' notice of any proposed sale or other disposition of Collateral by Agent shall be reasonable. Agent shall have the right to conduct such sales on any Obligor's premises, without charge, and such sales may be adjourned from time to time in accordance with Applicable Law. Agent shall have the right to sell, lease or otherwise dispose of any Collateral for cash, credit or any combination thereof, and Agent may purchase any Collateral at public or, if permitted by law, private sale and, in lieu of actual payment of the purchase price, may set off the amount of such price against the Obligations.

11.3. License. Agent is hereby granted an irrevocable, non-exclusive and royalty-free license or other right to use, license or sub-license (without payment of royalty or other compensation to any Person) (collectively, the "IP License") any or all Intellectual Property of Borrowers, computer hardware and software, trade secrets, brochures, customer lists, promotional and advertising materials, labels, packaging materials and other Property, in advertising for sale, marketing, selling, collecting, completing manufacture of, or otherwise exercising any rights or remedies with respect to, any Collateral. Each Borrower's rights and interests under Intellectual Property shall inure to Agent's benefit.

11.4. Setoff. At any time during an Event of Default, Agent, Issuing Bank, Lenders, and any of their Affiliates are authorized, to the fullest extent permitted by Applicable Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by Agent, Issuing Bank, such Lender or such Affiliate to or for the credit or the account of a Borrower or Guarantor against any Obligations, irrespective of whether or not Agent, Issuing Bank, such Lender or such Affiliate shall have made any demand under this Agreement or any other Loan Document and although such Obligations may be contingent or unmatured or are owed to a branch or office of Agent, Issuing Bank, such Lender or such Affiliate different from the branch or office holding such deposit or obligated on such indebtedness. The rights of Agent, Issuing Bank, each Lender and each such Affiliate under this Section are in addition to other rights and remedies (including other rights of setoff) that such Person may have.

11.5. Remedies Cumulative; No Waiver.

11.5.1. Cumulative Rights. All agreements, warranties, guaranties, indemnities and other undertakings of Borrowers under the Loan Documents are cumulative and not in derogation of each other. The rights and remedies of Agent and Lenders are cumulative, may be exercised at any time and from time to time, concurrently or in any order, and are not exclusive of any other rights or remedies available by agreement, by law, at equity or otherwise. All such rights and remedies shall continue in full force and effect until Full Payment of all Obligations.

11.5.2. Waivers. No waiver or course of dealing shall be established by (a) the failure or delay of Agent or any Lender to require strict performance by Borrowers with any terms of the Loan Documents, or to exercise any rights or remedies with respect to Collateral or otherwise; (b) the making of any Loan or issuance of any Letter of Credit during a Default, Event of Default or other failure to satisfy any conditions precedent; or (c) acceptance by Agent or any Lender of any payment or performance by an Obligor under any Loan Documents in a manner other than that specified therein. It is expressly acknowledged by Borrowers that any failure to satisfy a financial covenant on a measurement date shall not be cured or remedied by satisfaction of such covenant on a subsequent date.

SECTION 12. AGENT

12.1. Appointment, Authority and Duties of Agent.

12.1.1. Appointment and Authority. Each Lender appoints and designates Bank of America as Agent hereunder. Agent may, and each Lender authorizes Agent to, enter into all Loan Documents to which Agent is intended to be a party and accept all Security Documents, for Agent's benefit and the Pro Rata benefit of Lenders. Each Lender agrees that any action taken by Agent or Required Lenders in accordance with the provisions of the Loan Documents, and the exercise by Agent or Required Lenders of any rights or remedies set forth therein, together with all other powers reasonably incidental thereto, shall be authorized by and binding upon all Lenders. Without limiting the generality of the foregoing, Agent shall have the sole and exclusive authority to (a) act as the disbursing and collecting agent for Lenders with respect to all payments and collections arising in connection with the Loan Documents; (b) execute and deliver as Agent each Loan Document, including any intercreditor or subordination agreement, and accept delivery of each Loan Document from any Obligor or other Person; (c) act as collateral agent for Secured Parties for purposes of perfecting and administering Liens under the Loan Documents, and for all other purposes stated therein; (d) manage, supervise or otherwise deal with Collateral; and (e) take any Enforcement Action or otherwise exercise any rights or remedies with respect to any Collateral under the Loan Documents, Applicable Law or otherwise. The duties of Agent shall be ministerial and administrative in nature, and Agent shall not have a fiduciary relationship with any Lender, Secured Party, Participant or other Person, by reason of any Loan Document or any transaction relating thereto. Agent alone shall be authorized to determine whether any Accounts or Inventory constitute Eligible Accounts, Eligible Semi-Finished Inventory or Eligible Inventory, or whether to impose or release any reserve, and to exercise its Credit Judgment in connection therewith, which determinations and judgments, if exercised in good faith, shall exonerate Agent from liability to any Lender or other Person for any error in judgment.

12.1.2. Duties. Agent shall not have any duties except those expressly set forth in the Loan Documents. The conferral upon Agent of any right shall not imply a duty on Agent's part to exercise such right, unless instructed to do so by Required Lenders in accordance with this Agreement.

12.1.3. Agent Professionals. Agent may perform its duties through agents and employees. Agent may consult with and employ Agent Professionals, and shall be entitled to act upon, and shall be fully protected in any action taken in good faith reliance upon, any advice given by an Agent Professional. Agent shall not be responsible for the negligence or misconduct of any agents, employees or Agent Professionals selected by it with reasonable care.

12.1.4. Instructions of Required Lenders. The rights and remedies conferred upon Agent under the Loan Documents may be exercised without the necessity of joinder of any other party, unless required by Applicable Law. Agent may request instructions from Required Lenders with respect to any act (including the failure to act) in connection with any Loan Documents, and may seek assurances to its satisfaction from Lenders of their indemnification obligations under **Section 12.6** against all Claims that could be incurred by Agent in connection with any act. Agent shall be entitled to refrain from any act until it has received such instructions or assurances, and Agent shall not incur liability to any Person by reason of so refraining. Instructions of Required Lenders shall be binding upon all Lenders, and no Lender shall have any right of action whatsoever against Agent as a result of Agent acting or refraining from acting in accordance with the instructions of Required Lenders. Notwithstanding the foregoing, instructions by and consent of all Lenders shall be required in the circumstances described in **Section 14.1.1**, and in no event shall Required Lenders, without the prior written consent of each Lender, direct Agent to accelerate and demand payment of Loans held by one Lender without accelerating and demanding payment of all other Loans, nor to terminate the Commitments of one Lender without terminating the Commitments of all Lenders. In no event shall Agent be required to take any action that, in its opinion, is contrary to Applicable Law or any Loan Documents or could subject any Agent Indemnitee to personal liability.

12.2. Agreements Regarding Collateral and Field Examination Reports.

12.2.1. **Lien Releases; Care of Collateral.** Lenders authorize Agent to release any Lien with respect to any Collateral (a) upon Full Payment of the Obligations; (b) that is the subject of an Asset Disposition which Borrowers certify in writing to Agent is a Permitted Asset Disposition or a Lien which Borrowers certify is a Permitted Lien entitled to priority over Agent's Liens (and Agent may rely conclusively on any such certificate without further inquiry); (c) that does not constitute a material part of the Collateral; or (d) with the written consent of all Lenders. Agent shall have no obligation whatsoever to any Lenders to assure that any Collateral exists or is owned by a Borrower, or is cared for, protected, insured or encumbered, nor to assure that Agent's Liens have been properly created, perfected or enforced, or are entitled to any particular priority, nor to exercise any duty of care with respect to any Collateral.

12.2.2. **Possession of Collateral.** Agent and Lenders appoint each Lender as agent (for the benefit of Secured Parties) for the purpose of perfecting Liens in any Collateral held or controlled by such Lender, to the extent such Liens are perfected by possession or control. If any Lender obtains possession or control of any Collateral, it shall notify Agent thereof and, promptly upon Agent's request, deliver such Collateral to Agent or otherwise deal with it in accordance with Agent's instructions.

12.2.3. **Reports.** Agent shall promptly forward to each Lender, when complete, copies of any field audit, examination or appraisal report prepared by or for Agent with respect to any Obligor or Collateral ("Report"). Each Lender agrees (a) that neither Bank of America nor Agent makes any representation or warranty as to the accuracy or completeness of any Report, and shall not be liable for any information contained in or omitted from any Report; (b) that the Reports are not intended to be comprehensive audits or examinations, and that Agent or any other Person performing any audit or examination will inspect only specific information regarding Obligations or the Collateral and will rely significantly upon Borrowers' books and records as well as upon representations of Borrowers' officers and employees; and (c) to keep all Reports confidential and strictly for such Lender's internal use, and not to distribute any Report (or the contents thereof) to any Person (except to such Lender's Participants, attorneys and accountants) or use any Report in any manner other than administration of the Loans and other Obligations. Each Lender agrees to indemnify and hold harmless Agent and any other Person preparing a Report from any action such Lender may take as a result of or any conclusion it may draw from any Report, as well as from any Claims arising as a direct or indirect result of Agent furnishing a Report to such Lender.

12.3. **Reliance By Agent.** Agent shall be entitled to rely, and shall be fully protected in relying, upon any certification, notice or other communication (including those by telephone, telex, telegram, telecopy or e-mail) believed by it to be genuine and correct and to have been signed, sent or made by the proper Person, and upon the advice and statements of Agent Professionals.

12.4. **Action Upon Default.** Agent shall not be deemed to have knowledge of any Default or Event of Default unless it has received written notice from a Lender or Borrower specifying the occurrence and nature thereof. If any Lender acquires knowledge of a Default or Event of Default, it shall promptly notify Agent and the other Lenders thereof in writing. Each Lender agrees that, except as otherwise provided in any Loan Documents or with the written consent of Agent and Required Lenders, it will not take any Enforcement Action, accelerate Obligations under any Loan Documents, or exercise any right that it might otherwise have under Applicable Law to credit bid at foreclosure sales, UCC sales or other similar dispositions of Collateral. Notwithstanding the foregoing, however, a Lender may take action to preserve or enforce its rights against an Obligor where a deadline or limitation period is applicable that would, absent such action, bar enforcement of Obligations held by such Lender, including the filing of proofs of claim in an Insolvency Proceeding.

12.5. **Ratable Sharing.** If any Lender shall obtain any payment or reduction of any Obligation, whether through set-off or otherwise, in excess of its share of such Obligation, determined on a Pro Rata basis or in accordance with **Section 5.6.1**, as applicable, such Lender shall forthwith purchase from Agent, Issuing Bank and the other Lenders such participations in the affected Obligation as are necessary to cause the purchasing Lender to share the excess payment or reduction on a Pro Rata basis or

in accordance with **Section 5.6.1**, as applicable. If any of such payment or reduction is thereafter recovered from the purchasing Lender, the purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest. No Lender shall set off against any Dominion Account without the prior consent of Agent.

12.6. Indemnification of Agent Indemnitees. EACH LENDER SHALL INDEMNIFY AND HOLD HARMLESS AGENT INDEMNITEES, TO THE EXTENT NOT REIMBURSED BY OBLIGORS (BUT WITHOUT LIMITING THE INDEMNIFICATION OBLIGATIONS OF OBLIGORS UNDER ANY LOAN DOCUMENTS), ON A PRO RATA BASIS, AGAINST ALL CLAIMS THAT MAY BE INCURRED BY OR ASSERTED AGAINST ANY AGENT INDEMNITEE, PROVIDED THE CLAIM RELATES TO OR ARISES FROM AN AGENT INDEMNITEE ACTING AS OR FOR AGENT (IN ITS CAPACITY AS AGENT). In Agent's discretion, it may reserve for any such Claims made against an Agent Indemnitee, and may satisfy any judgment, order or settlement relating thereto, from proceeds of Collateral prior to making any distribution of Collateral proceeds to Lenders. If Agent is sued by any receiver, bankruptcy trustee, debtor-in-possession or other Person for any alleged preference or fraudulent transfer, then any monies paid by Agent in settlement or satisfaction of such proceeding, together with all interest, costs and expenses (including attorneys' fees) incurred in the defense of same, shall be promptly reimbursed to Agent by each Lender to the extent of its Pro Rata share.

12.7. Limitation on Responsibilities of Agent. Agent shall not be liable to Lenders for any action taken or omitted to be taken under the Loan Documents, except for losses directly and solely caused by Agent's gross negligence or willful misconduct. Agent does not assume any responsibility for any failure or delay in performance or any breach by any Obligor or Lender of any obligations under the Loan Documents. Agent does not make to Lenders any express or implied warranty, representation or guarantee with respect to any Obligations, Collateral, Loan Documents or Obligor. No Agent Indemnitee shall be responsible to Lenders for any recitals, statements, information, representations or warranties contained in any Loan Documents; the execution, validity, genuineness, effectiveness or enforceability of any Loan Documents; the genuineness, enforceability, collectibility, value, sufficiency, location or existence of any Collateral, or the validity, extent, perfection or priority of any Lien therein; the validity, enforceability or collectibility of any Obligations; or the assets, liabilities, financial condition, results of operations, business, creditworthiness or legal status of any Obligor or Account Debtor. No Agent Indemnitee shall have any obligation to any Lender to ascertain or inquire into the existence of any Default or Event of Default, the observance or performance by any Obligor of any terms of the Loan Documents, or the satisfaction of any conditions precedent contained in any Loan Documents.

12.8. Successor Agent and Co-Agents.

12.8.1. Resignation; Successor Agent. Subject to the appointment and acceptance of a successor Agent as provided below, Agent may resign at any time by giving at least 30 days' written notice thereof to Lenders and Borrowers. Upon receipt of such notice, Required Lenders shall have the right to appoint a successor Agent which shall be (a) a Lender or an Affiliate of a Lender; or (b) a commercial bank that is organized under the laws of the United States or any state or district thereof, has a combined capital surplus of at least \$200,000,000 and (provided no Default or Event of Default exists) is reasonably acceptable to Borrowers. If no successor agent is appointed prior to the effective date of the resignation of Agent, then Agent may appoint a successor agent from among Lenders. Upon acceptance by a successor Agent of an appointment to serve as Agent hereunder, such successor Agent shall thereupon succeed to and become vested with all the powers and duties of the retiring Agent without further act, and the retiring Agent shall be discharged from its duties and obligations hereunder but shall continue to have the benefits of the indemnification set forth in **Sections 12.6** and **14.2**. Notwithstanding any Agent's resignation, the provisions of this **Section 12** shall continue in effect for its benefit with respect to any actions taken or omitted to be taken by it while Agent. Any successor to Bank of America by merger or acquisition of stock or this loan shall continue to be Agent hereunder without further act on the part of the parties hereto, unless such successor resigns as provided above.

12.8.2. Separate Collateral Agent. It is the intent of the parties that there shall be no violation of any Applicable Law denying or restricting the right of financial institutions to transact business in any jurisdiction. If Agent believes that it may be limited in the exercise of any rights or remedies under the Loan Documents due to any Applicable Law, Agent may appoint an additional Person who is not so limited, as a separate collateral agent or co-collateral agent. If Agent so appoints a collateral agent or co-collateral agent, each right and remedy intended to be available to Agent under the Loan Documents shall also be vested in such separate agent. Every covenant and obligation necessary to the exercise thereof by such agent shall run to and be enforceable by it as well as Agent. Lenders shall execute and deliver such documents as Agent deems appropriate to vest any rights or remedies in such agent. If any collateral agent or co-collateral agent shall die or dissolve, become incapable of acting, resign or be removed, then all the rights and remedies of such agent, to the extent permitted by Applicable Law, shall vest in and be exercised by Agent until appointment of a new agent.

12.9. Due Diligence and Non-Reliance. Each Lender acknowledges and agrees that it has, independently and without reliance upon Agent or any other Lenders, and based upon such documents, information and analyses as it has deemed appropriate, made its own credit analysis of each Obligor and its own decision to enter into this Agreement and to fund Loans and participate in LC Obligations hereunder. Each Lender has made such inquiries concerning the Loan Documents, the Collateral and each Obligor as such Lender feels necessary. Each Lender further acknowledges and agrees that the other Lenders and Agent have made no representations or warranties concerning any Obligor, any Collateral or the legality, validity, sufficiency or enforceability of any Loan Documents or Obligations. Each Lender will, independently and without reliance upon the other Lenders or Agent, and based upon such financial statements, documents and information as it deems appropriate at the time, continue to make and rely upon its own credit decisions in making Loans and participating in LC Obligations, and in taking or refraining from any action under any Loan Documents. Except for notices, reports and other information expressly requested by a Lender, Agent shall have no duty or responsibility to provide any Lender with any notices, reports or certificates furnished to Agent by any Obligor or any credit or other information concerning the affairs, financial condition, business or Properties of any Obligor (or any of its Affiliates) which may come into possession of Agent or any of Agent's Affiliates.

12.10. Replacement of Certain Lenders. If a Lender (a) is a Defaulting Lender, or (b) fails to give its consent to any amendment, waiver or action for which consent of all Lenders was required and Required Lenders consented, then, in addition to any other rights and remedies that any Person may have, Agent may, by notice to such Lender within 120 days after such event, require such Lender to assign all of its rights and obligations under the Loan Documents to Eligible Assignee(s) specified by Agent, pursuant to appropriate Assignment and Acceptance(s) and within 20 days after Agent's notice. Agent is irrevocably appointed as attorney-in-fact to execute any such Assignment and Acceptance if the Lender fails to execute same. Such Lender shall be entitled to receive, in cash, concurrently with such assignment, all amounts owed to it under the Loan Documents, including all principal, interest and fees through the date of assignment (but excluding any prepayment charge).

12.11. Remittance of Payments and Collections.

12.11.1. Remittances Generally. All payments by any Lender to Agent shall be made by the time and on the day set forth in this Agreement, in immediately available funds. If no time for payment is specified or if payment is due on demand by Agent and request for payment is made by Agent by 11:00 a.m. on a Business Day, payment shall be made by Lender not later than 2:00 p.m. on such day, and if request is made after 11:00 a.m., then payment shall be made by 11:00 a.m. on the next Business Day. Payment by Agent to any Lender shall be made by wire transfer, in the type of funds received by Agent. Any such payment shall be subject to Agent's right of offset for any amounts due from such Lender under the Loan Documents.

12.11.2. **Failure to Pay.** If any Lender fails to pay any amount when due by it to Agent pursuant to the terms hereof, such amount shall bear interest from the due date until paid at the rate determined by Agent as customary in the banking industry for interbank compensation. In no event shall Borrowers be entitled to receive credit for any interest paid by a Lender to Agent, nor shall any Defaulting Lender be entitled to interest on any amounts held by Agent pursuant to **Section 4.2**.

12.11.3. **Recovery of Payments.** If Agent pays any amount to a Lender in the expectation that a related payment will be received by Agent from an Obligor and such related payment is not received, then Agent may recover such amount from each Lender that received it. If Agent determines at any time that an amount received under any Loan Document must be returned to an Obligor or paid to any other Person pursuant to Applicable Law or otherwise, then, notwithstanding any other term of any Loan Document, Agent shall not be required to distribute such amount to any Lender. If any amounts received and applied by Agent to any Obligations are later required to be returned by Agent pursuant to Applicable Law, each Lender shall pay to Agent, **on demand**, such Lender's Pro Rata share of the amounts required to be returned.

12.12. Agent in its Individual Capacity. As a Lender, Bank of America shall have the same rights and remedies under the other Loan Documents as any other Lender, and the terms "Lenders," "Required Lenders" or any similar term shall include Bank of America in its capacity as a Lender. Each of Bank of America and its Affiliates may accept deposits from, maintain deposits or credit balances for, invest in, lend money to, provide Bank Products to, act as trustee under indentures of, serve as financial or other advisor to, and generally engage in any kind of business with, Obligors and their Affiliates, as if Bank of America were any other bank, without any duty to account therefor (including any fees or other consideration received in connection therewith) to the other Lenders. In their individual capacity, Bank of America and its Affiliates may receive information regarding Obligors, their Affiliates and their Account Debtors (including information subject to confidentiality obligations), and each Lender agrees that Bank of America and its Affiliates shall be under no obligation to provide such information to Lenders, if acquired in such individual capacity and not as Agent hereunder.

12.13. Agent Titles. Each Lender, other than Bank of America, that is designated (on the cover page of this Agreement or otherwise) by Bank of America as an "Agent" or "Arranger" of any type shall not have any right, power, responsibility or duty under any Loan Documents other than those applicable to all Lenders, and shall in no event be deemed to have any fiduciary relationship with any other Lender.

12.14. No Third Party Beneficiaries. This **Section 12** is an agreement solely among Lenders and Agent, and shall survive Full Payment of the Obligations. This **Section 12** does not confer any rights or benefits upon Borrowers or any other Person. As between Borrowers and Agent, any action that Agent may take under any Loan Documents or with respect to any Obligations shall be conclusively presumed to have been authorized and directed by Lenders.

SECTION 13. BENEFIT OF AGREEMENT; ASSIGNMENTS AND PARTICIPATIONS

13.1. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of Borrowers, Agent, Lenders, and their respective successors and assigns, except that (a) no Borrower shall have the right to assign its rights or delegate its obligations under any Loan Documents; and (b) any assignment by a Lender must be made in compliance with **Section 13.3**. Agent may treat the Person which made any Loan as the owner thereof for all purposes until such Person makes an assignment in accordance with **Section 13.3**. Any authorization or consent of a Lender shall be conclusive and binding on any subsequent transferee or assignee of such Lender.

13.2. Participations.

13.2.1. Permitted Participants; Effect. Any Lender may, in the ordinary course of its business and in accordance with Applicable Law, at any time sell to a financial institution ("Participant") a participating interest in the rights and obligations of such Lender under any Loan Documents. Despite any sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for performance of such obligations, such Lender shall remain the holder of its Loans and Commitments for all purposes, all amounts payable by Borrowers shall be determined as if such Lender had not sold such participating interests, and Borrowers and Agent shall continue to deal solely and directly with such Lender in connection with the Loan Documents. Each Lender shall be solely responsible for notifying its Participants of any matters under the Loan Documents, and Agent and the other Lenders shall not have any obligation or liability to any such Participant. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of **Section 5.9** unless Borrowers agree otherwise in writing.

13.2.2. Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, waiver or other modification of any Loan Documents other than that which forgives principal, interest or fees, reduces the stated interest rate or fees payable with respect to any Loan or Commitment in which such Participant has an interest, postpones the Commitment Termination Date or any date fixed for any regularly scheduled payment of principal, interest or fees on such Loan or Commitment, or releases any Borrower, Guarantor or substantial portion of the Collateral.

13.2.3. Benefit of Set-Off. Borrowers agree that each Participant shall have a right of set-off in respect of its participating interest to the same extent as if such interest were owing directly to a Lender, and each Lender shall also retain the right of set-off with respect to any participating interests sold by it. By exercising any right of set-off, a Participant agrees to share with Lenders all amounts received through its set-off, in accordance with **Section 12.5** as if such Participant were a Lender.

13.3. Assignments.

13.3.1. Permitted Assignments. A Lender may assign to an Eligible Assignee any of its rights and obligations under the Loan Documents, as long as (a) each assignment is of a constant, and not a varying, percentage of the transferor Lender's rights and obligations under the Loan Documents and, in the case of a partial assignment, is in a minimum principal amount of \$12,500,000 (unless otherwise agreed by Agent in its discretion) and integral multiples of \$2,500,000 in excess of that amount; (b) except in the case of an assignment in whole of a Lender's rights and obligations, the aggregate amount of the Commitments retained by the transferor Lender is at least \$12,500,000 (unless otherwise agreed by Agent in its discretion); and (c) the parties to each such assignment shall execute and deliver to Agent, for its acceptance and recording, an Assignment and Acceptance. Nothing herein shall limit the right of a Lender to pledge or assign any rights under the Loan Documents to (i) any Federal Reserve Bank or the United States Treasury as collateral security pursuant to Regulation A of the Board of Governors and any Operating Circular issued by such Federal Reserve Bank, or (ii) counterparties to swap agreements relating to any Loans; provided, however, that any payment by Borrowers to the assigning Lender in respect of any Obligations assigned as described in this sentence shall satisfy Borrowers' obligations hereunder to the extent of such payment, and no such assignment shall release the assigning Lender from its obligations hereunder.

13.3.2. Effect; Effective Date. Upon delivery to Agent of an assignment notice in the form of **Exhibit C** and a processing fee of \$3,500 (unless otherwise agreed by Agent in its discretion), the assignment shall become effective as specified in the notice, if it complies with this **Section 13.3**. From such effective date, the Eligible Assignee shall for all purposes be a Lender under the Loan Documents, and shall have all rights and obligations of a Lender thereunder. Upon consummation of an assignment, the transferor Lender, Agent and Borrowers shall make appropriate arrangements for issuance of replacement and/or new Notes, as applicable. The transferee Lender shall comply with **Section 5.10** and deliver, upon request, an administrative questionnaire satisfactory to Agent.

SECTION 14. MISCELLANEOUS

14.1. Consents, Amendments and Waivers.

14.1.1. Amendment. No modification of any Loan Document, including any extension or amendment of a Loan Document or any waiver of a Default or Event of Default, shall be effective without the prior written agreement of Agent (with the consent of Required Lenders) and each Obligor party to such Loan Document; provided, however, that

(a) without the prior written consent of Agent, no modification shall be effective with respect to any provision in a Loan Document that relates to any rights, duties or discretion of Agent;

(b) without the prior written consent of Issuing Bank, no modification shall be effective with respect to any LC Obligations or **Section 2.3**;

(c) without the prior written consent of each affected Lender, no modification shall be effective that would (i) increase the Commitment of such Lender; or (ii) reduce the amount of, or waive or delay payment of, any principal, interest or fees payable to such Lender; and

(d) without the prior written consent of all Lenders (except a Defaulting Lender as provided in **Section 4.2**), no modification shall be effective that would (i) extend the Revolver Termination Date; (ii) alter **Section 5.6, 7.1** (except to add Collateral) or **14.1.1**; (iii) amend the definitions of Borrowing Base (and the defined terms used in such definition), Pro Rata or Required Lenders; (iv) increase any advance rate, decrease the Availability Block or increase total Commitments (other than as otherwise provided herein); (v) release Collateral with a book value greater than \$10,000,000 during any calendar year, except as currently contemplated by the Loan Documents; or (vii) release any Obligor from liability for any Obligations, if such Obligor is Solvent at the time of the release other than in connection with a Permitted Disposition.

14.1.2. Limitations. The agreement of Borrowers shall not be necessary to the effectiveness of any modification of a Loan Document that deals solely with the rights and duties of Lenders, Agent and/or Issuing Bank as among themselves and does not modify any right, obligation or liability of any Obligor. Only the consent of the parties to the Fee Letters or any agreement relating to a Bank Product shall be required for any modification of such agreement, and any non-Lender that is party to a Bank Product agreement shall have no right to participate in any manner in modification of any other Loan Document. Any waiver or consent granted by Agent or Lenders hereunder shall be effective only if in writing and only for the matter specified.

14.1.3. Payment for Consents. No Borrower will, directly or indirectly, pay any remuneration or other thing of value, whether by way of additional interest, fee or otherwise, to any Lender (in its capacity as a Lender hereunder) as consideration for agreement by such Lender with any modification of any Loan Documents, unless such remuneration or value is concurrently paid, on the same terms, on a Pro Rata basis to all Lenders providing their consent.

14.2. Indemnity. EACH BORROWER SHALL INDEMNIFY AND HOLD HARMLESS THE INDEMNITEES AGAINST ANY CLAIMS THAT MAY BE INCURRED BY OR ASSERTED AGAINST ANY INDEMNITEE, INCLUDING CLAIMS ARISING FROM THE NEGLIGENCE OF AN INDEMNITEE. In no event shall any party to a Loan Document have any obligation thereunder to indemnify or hold harmless an Indemnatee with respect to a Claim that is determined in a final, non-appealable judgment by a court of competent jurisdiction to result from the gross negligence or willful misconduct of such Indemnatee.

14.3. Notices and Communications.

14.3.1. **Notice Address.** Subject to **Section 4.1.4**, all notices and other communications by or to a party hereto shall be in writing and shall be given to any Borrower, at Borrower Agent's address shown on the signature pages hereof, and to any other Person at its address shown on the signature pages hereof (or, in the case of a Person who becomes a Lender after the Closing Date, at the address shown on its Assignment and Acceptance), or at such other address as a party may hereafter specify by notice in accordance with this **Section 14.3**. Each such notice or other communication shall be effective only (a) if given by facsimile transmission, when transmitted to the applicable facsimile number, if confirmation of receipt is received; (b) if given by mail, three Business Days after deposit in the U.S. mail, with first-class postage pre-paid, addressed to the applicable address; or (c) if given by personal delivery, when duly delivered to the notice address with receipt acknowledged. Notwithstanding the foregoing, no notice to Agent pursuant to **Section 2.1.4, 2.3, 3.1.2, 4.1.1** or **5.3.3** shall be effective until actually received by the individual to whose attention at Agent such notice is required to be sent. Any written notice or other communication that is not sent in conformity with the foregoing provisions shall nevertheless be effective on the date actually received by the noticed party. Any notice received by Borrower Agent shall be deemed received by all Borrowers.

14.3.2. **Electronic Communications; Voice Mail.** Electronic mail and internet websites may be used only for routine communications, such as financial statements, Borrowing Base Certificates and other information required by **Section 10.1.2**, administrative matters, distribution of Loan Documents for execution, and matters permitted under **Section 4.1.4**. Agent and Lenders make no assurances as to the privacy and security of electronic communications. Electronic and voice mail may not be used as effective notice under the Loan Documents.

14.3.3. **Non-Conforming Communications.** Agent and Lenders may rely upon any notices purportedly given by or on behalf of any Borrower even if such notices were not made in a manner specified herein, were incomplete or were not confirmed, or if the terms thereof, as understood by the recipient, varied from a later confirmation. Each Borrower shall indemnify and hold harmless each Indemnitee from any liabilities, losses, costs and expenses arising from any telephonic communication purportedly given by or on behalf of a Borrower.

14.4. Performance of Borrowers' Obligations. Agent may, in its discretion at any time and from time to time, at Borrowers' expense, pay any amount or do any act required of a Borrower under any Loan Documents or otherwise lawfully requested by Agent to (a) enforce any Loan Documents or collect any Obligations; (b) protect, insure, maintain or realize upon any Collateral; or (c) defend or maintain the validity or priority of Agent's Liens in any Collateral, including any payment of a judgment, insurance premium, warehouse charge, finishing or processing charge, or landlord claim, or any discharge of a Lien. All payments, costs and expenses (including Extraordinary Expenses) of Agent under this Section shall be reimbursed to Agent by Borrowers, **on demand**, with interest from the date incurred to the date of payment thereof at the Default Rate applicable to Base Rate Revolver Loans. Any payment made or action taken by Agent under this Section shall be without prejudice to any right to assert an Event of Default or to exercise any other rights or remedies under the Loan Documents.

14.5. Credit Inquiries. Each Borrower hereby authorizes Agent and Lenders (but they shall have no obligation) to respond to usual and customary credit inquiries from third parties concerning any Borrower or Subsidiary.

14.6. Severability. Wherever possible, each provision of the Loan Documents shall be interpreted in such manner as to be valid under Applicable Law. If any provision is found to be invalid under Applicable Law, it shall be ineffective only to the extent of such invalidity and the remaining provisions of the Loan Documents shall remain in full force and effect.

14.7. Cumulative Effect; Conflict of Terms. The provisions of the Loan Documents are cumulative. The parties acknowledge that the Loan Documents may use several limitations, tests or

measurements to regulate similar matters, and they agree that these are cumulative and that each must be performed as provided. Except as otherwise provided in another Loan Document (by specific reference to the applicable provision of this Agreement), if any provision contained herein is in direct conflict with any provision in another Loan Document, the provision herein shall govern and control.

14.8. Counterparts. Any Loan Document may be executed in counterparts, each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement shall become effective when Agent has received counterparts bearing the signatures of all parties hereto. Delivery of a signature page of any Loan Document by telecopy or other electronic means shall be effective as delivery of a manually executed counterpart of such agreement.

14.9. Entire Agreement. Time is of the essence of the Loan Documents. The Loan Documents constitute the entire contract among the parties relating to the subject matter hereof, and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof.

14.10. Relationship with Lenders. The obligations of each Lender hereunder are several, and no Lender shall be responsible for the obligations or Commitments of any other Lender. Amounts payable hereunder to each Lender shall be a separate and independent debt. It shall not be necessary for Agent or any other Lender to be joined as an additional party in any proceeding for such purposes. Nothing in this Agreement and no action of Agent or Lenders pursuant to the Loan Documents shall be deemed to constitute Agent and Lenders to be a partnership, association, joint venture or any other kind of entity, nor to constitute control of any Borrower.

14.11. No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated by any Loan Document, Borrowers acknowledge and agree that (a)(i) this credit facility and any related arranging or other services by Agent, any Lender, any of their Affiliates or any arranger are arm's-length commercial transactions between Borrowers and such Person; (ii) Borrowers have consulted their own legal, accounting, regulatory and tax advisors to the extent they have deemed appropriate; and (iii) Borrowers are capable of evaluating and understanding, and do understand and accept, the terms, risks and conditions of the transactions contemplated by the Loan Documents; (b) each of Agent, Lenders, their Affiliates and any arranger is and has been acting solely as a principal in connection with this credit facility, is not the financial advisor, agent or fiduciary for Borrowers, any of their Affiliates or any other Person, and has no obligation with respect to the transactions contemplated by the Loan Documents except as expressly set forth therein; and (c) Agent, Lenders, their Affiliates and any arranger may be engaged in a broad range of transactions that involve interests that differ from Borrowers and their Affiliates, and have no obligation to disclose any of such interests to Borrowers or their Affiliates. To the fullest extent permitted by Applicable Law, each Borrower hereby waives and releases any claims that it may have against Agent, Lenders, their Affiliates and any arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated by a Loan Document.

14.12. Confidentiality. Each of Agent, Lenders and Issuing Bank agrees to maintain the confidentiality of all Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (provided such Persons are informed of the confidential nature of the Information and instructed to keep the Information confidential); (b) to the extent requested by any governmental, regulatory or self-regulatory authority purporting to have jurisdiction over it or its Affiliates; (c) to the extent required by Applicable Law or by any subpoena or similar legal process; (d) to any other party hereto; (e) in connection with any action or proceeding, or other exercise of rights or remedies, relating to any Loan Documents or Obligations; (f) subject to an agreement containing provisions substantially the same as this Section, to any Transferee or any actual or prospective party (or its advisors) to any Bank Product; (g) with the consent of Borrower Agent; or (h) to the extent such Information (i) becomes

publicly available other than as a result of a breach of this Section or (ii) is available to Agent, any Lender, Issuing Bank or any of their Affiliates on a nonconfidential basis from a source other than Borrowers. Notwithstanding the foregoing, Agent and Lenders may publish or disseminate general information describing this credit facility, including the names and addresses of Borrowers and a general description of Borrowers' businesses, and may use Borrowers' logos, trademarks or product photographs in advertising materials. As used herein, "Information" means all information received from an Obligor or Subsidiary relating to it or its business that is identified as confidential when delivered. Any Person required to maintain the confidentiality of Information pursuant to this Section shall be deemed to have complied if it exercises the same degree of care that it accords its own confidential information. Each of Agent, Lenders and Issuing Bank acknowledges that (i) Information may include material non-public information concerning an Obligor or Subsidiary; (ii) it has developed compliance procedures regarding the use of material non-public information; and (iii) it will handle such material non-public information in accordance with Applicable Law, including federal and state securities laws.

14.13. Intentionally Omitted.

14.14. GOVERNING LAW. THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS, UNLESS OTHERWISE SPECIFIED, SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT GIVING EFFECT TO ANY CONFLICT OF LAW PRINCIPLES (BUT GIVING EFFECT TO FEDERAL LAWS RELATING TO NATIONAL BANKS).

14.15. Consent to Forum: Arbitration.

14.15.1. Forum. EACH BORROWER HEREBY CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF ANY FEDERAL OR STATE COURT SITTING IN OR WITH JURISDICTION OVER LOS ANGELES COUNTY, CALIFORNIA, IN ANY PROCEEDING OR DISPUTE RELATING IN ANY WAY TO ANY LOAN DOCUMENTS, AND AGREES THAT ANY SUCH PROCEEDING SHALL BE BROUGHT BY IT SOLELY IN ANY SUCH COURT. EACH BORROWER IRREVOCABLY WAIVES ALL CLAIMS, OBJECTIONS AND DEFENSES THAT IT MAY HAVE REGARDING SUCH COURT'S PERSONAL OR SUBJECT MATTER JURISDICTION, VENUE OR INCONVENIENT FORUM. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 14.3.1. Nothing herein shall limit the right of Agent or any Lender to bring proceedings against any Obligor in any other court, nor limit the right of any party to serve process in any other manner permitted by Applicable Law. Nothing in this Agreement shall be deemed to preclude enforcement by Agent of any judgment or order obtained in any forum or jurisdiction.

14.15.2. Arbitration. Notwithstanding any other provision of this Agreement to the contrary, any controversy or claim among the parties relating in any way to any Obligations or Loan Documents, including any alleged tort, shall at the request of any party hereto be determined by binding arbitration conducted in accordance with the United States Arbitration Act (Title 9 U.S. Code). Arbitration proceedings will be determined in accordance with the Act, the then-current rules and procedures for the arbitration of financial services disputes of the American Arbitration Association ("AAA"), and the terms of this Section. In the event of any inconsistency, the terms of this Section shall control. If AAA is unwilling or unable to serve as the provider of arbitration or to enforce any provision of this Section, Agent may designate another arbitration organization with similar procedures to serve as the provider of arbitration. The arbitration proceedings shall be conducted in Los Angeles or Pasadena, California. The arbitration hearing shall commence within 90 days of the arbitration demand and close within 90 days thereafter. The arbitration award must be issued within 30 days after close of the hearing (subject to extension by the arbitrator for up to 60 days upon a showing of good cause), and shall include a concise written statement of reasons for the award. The arbitrator shall give effect to applicable statutes of limitation in determining any controversy or claim, and for these purposes, service on AAA under

applicable AAA rules of a notice of claim is the equivalent of the filing of a lawsuit. Any dispute concerning this Section or whether a controversy or claim is arbitrable shall be determined by the arbitrator. The arbitrator shall have the power to award legal fees to the extent provided by this Agreement. Judgment upon an arbitration award may be entered in any court having jurisdiction. The arbitrator shall not have the power to commit errors of law or legal reasoning, and any award may be reviewed and vacated or corrected on appeal to a court of competent jurisdiction for any such error. The institution and maintenance of an action for judicial relief or pursuant to a provisional or ancillary remedy shall not constitute a waiver of the right of any party, including the plaintiff, to submit the controversy or claim to arbitration if any other party contests such action for judicial relief. No controversy or claim shall be submitted to arbitration without the consent of all parties if, at the time of the proposed submission, such controversy or claim relates to an obligation secured by Real Estate, but if all parties do not consent to submission of such a controversy or claim to arbitration, it shall be determined as provided in the next sentence. At the request of any party, a controversy or claim that is not submitted to arbitration as provided above shall be determined by judicial reference; and if such an election is made, the parties shall designate to the court a referee or referees selected under the auspices of the AAA in the same manner as arbitrators are selected in AAA sponsored proceedings and the presiding referee of the panel (or the referee if there is a single referee) shall be an active attorney or retired judge; and judgment upon the award rendered by such referee or referees shall be entered in the court in which proceeding was commenced. None of the foregoing provisions of this Section shall limit the right of Agent or Lenders to exercise self-help remedies, such as setoff, foreclosure or sale of any Collateral or to obtain provisional or ancillary remedies from a court of competent jurisdiction before, after or during any arbitration proceeding. The exercise of a remedy does not waive the right of any party to resort to arbitration or reference. At Agent's option, foreclosure under a mortgage or deed of trust, if any, may be accomplished either by exercise of power of sale thereunder or by judicial foreclosure.

14.16. Waivers by Borrowers. To the fullest extent permitted by Applicable Law, each Borrower waives (a) the right to trial by jury (which Agent and each Lender hereby also waives) in any proceeding or dispute of any kind relating in any way to any Loan Documents, Obligations or Collateral; (b) presentment, demand, protest, notice of presentment, default, non-payment, maturity, release, compromise, settlement, extension or renewal of any commercial paper, accounts, documents, instruments, chattel paper and guaranties at any time held by Agent on which a Borrower may in any way be liable, and hereby ratifies anything Agent may do in this regard; (c) notice prior to taking possession or control of any Collateral; (d) any bond or security that might be required by a court prior to allowing Agent to exercise any rights or remedies; (e) the benefit of all valuation, appraisal and exemption laws; (f) any claim against Agent or any Lender, on any theory of liability, for special, indirect, consequential, exemplary or punitive damages (as opposed to direct or actual damages) in any way relating to any Enforcement Action, Obligations, Loan Documents or transactions relating thereto; and (g) notice of acceptance hereof. Each Borrower acknowledges that the foregoing waivers are a material inducement to Agent and Lenders entering into this Agreement and that Agent and Lenders are relying upon the foregoing in their dealings with Borrowers. Each Borrower has reviewed the foregoing waivers with its legal counsel and has knowingly and voluntarily waived its jury trial and other rights following consultation with legal counsel. In the event of litigation, this Agreement may be filed as a written consent to a trial by the court.

14.17. Patriot Act Notice. Agent and Lenders hereby notify Borrowers that pursuant to the requirements of the Patriot Act, Agent and Lenders are required to obtain, verify and record information that identifies each Borrower, including its legal name, address, tax ID number and other information that will allow Agent and Lenders to identify it in accordance with the Patriot Act. Agent and Lenders will also require information regarding each personal guarantor, if any, and may require information regarding Borrowers' management and owners, such as legal name, address, social security number and date of birth.

[Remainder of page intentionally left blank; signatures begin on following page]

IN WITNESS WHEREOF, this Agreement has been executed and delivered as of the date set forth above.

BORROWERS:

POTLATCH FOREST PRODUCTS CORPORATION,
which will change its name prior to the Closing Date to
CLEARWATER PAPER CORPORATION,
a Delaware corporation

By: /s/ LINDA MASSMAN

Name: LINDA MASSMAN

Title: VICE-PRESIDENT

Address:

601 West First Ave., Suite 1600
Spokane, WA 99201
Attn: Michael S. Gadd
Telecopy: (509) 835-1561

AGENT AND LENDERS:

BANK OF AMERICA, N.A.,
as Agent and Lender

By: /s/ Ron Bornstein

Name: Ron Bornstein

Title: Vice President

Address:

55 S. Lake Avenue, Suite 900
Pasadena, CA 91101
Attn: Ron Bornstein or Account Executive
Telecopy: (626) 584-4600

WELLS FARGO FOOTHILL, LLC,
as Lender

By: /s/ Santi Amladi
Name: Santi Amladi
Title: Vice President

Address:
Wells Fargo Foothill
2450 Colorado Ave
Suite 3000 West
Santa Monica, CA 90404
Attn: Tim Guilanians
Telecopy: 866-350-1924

SCHEDULE P-1
to
Loan and Security Agreement

INVESTMENTS

None.

SCHEDULE 1.1
to
Loan and Security Agreement

COMMITMENTS OF LENDERS

Lender	Revolver Commitment	Total Commitments
Bank of America, N.A.	\$75,000,000	\$75,000,000
Wells Fargo Foothill, LLC	\$50,000,000	\$50,000,000
All Lenders:	\$125,000,000	\$125,000,000

SCHEDULE 8.5
to
Loan and Security Agreement

DEPOSIT ACCOUNTS

<u>Depository Bank</u>	<u>Type of Account</u>	<u>Account Number</u>
Wells Fargo Bank	Controlled Disbursement Funding	4132365610
Wells Fargo Bank	Accounts Payable	9600014013
Wells Fargo Bank	Payroll Account	9600028968
Wells Fargo Bank	EFT Tax Payment	960006135
Wells Fargo Bank	Workers Compensation	9600016842
Wells Fargo Bank	Depository	4121290720
Wells Fargo Bank	Investment	0000841096
Bank of America	Concentration	1233811838
Bank of America	Pulp & Paper Lockbox	1233811857
Bank of America	Wood Products Lockbox	1233811833
Bank of America	Consumer Products Division Lockbox	1233812828
Union Bank of California	Foreign Sales	0012006706
Union Bank of California	General	0012023230

SCHEDULE 8.6.1
to
Loan and Security Agreement

BUSINESS LOCATIONS

1. Borrowers currently have the following business locations, and no others:

Executive Offices Prior to Spin-Off

601 West First Ave., Suite 1600
Spokane, WA 99201

Executive Officer Upon Spin-Off

(although certain post-spin officers are currently working at this address)

601 W. Riverside Avenue, Suite 1100
Spokane, Washington 99201

Facilities

108 Highway 65 S
MC Gehee, AR 71654

805 Mill Rd
Lewiston, ID 83501

3901 North Donna Street
North Las Vegas, NV 89030

21561 W Mississippi St
Elwood, IL 60421

Sales Offices

3000 E. Birch St., Suite 101
Brea, CA 92821-6261

200 TechneCenter Drive, Suite 201
Milford, OH 45150

DTC 30 Building
8301 East Prentice Ave, Suite 311
Greenwood Village, CO 80111

2345 S Alma School RD, Suite 100
Mesa, AZ 85210

4255 Westbrook Dr., Suite 213
Aurora, IL 60504

805 Broadway, Suite 745

Vancouver, WA 98660

8400 Six Forks Rd, Suite 201
Raleigh, NC 27615

1600 Riviera Ave
Walnut Creek, CA 94596

1095 Pingree Rd, Suite 210
Crystal Lake, IL 60014

65 Germantown Court, Suite 311
Cordova, TN 38018

922 E.11th St.
Tacoma, WA 98421

421 Railhead Road
Fort Worth, TX 76106

5000 Hwy 4 North
Ark. City, AR 71630

Clarkia Log Landing
Coeur D Alene, ID 83814

2. The following bailees, warehouseman, similar parties and consignees hold inventory of a Borrower or Subsidiary as of the spin-off:

<u>Name of Party</u>	<u>Address of Party</u>
Airport Distribution & Warehousing	4208 Sarellen Road Richmond, VA 23231
All South Warehouse	1645 Market Drive Atlanta, GA 30316
Atlas Columbia Warehouse	922 East 11th Street Tacoma, WA 98421
B&E Storage and Transfer, Inc.	7951 Oceano Drive, Jessup, MD 21046
C & M Warehouse	95 Leggett Street East Hartford, CT 06128
Carolina National Transportation	1450 Lower Road Linden, NJ 07036
Carolina Public Warehouse Inc.	3609 Glenn Ave Winston Salem, NC 27115
Clearwater Converting	1521 6th Avenue North Lewiston, ID 83501

<u>Name of Party</u>	<u>Address of Party</u>
Dawn Distributors, Inc.	109 East Fudge Street Covington, VA 24426
Denver Intermodal Express, Inc.	10700 East 40th Ave Denver, CO 80239
Distribution Centers of the Americas	1850 Route 57 Fulton, NY 13069
ELM Global Logistics	50 Emjay Blvd Brentwood, NY 11717
Empire Warehouse	1 Wright Avenue LeRoy, NY 14482
Grand Warehouse	4350 West Ohio Street Chicago, IL 60624
Hermann Warehouse Corporation	285 Ridge Road Dayton, NJ 08810
Hydra Trucking and Warehousing	8151 Fruitridge Road Bldg 5B Track 712, Polk, CA 95826
Imeson Distribution Center	550 Gun Club Road Jacksonville, FL 32218
Inland 465	1730 3rd Avenue North Lewiston, ID 83501
Inland Empire Distribution Systems, Inc.	3808 North Sullivan Road Bldg 32 Spokane, WA 99216
Leicht Transfer & Storage Co.	1401 State Street Green Bay, WI 54304
Lewis C. Howard Inc.	760 E. Vine Street Kalamazoo, MI 49001
Loretta L. Transportation	240 South 6th Avenue City of Industry, CA 91746
LTS Logistics	160 East Gregory Street N. Little Rock, AR 72114
Manchester Industries	26920 M-60, Mendon, MI 49072
Metro Park Warehouse	6901 Stilwell Kansas City, MO 64120
Navarro Y Boronad, S.L.	46730 Gandia-Puerto, Spain
Network Logistics, Inc.	1200 North 27th Ave DFW Airport, TX 75261
Northwoods Converting	1322 North Spring Street Beaver Dam, WI 53916
Port of Lewiston	1224 6th Ave. North Lewiston, ID 83501
Roberds Converting	113 Northeast Drive Loveland, OH 45140
Robinson Terminal Warehouse	1 Oronoco Street Alexandria, VA 22314

<u>Name of Party</u>	<u>Address of Party</u>
Spicers Paper, Inc.	30108 Eigenbrodt Way Union City, CA 94587
Spicers Paper, Inc.	12310 E. Slauson Avenue Santa Fe Springs, CA 90670
Spicers Paper, Inc.	21429 64th Avenue South Kent, WA 98023
Spicers Paper, Inc.	2454 South 3600 West Suite A, West Valley City, UT 84119
Texas Star Warehouse	5200 E. Grand Avenue Bldg. 4, Dallas, TX 75223
Union Gap Partnership	3301 Bay Street Union Gap, WA 98903
Vogt Warehouse	1440 W 8th Street Cincinnati, OH
Williams Paper Company	3914 Union Blvd St. Louis, MO 63115
Interstate Distributor Co	1820 N. MacArthur Drive Tracy, California 95376
Metro Canada Logistics	#50 6567 48 th Street SE Calgary, AB, T2C 3J7
Granger Co	2851 Wilma Drive Clarkston, WA 99403
Granger Co	201 Highway 95 New Meadows, ID 83654
Swan Lake	318 Highland Drive St. Maries, Idaho 83861
Fulghum Fibres, Inc.	251A Bradley 95 Warren, AR 71671
Fulghum Fibres, Inc.	Hwy 82 West Poorhouse Road Carrollton, MS 38917
QC Fibers of Dewitt LLC	129 Washington St. West Helena, AR 72309
Weeks Forest Products	2600 Como Avenue St. Paul, MN 55114
Weeks Forest Products	W 209 N 17270 Industry Drive Jackson, WI 53037

SCHEDULE 9.1.4
to
Loan and Security Agreement

NAMES AND CAPITAL STRUCTURE

1. The corporate names, jurisdictions of incorporation, and authorized and issued Equity Interests of each Borrower and Subsidiary are as follows:

The following information is as of the date hereof:

<u>Name</u>	<u>Jurisdiction</u>	<u>Number and Class Of Authorized Shares</u>	<u>Number and Class of Issued Shares</u>
Potlatch Forest Products Corporation	Delaware	1,000 shares of common stock, par value \$1.00 per share	1,000 shares of common stock, par value \$1.00 per share

After declaration of the spin-off by Potlatch Corporation's board of directors:

<u>Name</u>	<u>Jurisdiction</u>	<u>Number and Class Of Authorized Shares</u>	<u>Number and Class of Issued Shares</u>
Clearwater Paper Corporation	Delaware	100,000,000 shares of common stock, par value \$0.0001 per share 5,000,000 shares of preferred stock, par value \$0.0001 per share	17,001,000 shares of common stock, par value \$0.0001 per share

2. The record holders of Equity Interests of each Borrower and Subsidiary are as follows:

Potlatch Forest Products Corporation is currently 100% owned by Potlatch Forest Holdings, Inc., which is in turn 100% owned by Potlatch Corporation. After declaration of the spin-off but prior to the distribution, Potlatch Forest Holdings, Inc. will transfer all of the Clearwater Paper Corporation equity to Potlatch Corporation. In connection with the spin-off transaction, Potlatch Corporation will transfer all of the shares of Clearwater Paper Corporation to the shareholders of Potlatch Corporation

3. All agreements binding on holders of Equity Interests of Borrowers and Subsidiaries with respect to such interests are as follows: None, other than the spin-off transaction documents.

4. In the five years preceding the Closing Date, no Borrower or Subsidiary has acquired any substantial assets from any other Person nor been the surviving entity in a merger or combination, except: None, other than (a) in connection with the transfers that occurred in connection with Potlatch Corporation's conversion to a REIT, (b) certain land acquisitions, including the merger with Valley View Land Company on July 23, 2008, and (c) the transactions contemplated by the Spin-Off Documents.

SCHEDULE 9.1.11
to
Loan and Security Agreement

INTELLECTUAL PROPERTY

Trademarks

1. “Clearwater”
2. “Clearwater Paper”

SCHEDULE 9.1.14
to
Loan and Security Agreement
ENVIRONMENTAL MATTERS

None.

SCHEDULE 9.1.15
to
Loan and Security Agreement

RESTRICTIVE AGREEMENTS

1. Agreements with counterparties identified in Schedule 10.2.2.
2. Separation and Distribution Agreement, Tax Sharing Agreement, Employee Matters Agreement and Retained Obligation Agreement.

SCHEDULE 9.1.16
to
Loan and Security Agreement

LITIGATION

1. Proceedings and investigations pending against Borrowers or Subsidiaries that will be retained by Clearwater Paper Corporation in connection with the Spin-off: None.
2. Threatened proceedings or investigations of which any Borrower or Subsidiary is aware: None.

SCHEDULE 9.1.18
to
Loan and Security Agreement

PENSION PLAN DISCLOSURES

None.

SCHEDULE 9.1.20
to
Loan and Security Agreement

LABOR CONTRACTS

1. Borrowers and Subsidiaries are party to the following collective bargaining agreements, management agreements and consulting agreements:

Collective Bargaining Agreements

<u>Counterparty</u>	<u>Type of Agreement</u>
International Association of Machinists and Aerospace Workers	Collective Bargaining Agreement (Hourly employees at Lewiston Wood Products)
International Association of Machinists and Aerospace Workers	Collective Bargaining Agreement (Hourly employees at Power Boiler #4)
International Brotherhood of Electrical Workers	Collective Bargaining Agreement
United Steel Workers	Collective Bargaining Agreement
United Steel Workers	Collective Bargaining Agreement

Management Agreements

- a. Employment Agreement with Gordon L. Jones, dated July 28, 2008
- b. Offer Letter with Linda K. Massman, dated August 26, 2008
- c. Offer Letter with Thomas H. Carter, dated July 23, 2008
- d. The Borrower maintains customary compensation plans including an annual cash incentive pay plan, an equity incentive plan, a management deferred compensation plan, a severance plan, pension plans, 401(k) savings plans and health and welfare plans.

2. As of September 30, 2008, 66% of the Borrower's workforce was unionized. The contract with the hourly employees at the lumber products facility and the Number 4 power boiler at the Idaho facility, who are represented by the International Association of Machinists and Aerospace Workers, expired on May 31, 2008. Those employees currently continue to work without a union contract in place while discussions with the union continue. During 2009, one collective bargaining agreement will expire covering approximately 245 employees. As a result, there is a risk of work stoppage due to strikes or walkouts. Any significant work stoppage as a result of failure to successfully negotiate new collective bargaining agreements could have a material adverse effect on the Borrower's business, financial condition and results of operations.

SCHEDULE 10.2.2
to
Loan and Security Agreement

EXISTING LIENS

<u>Secured Party's Name</u>	<u>Date</u>	<u>Filing Number</u>	<u>Jurisdiction</u>
FCC Equipment Financing, Inc.	8/2/01	1085172-0	Delaware
Omnova Solutions	4/9/02	2088061-1	Delaware
ABB Structured Finance (Americas) Inc.	5/16/02	2143631-4	Delaware
NMHG Financial Services Inc.	1/15/03	3027909-4	Delaware
Citicorp Leasing, Inc.	7/17/03	3181944-3	Delaware
IBM Credit LLC	12/29/03	4015221-7	Delaware
Merrill Lynch Capital	2/17/04	4043129-8	Delaware
General Electric Capital Corporation	2/27/04	4056727-3	Delaware
Merrill Lynch Capital	5/28/04	4149604-3	Delaware
Merrill Lynch Capital	7/30/04	4215327-0	Delaware
Toyota Motor Credit Corporation	10/21/04	4296684-6	Delaware
Caterpillar Financial Services Corporation	11/9/04	4316034-0	Delaware
FCC Equipment Financing	11/9/04	4316229-6	Delaware
US Bancorp Oliver-Allen Technology Leasing	11/24/04	4331850-0	Delaware
The CIT Group/Equipment Financing, Inc.	2/8/05	5051806-9	Delaware
Citicapital Commercial Leasing Corporation	4/26/05	5127964-6	Delaware
Greatamerica Leasing Corporation	5/4/05	5136627-8	Delaware
Barloworld Fleet Leasing LLC	5/12/05	5146809-0	Delaware
CitiCapital Commercial Leasing Corporation	7/12/05	5223959-9	Delaware
US Bancorp Oliver-Allen Technology Leasing	8/5/05	5243005-7	Delaware
Barloworld Fleet Leasing LLC	10/04/05	5306025-9	Delaware
Caterpillar Financial Services Corporation	11/17/05	5356389-8	Delaware
Smurfit-Stone Container Enterprises, Inc.	12/01/05	5371172-9	Delaware
Smurfit-Stone Container Enterprises, Inc.	12/13/05	5386122-7	Delaware
NMHG Financial Services, Inc.	5/30/06	6182308-7	Delaware
General Electric Capital Corporation	6/28/06	6226317-6	Delaware
Samuel Strapping Systems	11/02/07	74176243	Delaware
Smurfit-Stone Container Enterprises, Inc.	11/13/07	74307053	Delaware
NMHG Financial Services, Inc.	9/18/08	83167895	Delaware
Omnova Solutions, Inc.	4/9/02	2088061-1	Delaware
Winthrop Resources Corporation	3/22/06	6106497-1	Delaware
Winthrop Resources Corporation	5/22/06	6178890-0	Delaware
Pacific Rim Capital, Inc.	5/26/06	6180855-9	Delaware
Winthrop Resources Corporation	11/22/06	6424847-2	Delaware
NMHG Financial Services, Inc.	9/24/07	7359790-2	Delaware
Banc of America Leasing & Capital, LLC	1/2/08	8000749-0	Delaware
Toyota Motor Credit Corporation	1/14/08	8008263-4	Delaware
Toyota Motor Credit Corporation	1/14/08	80163814	Delaware
TCF Equipment Finance, Inc.	4/3/08	8124478-7	Delaware
TCF Equipment Finance, Inc.	4/03/08	81170263	Delaware
Pacific Rim Capital, Inc.	7/28/08	82582870	Delaware
Pacific Rim Capital, Inc.	7/28/08	82583134	Delaware
Pacific Rim Capital, Inc.	7/28/08	82583241	Delaware
Industrial Finishes & Systems, Inc.	10/07/08	83398144	Delaware

<u>Secured Party's Name</u>	<u>Date</u>	<u>Filing Number</u>	<u>Jurisdiction</u>
Wells Fargo Financial Leasing, Inc.	9/4/07	72479492-0	Washington
Toyota Motor Credit Corporation	12/10/07	71923594-8	Minnesota

SCHEDULE 10.2.17
to
Loan and Security Agreement

EXISTING AFFILIATE TRANSACTIONS

1. The Spin-Off Documents.
2. Potlatch Corporation REIT conversion transaction agreements.

EMPLOYEE MATTERS AGREEMENT

by and between

POTLATCH CORPORATION

and

CLEARWATER PAPER CORPORATION

Dated as of December 15, 2008

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EMPLOYEE MATTERS AGREEMENT

This EMPLOYEE MATTERS AGREEMENT (this “Agreement”) is made as of December 15, 2008, by and between Potlatch Corporation, a Delaware corporation, and Clearwater Paper Corporation, a Delaware corporation (formerly named Potlatch Forest Products Corporation) (each a “Party” and together, the “Parties”). Capitalized terms used herein (other than the formal names of Plans (as defined below) and related trusts) and not otherwise defined, shall have the respective meanings assigned to them in Article I hereof.

RECITALS

WHEREAS, Potlatch and Clearwater have entered into a Separation and Distribution Agreement, dated as of the date hereof (the “Separation Agreement”), in order to, among other things, separate the Retained Business from the Pulp-Based Business (the “Separation”); and

WHEREAS, in furtherance of the Separation, Potlatch and Clearwater have agreed to enter into this Agreement to allocate between them assets, liabilities and responsibilities with respect to certain employee compensation, benefit Plans, and certain employment matters.

NOW, THEREFORE, in consideration of the mutual promises contained herein, the Parties hereto agree as follows:

ARTICLE I

DEFINITIONS

Wherever used in this Agreement, the following terms shall have the meanings indicated below, unless a different meaning is plainly required by the context. The singular shall include the plural, unless the context indicates otherwise. Headings of sections are used for convenience of reference only, and in case of conflict, the text of this Agreement, rather than such headings, shall control.

1.1 Action. “Action” means any action, claim, demand, suit, arbitration, inquiry, subpoena, discovery request, proceeding or investigation by or before any Governmental Entity or any arbitration tribunal, domestic or foreign.

1.2 Affiliate. “Affiliate” means, as defined in the Separation Agreement, with respect to any Person, any other Person that directly or indirectly controls, is controlled by or is under common control with such Person. For the purpose of this definition, the term “control” means the power to direct the management of an entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the term “controlled” has the meaning correlative to the foregoing. After the Distribution, Potlatch and Clearwater shall not be deemed to be under common control for purposes hereof due solely to the fact that Potlatch and Clearwater may have common stockholders.

1.3 Agreement. “Agreement” means this Employee Matters Agreement, including all the Addendums, Schedules and Exhibits hereto, and all amendments made hereto from time to time.

1.4 Administrative Service Organization Contracts or ASO Contracts. “Administrative Service Organization Contracts” or “ASO Contracts” is defined in Section 7.7(a) and the Schedule 7.7(a).

1.5 Assignment Agreement. “Assignment Agreement” means the Transfer and Assumption Agreement, effective as of the date immediately prior to the Distribution Date, by and among Potlatch, RetainCo, and Clearwater.

1.6 Clearwater. “Clearwater” means Clearwater Paper Corporation, a Delaware corporation, formerly named Potlatch Forest Products Corporation. In all such instances in which Clearwater is referred to in this Agreement, it shall also be deemed to include a reference to each member of the Clearwater Group, unless the context specifically requires otherwise; Clearwater shall be solely responsible to Potlatch for ensuring that each member of the Clearwater Group complies with the applicable terms of this Agreement.

1.7 Clearwater Common Stock. “Clearwater Common Stock” means, as defined in the Separation Agreement, Clearwater common stock, par value \$0.0001 per share.

1.8 Clearwater Employee. “Clearwater Employee” means an individual who is: (a) either actively employed primarily in connection with, or on leave of absence from, the Pulp-Based Business immediately prior to the Distribution Date; (b) a Clearwater Terminated Employee; (c) an employee or a member of a group of employees designated as Clearwater Employees (as of the specified date(s)) by Potlatch and Clearwater by mutual written agreement; or (d) an alternate payee under a QDRO, alternate recipient under a QMCSO, beneficiary, covered dependent, or qualified beneficiary (as such term is defined under COBRA), in each case, of an employee or former employee described in any of Sections 1.8(a) through (c) with respect to that employee’s or former employee’s benefit under the applicable Plan(s) (unless specified otherwise in this Agreement, such an alternate payee, alternate recipient, beneficiary, covered dependent, or qualified beneficiary shall not otherwise be considered a Clearwater Employee with respect to any benefits he or she accrues or accrued under any applicable Plan(s), unless he or she is a Clearwater Employee by virtue of any of Sections 1.8(a) through (c)).

1.9 Clearwater Group. “Clearwater Group” means, as defined in the Separation Agreement, Clearwater, its Subsidiaries and Affiliates (other than RetainCo), and any Subsidiaries or Affiliates of Clearwater formed or acquired after the Distribution Date.

1.10 Clearwater Ratio. “Clearwater Ratio” means the ratio determined by dividing the Clearwater Stock Value by the Potlatch Pre-Distribution Stock Value.

1.11 Clearwater Stock Value. “Clearwater Stock Value” means the average per-share trading price of Clearwater Common Stock as quoted on the New York Stock Exchange (“NYSE”) during the first four (4) hours of “regular way” trading in Clearwater Common Stock after the Distribution.

1.12 Clearwater Terminated Employee. “Clearwater Terminated Employee” means an individual who was employed primarily in connection with the Pulp-Based Business or a discontinued business specified or described on Schedule 2B or Schedule 19 to the Assignment Agreement and who terminated employment from the Pulp-Based Business or such discontinued business on or before the Distribution Date; provided, however, that to the extent a former employee has not been, or cannot be, allocated in accordance with such Schedule, then such former employee shall be deemed a Potlatch Terminated Employee. Notwithstanding the foregoing, “Clearwater Terminated Employee” shall not, unless otherwise expressly provided to the contrary in this Agreement, include an individual who is a Potlatch Employee on the Distribution Date.

1.13 COBRA. “COBRA” means the continuation coverage requirements for “group health plans” under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended from time to time, and as codified in Code Section 4980B and ERISA Sections 601 through 608.

1.14 Code. “Code” means, as defined in the Separation Agreement, the Internal Revenue Code of 1986, as amended.

1.15 Contract. “Contract” means, as defined in the Separation Agreement, any agreement, license, contract, obligation, indenture, instrument, lease, promise, arrangement,

release, warranty, commitment or undertaking (whether written or oral and whether express or implied).

1.16 Director Deferred Compensation Plan. “Director Deferred Compensation Plan,” when immediately preceded by “Potlatch,” means the Potlatch Corporation Deferred Compensation Plan for Directors II. When immediately preceded by “Clearwater,” “Director Deferred Compensation Plan” means the deferred compensation plan to be established by Clearwater pursuant to Sections 2.2 and 5.2 that corresponds to the Potlatch Corporation Deferred Compensation Plan for Directors II.

1.17 Disability Plans. “Disability Plans,” when immediately preceded by “Clearwater,” means the Clearwater short-term and long-term disability plans (including, where an employee works in a state that offers a statutory state disability plan, any alternative voluntary state disability plan provided by Clearwater). When immediately preceded by “Potlatch,” “Disability Plans” means the short-term and long-term disability plans to be established or provided by Potlatch pursuant to Section 2.2 and Article VII that correspond to the Clearwater Disability Plans.

1.18 Distribution. “Distribution” means, as defined in the Separation Agreement, the distribution on a pro rata basis to the holders of Potlatch’s Common Stock, without any consideration being paid by such holders, all of the outstanding shares of Clearwater Common Stock then owned by Potlatch.

1.19 Distribution Date. “Distribution Date” means, as defined in the Separation Agreement, the date determined by the Board of Directors of Potlatch as the date on which the Clearwater Common Stock is payable to holders of Potlatch Common Stock as of the Record Date.

1.20 DOL. “DOL” means the United States Department of Labor.

1.21 ERISA. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time.

1.22 Executive Severance Plan. “Executive Severance Plan,” when immediately preceded by “Clearwater,” means the Potlatch Forest Products Corporation Severance Program for Executive Employees, an ERISA severance program, to be retained by Clearwater. When immediately preceded by “Potlatch,” “Executive Severance Plan” means the severance program for eligible executives to be established by Potlatch pursuant to Sections 2.2 and 6.6(a).

1.23 Facilities. “Facilities” means, as defined in the Separation Agreement, each of the following mills and facilities:

- (a) (i) sawmill, (ii) pulp and paperboard mill and (iii) tissue mill and tissue converting facility at Lewiston, Idaho;
- (b) pulp and paperboard mill at Cypress Bend, Arkansas;

(c) tissue mill and converting facility in North Las Vegas, Nevada; and

(d) tissue converting facility in Elwood, Illinois.

1.24 Flexible Benefits Plan. “Flexible Benefits Plan,” when immediately preceded by “Clearwater,” means the Clearwater Plan established pursuant to Code Section 125 for eligible employees to make pre-tax contributions to flexible spending accounts. When immediately preceded by “Potlatch,” “Flexible Benefits Plan” means the Plan to be established by Potlatch for eligible employees to make pre-tax contributions to flexible spending accounts pursuant to Section 2.2 and Article VII that corresponds to the respective Clearwater Flexible Benefits Plan.

1.25 FMLA. “FMLA” means the Family and Medical Leave Act of 1993, as amended from time to time.

1.26 Fringe Benefits. “Fringe Benefits,” when immediately preceded by “Clearwater,” means the Clearwater employee assistance program, the educational assistance program and other fringe benefits, plans, programs and arrangements sponsored and maintained by Clearwater (as set forth in Article VIII and Schedule 8.3). When immediately preceded by “Potlatch,” “Fringe Benefits” means the fringe benefits, plans, programs and arrangements to be established by Potlatch pursuant to Section 2.2 and Article VIII that correspond to the respective Clearwater Fringe Benefits.

1.27 Frozen Supplemental Plan. “Frozen Supplemental Plan” is defined in Section 5.1(a).

1.28 Governmental Entity. “Governmental Entity” means, as defined in the Separation Agreement, any nation or government, any state, municipality or other political subdivision thereof and any entity, body, agency, commission, department, board, bureau or court, whether domestic, foreign or multinational, exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government; and any official thereof.

1.29 Group Insurance Policies. “Group Insurance Policies” is defined in Section 7.7(b) and Schedule 7.7(b).

1.30 HCFA. “HCFA” means the United States Health Care Financing Administration.

1.31 Health and Welfare Plans. “Health and Welfare Plans,” when immediately preceded by “Clearwater,” means the Clearwater Health Plans, the Clearwater Flexible Benefit Plans, the Clearwater Premium Plan, the Clearwater Disability Plans and the other health and welfare plans listed on Schedule 1.31, established and maintained by Clearwater for the benefit of employees and retirees of the Clearwater Group, and such other welfare plans or programs as may apply to such employees and retirees as of the Distribution Date. When immediately preceded by “Potlatch,” “Health and Welfare Plans” means the Potlatch Health Plans, the Potlatch Flexible Benefit Plans, the Potlatch Premium Plan, the Potlatch Disability Plans and the other health and welfare Plans to be established by Potlatch pursuant to Section 2.2 and Article VII that correspond to the respective Clearwater Health and Welfare Plans.

1.32 Health Plans. “Health Plans,” when immediately preceded by “Clearwater,” means the Plans designated as Health Plans on Schedule 1.31, and any similar or successor Plans. When immediately preceded by “Potlatch,” “Health Plans” means the Plans providing health coverage and benefits to be established by Potlatch pursuant to Section 2.2 and Article VII that correspond to the respective Clearwater Health Plans.

1.33 Incentive Pay Plan. “Incentive Pay Plan,” when immediately preceded by “Potlatch,” means either the Potlatch Corporation Management Performance Award Plan II or the Potlatch Corporation Annual Incentive Plan, whichever is in effect as of the Distribution Date. When immediately preceded by “Clearwater,” “Incentive Pay Plan” means the incentive pay plan to be established by Clearwater pursuant to Sections 2.2 and 6.1 that corresponds to the Potlatch Incentive Pay Plan.

1.34 IRS. “IRS” means, as defined in the Separation Agreement, the Internal Revenue Service and any successor agency.

1.35 Labor Agreements. “Labor Agreements” means the collective bargaining agreements set forth on Schedule 1.35.

1.36 Law. “Law” means, as defined in the Separation Agreement, any United States or non-United States federal, national, supranational, state, provincial, local or similar statute, law, ordinance, regulation, rule, code, order, consent decree, requirement or rule of law (including common law and in equity).

1.37 Leave of Absence Programs. “Leave of Absence Programs,” when immediately preceded by “Clearwater,” means the personal, medical, military and FMLA leave offered from time to time under the personnel policies and practices of Clearwater. When immediately preceded by “Potlatch,” “Leave of Absence Programs” means the leave of absence programs to be established by Potlatch pursuant to Sections 2.2 and 10.9 that correspond to the respective Clearwater Leave of Absence Programs.

1.38 Liability or Liabilities. “Liability” or “Liabilities” means, as defined in the Separation Agreement, any and all debts, liabilities and obligations, absolute or contingent, matured or unmatured, liquidated or unliquidated, accrued or unaccrued, known or unknown, whenever arising, including all costs and expenses relating thereto, and including those debts, liabilities and obligations arising under any Law, Action or threatened Action, or any award of any arbitrator of any kind, and those arising under any Contract.

1.39 Management Deferred Compensation Plan. “Management Deferred Compensation Plan,” when immediately preceded by “Potlatch,” means the Potlatch Corporation Management Deferred Compensation Plan. When immediately preceded by “Clearwater,” “Management Deferred Compensation Plan” means the deferred compensation plan to be established by Clearwater pursuant to Sections 2.2 and 5.2 that corresponds to the Potlatch Corporation Management Deferred Compensation Plan.

1.40 Material Feature. “Material Feature” means any feature of a Plan that would reasonably be expected to be of material importance to the sponsoring employer or the participants (or their dependents or beneficiaries) (in the aggregate) of that Plan, which could

include, depending on the type and purpose of the particular Plan, the class or classes of employees eligible to participate in such Plan, the nature, type, form, source, and level of benefits provided under such Plan and the amount or level of contributions, if any, required to be made by participants (or their dependents or beneficiaries) to such Plan.

1.41 Option. “Option,” when immediately preceded by “Potlatch,” means an option to purchase Potlatch Common Stock pursuant to a Stock Incentive Plan. When immediately preceded by “Clearwater,” “Option” means an option to purchase Clearwater Common Stock pursuant to a Stock Incentive Plan.

1.42 Other Post-Retirement Benefits (OPEB) Program. “Other Post-Retirement Benefits (OPEB) Program,” when immediately preceded by “Clearwater,” means the health and life insurance programs that permit certain retirees and former employees of the Clearwater Group, and their eligible spouses and dependents to continue to receive coverage and benefits under certain Clearwater Health and Welfare Plans for a designated period of time. When immediately preceded by “Potlatch,” “Other Post-Retirement Benefits (OPEB) Programs” means such continuation programs to be established by Potlatch pursuant to Sections 2.2 and 7.11 that correspond to the Clearwater Other Post-Retirement Benefits (OPEB) Programs.

1.43 Outsource. “Outsource” is defined in Section 7.5.

1.44 Participating Company. “Participating Company” means any Person (other than an individual) whose employees participate in a Plan, other than the Plan sponsor.

1.45 Party or Parties. “Party” or “Parties” has the meaning set forth in the first paragraph of this Agreement.

1.46 PBGC. “PBGC” means the Pension Benefit Guaranty Corporation.

1.47 Pension Plans. “Pension Plans,” when immediately preceded by “Clearwater,” means the Potlatch Forest Products Corporation Salaried Employees’ Retirement Plan (the “Salaried Pension Plan”), the Potlatch Forest Products Corporation Retirement Plan for Hourly Non-Represented Employees of the Idaho Operations of the Wood Products Division (the “Hourly Non-Represented Pension Plan”), and the Potlatch Forest Products Corporation Hourly Employees’ Retirement Plan (the “Hourly Represented Pension Plan”). When immediately preceded by “Potlatch,” “Pension Plans” means the defined benefit plans to be established pursuant to Section 2.2 and Article III.

1.48 Performance Shares. “Performance Shares” means, when preceded by “Potlatch,” awards denominated in shares of Potlatch Common Stock pursuant to which the holder can earn, in whole or in part, the right to receive a specified number of shares of Potlatch Common Stock based upon attainment of performance objectives, pursuant to a Potlatch Stock Incentive Plan. When preceded by “Clearwater,” “Performance Shares” means awards denominated in shares of Clearwater Common Stock pursuant to which the holder can earn, in whole or in part, the right to receive a specified number of shares of Clearwater Common Stock based upon attainment of performance objectives, pursuant to a Clearwater Stock Incentive Plan.

1.49 Person. “Person” means, as defined in the Separation Agreement, any individual, corporation, partnership, joint venture, limited liability company, association, joint-stock company, trust, unincorporated organization or Governmental Entity.

1.50 Plan. “Plan” means any plan, policy, program, payroll practice, arrangement, contract, trust, insurance policy, or any agreement or funding vehicle providing compensation or benefits to employees, former employees or directors of Potlatch or Clearwater.

1.51 Potlatch. “Potlatch” means Potlatch Corporation, a Delaware corporation. In all such instances in which Potlatch is referred to in this Agreement, it shall also be deemed to include a reference to each member of the Potlatch Group, unless the context specifically requires otherwise; Potlatch shall be solely responsible to Clearwater for ensuring that each member of the Potlatch Group complies with the applicable terms of this Agreement.

1.52 Potlatch Common Stock. “Potlatch Common Stock” means, as defined in the Separation Agreement, Potlatch common stock, par value \$1.00 per share.

1.53 Potlatch Employee. “Potlatch Employee” means an individual who is: (a) either actively employed primarily in connection with, or on leave of absence from, the Retained Business immediately prior to the Distribution Date; (b) a Potlatch Terminated Employee; (c) an employee or a member of a group of employees designated as Potlatch Employees (as of the specified date(s)) by Potlatch and Clearwater by mutual written agreement; or (d) an alternate payee under a QDRO, alternate recipient under a QMCSO, beneficiary, covered dependent, or qualified beneficiary (as such term is defined under COBRA), in each case, of an employee or former employee described in any of Sections 1.53(a) through (c) with respect to that employee’s or former employee’s benefit under the applicable Plan(s) (unless specified otherwise in this Agreement, such an alternate payee, alternate recipient, beneficiary, covered dependent, or qualified beneficiary shall not otherwise be considered a Potlatch Employee with respect to any benefits he or she accrues or accrued under any applicable Plan(s), unless he or she is a Potlatch Employee by virtue of any of Sections 1.53(a) through (c)).

1.54 Potlatch Group. “Potlatch Group” means, as defined in the Separation Agreement, Potlatch, its Subsidiaries and Affiliates (including RetainCo and those Subsidiaries and Affiliates formed or acquired after the date hereof), other than members of the Clearwater Group.

1.55 Potlatch Post-Distribution Stock Value. “Potlatch Post-Distribution Stock Value” means the average per-share trading price of Potlatch Common Stock as quoted on the New York Stock Exchange during the first four (4) hours of “ex-dividend” trading in Potlatch Common Stock after the Distribution.

1.56 Potlatch Pre-Distribution Stock Value. “Potlatch Pre-Distribution Stock Value” means the closing per-share price of Potlatch Common Stock as quoted on the New York Stock Exchange for trading in Potlatch Common Stock on the last trading day preceding the trading day on which Potlatch Common Stock first trades on an “ex-dividend” basis.

1.57 Potlatch Ratio. “Potlatch Ratio” means the ratio determined by dividing the Potlatch Post-Distribution Stock Value by the Potlatch Pre-Distribution Stock Value.

1.58 Potlatch Terminated Employee. “Potlatch Terminated Employee” means an individual who was employed primarily in connection with the Retained Business or a discontinued business specified or described on Schedule 17 to the Assignment Agreement and who terminated employment from the Retained Business or such discontinued business on or prior to the Distribution Date. In addition, a “Potlatch Terminated Employee” shall include a former employee who might otherwise be deemed a Clearwater Terminated Employee, but who has not been, or cannot be, allocated as such pursuant to Section 1.12. Notwithstanding the foregoing, “Potlatch Terminated Employee” shall not, unless otherwise expressly provided to the contrary in this Agreement, include an individual who is a Clearwater Employee on the Distribution Date.

1.59 Premium Plan. “Premium Plan,” when immediately preceded by “Clearwater” means the Clearwater Plan established pursuant to Code Section 125 for eligible employees to pay for their coverage under the Health and Disability Plans with pre-tax contributions. When immediately preceded by Potlatch, “Premium Plans” means the Plan to be established by Potlatch pursuant to Code Section 125 for eligible employees to pay for their coverage under the Health and Disability Plans with pre-tax contributions.

1.60 Pulp-Based Business. “Pulp-Based Business” means, as defined in the Separation Agreement, Clearwater’s consumer tissue products business, Clearwater’s pulp and paperboard business and the portion of Clearwater’s wood products business operated at Clearwater’s lumber mill in Lewiston, Idaho, which such businesses are generally comprised of Clearwater’s ownership and operation of the Facilities and the sale of products manufactured at the Facilities.

1.61 QDRO. “QDRO” means a domestic relations order which qualifies under Code Section 414(p) and ERISA Section 206(d) and which creates or recognizes an alternate payee’s right to, or assigns to an alternate payee, all or a portion of the benefits payable to a participant under any of the Retirement Plans.

1.62 QMCSO. “QMCSO” means a medical child support order which qualifies under ERISA Section 609(a) and which creates or recognizes the existence of an alternate recipient’s right to, or assigns to an alternate recipient the right to, receive benefits for which a participant or beneficiary is eligible under any of the Health Plans.

1.63 Record Date. “Record Date” shall have the meaning assigned to it in Section 6.5(a).

1.64 Restricted Stock Units. “Restricted Stock Units,” when immediately preceded by “Potlatch,” means awards denominated in shares of Potlatch Common Stock pursuant to which the holder has the right to receive a specified number of shares of Potlatch Common Stock over a specified period of time, pursuant to a Potlatch Stock Incentive Plan. When immediately preceded by “Clearwater,” “Restricted Stock Units” means rights to receive shares of Clearwater Common Stock that are subject to transfer restrictions or to employment or performance vesting conditions, pursuant to a Clearwater Stock Incentive Plan.

1.65 RetainCo. “RetainCo” means, as defined in the Separation Agreement, Potlatch Land & Lumber, LLC, a Delaware limited liability company.

1.66 Retained Business. “Retained Business” means, as defined in the Separation Agreement, all of the current businesses and operations of Potlatch and its Affiliates other than the Pulp-Based Business, and includes: (a) the real estate business, which acquires and sells timberland and other real property, sells conservation easements and undertakes certain land development activities, (b) the harvest and log sale business, which harvests standing timber and purchases and sells logs, (c) the wood products business, which is generally comprised of Clearwater’s ownership and operation of the Wood Products Mills and the sale of wood products manufactured at the Wood Products Mills (for the avoidance of doubt, the Retained Business does not include the portion of Clearwater’s wood products business operated at Clearwater’s lumber mill in Lewiston, Idaho), and (d) the timberland management business that manages Potlatch timberlands.

1.67 Retirement Plans. “Retirement Plans,” when immediately preceded by “Clearwater,” means the Clearwater Pension Plans and the Clearwater Savings Plans. When immediately preceded by “Potlatch,” “Retirement Plans” means the Potlatch Pension Plans and Potlatch Savings Plans.

1.68 Salaried Severance Plan. “Salaried Severance Plan,” when immediately preceded by “Clearwater,” means the Potlatch Forest Products Corporation Salaried Severance Benefit Plan, an ERISA severance program, to be retained by Clearwater. When immediately preceded by “Potlatch,” “Salaried Severance Plan” means the severance program to be established by Potlatch pursuant to Section 6.6(b).

1.69 Savings Plans. “Savings Plans,” when immediately preceded by “Clearwater,” means the Potlatch Forest Products Corporation Savings Plan for Hourly Employees and the Potlatch Forest Products Corporation Salaried Employees’ Savings Plan. When immediately preceded by “Potlatch,” “Savings Plans” means the defined contribution Plans to be established by Potlatch pursuant to Section 2.2 and Article IV.

1.70 SEC. “SEC” means, as defined in the Separation Agreement, means the United States Securities and Exchange Commission.

1.71 Separation. “Separation” means, as defined in the Separation Agreement, the separation of the Retained Business from the Pulp-Based Business.

1.72 Separation Agreement. “Separation Agreement” shall have the meaning set forth in the recitals.

1.73 Stock Incentive Plan. “Stock Incentive Plan,” when immediately preceded by “Potlatch,” means any plan, program or arrangement pursuant to which directors, employees and other service providers hold Potlatch Options, Potlatch Restricted Stock Units, Potlatch Performance Shares or other Potlatch equity incentives. When immediately preceded by “Clearwater,” “Stock Incentive Plan” means the Plans to be established by Clearwater pursuant to Sections 2.2 and 6.2.

1.74 Subsidiary. “Subsidiary” means, as defined in the Separation Agreement, when used with reference to any Person, any corporation, limited liability company, partnership or other organization of which at least a majority of the securities or interests having by the terms

thereof ordinary voting power to elect at least a majority of the board of directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person; provided, however, that no Person that is not directly or indirectly wholly owned by any other Person shall be a Subsidiary of such other Person unless such other Person controls, or has the right, power or ability to control, that Person. After the Distribution, Potlatch and Clearwater shall not be deemed to be under common control for purposes hereof due solely to the fact that Potlatch and Clearwater may have common stockholders.

1.75 Supplemental Benefit Plan. “Supplemental Benefit Plan,” when immediately preceded by “Clearwater,” means the Potlatch Forest Products Corporation Salaried Employees’ Supplemental Benefit Plan II. When immediately preceded by “Potlatch,” “Supplemental Benefit Plan” means the non-qualified supplemental excess benefit retirement plan to be established by Potlatch pursuant to Sections 2.2 and 5.1 that corresponds to the Clearwater Supplemental Benefit Plan.

1.76 Time Off Policies. “Time Off Policies,” when immediately preceded by “Clearwater,” means the Clearwater vacation, holidays and other time off policies. When immediately preceded by “Potlatch,” “Time Off Policies” means the vacation, holidays and other time off policies to be established by Potlatch pursuant to Sections 2.2 and 10.4 that correspond to the Clearwater Time Off Policies.

1.77 Transfer Amount. “Transfer Amount” shall have the meaning assigned to it in Section 3.2(c)(ii).

1.78 Transfer Date. “Transfer Date” shall have the meaning assigned to it in Section 3.2(c)(ii).

1.79 Transition Services Agreement. “Transition Services Agreement” means, as defined in the Separation Agreement, the Transition Services Agreement, dated the date hereof, between RetainCo and Clearwater.

1.80 Unemployment Insurance Program. “Unemployment Insurance Program,” when immediately preceded by “Clearwater,” means the group unemployment insurance policies purchased by Clearwater from time to time. When immediately preceded by “Potlatch,” “Unemployment Insurance Program” means any group unemployment insurance policies to be established by Potlatch pursuant to Section 10.7.

1.81 Valuation Date. “Valuation Date” shall have the meaning assigned to it in Section 3.2(c)(ii).

1.82 Wood Products Mills. “Wood Products Mills” means, as defined in the Separation Agreement, each of the following mills and facilities:

- (a) sawmill in Prescott, Arkansas (which was permanently closed in May 2008);
- (b) sawmill in Warren, Arkansas;

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- (c) (i) sawmill, (ii) dry kilns and (iii) plywood mill in St. Maries, Idaho;
 - (d) sawmill in Bemidji, Minnesota;
 - (e) sawmill in Gwinn, Michigan; and
 - (f) particleboard mill in Post Falls, Idaho.

ARTICLE II

GENERAL PRINCIPLES

2.1 Assumption of Liabilities.

(a) Clearwater Employees. Except as specified otherwise in this Agreement, or as mutually agreed upon in writing by Clearwater and Potlatch from time to time, Clearwater hereby retains, or, as applicable, assumes and agrees to pay, perform, fulfill and discharge, in accordance with their respective terms, all of the following: (i) all Liabilities to or relating to Clearwater Employees, in each case relating to, arising out of or resulting from employment prior to the Distribution Date (including Liabilities to or relating to Clearwater Employees arising under, relating to or resulting from Potlatch Plans or Clearwater Plans and including Liabilities to or relating to Clearwater Employees under or relating to workers compensation Laws or claims); (ii) all Liabilities to or relating to Clearwater Employees, to the extent relating to, arising out of, or resulting from employment with the Clearwater Group on and after the Distribution Date (including Liabilities to or relating to Clearwater Employees arising under, relating to or resulting from Clearwater Plans); and (iii) all other Liabilities relating to, arising out of, or resulting from obligations, liabilities and responsibilities expressly assumed or retained by the Clearwater Group, or a Clearwater Plan, pursuant to this Agreement.

(b) Potlatch Employees. Except as specified otherwise in this Agreement, or as mutually agreed upon in writing by Clearwater and Potlatch from time to time, Potlatch hereby retains, or, as applicable, assumes and agrees to pay, perform, fulfill and discharge, in accordance with their respective terms, all of the following: (i) all Liabilities to or relating to Potlatch Employees, in each case relating to, arising out of or resulting from employment prior to the Distribution Date (including Liabilities to or relating to Potlatch Employees arising under, relating to or resulting from Potlatch Plans or Clearwater Plans and including Liabilities to or relating to Potlatch Employees, under or relating to workers compensation Laws or claims); (ii) all Liabilities to or relating to Potlatch Employees, to the extent relating to, arising out of, or resulting from employment with the Potlatch Group on and after the Distribution Date (including Liabilities to or relating to Potlatch Employees arising under or relating to Potlatch Plans); and (iii) all other Liabilities relating to, arising out of, or resulting from obligations, liabilities and responsibilities expressly assumed or retained by the Potlatch Group, or a Potlatch Plan, pursuant to this Agreement.

2.2 Establishment of Plans. Effective as of the Distribution Date or such later date(s) as Potlatch and Clearwater may mutually agree in writing:

(a) Potlatch shall adopt the Potlatch Pension Plans as provided in Article III;

(b) Potlatch shall adopt the Potlatch Savings Plans as provided in Article IV;

(c) Potlatch shall adopt the Potlatch Supplemental Benefit Plan, and Clearwater shall adopt the Clearwater Management Deferred Compensation Plan and the Clearwater Director Deferred Compensation Plan, as provided in Article V;

(d) Clearwater shall adopt the Clearwater Incentive Pay Plan and the Clearwater Stock Incentive Plan, and Potlatch shall adopt the Potlatch Salaried Severance Plan and the Potlatch Executive Severance Plan, as provided in Article VI;

(e) Potlatch shall adopt the Potlatch Health and Welfare Plans and the Potlatch Other Post-Retirement Benefits (OPEB) Program, as provided in Article VII;

(f) the Parties shall establish the Fringe Benefit and other Plans as provided in Article VIII; and

(g) Potlatch shall establish the Potlatch Time Off Policies and the Potlatch Leave of Absence Programs, as provided in Article X.

2.3 Parties Under Certain Obligations to Maintain Plans. Clearwater and Potlatch agree that they each will continue to maintain and sponsor their respective Plans on the terms and conditions in effect immediately prior to the Distribution Date, as modified by this Agreement, for at least twelve (12) months from the Distribution Date; provided, however, that: (a) any such Plan can be amended or otherwise altered with regard to any individual who is not a current employee of a Party as of the Distribution Date; (b) any such Plan can be amended to ensure compliance with applicable law, or to maintain its tax-favored, tax-qualified or tax-exempt status; and (c) any such Plan can be amended, modified, merged, terminated, or otherwise altered to ensure compliance with a Labor Agreement. Except as specified in this Section 2.3 or a Labor Agreement, nothing in this Agreement shall otherwise preclude Potlatch or Clearwater, at any time after twelve (12) months from the Distribution Date, from amending, merging, modifying, terminating, eliminating, reducing, or otherwise altering in any respect any of their respective Plans, any benefit under any of their respective Plans or any trust, insurance policy or funding vehicle related to any of their respective Plans.

2.4 Participation in Other Party's Plans.

(a) **General Obligations as Plan Sponsor.** To the extent that, after the Distribution Date, Clearwater is a Participating Company in any Potlatch Plan or Potlatch is a Participating Company in any Clearwater Plan, Potlatch and Clearwater (as applicable) shall continue to administer, or cause to be administered, in accordance with their terms and applicable Law, their respective Plans, and shall have the sole and absolute discretion and authority to interpret their respective Plans, as set forth therein. Notwithstanding the foregoing, neither Party shall, without first consulting with the other Party, amend any Material Feature of a Plan in which the other Party is a Participating Company, except to the extent such amendment would not affect any benefits of the other Party's employees under such Plan or as may be necessary or appropriate to comply with applicable law or a Labor Agreement.

(b) **General Obligations as Participating Company.** To the extent that, after the Distribution Date, Clearwater is a Participating Company in any Potlatch Plan or Potlatch is a Participating Company in any Clearwater Plan, Clearwater or Potlatch (as applicable) shall

perform with respect to its participation in the other Party's Plan, the duties of a Participating Company as set forth in each such Plan or any procedures adopted pursuant thereto, including (without limitation): (i) assisting in the administration of claims, to the extent requested by the claims administrator of the applicable Plan; (ii) cooperating fully with Plan auditors, benefit personnel and benefit vendors; (iii) preserving the confidentiality of all financial arrangements the Plan sponsor has or may have with any vendors, claims administrators, trustees or any other entity or individual with whom the Plan sponsor has entered into an agreement relating to the Plan; and (iv) preserving the confidentiality of participant information (including, without limitation, health information in relation to FMLA leaves) to the extent not specified otherwise in this Agreement.

2.5 Terms of Participation.

(a) Non-Duplication of Benefits. As of the Distribution Date or such later date that applies to the particular Plan established thereafter, (i) the Potlatch Plans shall be, with respect to Potlatch Employees, in all respects the successors in interest to, and shall not provide benefits that duplicate benefits provided by, the corresponding Clearwater Plans, and (ii) the Clearwater Plans shall be, with respect to Clearwater Employees, in all respects the successors in interest to, and shall not provide benefits that duplicate benefits provided by, the corresponding Potlatch Plans. Potlatch and Clearwater shall agree on methods and procedures, including amending their respective Plan documents, to prevent Potlatch Employees and Clearwater Employees from receiving duplicate benefits from the Potlatch Plans and the Clearwater Plans.

(b) Service Credit. Except as specified otherwise in this Agreement, to the extent that Potlatch and Clearwater establish new Plans to replace and succeed the existing Plans maintained by the other Party prior to the Distribution Date, they shall cause their respective Plans to recognize all service, all compensation and all other benefit-affecting determinations that, as of the Distribution Date, were recognized under the corresponding Plan maintained by the other Party, except to the extent that duplication of benefits would result. Notwithstanding the foregoing: (i) Potlatch and Clearwater shall recognize service with either Potlatch or Clearwater that was recognized as of the Distribution Date, except to the extent provided in Section 2.5(a) above, and (ii) Potlatch and Clearwater shall each recognize and grant service credit to any employee who is employed by the Potlatch Group or the Clearwater Group, terminated from such employment and then hired by the other Party as an employee at any time during the twelve (12) month period following the Distribution Date; provided, however, no service credit shall be required for any such period that he/she is not employed by either the Potlatch Group or the Clearwater Group. The service crediting provisions shall be subject to any respective applicable "service bridging," "break in service," "vesting service," "employment date," or "eligibility date" rules under the Clearwater Plans and the Potlatch Plans.

(c) Assumption of Liabilities. The provisions of this Agreement for the transfer of assets from certain Clearwater Plans to the appropriate Potlatch Plans are based upon the understanding of the Parties that the appropriate Potlatch Plan will assume all Liabilities to or relating to Potlatch Employees under the corresponding Clearwater Plan, as provided for herein. If any such Liabilities are not effectively assumed by the appropriate Potlatch Plan, then the amount of transferred assets shall be recomputed accordingly, taking into account the retention of such Liabilities by such Clearwater Plan, and assets shall be transferred from the appropriate

Potlatch Plan to the appropriate Clearwater Plan so as to place the appropriate Potlatch Plan in the position it would have been in, had the initial asset transfer been made in accordance with such recomputed amount of assets.

ARTICLE III

DEFINED BENEFIT PENSION PLANS

3.1 Establishment of Potlatch Pension Plans and Master Trust.

(a) **Pension Plans.** Effective as of January 1, 2009, Potlatch shall establish, or cause to be established, the Potlatch Salaried Pension Plan and the Potlatch Hourly Represented Pension Plan, which shall be substantially identical in all Material Features to the corresponding Clearwater Pension Plans as in effect on December 31, 2008. The sponsorship of the existing Clearwater Hourly Non-Represented Pension Plan shall be transferred from Clearwater to Potlatch as of January 1, 2009, and, as of the Distribution Date, Potlatch shall assume all liabilities relating to such Plan.

(b) **Master Trust.** Effective as of January 1, 2009, Potlatch shall establish, or cause to be established, a new master trust which is intended to be exempt from taxation under Code Section 501(a), to hold the assets of the Potlatch Pension Plans.

3.2 Assumption of Liabilities and Transfer of Trust Assets.

(a) **Assumption of Liabilities.** Subject to the completion of each of the asset allocations and transfers described in Section 3.2(b) and (c), effective as of January 1, 2009, (i) all accrued benefits of the Potlatch Employees under each of the Clearwater Pension Plans shall be transferred to the corresponding Potlatch Pension Plan, and (ii) each such Potlatch Pension Plan shall assume and be solely responsible for all Liabilities for or relating to the accrued benefits of the Potlatch Employees under the corresponding Clearwater Pension Plan.

(b) **Hourly Non-Represented Pension Plan.** In conjunction with the assumption by Potlatch of the sponsorship of the Clearwater Hourly Non-Represented Pension Plan, all of the assets of the Clearwater Hourly Non-Represented Pension Plan shall be transferred from the existing trust established under such Plan to the master trust established by Potlatch pursuant to Section 3.1(b).

(c) Salaried Pension Plan and Hourly Represented Pension Plan.

(i) As soon as reasonably practicable after the Distribution Date, the Parties shall engage an enrolled actuary to determine for each of the Clearwater Salaried Pension Plan and the Clearwater Hourly Represented Pension Plan, the total accrued benefit Liabilities as of the Distribution Date for all participants in such Plans, calculated on a plan termination basis in accordance with Title IV of ERISA. The particular actuarial assumptions that will be used to value the benefit Liabilities described in the preceding sentence shall be set forth in Schedule 3.2(c)(i) hereto. The enrolled actuary shall allocate such accrued Liabilities to the priority categories described in ERISA Section 4044 and shall determine, for each such priority category, the amount of accrued Liabilities attributable to Potlatch Employees and the amount of accrued Liabilities attributable to Clearwater Employees.

(ii) As soon as reasonably practicable after the determinations described in Section 3.2(c)(i), the Parties shall designate a date for valuing the assets of each of the Clearwater Salaried Pension Plan and the Clearwater Hourly Represented Pension Plan (the "Valuation Date"), and a date as soon as practicable after the Valuation Date on which there shall occur the initial transfer of assets from each such Clearwater Pension Plan to the corresponding Potlatch Pension Plan (the "Transfer Date"). The fair market value of the assets of each such Clearwater Pension Plan as of the Valuation Date (excluding the effect of any contributions made to such Clearwater Pension Plan after the Distribution Date and any distributions made by the Clearwater Pension Plan to Potlatch Employees after the Distribution Date) shall be allocated to the priority categories of accrued Liabilities determined under Section 3.2(c)(i), in the order specified under ERISA Section 4044, until all such assets have been fully allocated. On the Transfer Date, the amount of assets allocated to the accrued Liabilities attributable to Potlatch Employees in each of the priority categories (the "Transfer Amount") shall be transferred from the trust established under the Clearwater Pension Plans to the trust established under the Potlatch Pension Plans, and Potlatch shall cause the trust established under its Plans to accept such transfer. The Parties agree and acknowledge that a second Transfer Date will likely be necessary to reconcile any erroneous transfers and provide for an interest adjustment. Such additional Transfer Date, if necessary, shall occur as soon as administratively feasible following the Transfer Date but in no event later than December 31, 2009.

(iii) Notwithstanding the foregoing, in no event shall the Transfer Amount be less than the minimum amount required to satisfy the requirements of Code Section 414(l) and the regulations thereunder.

(iv) Each of the Parties shall bear an equal portion of the cost of the enrolled actuary's determinations under this Section 3.2(c).

3.3 No Distributions to Potlatch Employees. The Clearwater and Potlatch Pension Plans shall provide that no distribution of retirement benefits shall be made to any Potlatch Employee on account of the Potlatch Group ceasing to be an Affiliate of the Clearwater Group as of the Distribution Date.

ARTICLE IV

DEFINED CONTRIBUTION PLANS

4.1 Establishment of Potlatch Savings Plans and Master Trust.

(a) **Savings Plans.** Effective as of the Distribution Date or such other date as Potlatch and Clearwater may mutually agree in writing, Potlatch shall establish, or cause to be established, the Potlatch Savings Plans, which shall be substantially identical in all Material Features to the corresponding Clearwater Savings Plans as in effect on the Distribution Date.

(b) **Master Trust.** Effective as of the Distribution Date or such other date as the Parties agree to in Section 4.1(a), Potlatch shall establish, or cause to be established, a new master trust, which is intended to be exempt from taxation under Code Section 501(a), to hold the assets of the Potlatch Savings Plans.

(c) **Assumption of Liabilities and Transfer of Assets.** Effective as of the Distribution Date: (i) each Potlatch Savings Plan shall assume and be solely responsible for all Liabilities for or relating to Potlatch Employees under the corresponding Clearwater Savings Plan, subject to the completion of the asset transfers; and (ii) Clearwater shall cause the accounts of the Potlatch Employees under each Clearwater Savings Plan that are held by its related trust as of the Distribution Date to be transferred to the corresponding Potlatch Savings Plan and related trust, and Potlatch shall cause such transferred accounts to be accepted by each such Potlatch Plan and related trust. As soon as reasonably practicable after the Distribution Date, Potlatch shall use its commercially reasonable efforts to enter into agreements satisfactory to Potlatch to accomplish such assumption and transfer, the maintenance of the necessary participant records, the appointment of an initial trustee under the Potlatch Savings Plans, and the engagement of an initial record keeper under the Potlatch Savings Plans. Clearwater and Potlatch each agree to use their commercially reasonable efforts to effectuate this Section 4.1.

(d) **Stock Fund Considerations.** As a result of the Distribution and the transfers of liabilities and assets described in Section 4.1(c), each Clearwater Savings Plan and each Potlatch Savings Plan shall include investment funds comprised of Potlatch Common Stock and Clearwater Common Stock. Clearwater and Potlatch shall assume sole responsibility for ensuring that their respective company stock funds, and underlying employer securities held in each such fund, are maintained in compliance with all requirements of the SEC including, without limitation, filing Forms S-8 and 11-K, and the prospectus requirements for such funds. Notwithstanding Section 2.3 or any other provision in this Agreement, on and after the Distribution Date, nothing shall preclude either Clearwater or Potlatch from imposing restrictions through their respective Savings Plans on future investments in securities issued by the other Party, or from discontinuing any investment fund holding securities issued by the other Party.

(e) **No Distribution to Potlatch Employees.** The Potlatch and Clearwater Savings Plans shall provide that no distribution of account balances shall be made to any

ARTICLE V

NON-QUALIFIED AND SUPPLEMENTAL PLANS

5.1 Supplemental Benefit Plans.

(a) Establishment of Potlatch Supplemental Benefit Plan. Effective as of the Distribution Date, Potlatch shall establish the Potlatch Supplemental Benefit Plan that shall be substantially identical in all Material Features to the Clearwater Supplemental Benefit Plan. Potlatch shall continue to sponsor the Potlatch Corporation Salaried Employees' Supplemental Benefit Plan, which was frozen as of December 31, 2004 (the "Frozen Supplemental Plan").

(b) Assumption of Liabilities by Potlatch Supplemental Benefit Plan. Effective as of the Distribution Date, all accrued benefits of Potlatch Employees under the Clearwater Supplemental Benefit Plan shall be transferred to the Potlatch Supplemental Benefit Plan. The Potlatch Supplemental Benefit Plan shall assume and be solely responsible for all Liabilities for or relating to the accrued benefits of the Potlatch Employees under the Clearwater Supplemental Benefit Plan as of the Distribution Date.

(c) Assumption of Liabilities by Clearwater Supplemental Benefit Plan. Effective as of the Distribution Date, all accrued benefits of Clearwater Employees under the Frozen Supplemental Plan shall be transferred to the Clearwater Supplemental Benefit Plan. The Clearwater Supplemental Benefit Plan shall assume and be solely responsible for all Liabilities for or relating to the accrued benefits of the Clearwater Employees under the Frozen Supplemental Plan as of the Distribution Date.

5.2 Deferred Compensation Plans.

(a) Establishment of Clearwater Deferred Compensation Plans. Effective as of the Distribution Date, Clearwater shall establish the Clearwater Management Deferred Compensation Plan and the Clearwater Director Deferred Compensation Plan, which shall be substantially identical in all Material Features to the Potlatch Management Deferred Compensation Plan and the Potlatch Director Deferred Compensation Plan, respectively.

(b) Assumption of Liabilities by Clearwater Management Deferred Compensation Plan. Effective as of the Distribution Date, all deferred compensation benefits of Clearwater Employees under the Potlatch Management Deferred Compensation Plan shall be transferred to the Clearwater Management Deferred Compensation Plan. The Clearwater Management Deferred Compensation Plan shall assume and be solely responsible for all Liabilities for or relating to the deferred compensation benefits of the Clearwater Employees under the Potlatch Management Deferred Compensation Plan as of the Distribution Date.

(c) Clearwater Assumption of Other Management Deferred Compensation Liabilities. Effective as of the Distribution Date, all deferred compensation benefits of Clearwater Employees under the Potlatch Corporation Management Performance Award Plan and the Potlatch Corporation Management Performance Award Plan II shall be transferred to the

Clearwater Management Deferred Compensation Plan or to an alternative plan or plans established by Clearwater. Such Clearwater Plan or Plans shall assume and be solely responsible for all Liabilities for or relating to the deferred compensation benefits of the Clearwater Employees under such Potlatch Plans.

(d) Director Deferred Compensation Liabilities. Potlatch shall retain all Liabilities to current and former directors of Potlatch under the Potlatch Director Deferred Compensation Plan and any predecessor deferred compensation Plans for Potlatch directors. Clearwater shall establish the Clearwater Director Deferred Compensation Plan to provide benefits for directors of Clearwater comparable to those provided under the Potlatch Director Deferred Compensation Plan.

(e) Treatment of Stock Units. With respect to the deferred compensation benefits under the Potlatch Plans described in this Section 5.2 that have been deemed invested in “stock units” (units denominated in shares of Potlatch Common Stock) prior to the Distribution Date, the following provisions shall apply:

(i) Potlatch shall cause the number of stock units allocated to each deferred compensation account to be adjusted as of the Distribution Date. The adjusted number of units shall equal the number of units allocated to the account immediately prior to the Distribution Date divided by the Potlatch Ratio, rounded to three (3) decimal places.

(ii) For account balances that will be assumed by the Clearwater Plans, Clearwater shall assume the obligation to treat such accounts as deemed invested in Potlatch stock units, as adjusted by Potlatch pursuant to Section 5.2(e)(i). Notwithstanding the foregoing, Clearwater shall be permitted to give Clearwater Employees and Clearwater directors an election to have their Potlatch stock units converted into Clearwater stock units (units denominated in shares of Clearwater Common Stock) as of the Distribution Date, in lieu of the adjustment described in Section 5.2(e)

(i). For Clearwater Employees and directors who make such an election, the number of Clearwater stock units allocated to each such account as a result of such conversion shall equal the total number of Potlatch stock units allocated to the account immediately prior to the Distribution Date divided by the Clearwater Ratio, rounded to three (3) decimal places.

(f) No Distributions to Potlatch or Clearwater Employees. Potlatch and Clearwater agree that the Separation and Distribution shall not be viewed as a separation from service or other termination of employment entitling Potlatch Employees or Clearwater Employees or other participants in the Plans described in this Article V to distributions of their deferred compensation benefits. Potlatch and Clearwater shall cause their respective deferred compensation Plans to be amended (if necessary) and to be administered in a manner consistent with this understanding.

ARTICLE VI

EQUITY AND OTHER MANAGEMENT COMPENSATION

6.1 Incentive Pay Plans. Clearwater Employees shall cease participating in the Potlatch Incentive Pay Plan as of the Distribution Date. Clearwater shall establish the Clearwater Incentive Pay Plan to provide annual incentive bonuses for periods beginning on or after the Distribution Date. The Clearwater Incentive Pay Plan may, but is not required to, contain the same Material Features as the Potlatch Incentive Pay Plan. Notwithstanding the foregoing, if the Distribution Date occurs in 2008 or in 2009 prior to the date when 2008 bonuses would be payable under the Potlatch Incentive Pay Plan, Clearwater shall assume the obligation to pay 2008 bonuses to the Clearwater Employees (such bonuses to be determined as if the Clearwater Employees had continued to participate in the Potlatch Incentive Pay Plan for all of 2008), and Potlatch shall have no responsibility for the payment of 2008 bonuses to the Clearwater Employees.

6.2 Clearwater Stock Incentive Plan. Clearwater shall establish the Clearwater Stock Incentive Plan to provide equity incentives to Clearwater Employees after the Distribution Date. The Clearwater Stock Incentive Plan may, but is not required to, contain the same Material Features as the Potlatch Stock Incentive Plan.

6.3 Potlatch Options.

(a) Adjustment of Potlatch Options. As of the Distribution Date, each outstanding Potlatch Option held by Potlatch Employees and Clearwater Employees shall be, in connection with the Distribution, adjusted by Potlatch. Each such Potlatch Option shall continue to have, and be subject to, the same terms and conditions set forth in the Potlatch Stock Incentive Plans and as provided in the respective option agreements governing such Potlatch Option as of the Distribution Date, except that (i) such Potlatch Option shall be exercisable for that number of whole shares of Potlatch Common Stock equal to the number of shares of Potlatch Common Stock that were issuable upon exercise of such Potlatch Option as of the Distribution Date divided by the Potlatch Ratio, rounded up to the nearest whole share, and (ii) the per share exercise price for the shares of Potlatch Common Stock issuable upon exercise of such Potlatch Option shall be equal to the exercise price per share at which such Potlatch Option was exercisable as of the Distribution Date multiplied by the Potlatch Ratio, rounded to four (4) decimal places.

(b) Potlatch Options Held by Clearwater Employees. In addition to the adjustment described in Section 6.3(a), Potlatch shall amend the Options held by Clearwater Employees to provide that the Separation and Distribution shall not give rise to a forfeiture of the Options held by the Clearwater Employees after ninety (90) days from the Distribution Date, so that they can exercise the Options in accordance with their terms, subject to continued employment with Clearwater. Upon the request of Potlatch in connection with the exercise of an Option held by a Clearwater Employee and in order to determine whether such Option is being

validly exercised by the Clearwater Employee, Clearwater shall confirm to Potlatch such Clearwater Employee's current employment status with Clearwater.

6.4 Potlatch Restricted Stock Units.

(a) Adjustment of Potlatch Restricted Stock Units. As of the Distribution Date, each outstanding Potlatch Restricted Stock Unit held by Potlatch Employees, whether vested or unvested, shall be, in connection with the Distribution, adjusted by Potlatch. Each such Potlatch Restricted Stock Unit shall continue to have, and be subject to, the same terms and conditions set forth in the Potlatch Stock Plans and as provided in the respective award agreements governing such Potlatch Restricted Stock Unit as of the Distribution Date, except that the number of shares of Potlatch Common Stock for which such Potlatch Restricted Stock Unit can be settled shall be equal to the number of shares of Potlatch Common Stock that were issuable upon settlement of such Potlatch Restricted Stock Unit as of the Distribution Date divided by the Potlatch Ratio, rounded to three (3) decimal places.

(b) Potlatch Restricted Stock Units Held by Clearwater Employees. Potlatch Restricted Stock Units held by Clearwater Employees shall be forfeited as of the Distribution Date in accordance with the terms of the applicable award agreements. Clearwater shall be responsible for issuing cash incentives or equity incentives based on Clearwater Common Stock, which may include Clearwater Restricted Stock Units, to provide a substitute of comparable value for such terminated Potlatch Restricted Stock Units.

6.5 Potlatch Performance Shares.

(a) Adjustment of Potlatch Performance Shares for the 2006-2008 Performance Period. Prior to the record date for the Distribution (the "Record Date"), each outstanding Potlatch Performance Share award held by a Potlatch Employee or Clearwater Employee for the 2006-2008 performance period shall be settled by Potlatch. Each such Potlatch Performance Share award shall continue to have, and be subject to, the same terms and conditions set forth in the Potlatch Stock Incentive Plans and as provided in the respective award agreements governing such Potlatch Performance Shares, except that the determination of the extent to which the performance goals for the 2006-2008 period shall have been attained shall be made as of the last day of the calendar quarter preceding the Record Date.

(b) Adjustment of Potlatch Performance Shares for the 2007-2009 and 2008-2010 Performance Periods. As of the Distribution Date, each outstanding Potlatch Performance Share award held by Potlatch Employees for the 2007-2009 and 2008-2010 performance periods, whether vested or unvested, shall be, in connection with the Distribution, adjusted by Potlatch. Each such Potlatch Performance Share award shall continue to have, and be subject to, the same terms and conditions set forth in the Potlatch Stock Incentive Plans and as provided in the respective award agreements governing such Potlatch Performance Shares as of the Distribution Date, except that (i) the number of shares of Potlatch Common Stock for which such Potlatch Performance Share award can be settled shall be equal to the number of shares of Potlatch Common Stock that were issuable upon settlement of such Potlatch Performance Share award as of the Distribution Date divided by the Potlatch Ratio, rounded to three (3) decimal places, and

(ii) the Distribution shall be treated as a dividend for purposes of measuring attainment of the total shareholder return performance objectives.

(c) Potlatch Performance Shares Held by Clearwater Employees. Potlatch Performance Share Awards for the 2006-2008 performance periods that are held by Clearwater Employees shall be settled and paid in the manner described in Section 6.5(a). Potlatch Performance Share awards for the 2007-2009 and 2008-2010 performance periods held by Clearwater Employees shall be forfeited as of the Distribution Date in accordance with the terms of the applicable award agreements. Clearwater shall be responsible for issuing cash incentives or equity incentives based on Clearwater Common Stock, which may include Clearwater Performance Share awards, to provide a substitute of comparable value for such terminated Potlatch Performance Share awards.

6.6 Severance Plans.

(a) Executive Severance Plan. Effective as of the Distribution Date, Potlatch shall establish the Potlatch Executive Severance Plan that shall be substantially identical in all Material Features to the Clearwater Executive Severance Plan.

(b) Salaried Severance Plan. Effective as of the Distribution Date, Potlatch shall establish the Potlatch Salaried Severance Plan that shall be substantially identical in all Material Features to the Clearwater Salaried Severance Plan.

(c) No Separation from Service. The Parties agree that the Separation and Distribution shall not be considered a separation from service or termination of employment entitling Potlatch Employees or Clearwater Employees to be eligible to participate in or to receive payment of severance benefits under the Executive Severance Plans or Salaried Severance Plans. Potlatch and Clearwater shall cause their respective Executive Severance Plans and Salaried Severance Plans to be amended (if necessary) and to be administered in a manner consistent with this understanding.

6.7 Deferred Payment Contracts and Severance Contracts. All Liabilities with respect to, and all responsibilities for administering, the deferred payment contracts and severance contracts for the individuals listed on Schedule 6.7 shall be allocated between the Parties as set forth on Schedule 6.7.

ARTICLE VII

HEALTH AND WELFARE PLANS

7.1 Establishment of Potlatch Health and Welfare Plans.

(a) New Plans. Effective as of January 1, 2009, Potlatch shall establish, or cause to be established, the Potlatch Health and Welfare Plans which shall be substantially identical in all Material Features to the corresponding Clearwater Health and Welfare Plans as in effect on the Distribution Date. Potlatch shall cause the Potlatch Health and Welfare Plans to be responsible for all claims incurred by Potlatch Employees on and after January 1, 2009 (subject to the terms of such Plans).

(b) Existing Arrangement. Clearwater, as sponsor of the existing Health and Welfare Plans through December 31, 2008, agrees not to make any modification, amendment or other change to any Health and Welfare Plan without Potlatch's consent through December 31, 2008.

7.2 Insured Health and Welfare Benefits. Effective as of the Distribution Date and through December 31, 2008, Potlatch shall be liable to Clearwater for premiums owed for coverage for Potlatch Employees under the Clearwater Health and Welfare Plans (other than the Disability Plan).

7.3 Self-Insured Health and Welfare Benefits.

(a) Administration of Claims of Potlatch Employees. Clearwater shall cause the Clearwater Health and Welfare Plans, other than Disability Plans, to administer all claims incurred by Potlatch Employees and Clearwater Employees under such Plans prior to January 1, 2009, including claims incurred but not yet reported prior to January 1, 2009. The Clearwater Health and Welfare Plans, other than Disability Plans, shall be responsible for claims incurred (including claims incurred but not yet reported) prior to January 1, 2009. Potlatch shall be liable to Clearwater for any such claims incurred by Potlatch Employees from the Distribution Date through December 31, 2008. Thereafter, the Potlatch Health and Welfare Plans, other than Disability Plans, shall be responsible for and assume Liability for claims incurred on or after January 1, 2009. For this purpose, a claim shall be deemed to be incurred:

(i) when an individual obtains professional services, equipment or prescription drugs covered by a medical, prescription drug, dental or vision benefit plan;

(ii) upon death in the case of a life insurance plan; and

(iii) as of the date of the accident or injury in the case of an accidental death and dismemberment or business travel accident plan.

(b) Clearwater Health Plans. Notwithstanding the foregoing, the Clearwater Health Plans shall be responsible for but not liable for the cost of all professional services,

equipment and prescription drugs provided during a hospital stay or similar confinement of a Potlatch Employee that begins prior to January 1, 2009, and ends after January 1, 2009 (subject to the terms and conditions of the Clearwater Health Plans). Potlatch shall be liable to Clearwater for any and all such costs incurred by Potlatch Employees from the Distribution Date through the end of such stay or confinement. Thereafter, the Potlatch Health Plans shall be responsible and assume related Liability for the cost of all professional services, equipment and prescription drugs provided during a hospital stay or similar confinement of a Potlatch Employee that begins on or after January 1, 2009 (subject to the terms and conditions of the Potlatch Health Plans).

7.4 Disability Plans. Effective as of the Distribution Date and through December 31, 2008, the Disability Plans will be administered by Clearwater as set forth in the Transition Services Agreement. Effective as of the Distribution Date, Potlatch shall assume responsibility and accompanying Liability for any Potlatch Employee who is absent from work on account of a short term disability. Furthermore, effective as of the Distribution Date and through December 31, 2008, Potlatch shall be liable to Clearwater for premiums owed for long-term disability coverage for Potlatch Employees under the Clearwater Disability Plans. Effective as of January 1, 2009, the Potlatch Disability Plans (short-term and long-term) shall assume responsibility and accompanying Liability for Potlatch Employees.

7.5 Outsourcing of Claims. Potlatch and Clearwater shall have the right to engage a third party administrator, vendor, or insurance company to administer ("Outsource") claims incurred under their respective Health and Welfare Plans, including claims incurred before January 1, 2009. Each Party may determine the manner and extent of such Outsourcing, including the selection of one or more third party administrators, vendors, or insurance companies and the ability to transfer the Liability for such claims to one or more independent insurance companies.

7.6 Post-Distribution Transitional Arrangements.

(a) Transition Period. Both Clearwater and Potlatch will participate in the Clearwater Health and Welfare Plans through December 31, 2008. Accordingly, Potlatch shall reimburse Clearwater for any and all direct and indirect expenses and costs for claims incurred through December 31, 2008, by Potlatch Employees.

(b) Continuance of Elections, Co-Payments and Maximum Benefits.

(i) As of January 1, 2009, Potlatch shall cause the Potlatch Health and Welfare Plans to recognize and maintain all coverage and contribution elections made by Potlatch Employees under the Clearwater Health and Welfare Plans and apply such elections under the Potlatch Health and Welfare Plans for the remainder of the period or periods for which such elections are by their terms applicable. The direct transfer or other movement of employment between Potlatch and Clearwater at any time upon or before January 1, 2009, shall neither constitute nor be treated as a "status change" or termination of employment under the Potlatch Health and Welfare Plans or the Clearwater Health and Welfare Plans.

(ii) On and after January 1, 2009, Potlatch shall cause the Potlatch Health Plans to recognize and give credit for all benefits paid to Potlatch Employees under the Clearwater Health Plans for purposes of determining when such persons have reached their lifetime maximum benefits under the Potlatch Health Plans.

(c) HCFA Administration. As of the Distribution Date, Potlatch shall assume all Liabilities relating to, arising out of or resulting from claims verified by Potlatch or Clearwater under the HCFA data match reports that relate to Potlatch Employees.

7.7 Vendor Arrangements. The Parties shall use their commercially reasonable efforts to enable Potlatch to procure, effective as of January 1, 2009: (a) third party ASO Contracts with the Material Features of the ASO Contracts entered into by Clearwater, as set forth in Schedule 7.7(a) (the "ASO Contracts"); and (b) Group Insurance Policies, with the Material Features of the Group Insurance Policies entered into by Clearwater, as set forth in Schedule 7.7(b) (the "Group Insurance Policies"). In each case, Potlatch shall, as of January 1, 2009, be responsible for establishing, adopting and implementing such contracts, agreements and arrangements for the Potlatch Health and Welfare Plans, and Clearwater shall be responsible for maintaining such contracts, agreements and arrangements for the Clearwater Health and Welfare Plans.

7.8 Business Travel Accident Insurance. Potlatch shall procure a business travel accident insurance policy with the Material Features of the Clearwater business travel accident policy, effective as of the Distribution Date.

7.9 Flexible Benefits Plans. Through December 31, 2008, Potlatch and designated members of the Potlatch Group shall remain Participating Companies in the Clearwater Flexible Benefits Plan. The existing elections for Potlatch Employees shall remain in effect through December 31, 2008. Potlatch shall reimburse Clearwater for any and all direct and indirect expenses and costs attributable to Potlatch Employees through December 31, 2008. Effective as of January 1, 2009, Potlatch shall establish, or caused to be established, the Potlatch Flexible Benefits Plan and shall be solely responsible for implementing and maintaining the Potlatch Flexible Benefits Plan. The Potlatch Flexible Benefits Plan shall be Liable for any and all outstanding claims incurred and made by Potlatch Employees attributable to their 2008 elections after December 31, 2008, in accordance with the terms of the Potlatch Flexible Benefits Plan. Accordingly, Clearwater and Potlatch shall each take all actions necessary to cause a spin-off of the portion of the Clearwater Flexible Benefits Plan covering Potlatch Employees to the Potlatch Flexible Benefits Plan for the outstanding recordkeeping account balances after December 31, 2008, in accordance with Revenue Ruling 2002-32 and subsequent guidance thereunder. Such actions shall include, but not be limited to, a transfer by or on behalf of Clearwater to Potlatch of the amount equal to participant contributions to the Clearwater Flexible Benefits Plan from January 1, 2008 through the Distribution Date, less the participant reimbursements for such period.

7.10 COBRA. Clearwater shall be responsible through December 31, 2008, for compliance with the health care continuation coverage requirements of COBRA and the Clearwater Health and Welfare Plans with respect to Potlatch Employees and qualified beneficiaries (as such term is defined under COBRA). On or about December 31, 2008,

Clearwater shall provide Potlatch, through hard copy, electronic format or such other mechanism as is appropriate under the circumstances, with a list of all qualified beneficiaries (as such term is defined under COBRA) that relate to the Potlatch Group and the relevant information pertaining to their coverage elections and remaining COBRA time periods. Effective as of January 1, 2009, Potlatch shall be solely responsible for compliance with the health care continuation coverage requirements of COBRA and the Potlatch Health and Welfare Plans for Potlatch Employees and their qualified beneficiaries (as such term is defined under COBRA).

7.11 Other Post-Retirement Benefits (OPEB) Programs.

(a) Administration. As soon as reasonably practicable after December 31, 2008, Clearwater shall provide to Potlatch, through hard copy, electronic format or such other mechanism as is appropriate under the circumstances, a list detailing all Potlatch Employees who are, to the knowledge of Clearwater, eligible to participate in the Clearwater Other Post-Retirement Benefits Program as of January 1, 2009, and the type of coverage and level of coverage for which they are eligible, as applicable. Effective as of January 1, 2009, Clearwater shall be solely responsible for the administration of the Clearwater Other Post-Retirement Benefits (OPEB) Program for Clearwater Employees, and Potlatch shall be solely responsible for the administration of the Potlatch Other Post-Retirement Benefits (OPEB) Program for the Potlatch Employees.

(b) Assumption of Liabilities. Effective as of January 1, 2009, (i) the Potlatch Other Post-Retirement Benefits (OPEB) Program shall assume and be solely responsible for any and all Liabilities for or relating to Potlatch Employees under the corresponding Clearwater Other Post-Retirement Benefits (OPEB) Program, and (ii) the Clearwater Other Post-Retirement Benefits (OPEB) Program shall assume and be solely responsible for any and all Liabilities for or relating to Clearwater Employees under the Clearwater Other Post-Retirement Benefits (OPEB) Program.

(c) Transition Period. Potlatch shall reimburse Clearwater for any and all direct and indirect expenses and costs attributable to the Potlatch Employees' coverage under the Clearwater Other Post-Retirement Benefits (OPEB) Program from the Distribution Date through December 31, 2008 (or such other date as the Parties may mutually agree upon in writing).

ARTICLE VIII

FRINGE AND OTHER BENEFITS

8.1 Employee Assistance Program. The Parties shall use their commercially reasonable efforts to procure, effective as of the Distribution Date or such other date as Potlatch and Clearwater may mutually agree in writing, contracts and arrangements with Clearwater's vendors to establish an employee assistance program for Potlatch Employees that contains the Material Features of the existing contracts and arrangements of Clearwater's employee assistance program. Potlatch shall cease to be a Participating Company in the Clearwater employee assistance program coincident with Potlatch's establishment of the Potlatch employee assistance program.

8.2 Educational Assistance Program.

(a) Establishment of Educational Assistance Program. Effective as of the Distribution Date or such other date as Clearwater and Potlatch may mutually agree in writing, each Party shall provide an educational assistance program to its respective Employees that have the Material Features of the Clearwater educational assistance program. Potlatch shall cease to be a Participating Company in the Clearwater educational assistance program coincident with Potlatch's establishment of the Potlatch educational assistance program.

(b) Reimbursement of Expenses. As of the Distribution Date, any and all outstanding approved reimbursements under the Clearwater educational assistance program for Potlatch Employees shall be made by Potlatch. Potlatch and Clearwater each agree to be responsible for providing benefits to their respective Employees who are enrolled in a class or other program as of the Distribution Date for which approval has been granted under the Clearwater educational assistance program on or before the Distribution Date.

8.3 Other Benefits. To the extent that Potlatch or Clearwater maintains, sponsors or provides other fringe benefits including, without limitation, the benefits specified in Schedule 8.3 to its employees, then each Party shall, to the extent permitted by law, continue to make such benefits available to Clearwater Employees and Potlatch Employees, respectively, on substantially similar terms and conditions as are currently offered through the Distribution Date or such other date upon which Clearwater and Potlatch mutually agree in writing. Each Party shall reimburse the other Party for any and all direct and indirect costs and expenses arising out of or relating to or resulting from making any such fringe benefits available to the other Party's employees. Clearwater and Potlatch agree to make commercially reasonable efforts to mutually agree in writing, whether, when, and on what terms any member of the Clearwater Group and Potlatch Group shall maintain, sponsor or offer fringe benefits.

ARTICLE IX

TRANSITION ADMINISTRATIVE PROVISIONS

9.1 Transition Services Agreement. On the date hereof, Potlatch and Clearwater have entered into the Transition Services Agreement covering the provision of various interim services, including financial, accounting, legal, and other services between the Parties.

9.2 Payment of Liabilities, Plan Expenses and Related Matters. For the period from the Distribution Date until such date as each Party maintains its own Plan(s), the following provisions shall be in effect:

(a) Shared Costs. Each Party shall pay its share, as mutually determined by Clearwater in good faith, of any contributions made to any trust maintained in connection with a Clearwater Plan while the Parties both participate in that Clearwater Plan.

(b) Contributions to Trusts. With respect to Plans to which Potlatch Employees make contributions, Clearwater shall use reasonable procedures to determine Potlatch's Liabilities associated with such Plans, taking into account such contributions, settlements, refunds and similar payments.

(c) Administrative Expenses Not Chargeable to a Trust. Plan administration expenses shall be allocated in the manner described in Article IX of the Separation Agreement to the extent not (i) charged pursuant to the Transition Services Agreement or another provision of this Agreement, (ii) otherwise mutually agreed to in writing by Potlatch and Clearwater, or (iii) chargeable to a trust established in connection with a Clearwater Plan or a Potlatch Plan.

9.3 Sharing of Participant Information. In addition to the responsibilities and obligations of Potlatch and Clearwater specified in Article XII of the Separation Agreement, Potlatch and Clearwater shall share, or cause to be shared, all participant information that is necessary or appropriate for the efficient and accurate administration of each of the Potlatch Plans and the Clearwater Plans during the respective periods applicable to such Plans as Clearwater and Potlatch may mutually agree in writing. Potlatch and Clearwater and their respective authorized agents shall, subject to applicable laws of confidentiality and data protection, duplicate all files no matter in what format relating to the subjects of this Agreement and that are in the custody of the other Party or its agents, to the extent necessary or appropriate for such administration.

9.4 Reporting and Disclosure Communications to Participants. While Potlatch is a Participating Company in the Clearwater Plans or Clearwater is a Participating Company in the Potlatch Plans, each Party shall take, or cause to be taken, all actions necessary or appropriate to facilitate the distribution of all Plan-related communications and materials to its respective Employees, participants and beneficiaries, including (without limitation) summary plan descriptions and related summaries of material modification(s), summary annual reports, investment information, prospectuses, notices and enrollment materials. The Parties shall assist

each other in complying with all reporting and disclosure requirements of ERISA for their respective Plans, including the preparation of Form Series 5500 annual reports, where applicable.

9.5 Audits Regarding Vendor Contracts. From the period beginning as of the Distribution Date and ending eight (8) years thereafter, or such earlier date as Potlatch and Clearwater may mutually agree in writing, Potlatch and Clearwater and their duly authorized representatives shall have the right to conduct joint audits with respect to any vendor contracts that relate to both the Potlatch Plans and the Clearwater Plans. The scope of such audits shall encompass the review of all correspondence, account records, claim forms, canceled drafts (unless retained by the bank), provider bills, medical records submitted with claims, billing corrections, vendor's internal corrections of previous errors and any other documents or instruments relating to the services performed by the vendor under the applicable vendor contracts. Potlatch and Clearwater shall agree on the performance standards, audit methodology, auditing policy and quality measures, reporting requirements, and the manner in which costs incurred in connection with such audits will be allocated between the Parties.

9.6 Beneficiary Designations. Subject to Section 9.9, all beneficiary designations made by Potlatch Employees under Clearwater Plans, and all beneficiary designations made by Clearwater Employees under Potlatch Plans, shall be transferred to and be in full force and effect under the corresponding Plans established by the other Party until such beneficiary designations are replaced or revoked by the Potlatch Employee or Clearwater Employee who made the beneficiary designation.

9.7 Requests for IRS, PBGC and DOL Opinions. Potlatch and Clearwater shall make such applications to regulatory agencies, including the PBGC, IRS and DOL, as may be reasonable under the circumstances. Clearwater and Potlatch shall cooperate fully with one another on any issue relating to the transactions contemplated by this Agreement for which Potlatch or Clearwater elects to seek a determination letter or private letter ruling from the IRS or an advisory opinion from the DOL.

9.8 Fiduciary Matters. Potlatch and Clearwater each acknowledge that actions contemplated to be taken pursuant to this Agreement may be subject to fiduciary duties or standards of conduct under ERISA or other applicable law, and no Party shall be deemed to be in violation of this Agreement if such Party fails to comply with any provisions hereof based upon such Party's good faith determination that to do so would violate such a fiduciary duty or standard.

9.9 Consent of Third Parties. If any provision of this Agreement is dependent on the consent of any third party (such as a vendor) and such consent is withheld, Potlatch and Clearwater shall use commercially reasonable efforts to implement the applicable provisions of this Agreement. If any provision of this Agreement cannot be implemented due to the failure of such third party to consent, Potlatch and Clearwater shall negotiate in good faith to implement the provision in a mutually satisfactory manner.

9.10 Tax Cooperation. In connection with the interpretation and administration of this Agreement, Potlatch and Clearwater shall take into account the agreements and policies

established pursuant to the Separation Agreement and the parties' intent to qualify the Distribution as a tax-free reorganization under Code Sections 368(a)(1)(D) and 355.

ARTICLE X

EMPLOYMENT-RELATED MATTERS

10.1 **Terms of Employment.** All basic terms and conditions of employment for Potlatch Employees and Clearwater Employees, in each case, who are not subject to a Labor Agreement including, without limitation, their pay and benefits in the aggregate, shall remain substantially the same as the terms and conditions that were in place immediately prior to the Distribution Date for twelve (12) months from the Distribution Date, unless otherwise mutually agreed in writing by the Parties. Notwithstanding the foregoing or any other provision of the Separation Agreement or this Agreement, the employees of the Potlatch Group or the Clearwater Group, in each case, who are not subject to a Labor Agreement or an employment agreement that specifically provides otherwise shall remain at-will employees and the Potlatch Group and the Clearwater Group may terminate their respective employees at any time for any reason.

10.2 **Non-Solicitation of Employees.** Potlatch and Clearwater each agree not to directly solicit or recruit the other Party's employees for a period of two (2) years following the Distribution Date, if such solicitation or recruitment would be disruptive or damaging or would interfere with the operation or business of the other Party. Notwithstanding the foregoing, this prohibition on solicitation does not apply to actions taken by a Party either: (a) as a result of an employee's affirmative response to a general recruitment effort carried out through a public solicitation or general solicitation, or (b) as a result of an employee's initiative.

10.3 **Confidentiality and Proprietary Information.** No provision of the Separation Agreement or this Agreement shall be deemed to release any Potlatch Employee or Clearwater Employee for any violation of any non-competition guideline or any agreement or policy pertaining to confidential or proprietary information of any member of the Potlatch Group or Clearwater Group, or otherwise relieve any such individual of his or her obligations under such non-competition guideline, agreement, or policy.

10.4 **Time Off Policies.** Effective as of the Distribution Date, Potlatch shall establish the Potlatch Time Off Policies that are identical in all Material Features to the Clearwater Time Off Policies. Effective as soon as reasonably practicable after the Distribution Date (or such other date as Potlatch and Clearwater may mutually agree in writing), (a) Clearwater shall transfer to Potlatch all data and information relating to the Clearwater Time Off Policies; and (b) Potlatch shall assume all Liabilities attributable to Potlatch Employees under the Clearwater Time Off Policies. In the event that a Potlatch Employee or Clearwater Employee transfers his or her employment to the other Party before the Distribution Date, such transfer of employment shall not result in a payout or constitute a termination event for purposes of the Time Off Policies, and no duplication of benefits shall occur as a result of any such transfer of employment between Potlatch and Clearwater. Furthermore, the Liability attributable to any Clearwater Employee or Potlatch Employee who transfers employment between Potlatch and Clearwater prior to the Distribution Date shall be assumed by the employer subsequent to the transfer.

10.5 Payroll Systems.

(a) Clearwater Payroll System. Effective on and after the Distribution Date, and subject to the Transition Services Agreement, Clearwater shall perform payroll services for Potlatch.

(b) Income Reporting, Withholding. Commencing with service periods beginning after the division of the payroll services, Clearwater shall perform or be responsible for performing the income reporting and withholding function under its own employer identification number for Clearwater Employees and its other service providers, and Potlatch shall perform or be responsible for performing the income reporting and withholding function for Potlatch Employees and its other service providers.

(c) Delivery of, and Access to, Documents and Other Information. Potlatch and Clearwater each shall make reasonably available to the other Party all forms, documents or information, no matter in what format stored, relating to compensation or payments made to any employee or service provider to extent reasonably necessary to facilitate an individual's transfer to, or service or employment by, the other Party. Such information may include, but is not limited to, information concerning employee payroll deductions, payroll adjustments, records of time worked, tax records (e.g., Forms W-2, W-4, 940 and 941), and information concerning garnishment of wages or other payments.

(d) Consistency of Payroll Taxes and Contributions. Potlatch and Clearwater shall individually and collectively use commercially reasonable efforts to avoid unnecessarily duplicative federal, state or local payroll taxes, insurance or workers' compensation contributions, or unemployment contributions arising on or after the Distribution Date. Potlatch and Clearwater shall take consistent reporting and withholding positions with respect to any such taxes or contributions.

10.6 Personnel and Pay Records. Subject to Section 12.1 of the Separation Agreement, for such period as Potlatch and Clearwater may mutually agree in writing, Potlatch and Clearwater shall make reasonably available to the other Party (including the ability to duplicate) to the extent necessary to facilitate a transfer of employment or service to the other Party, subject to applicable laws on confidentiality and data protection, all current and historic forms, documents or information, no matter in what format stored, relating to pre-Distribution Date personnel, medical records, and payroll information. Such forms, documents or information may include, but is not limited to: (a) information regarding an Employee's ranking or promotions; (b) the existence and nature of garnishment orders or other judicial or administrative actions or orders affecting an employee's or service provider's compensation; and (c) performance evaluations.

10.7 Unemployment Insurance Program.

(a) Coverage Through Distribution Date. All current Potlatch Employees and all current Clearwater Employees will be covered under the Clearwater Unemployment Insurance Program through the Distribution Date. Clearwater shall cooperate with the

unemployment insurance vendor(s) by providing information in its possession that is necessary for the development of the Potlatch Unemployment Insurance Program.

(b) Coverage Post-Distribution Date. Before the Distribution Date, the Parties shall use their commercially reasonable efforts to enable Potlatch to procure an agreement with its unemployment insurance vendor(s) with the Material Features of the Clearwater Unemployment Insurance Program. After the Distribution Date, Potlatch and Clearwater will maintain their respective Unemployment Insurance Programs for their respective employees.

(c) Tax Experience Rating. Unless otherwise directed by Potlatch, the Parties shall use their commercially reasonable efforts to enable Potlatch as well as all members of the Potlatch Group, to retain the existing experience rating on or after the Distribution Date.

10.8 Non-Termination of Employment. Neither the Distribution or Separation, nor the termination of the Participating Company status of Potlatch, Clearwater or any member of the Potlatch Group or Clearwater Group shall cause any employee to be deemed to have incurred a termination of employment; and no transfer of employment between Potlatch and Clearwater before the Distribution Date shall be deemed a termination of employment for any purpose hereunder.

10.9 Leave of Absence Programs and FMLA.

(a) Allocation of Responsibilities After Distribution Date. Subject to Section 12.1 of the Separation Agreement, effective as of the Distribution Date: (i) each Party shall adopt (or continue to maintain) Leave of Absence Programs which are substantially identical in all Material Features to the existing Leave of Absence Programs as in effect on the Distribution Date; (ii) each Party shall honor all terms and conditions of leaves of absence which have been granted to any Clearwater or Potlatch Employee under an existing Leave of Absence Program or FMLA before the Distribution Date, including such leaves that are to commence after the Distribution Date; (iii) each Party shall be solely responsible for administering leaves of absence and complying with FMLA with respect to its hourly Employees; and (iv) each Party shall recognize all periods of service of the other Party's employees to the extent such service is recognized under the existing Leave of Absence Programs and FMLA; provided, however, that no duplication of benefits shall, to the extent permitted by law, be required by the foregoing.

(b) Disclosure. Subject to Section 12.1 of the Separation Agreement, at such date as mutually agreed in writing by the Parties, Clearwater shall provide to Potlatch copies of all records pertaining to the Clearwater Leave of Absence Programs and FMLA with respect to all Potlatch Employees to the extent such records have not been previously provided.

10.10 Employment Litigation. Subject to the Separation Agreement, Potlatch shall have the sole responsibility for all employment-related claims regarding Potlatch Employees, and Clearwater shall have the sole responsibility for all employment-related claims regarding Clearwater Employees, that exist, or come into existence, on or after the Distribution Date arising out of or relating to or resulting from their employment in the Retained Business or Pulp-Based Business, respectively.

10.11 Workers' Compensation. The ownership and administration of workers compensation insurance shall be governed by Article VIII of the Separation Agreement.

ARTICLE XI

LABOR AGREEMENTS

The Parties agree that the Labor Agreements and the Liabilities thereunder shall, in each case, as applicable, be retained by, or, as applicable, assumed by, and assigned to, Clearwater.

ARTICLE XII

GENERAL PROVISIONS

12.1 Relationship of Parties. Nothing in this Agreement shall be deemed or construed by the Parties or any third party as creating the relationship of principal and agent, partnership or joint venture between the Parties, the understanding and agreement being that no provision contained herein, and no act of the Parties, shall be deemed to create any relationship between the Parties other than the relationship set forth herein.

12.2 Incorporation of Separation Agreement Provisions. The following provisions of the Separation Agreement are hereby incorporated herein by reference, and unless otherwise expressly specified herein, such provisions shall apply as if fully set forth herein (references in this Section to an "Article" shall mean Articles of the Separation Agreement, and, except as expressly set forth below, references in the material incorporated herein by reference shall be references to the Separation Agreement): Article IX (Expenses); Article X (Indemnification); Article XI (Dispute Resolution); and Article XII (Access to Information and Services).

12.3 Conflict. In the event of any conflict between the provisions of this Agreement and the Separation Agreement, any other Agreement between the Parties, or any Plan, then the provisions of this Agreement shall control.

12.4 Entire Agreement. This Agreement, the Separation Agreement, the Transition Services Agreement, and the documents delivered pursuant hereto and thereto, constitute the entire agreement between the Parties with respect to the subject matter contained herein or therein, and supersede all prior agreements, negotiations, discussions, understandings, writings and commitments between the Parties with respect to such subject matter.

12.5 Choice of Law and Forum. This Agreement shall be governed by and construed and enforced in accordance with the substantive laws of the State of Delaware and the federal laws of the United States of America applicable therein, as though all acts and omissions related hereto occurred in Delaware.

12.6 Amendment. This Agreement shall not be amended, modified or supplemented except by a written instrument signed by an authorized representative of each of the Parties.

12.7 Waiver. Any term or provision of this Agreement may be waived, or the time for its performance may be extended, by the Party or Parties entitled to the benefit thereof. Any such waiver shall be validly and sufficiently given for the purposes of this Agreement if, as to any Party, it is in writing signed by an authorized representative of such Party. The failure of any Party to enforce at any time any provision of this Agreement shall not be construed to be a waiver of such provision, or in any way to affect the validity of this Agreement or any part hereof or the right of any Party thereafter to enforce each and every such provision. No waiver of any breach of this Agreement shall be held to constitute a waiver of any other or subsequent breach.

12.8 Partial Invalidity. Wherever possible, each provision hereof shall be interpreted in such a manner as to be effective and valid under applicable Law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such provision or provisions shall be ineffective to the extent, but only to the extent, of such invalidity, illegality or unenforceability without invalidating the remainder of such provision or provisions or any other provisions hereof, unless such a construction would be unreasonable.

12.9 Execution in Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original instrument, but all of which shall be considered one and the same agreement, and shall become binding when one or more counterparts have been signed by and delivered to each of the Parties.

12.10 Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the Parties hereto and thereto, respectively, and their successors and permitted assigns; provided, however, that the rights and obligations of either Party under this Agreement shall not be assignable by such Party without the prior written consent of the other Party. The successors and permitted assigns hereunder shall include, without limitation, any permitted assignee as well as the successors in interest to such permitted assignee (whether by merger, liquidation (including successive mergers or liquidations) or otherwise).

12.11 No Third Party Beneficiaries. The provisions of this Agreement are solely for the benefit of the Parties and their respective Affiliates, successors and permitted assigns and shall not confer upon any third Person any remedy, claim, liability, reimbursement or other right in excess of those existing without reference to this Agreement. No provision in this Agreement shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Potlatch Employee, Clearwater Employee or other future, present or former employee of Potlatch or Clearwater under any Potlatch Plan or Clearwater Plan or otherwise. Furthermore, no provision in this Agreement is intended to, or shall, modify or amend any Potlatch Plan or Clearwater Plan. The foregoing shall not prevent the Parties entitled to enforce this Agreement from enforcing any provision in this Agreement, but no other Person shall be entitled to enforce any provision in this Agreement on the grounds that it is an amendment to any Potlatch Plan or Clearwater Plan, unless the provision is explicitly designated as such in this Agreement, and the Person is otherwise entitled to enforce the terms of such Potlatch Plan or Clearwater Plan. If a party who is not entitled to enforce this Agreement brings a lawsuit or other action to enforce any provision in this Agreement as an amendment to any Potlatch Plan or Clearwater Plan and such provision is construed by a Governmental Entity to constitute an amendment of such Plan despite not being explicitly designated as such in this Agreement, that provision shall retroactively lapse, thereby precluding it from having an amendatory effect.

12.12 Notices. All notices, requests, claims, demands and other communications required or permitted hereunder shall be in writing and shall be deemed given or delivered (a) when delivered personally, (b) if transmitted by facsimile when confirmation of transmission is received, (c) if sent by registered or certified mail, postage prepaid, return receipt requested, on the third business day after mailing, or (d) if sent by private courier when received; and shall be addressed as follows:

If to Potlatch, to:

Potlatch Corporation
601 W. First Avenue, Suite 1600
Spokane, WA 99201
Facsimile: (509) 835-1561
Attention: General Counsel

If to Clearwater, to:

Clearwater Paper Corporation
601 West Riverside Avenue, Suite 1100
Spokane, WA 99201
Facsimile: (509) 342-2570
Attention: General Counsel

or to such other address as such Party may indicate by a notice delivered to the other Party.

12.13 Performance. Each Party shall cause to be performed, and hereby guarantees the performance of, all actions, agreements and obligations set forth herein to be performed by any Subsidiary or Affiliate of such Party.

12.14 Force Majeure. No Party shall be deemed in default of this Agreement to the extent that any delay or failure in the performance of its obligations under this Agreement results from any cause beyond its reasonable control and without its fault or negligence, including, without limitation, acts of God, acts of civil or military authority, embargoes, epidemics, war, riots, labor strikes, work stoppages as a result of labor unrest, insurrections, fires, explosions, earthquakes, floods, unusually severe weather conditions, or unavailability of parts, or, in the case of computer systems, any failure in electrical or air conditioning equipment. In the event of any such excused delay, the time for performance shall be extended for a period equal to the time lost by reason of the delay.

12.15 No Public Announcement. Neither Potlatch nor Clearwater shall, without the approval of the other, make any press release or other public announcement concerning the actions (or inactions) contemplated by this Agreement, except as and to the extent that any such Party shall be so obligated by Law or the rules of any stock exchange or quotation system, in which case the other Party shall be advised and the Parties shall use commercially reasonable efforts to cause a mutually agreeable release or announcement to be issued; provided, however, that; the foregoing shall not preclude communications or disclosures necessary: (a) to implement the provisions of this Agreement; (b) to comply with the accounting and SEC disclosure obligations or the rules of any stock exchange; (c) to comply with a Labor Agreement and any requisite effects bargaining; or (d) to promote a smooth transition for the employees, including FAQs and other employee communications.

12.16 Termination. Notwithstanding any provisions hereof, this Agreement may be terminated and the Distribution abandoned at any time prior to the Distribution Date by and in the sole discretion of the Board of Directors of Potlatch without the prior approval of any Person.

In the event of such termination, this Agreement shall forthwith become void and no Party shall have any liability to any Person by reason of this Agreement.

[signature page follows]

IN WITNESS WHEREOF, each Party has caused this Agreement to be executed by its authorized representative as of the date first above written.

POTLATCH CORPORATION,
a Delaware corporation

By: /s/ Michael J. Covey
Name: Michael J. Covey

CLEARWATER PAPER CORPORATION,
a Delaware corporation

By: /s/ Gordon L. Jones
Name: Gordon L. Jones

SCHEDULE 1.31

HEALTH AND WELFARE BENEFITS PLANS

Potlatch Forest Products Corporation Insured Health Benefits Plan

Potlatch Forest Products Corporation Health & Welfare Plan

HMO with Vision and Prescription Drug Benefits – Health Plan of Nevada

SCHEDULE 1.35

LABOR AGREEMENTS

<u>Labor Agreement</u>	<u>Location</u>	<u>Represented Group</u>	<u>Expiration Date</u>
Master Working Agreement between Potlatch Forest Products Corporation and Local Lodge W-364, Clearwater Unit, Lewiston, Idaho; and I.A.M.A.W. Woodworkers International Association of Machinists and Aerospace Workers	Idaho	Hourly employees at Lewiston Lumber Products	May 31, 2012
Working Agreement between Potlatch Forest Products Corporation and #4 Power Boiler Unit, Lewiston, Idaho and Woodworkers District Lodge W1, International Association of Machinists and Aerospace Workers, Local Lodge W-364	Idaho	Hourly employees at Lewiston Pulp & Paperboard Number 4 Power Boiler	May 31, 2012
Agreement by and between Potlatch Corporation, McGhee, Arkansas and the United Steel Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, its affiliated Local No. 13-1532 and its affiliated Local No. 13-1533	Arkansas	Hourly employees at Arkansas Pulp & Paperboard	July 31, 2009
Agreement by and between Potlatch Forest Products Corporation, Lewiston, Idaho and Local Union No.73 of the International Brotherhood of Electrical Workers	Idaho	Hourly employees (electricians) at Idaho Pulp & Paperboard and Consumer Products	August 31, 2010
Agreement by and between Potlatch Forest Products Corporation and the United Steel, Paper and Forestry, Rubber Manufacturing, Energy, Allied Industrial and Service Workers International Union and its affiliated Local Union 608 and its affiliated Local Union 712	Idaho	Hourly employees (operations & maintenance) at Idaho Pulp & Paperboard and Consumer Products	August 31, 2010

SCHEDULE 3.2(c)(i)**ACTUARIAL ASSUMPTIONS****FOR DEFINED BENEFIT PLAN TERMINATION BASIS DETERMINATIONS**

<u>Assumptions</u>	<u>Description</u>
Interest Rates (new rates published monthly)	As prescribed by 29 CFR 4044 Appendix B. Applicable month's rates will apply (September 2008 rates are 6.24% for years 1-20 and 5.31% for years thereafter).
Healthy Mortality (new tables published annually)	As prescribed by 29 CFR 4044.53. 1994 GAM Basic mortality table (also known as US UP-94), projected by Scale AA to valuation year plus 10 years; sex distinct.
Social Security Disabled Mortality	As prescribed by 29 CFR 4044.53. Table 5 and 6 in 29 CFR 4044 Appendix A.
Non-Social Security Disabled Mortality	As prescribed by 29 CFR 4044.53. The lesser rates of the Healthy Mortality Table set forward three years or the Social Security Disabled Mortality Table.
Expected Retirement Age (XRA) – when participant left employment less than one year before valuation date (or was still employed) and the facility where the participant worked was closed less than one year before valuation date (or is in the process of being closed)	As prescribed by 29 CFR 4044.57. Earliest retirement age at valuation date.
Expected Retirement Age (XRA) – participant does not fall in category above	As prescribed by 29 CFR 4044.55 and 29 CFR 4044.56. First – Determine which category (low, medium, high) participant is in depending on what year participant reaches unreduced retirement age (URA) and the amount of unreduced benefit per the latest version of Table I (Table I-08 for 2008) located in CFR 4044 Appendix D. Second – Tables II-A, B, or C located in 29 CFR 4044 Appendix D are used for low, medium, and high categories, respectively, to determine XRA (cannot be earlier than age at valuation date). Must use extended tables if any age is outside of table range.
Benefit Form for participants not currently receiving benefits	As prescribed by 29 CFR 4044.51(a). Benefit payable in the absence of a valid election. As prescribed by 29 CFR 4044 Appendix C.
Loading Expenses	\$10,000, plus a percentage of the excess of the total value of liabilities over \$200,000, plus \$200 for each plan participant; the percentage is equal to $1\% + [(P\% - 7.50\%) / 10]$, where P% is the interest rate for the first 20 years as prescribed by 29 CFR 4044 Appendix B, expressed as a percentage.

SCHEDULE 6.7

DEFERRED PAYMENT CONTRACTS AND SEVERANCE CONTRACTS

All Liabilities with respect to, and all responsibilities for administering, the deferred payment contracts and/or severance contracts for the following individuals shall be allocated between the Parties as indicated below.

Allocated to Potlatch

Deferred Payment Contracts

Grove	Rehm
-------	------

Robison	Tate
---------	------

Any other individual with a deferred payment contract not specifically allocated to Clearwater on this Schedule

Severance Contracts

Akerman	Bacon
---------	-------

Biazzo	Black
--------	-------

Brenner	Bullard
---------	---------

Cheek	Clark
-------	-------

Davis	Deward
-------	--------

Durand	Hanby
--------	-------

Hawley	Kosloski
--------	----------

Krantz	Martin
--------	--------

McAdoo	Nordholm
--------	----------

Norha	Page
-------	------

Palkie	Powell
--------	--------

Robison	Rosenbaum
---------	-----------

Smrekar	Warner
---------	--------

Any other individual with a severance contract not specifically allocated to Clearwater on this Schedule

Allocated to Clearwater

Deferred Payment Contracts

None

Severance Contracts

Beech	Collier
-------	---------

DeBorde	Fleshman
---------	----------

Morton	Saarela
--------	---------

SCHEDULE 7.7(a)**THIRD PARTY ASO CONTRACTS/PROFESSIONAL SERVICES**

<u>Agreement Title</u>	<u>Date</u>	<u>Party</u>	<u>Counter-Party</u>
Direct Client Administrative Services Agreement	7/1/05	Potlatch Forest Products Corporation	CONEXIS Benefits Administrators, LP
Professional Services Agreement	1/1/03	Potlatch Forest Products Corporation	Milliman, Inc.
Administrative Services Agreement	1/1/06	Potlatch Forest Products Corporation	Regence BlueShield of Idaho, Inc.
Administrative Services Agreement	4/1/03	Potlatch Forest Products Corporation	BlueAdvantage Administrators of Arkansas
Administrative Service Agreement	7/1/08	Potlatch Forest Products Corporation	Mercer HR Services
Professional Service Agreement	1/1/08	Potlatch Forest Products Corporation	AON

SCHEDULE 7.7(b)

GROUP INSURANCE POLICIES

Insured Health and Welfare Benefits

Basic Accidental Death & Dismemberment – Reliance Standard Insurance Company

Business Travel Accident – Hartford Insurance Company

Optional Life – Reliance Standard Insurance Company

Group Universal Life Insurance – Metropolitan Life Insurance Company
(Salaried employees over \$100,000)

Stop Loss Insurance – ING

Optional Accidental Death & Dismemberment – Reliance Standard Insurance Company

Basic Life – Reliance Standard Insurance Company

Dependents Life - Reliance Standard Insurance Company

Long Term Disability – Reliance Standard Life Insurance Company
(Salaried employees and (Elwood, IL, non-bargaining unit employees))

Self-Insured Health and Welfare Benefits

Salaried Employees Medical PPO \$300 Deductible – BlueAdvantage of Arkansas

Hourly Represented PPO \$300 Deductible (includes dental and vision) -
Regence BlueShield of Idaho (Lewiston, ID USW/IBEW bargaining unit employees)

Vision – VSP (Salaried employees and Elwood, IL, non-bargaining unit employees)

Hourly Dental – CIGNA (Cypress Bend, AR USW bargaining unit employees)

Short-term disability – Matrix (salaried employees)

Hourly Retirees New \$300 Deductible Plan – USW/IBEW – BlueAdvantage of Arkansas

Hourly Retirees \$100 Deductible Plan – USW/IBEW – BlueAdvantage of Arkansas

Hourly Retirees \$300 Deductible Plan – USW/IBEW – BlueAdvantage of Arkansas

Salaried Retirees Base Major Medical Plan with \$50 Deductible –
BlueAdvantage of Arkansas

Medicare Premium Reimbursement Program – USW/IBEW Lewiston, ID

Salaried Employees Medical PPO \$600 Deductible – BlueAdvantage of Arkansas

Hourly Represented PPO \$600 Deductible (includes dental and vision) -
Regence BlueShield of Idaho (Lewiston, ID USW/IBEW bargaining unit employees)

Salaried Dental – CIGNA

Hourly Dental – CIGNA (Elwood, IL, non-bargaining unit employees)

Salaried and Hourly Prescription Drug – Express Scripts Incorporated (all employees and retirees)

Hourly Retirees New \$600 Deductible Plan – USW/IBEW – BlueAdvantage of Arkansas

Hourly Retirees \$200 Deductible Plan – USW/IBEW – BlueAdvantage of Arkansas

Hourly Retirees Base Major Medical Plan with \$25 Deductible –
USW/IBEW – BlueAdvantage of Arkansas

Salaried Retirees \$600 Deductible PPO Plan – BlueAdvantage of Arkansas

Other Health and Welfare Benefits

Flexible Benefits Plan (includes before-tax premium, health care and dependent care) - Conexis

The Nelson Trust: Medical PPO, Prescription Drugs, Dental, Vision, Life and Accidental Death and Dismemberment, Short-term Disability

SCHEDULE 8.3

FRINGE BENEFITS

Salaried Vacation Policy

Service Award Program

Tuition Refund Plan

Relocation Policies (includes separate policies for New Hires and Existing Employees)

VIII

CLEARWATER PAPER CORPORATION
PERFORMANCE SHARE AGREEMENT
2008 STOCK INCENTIVE PLAN

THIS PERFORMANCE SHARE AGREEMENT (this "Agreement") is made and entered into on the Grant Date specified in the attached Addendum to this Agreement by and between CLEARWATER PAPER CORPORATION, a Delaware corporation (the "Corporation"), and the Employee named in the Addendum (the "Employee").

WITNESSETH:

WHEREAS, the Corporation maintains the Clearwater Paper Corporation 2008 Stock Incentive Plan (the "Plan"), which is incorporated into and forms a part of this Agreement, and the Employee has been selected to receive a contingent grant of Performance Shares under Section 11 of the Plan;

NOW, THEREFORE, for valuable consideration, the parties agree as follows:

1. Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms used in this Agreement shall have the meanings set forth in this Section 1. Capitalized terms not defined in this Agreement shall have the same definitions as in the Plan.

(a) "Addendum" means the attached Addendum.

(b) "Disability" means the condition of the Employee who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of at least 12 months.

(c) "Grant Date" means the effective date of the Award of the Performance Shares to the Employee, as specified in the Addendum.

(d) "Retirement Plan" means the Clearwater Paper Salaried Retirement Plan.

2. Award. Subject to the terms of this Agreement and the Addendum, the Employee is hereby awarded a target contingent grant of Performance Shares in the number set forth in the attached Addendum (the "Award"). The number of Shares actually payable to the Employee is contingent on the performance achieved as specified in the Addendum. This Award has been granted pursuant to the Plan and is subject to all the terms and provisions thereof, a copy of which is attached and the terms and conditions of which are incorporated by reference into this Agreement.

3. Performance Measure. The Performance Measure is a comparison of the percentile ranking of the Corporation's total stockholder return (stock price appreciation plus dividends as calculated pursuant to Section 5 below) as compared to the total stockholder return performance of a selected peer group of companies as specified in the Performance Schedule contained in the Addendum.

4. Performance Period. The Performance Period is the period specified in the Addendum and represents the period during which the total stockholder return for the Corporation and the selected peer group of companies is measured.

5. Calculation of Total Stockholder Return. Total stockholder return for a Share and for the stock of a member of the peer group shall be expressed as a percentage and calculated by:

- (i) subtracting (a) the beginning average stock price for one share of stock (determined by calculating the average closing stock price during the forty trading days preceding the beginning of the Performance Period) from (b) the ending average stock price for such share of stock (determined by calculating the average closing stock price during the final forty trading days of the Performance Period, after taking into account the effect of any of the events described in Section 12 of the Plan occurring with respect to the Corporation or any member of the peer group); and
- (ii) adding to the difference determined under subparagraph (i) above all cash dividends actually paid on such share of stock during the Performance Period; and
- (iii) dividing the sum determined by subparagraphs (i) and (ii) above by the beginning average stock price determined pursuant to clause (a) of subparagraph (i) above.

6. Dividend Equivalents. During the Performance Period, dividend equivalents shall be converted into additional Performance Shares based on the closing price of the Corporation's Common Stock on the New York Stock Exchange on the dividend payment date. Such additional Performance Shares shall vest or be forfeited in the same manner as the underlying Performance Shares to which they relate.

7. Settlement of Awards. Pursuant to Section 5 above, the Corporation shall deliver to the Employee one Share for each earned Performance Share (and, as applicable, for the accrued dividend equivalents) as determined in accordance with the provisions set forth in the Addendum. Any earned Performance Shares payable to the Employee (including Shares payable pursuant to Section 6 above) shall be paid solely in Shares. Any fractional Share will be rounded to the closest whole Share.

8. Time of Payment. Except as otherwise provided in this Agreement, the Shares issuable for the earned Performance Shares (and any accrued dividend equivalents) shall be delivered to the Employee (or, in the case of the Employee's death before delivery, to the Employee's beneficiary or representative) as soon as practicable after the end of the Performance Period as set forth in the Addendum, but in no event later than 60 days following the end of the Performance Period.

9. Committee Discretion to Reduce Award. Notwithstanding any provision in this Agreement to the contrary, the Committee retains the right, at its sole and absolute discretion, to reduce or eliminate any Award that may become payable hereunder if the Committee determines that any one or more of the following conditions have occurred:

- (a) The stockholder return to the Corporation's stockholders has been insufficient;
- (b) The stockholder return to the Corporation's stockholders has been negative;
- (c) The financial performance of the Corporation has been inadequate; or
- (d) The operational performance of the Corporation has been inadequate.

In addition, the Committee may reduce or eliminate the Award granted hereby based on the Employee's individual performance.

10. Retirement, Disability, or Death During the Performance Period. If the Employee's Service terminates during the Performance Period because of the Employee's early or normal retirement and commencement of benefit payments under the Retirement Plan, or his or her Disability or death, the Employee (or, in the case of the Employee's death, the Employee's beneficiary or representative) shall be entitled to a prorated number of the Performance Shares granted. The prorated number of Performance Shares earned is determined at the end of the Performance Period based on the ratio of the number of completed calendar months the Employee is employed during the Performance Period to the total number of months in the Performance Period.

11. Termination of Service During the Performance Period. If the Employee's Service terminates during the Performance Period for any reason other than as described in Section 10, the entire Award granted under this Agreement shall be automatically terminated as of the date of such termination of Service.

12. Change of Control. Upon a Change of Control, the target award will be deemed payable and dividend equivalents will be calculated on the target award. The number of Shares payable will be determined by multiplying the target award plus dividend equivalents by a fraction, the numerator of which is the number of complete months that have elapsed during the Performance Period to the date of the Change of Control, and the denominator of which is the number of whole months in the entire Performance Period.

13. Available Shares. The Corporation agrees that it will at all times during the term of this Agreement reserve and keep available sufficient authorized but unissued or reacquired Shares to satisfy the requirements of this Agreement.

14. Applicable Taxes. In the event the Corporation determines that it is required to withhold state or federal income taxes, social security taxes or any other applicable taxes as a result of the payment of the Shares, the Corporation will satisfy such withholding requirements by withholding of Shares otherwise payable upon the settlement of the Award, which Shares will have a Fair Market Value (determined as of the date when taxes would otherwise be withheld in cash) not in excess of the legally required minimum amount of tax withholding.

15. Relationship to Other Benefits. Performance Shares shall not be taken into account in determining any benefits under any pension, savings, disability, severance, group insurance or any other pay-related plan of the Corporation or its Subsidiaries or Affiliates.

16. Required Deferral. In the event the Award would cause the Employee to qualify as a “covered employee” pursuant to Section 162(m) of the Code, that portion of the Award that would exceed the amount deductible by the Corporation under Section 162(m) of the Code shall be automatically deferred until the Employee’s compensation is no longer subject to Section 162(m) of the Code. Any portion of the Award so deferred shall be converted to Restricted Stock Units and dividend equivalents shall accrue on the Restricted Stock Units and be paid out as additional shares after the Employee’s compensation is no longer subject to Section 162(m) of the Code. Any deferral of the Award is intended to comply with Section 409A of the Code.

17. Stockholder Rights. Neither the Employee nor the Employee’s beneficiary or representative shall have any rights as a stockholder with respect to any Shares subject to this Agreement until such Shares shall have been issued to the Employee or the Employee’s beneficiary or representative.

18. Transfers, Assignments, Pledges. Except as otherwise provided in this Agreement, the rights and privileges conferred by this Agreement shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Award, or of any right or privilege conferred by this Agreement, contrary to the provisions of this Section 18, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred by this Agreement, the Award and the rights and privileges conferred by this Agreement shall immediately become null and void. However, this Section 18 shall not preclude: (i) an Employee from designating a beneficiary to succeed, after the Employee’s death, to any rights of the Employee or benefits distributable to the Employee under this Agreement not distributed at the time of the Employee’s death; or (ii) a transfer of any Award hereunder by will or the laws of descent or distribution. In that regard, any such rights shall be exercisable by the Employee’s beneficiary, and such benefits shall be distributed to the beneficiary, in accordance with the provisions of this Agreement and the Plan. The beneficiary shall be the named beneficiary or beneficiaries designated by the Employee in writing filed with the Corporation in such form and at such time as the Corporation shall require. If a deceased Employee has not designated a beneficiary, or if the designated beneficiary does not survive the Employee, any benefits distributable to the Employee shall be distributed to the legal representative of the estate of the Employee. If a deceased Employee has designated a beneficiary and the designated beneficiary survives the Employee but dies before the complete distribution of benefits to the designated beneficiary under this Agreement, then any benefits distributable to the designated beneficiary shall be distributed to the legal representative of the estate of the designated beneficiary.

19. No Employment Rights. Nothing in this Agreement shall be construed as giving the Employee the right to be retained as an employee or as impairing the rights of the Corporation or a Subsidiary or an Affiliate to terminate his or her employment at any time, with or without cause.

20. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of this Agreement by the Committee and any decision made by it with respect to this Agreement is final and binding.

21. Interpretation/Applicable Law. This Agreement shall be interpreted and construed in a manner consistent with the terms of the Plan and in accordance with the laws of the State of Delaware (without regard to choice of law principles). If there is any discrepancy between the terms and conditions of this Agreement and the terms and conditions of the Plan, the terms and conditions of the Plan shall control.

22. Term of the Agreement. The term of this Agreement shall end upon the earlier of (i) the delivery of all of the Shares or other consideration to be issued in exchange for Performance Shares (and accrued dividend equivalents) or (ii) upon the termination of the Employee's Service for any reason other than retirement under the Retirement Plan, or the Employee's Disability or death.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, each party has or has caused this Agreement to be executed as of the respective date set forth below.

CORPORATION:

Clearwater Paper Corporation,
a Delaware corporation

By: _____
Name: _____
Title: _____
Date: _____

EMPLOYEE:

[Name of Employee]

Date: _____

**ADDENDUM TO PERFORMANCE SHARE and
RESTRICTED STOCK UNIT AGREEMENTS
CLEARWATER PAPER CORPORATE STOCK INCENTIVE PLAN**

Name of Employee: _____

1. Date of Grant: _____
2. Target Grant of Performance Shares: _____
3. Target Grant of Restricted Stock Units: _____
4. Performance Period: _____
5. Performance Measure: The performance measure is a comparison of the percentile ranking of Clearwater Paper Corporation's total shareholder return (TSR), which includes stock price appreciation plus dividends paid during the performance period, to the TSR performance of selected peer group of forest products industry companies listed on Exhibit 1 hereto.
6. Performance Schedule: The performance schedule displayed on the back side of Exhibit 1 shows the percentage of the target grant that will be awarded at the end of the performance period depending upon the actual TSR percentile ranking achieved by Clearwater during the performance period.

The RSU award, along with all additional shares attributable to dividend equivalents shall vest on _____.

The documents entitled Performance Share and Restricted Stock Unit Agreements – Clearwater Paper Corporation 2008 Stock Incentive Plan are incorporated by this reference into this addendum and the terms of the Performance Share and Restricted Stock Unit Agreements shall be controlling in the event of any discrepancy.

IN WITNESS WHEREOF, the Corporation has caused this Addendum to the Performance Share and Restricted Stock Unit Agreements to be executed on its behalf by its duly authorized representative, and the Employee has executed the same on the date indicated below.

CLEARWATER PAPER CORPORATION

Date: _____

By _____
Vice President, Human Resources

Date: _____

By _____
Employee

Total Shareholder Return
Measurement Peer Group

Performance Schedule

The “Performance Schedule” is a schedule selected by the Committee at the beginning of the Performance Period. The Performance Schedule may be related to absolute or relative Performance Measures or a combination of measures. The schedule displays the performance categories and targets.

In ____, the Performance Schedule shall consist of a multiplier that varies based on the Corporation’s rank against its peers for the Performance Period using the Performance Measure in Subsection F above. In ____, it shall be as follows:

Rank Against Peers	Multiplier
____ percentile or above	____%
____ percentile	____%
____ percentile	____%
Below ____ percentile	0%

For performance that is intermediate between percentiles listed in the table, the multiplier shall be determined by interpolation. The resulting multiplier shall be applied to the portion of each individual’s LTIP Award that consists of Performance Shares to determine the ultimate number of Shares payable under that portion of the LTIP Award at the end of the Performance Period.

CLEARWATER PAPER CORPORATION
PERFORMANCE SHARE AGREEMENT
2008 STOCK INCENTIVE PLAN

THIS PERFORMANCE SHARE AGREEMENT (this "Agreement") is made and entered into on the Grant Date specified in the attached Addendum to this Agreement by and between CLEARWATER PAPER CORPORATION, a Delaware corporation (the "Corporation"), and the Employee named in the Addendum (the "Employee").

W I T N E S S E T H:

WHEREAS, the Corporation maintains the Clearwater Paper Corporation 2008 Stock Incentive Plan (the "Plan"), which is incorporated into and forms a part of this Agreement, and the Employee has been selected to receive a contingent grant of Performance Shares under Section 11 of the Plan;

NOW, THEREFORE, for valuable consideration, the parties agree as follows:

1. Definitions. In addition to the terms defined elsewhere in this Agreement, the following terms used in this Agreement shall have the meanings set forth in this Section 1. Capitalized terms not defined in this Agreement shall have the same definitions as in the Plan.

(a) "Addendum" means the attached Addendum.

(b) "Disability" means the condition of the Employee who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of at least 12 months.

(c) "Grant Date" means the effective date of the Award of the Performance Shares to the Employee, as specified in the Addendum.

(d) "Retirement Plan" means the Clearwater Paper Salaried Retirement Plan.

2. Award. Subject to the terms of this Agreement and the Addendum, the Employee is hereby awarded a target contingent grant of Performance Shares in the number set forth in the attached Addendum (the "Award"). The number of Shares actually payable to the Employee is contingent on the performance achieved as specified in the Addendum and in this Agreement. This Award has been granted pursuant to the Plan and is subject to all the terms and provisions thereof, a copy of which is attached and the terms and conditions of which are incorporated by reference into this Agreement.

3. Performance Measure. The Performance Measure is a comparison of the percentile ranking of the Corporation's total stockholder return (stock price appreciation plus

dividends as calculated pursuant to Section 5 below, as the same may be adjusted pursuant to Section 12 below) as compared to the total stockholder return performance of a selected peer group of companies as specified in the Performance Schedule contained in the Addendum.

4. Performance Period. Subject to Section 12 below (which provides for a shortened Performance Period in the event of a Change of Control), the Performance Period is the period specified in the Addendum and represents the period during which the total stockholder return for the Corporation and the selected peer group of companies is measured.

5. Calculation of Total Stockholder Return. Subject to the adjustment to the forty trading day measurement period as set forth in Section 12 below, total stockholder return for a Share and for the stock of a member of the peer group shall be expressed as a percentage and calculated by:

- (i) subtracting (a) the beginning average stock price for one share of stock (determined by calculating the average closing stock price during the forty trading days preceding the beginning of the Performance Period) from (b) the ending average stock price for such share of stock (determined by calculating the average closing stock price during the final forty trading days of the Performance Period, after taking into account the effect of any of the events described in Section 12 of the Plan occurring with respect to the Corporation or any member of the peer group); and
- (ii) adding to the difference determined under subparagraph (i) above all cash dividends actually paid on such share of stock during the Performance Period (and assuming any such cash dividends are reinvested to purchase common stock of the dividend paying company at the closing price on the date that such dividends are payable and including the value of such additional shares of common stock); and
- (iii) dividing the sum determined by subparagraphs (i) and (ii) above by the beginning average stock price determined pursuant to clause (a) of subparagraph (i) above.

6. Dividend Equivalents. During the Performance Period, dividend equivalents shall be converted into additional Performance Shares based on the closing price of the Corporation's Common Stock on the New York Stock Exchange on the dividend payment date. Such additional Performance Shares shall vest or be forfeited in the same manner as the underlying Performance Shares to which they relate.

7. Settlement of Awards. Pursuant to Section 5 above, the Corporation shall deliver to the Employee one Share for each earned Performance Share (and, as applicable, for the accrued dividend equivalents) as determined in accordance with the provisions set forth in the Addendum and this Agreement. Any earned Performance Shares payable to the Employee (including Shares payable pursuant to Section 6 above) shall be paid solely in Shares. Any fractional Share will be rounded to the closest whole Share.

8. Time of Payment. Except as otherwise provided in this Agreement, the Shares issuable for the earned Performance Shares (and any accrued dividend equivalents) shall be delivered to the Employee (or, in the case of the Employee's death before delivery, to the Employee's beneficiary or representative) as soon as practicable after the end of the Performance Period as set forth in the Addendum, but in no event later than March 15 of the calendar year following the year in which the Performance Period ends.

9. Committee Discretion to Reduce Award. Notwithstanding any provision in this Agreement to the contrary, the Committee retains the right, at its sole and absolute discretion, to reduce or eliminate any Award that may become payable hereunder if the Committee determines that any one or more of the following conditions have occurred:

- (a) The stockholder return to the Corporation's stockholders has been insufficient;
- (b) The stockholder return to the Corporation's stockholders has been negative;
- (c) The financial performance of the Corporation has been inadequate; or
- (d) The operational performance of the Corporation has been inadequate.

In addition, the Committee may reduce or eliminate the Award granted hereby based on the Employee's individual performance.

10. Retirement, Disability, or Death During the Performance Period.

(a) If the Employee's Service terminates during the first year of the Performance Period because of the Employee's early or normal retirement and commencement of benefit payments under the Retirement Plan, his or her Disability or his or her death, then the Employee (or, in the case of the Employee's death, the Employee's beneficiary or representative) shall be entitled to receive, upon settlement of his or her Award after the end of the Performance Period in accordance with Section 8 (subject to the other terms of this Agreement, including Section 9), a prorated number of Shares determined at the end of the Performance Period in accordance with the following equation: $X = A * (Y/12)$; where

X is the prorated number of Shares to be delivered upon settlement of the Award after the end of the Performance Period;

A is the number of Shares that would have been delivered upon settlement of the Award at the end of the Performance Period had the Employee's Service not terminated during the first year of the Performance Period; and

Y is the number of full calendar months the Employee is employed during the first year of the Performance Period.

(b) If the Employee's Service terminates after the first year of the Performance Period because of the Employee's early or normal retirement and commencement of benefit payments under the Retirement Plan, his or her Disability or his or her death, then the Employee (or, in the case of the Employee's death, the Employee's beneficiary or representative)

shall be entitled to receive, upon settlement of his or her Award after the end of the Performance Period in accordance with Section 8 (subject to the other terms of this Agreement, including Section 9), the number of Shares that would have been delivered upon settlement of the Award after the end of the Performance Period had the Employee's Service not terminated.

11. Termination of Service During the Performance Period. If the Employee's Service terminates during the Performance Period for any reason other than as described in Section 10, the entire Award granted under this Agreement shall be automatically terminated as of the date of such termination of Service.

12. Change of Control.

(a) Upon a Change of Control that occurs during the first year of the Performance Period, the Award will be deemed payable (and shall be settled immediately prior to such Change of Control), with the number of Shares payable determined according to the following equation: $X = A * (Y/12)$; where

X is the number of shares payable upon the Change of Control;

A is the number of shares that would be issuable assuming for these purposes that the Performance Period ends as of the date of the Change of Control (in connection with such calculation, the words "determined by calculating the average closing stock price during the final forty trading days of the Performance Period" in Section 5(a)(i) above shall be replaced the following words "determined by calculating the average closing stock price during the forty trading days ending on the third business day prior to the date of the Change of Control"); and

Y is the number of full months that have elapsed in the first year of the Performance Period prior to the date of the Change of Control.

(b) Upon a Change of Control that occurs after the first year of the Performance Period, the Award will be deemed payable (and shall be settled immediately prior to such Change of Control), with the number of Shares payable determined by assuming that the Performance Period ends as of the date of the Change of Control (in connection with such calculation, the words "determined by calculating the average closing stock price during the final forty trading days of the Performance Period" in Section 5(a)(i) above shall be replaced the following words "determined by calculating the average closing stock price during the forty trading days ending on the third business day prior to the date of the Change of Control").

13. Available Shares. The Corporation agrees that it will at all times during the term of this Agreement reserve and keep available sufficient authorized but unissued or reacquired Shares to satisfy the requirements of this Agreement.

14. Applicable Taxes. In the event the Corporation determines that it is required to withhold state or federal income taxes, social security taxes or any other applicable taxes as a result of the payment of the Shares, the Corporation will satisfy such withholding requirements by withholding of Shares otherwise payable upon the settlement of the Award, which Shares will have a Fair Market Value (determined as of the date when taxes would otherwise be withheld in cash) not in excess of the legally required minimum amount of tax withholding.

15. Relationship to Other Benefits. Performance Shares shall not be taken into account in determining any benefits under any pension, savings, disability, severance, group insurance or any other pay-related plan of the Corporation or its Subsidiaries or Affiliates.

16. Required Deferral. In the event the Award would cause the Employee to qualify as a “covered employee” pursuant to Section 162(m) of the Code, that portion of the Award that would exceed the amount deductible by the Corporation under Section 162(m) of the Code shall be automatically deferred until the Employee’s compensation is no longer subject to Section 162(m) of the Code. Any portion of the Award so deferred shall be converted to Restricted Stock Units (which such Restricted Stock Units, for the avoidance of doubt, shall be deemed outstanding as of immediately prior to any Change in Control so as to be subject to Section 12 of the Plan) and dividend equivalents shall accrue on the Restricted Stock Units (or any replacement thereof issued in accordance with Section 12 of the Plan) and be paid out as additional shares (or any replacements thereof issued in accordance with Section 12 of the Plan) in the first calendar year in which the Corporation reasonably anticipates that deduction of the payment will not be barred by application of Section 162(m) of the Code. Any such deferral of the Award is intended to comply with Section 409A of the Code.

17. Stockholder Rights. Neither the Employee nor the Employee’s beneficiary or representative shall have any rights as a stockholder with respect to any Shares subject to this Agreement until such Shares shall have been issued to the Employee or the Employee’s beneficiary or representative.

18. Transfers, Assignments, Pledges. Except as otherwise provided in this Agreement, the rights and privileges conferred by this Agreement shall not be transferred, assigned, pledged or hypothecated in any way (whether by operation of law or otherwise) and shall not be subject to sale under execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of the Award, or of any right or privilege conferred by this Agreement, contrary to the provisions of this Section 18, or upon any attempted sale under any execution, attachment or similar process upon the rights and privileges conferred by this Agreement, the Award and the rights and privileges conferred by this Agreement shall immediately become null and void. However, this Section 18 shall not preclude: (i) an Employee from designating a beneficiary to succeed, after the Employee’s death, to any rights of the Employee or benefits distributable to the Employee under this Agreement not distributed at the time of the Employee’s death; or (ii) a transfer of any Award hereunder by will or the laws of descent or distribution. In that regard, any such rights shall be exercisable by the Employee’s beneficiary, and such benefits shall be distributed to the beneficiary, in accordance with the provisions of this Agreement and the Plan. The beneficiary shall be the named beneficiary or beneficiaries designated by the Employee in writing filed with the Corporation in such form and at such time as the Corporation shall require. If a deceased Employee has not designated a beneficiary, or if the designated beneficiary does not survive the Employee, any benefits distributable to the Employee shall be distributed to the legal representative of the estate of the Employee. If a deceased Employee has designated a beneficiary and the designated beneficiary survives the Employee but dies before the complete distribution of benefits to the designated beneficiary under this Agreement, then any benefits distributable to the designated beneficiary shall be distributed to the legal representative of the estate of the designated beneficiary.

19. No Employment Rights. Nothing in this Agreement shall be construed as giving the Employee the right to be retained as an employee or as impairing the rights of the Corporation or a Subsidiary or an Affiliate to terminate his or her employment at any time, with or without cause.

20. Administration. The authority to manage and control the operation and administration of this Agreement shall be vested in the Committee, and the Committee shall have all powers with respect to this Agreement as it has with respect to the Plan. Any interpretation of this Agreement by the Committee and any decision made by it with respect to this Agreement is final and binding.

21. Interpretation/Applicable Law. This Agreement shall be interpreted and construed in a manner consistent with the terms of the Plan and in accordance with the laws of the State of Delaware (without regard to choice of law principles). If there is any discrepancy between the terms and conditions of this Agreement and the terms and conditions of the Plan, the terms and conditions of the Plan shall control.

22. Term of the Agreement. The term of this Agreement shall end upon the earlier of (i) the delivery of all of the Shares or other consideration to be issued in exchange for Performance Shares (and accrued dividend equivalents) or (ii) upon the termination of the Employee's Service for any reason other than retirement under the Retirement Plan, or the Employee's Disability or death.

[remainder of page intentionally left blank]

IN WITNESS WHEREOF, each party has or has caused this Agreement to be executed as of the respective date set forth below.

CORPORATION:

Clearwater Paper Corporation,
a Delaware corporation

By: _____
Name: _____
Title: _____
Date: _____

EMPLOYEE:

[Name of Employee]

Date: _____

STOCK INCENTIVE PLAN
ADDENDUM TO PERFORMANCE SHARE AGREEMENT
and RESTRICTED STOCK UNIT AGREEMENT

Name of Employee: _____

1. Date of Grant: _____
2. Target Grant of Performance Shares: _____
Target Grant of Restricted Stock Units: _____
3. Performance Period: _____
4. Performance Measure: The performance measure is a comparison of the percentile ranking of Clearwater Paper Corporation's total stockholder return (TSR), which includes stock price appreciation plus cash dividends paid during the Performance Period, to the TSR performance of a selected peer group of companies listed on *Exhibit 1* hereto.
5. Performance Schedule: The performance schedule displayed on *Exhibit 2* shows the percentage of the target grant that will be awarded at the end of the Performance Period depending upon the actual TSR percentile ranking achieved by the Corporation during the Performance Period with regard to the selected peer group.

The RSU award, along with all additional shares attributable to dividend equivalents shall vest on _____.

The Performance Share Agreement and Restricted Stock Unit Agreement are incorporated by reference into this Addendum and the terms of the Performance Share and Restricted Stock Unit Agreements shall be controlling in the event of any discrepancy.

IN WITNESS WHEREOF, the Corporation has caused this Addendum to the Performance Share and Restricted Stock Unit Agreements to be executed on its behalf by its duly authorized representative, and the Employee has executed the same on the date indicated below.

CLEARWATER PAPER CORPORATION

Date: _____

By: _____
Vice President, Human Resources

Date: _____

By: _____
Employee

Peer Companies used to Determine _____ TSR

Performance Schedule

The performance schedule below shows the percentage of the target grant that will be awarded at the end of the Performance Period depending on the actual TSR percentile ranking achieved by Clearwater Paper during the Performance Period.

<u>Ranking Against Peers</u>	<u>Multiplier</u>
____ percentile or above	____%
____ percentile	____%
____ percentile	____%
Below ____ percentile	0%

For performance that is intermediate between percentiles listed in the table, the multiplier shall be determined by interpolation. The resulting multiplier shall be applied to the portion of an individual's target Performance Shares to determine the ultimate number of Shares payable at the end of the Performance Period.

CERTIFICATION

I, Gordon L. Jones, certify that:

1. I have reviewed this report on Form 10-Q of Clearwater Paper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

/s/ GORDON L. JONES

Gordon L. Jones

Chairman, President and Chief Executive Officer

CERTIFICATION

I, Linda K. Massman, certify that:

1. I have reviewed this report on Form 10-Q of Clearwater Paper Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2010

/s/ LINDA K. MASSMAN

Linda K. Massman
Vice President, Finance and Chief
Financial Officer

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Gordon L. Jones, Chairman, President and Chief Executive Officer of Clearwater Paper Corporation (the "Company"), certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ GORDON L. JONES

Gordon L. Jones

Chairman, President and

Chief Executive Officer

November 4, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Linda K. Massman, Vice President, Finance and Chief Financial Officer of Clearwater Paper Corporation (the "Company"), certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) the Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ LINDA K. MASSMAN

Linda K. Massman

Vice President, Finance and
Chief Financial Officer
November 4, 2010

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.