BOISE INC.
Form 10-Q
May 05, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2009

OR

o	**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: 001-33541

Boise Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-8356960**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1111 West Jefferson Street, Suite 200
Boise, Idaho 83702-5388
(Address of principal executive offices) (Zip Code)

(208) 384-7000

(Registrant s telephone number, including area code)

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

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

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. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Shares Outstanding as of April 30, 2009**
Common Stock, $.0001 Par Value	84,481,557

Table of Contents

PART I FINANCIAL INFORMATION

PART II OTHER INFORMATION

Table of Contents

All reports we file with the Securities and Exchange Commission (SEC) are available free of charge via the Interactive Data Electronic Applications (IDEA) System through the SEC website at www.sec.gov. We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our website at www.boiseinc.com as soon as reasonably practicable after filing such material with the SEC.

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Boise Inc.

Consolidated Statements of Income (Loss)

(unaudited, in thousands, except share and per-share data)

	Boise Inc.		Predecessor
	Three Months Ended March 31, 2009	**Three Months Ended March 31, 2008**	**January 1 Through February 21, 2008**
Sales			
Trade	$ 484,868	$ 226,044	$ 258,430
Related parties	15,417	1,944	101,490
	500,285	227,988	359,920
Costs and expenses			
Materials, labor, and other operating expenses	413,139	195,429	313,931
Fiber costs from related parties	5,703	18,629	7,662
Depreciation, amortization, and depletion	31,972	12,747	477
Selling and distribution expenses	13,782	5,943	9,097
General and administrative expenses	10,373	4,549	6,606
St. Helens mill restructuring	3,648		
Other (income) expense, net	239	(28)	(989)
	478,856	237,269	336,784
Income (loss) from operations	21,429	(9,281)	23,136
Foreign exchange gain (loss)	(678)	(853)	54
Change in fair value of interest rate derivatives	(132)		
Interest expense	(22,154)	(11,435)	(2)
Interest income	54	1,821	161
	(22,910)	(10,467)	213
Income (loss) before income taxes	(1,481)	(19,748)	23,349
Income tax (provision) benefit	565	3,377	(563)
Net income (loss)	**$ (916)**	**$ (16,371)**	**$ 22,786**
Weighted average common shares outstanding:			
Basic and diluted	**77,491,233**	**62,682,834**	
Net income (loss) per common share:			
Basic and diluted	**$ (0.01)**	**$ (0.26)**	**$**

See accompanying notes to unaudited quarterly consolidated financial statements.

Table of Contents

Boise Inc.
Consolidated Balance Sheets
(unaudited, in thousands)

	Boise Inc.	
	March 31, 2009	**December 31, 2008**
ASSETS		
Current		
Cash and cash equivalents	$ 27,510	$ 22,518
Receivables		
Trade, less allowances of $979 and $961	183,606	220,204
Related parties	2,532	1,796
Other	5,805	4,937
Inventories	309,952	335,004
Deferred income taxes	8,791	5,318
Prepaid and other	7,638	6,289
	545,834	596,066
Property		
Property and equipment, net	1,250,219	1,262,810
Fiber farms and deposits	14,496	14,651
	1,264,715	1,277,461
Deferred financing costs	69,718	72,570
Intangible assets, net	34,425	35,075
Other assets	6,454	7,114
Total assets	**$ 1,921,146**	**$ 1,988,286**

See accompanying notes to unaudited quarterly consolidated financial statements.

Table of Contents

Boise Inc.
Consolidated Balance Sheets (continued)
(unaudited, in thousands, except share data)

	Boise Inc.	
	March 31, 2009	**December 31, 2008**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Current portion of long-term debt	$ 7,479	$ 25,822
Income taxes payable	804	841
Accounts payable		
Trade	157,871	177,157
Related parties	1,492	3,107
Accrued liabilities		
Compensation and benefits	45,248	44,488
Interest payable	168	184
Other	21,167	17,402
	234,229	269,001
Debt		
Long-term debt, less current portion	967,340	1,011,628
Notes payable	69,229	66,606
	1,036,569	1,078,234
Other		
Deferred income taxes	15,208	8,907
Compensation and benefits	152,177	149,691
Other long-term liabilities	33,583	33,007
	200,968	191,605
Commitments and contingent liabilities		
Stockholders Equity		
Preferred stock, $.0001 par value per share: 1,000,000 shares authorized; none issued		
Common stock, $.0001 par value per share: 250,000,000 shares authorized; 79,879,372 shares and 79,716,130 shares issued and outstanding	8	8
Additional paid-in capital	576,008	575,151
Accumulated other comprehensive loss	(85,689)	(85,682)
Accumulated deficit	(40,947)	(40,031)
Total stockholders equity	449,380	449,446
Total liabilities and stockholders equity	**$ 1,921,146**	**$ 1,988,286**

See accompanying notes to unaudited quarterly consolidated financial statements.

Table of Contents

Boise Inc.
Consolidated Statements of Cash Flows
(unaudited, in thousands)

	Boise Inc.		Predecessor
	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	January 1 Through February 21, 2008
Cash provided by (used for) operations			
Net income (loss)	$ (916)	$ (16,371)	$ 22,786
Items in net income (loss) not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	35,030	13,554	477
Share-based compensation expense	857		
Related-party interest expense		986	
Notes payable interest expense	2,623		
Pension and other postretirement benefit expense	2,450	1,237	1,826
Deferred income taxes	(844)	(3,377)	11
Change in fair value of energy derivatives	2,191	(204)	(37)
Change in fair value of interest rate derivatives	132		
(Gain) loss on sales of assets, net	(20)	(3)	(943)
Other	678	853	(54)
Decrease (increase) in working capital, net of acquisitions			
Receivables	38,800	23,485	(23,522)
Inventories	25,258	(5,158)	5,343
Prepaid expenses	256	(7,451)	875
Accounts payable and accrued liabilities	(19,577)	23,654	(10,718)
Current and deferred income taxes	(39)	1,806	335
Pension and other postretirement benefit payments	(1,319)	(47)	(1,826)
Other	128	(1,155)	2,326
Cash provided by (used for) operations	85,688	31,809	(3,121)
Cash provided by (used for) investment			
Acquisition of businesses and facilities	(543)	(1,219,421)	
Cash released from (held in) trust, net		403,989	
Expenditures for property and equipment	(17,171)	(10,224)	(10,168)
Sales of assets	61		17,662
Other	(412)	2,410	863
Cash provided by (used for) investment	(18,065)	(823,246)	8,357
Cash provided by (used for) financing			
Issuances of long-term debt	10,000	1,065,700	
Payments of long-term debt	(72,631)	(35,000)	
Payments to stockholders for exercise of conversion rights		(120,170)	
Payments of deferred financing fees		(81,898)	
Payments of deferred underwriters fees		(12,420)	
Net equity transactions with related parties			(5,237)
Cash provided by (used for) financing	(62,631)	816,212	(5,237)
Increase (decrease) in cash and cash equivalents	4,992	24,775	(1)
Balance at beginning of the period	22,518	186	8

Balance at end of the period	**$ 27,510**	**$ 24,961**	**$ 7**

See accompanying notes to unaudited quarterly consolidated financial statements.

Table of Contents

Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

On February 22, 2008, Boise Inc. or the Company, we, us, or our completed the acquisition (the Acquisition) of Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp. (collectively, the Paper Group), and other assets and liabilities related to the operation of the paper, packaging and newsprint, and transportation businesses of the Paper Group and part of the headquarters operations of Boise Cascade, L.L.C. (Boise Cascade). The business we acquired is referred to in this report on Form 10-Q as the Predecessor. The Acquisition was accomplished through the Company s acquisition of Boise Paper Holdings, L.L.C. See Note 2, Acquisition of Boise Cascade s Paper and Packaging Operations, for more information related to the Acquisition.

The following sets forth our corporate structure following the Acquisition:

Boise Inc. operates its business in three reportable segments, Paper, Packaging, and Corporate and Other (support services) and is headquartered in Boise, Idaho. Boise Inc. manufactures packaging products and papers, including corrugated containers, containerboard, label and release and flexible packaging papers, imaging papers for the office and home, printing and converting papers, newsprint, and market pulp.

The accompanying Consolidated Statement of Income (Loss) and Consolidated Statement of Cash Flows for the three months ended March 31, 2008, include our activities prior to the Acquisition and the operations of the acquired businesses from February 22, 2008, through March 31, 2008. The Consolidated Statement of Income (Loss) and Consolidated Statement of Cash Flows for the period of January 1 through February 21, 2008, of the Predecessor are presented for comparative purposes.

The quarterly consolidated financial statements presented have not been audited by an independent registered public accounting firm but, in the opinion of management, include all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the results for the periods presented. The preparation of the consolidated financial statements involves the use of estimates and accruals. Actual results may vary from those estimates. Quarterly results are not necessarily indicative of results that may be expected for the full year. These condensed notes to unaudited consolidated financial statements should be read in conjunction with our Quarterly Reports on Form 10-Q, our 2008 Annual Report on Form 10-K, and the other reports we file with the Securities and Exchange Commission (SEC).

Table of Contents

For the Predecessor period presented, the consolidated financial statements include accounts specifically attributed to the Paper Group and a portion of Boise Cascade s shared corporate general and administrative expenses. These shared services include, but are not limited to, finance, accounting, legal, information technology, and human resource functions. Some corporate costs related solely to the Predecessor and were allocated totally to these operations. Shared corporate general and administrative expenses not specifically identifiable to the Paper Group were allocated primarily based on average sales, assets, and labor costs. The Predecessor consolidated financial statements do not include an allocation of Boise Cascade s debt, interest, and deferred financing costs, because none of these items were specifically identified as corporate advances to, or borrowings by, the Predecessor. Boise Cascade used interest rate swaps to hedge variable interest rate risk. Because debt and interest costs are not allocated to the Predecessor, the effects of the interest rate swaps are not included in the consolidated financial statements. During the Predecessor period presented, income taxes, where applicable, were calculated as if the Predecessor were a separate taxable entity. For the period of January 1 through February 21, 2008, the majority of the businesses and assets of the Predecessor were held and operated by limited liability companies, which are not subject to entity-level federal or state income taxation. In addition to the businesses and assets held and operated by limited liability companies, the Predecessor had taxable corporations subject to federal, state, and local income taxes for which taxes were recorded. Information on the allocations and related-party transactions is included in Note 4, Transactions With Related Parties.

Reclassifications

Certain amounts in prior periods consolidated financial statements have been reclassified to conform with the current period s presentation.

2. *Acquisition of Boise Cascade s Paper and Packaging Operations*

On February 22, 2008, we acquired the paper, packaging, and most of the corporate and other segments of Boise Cascade for cash and securities. The Acquisition was accounted for in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Upon completion of the transaction, Boise Cascade owned 37.9 million, or 49%, of our outstanding shares, and they continue to hold a significant financial interest in us.

The purchase price was paid with cash, the issuance of shares of our common stock, and a note payable. These costs, including direct transaction costs and purchase price adjustments, are summarized as follows:

	February 22, 2008 (thousands)
Cash paid to Boise Cascade	$ 1,252,281
Cash paid to Boise Cascade for financing and other fees	24,915
Less: cash contributed by Boise Cascade	(38,000)
Net cash	1,239,196
Equity at $9.15 average price per share	346,395
Lack of marketability discount	(41,567)
Total equity	304,828
Note payable to Boise Cascade at closing	41,000

Working capital adjustment		17,334
Total note payable to Boise Cascade		58,334
Fees and expenses		61,785
Total purchase price	**$**	**1,664,143**

Table of Contents

The following table summarizes the final fair value allocation of the assets acquired and liabilities assumed in the Acquisition as of March 31, 2009:

		February 22, 2008, Fair Value (thousands)
Current assets	$	571,936
Property and equipment		1,306,070
Fiber farms and deposits		11,006
Intangible assets:		
Trademark and trade name		16,800
Customer list		13,700
Technology		6,860
Deferred financing costs		81,898
Other long-term assets		4,465
Current liabilities		(246,928)
Long-term liabilities		(101,664)
Total purchase price	**$**	**1,664,143**

3. Net Income (Loss) Per Common Share

For the three months ended March 31, 2009 and 2008, net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Basic and diluted net income (loss) per share is calculated as follows:

	Boise Inc. Three Months Ended March 31			
		2009		2008
	(thousands, except per-share data)			
Net income (loss)	$	(916)	$	(16,371)
Weighted average number of common shares for basic net income (loss) per share		77,491		62,683
Incremental effect of dilutive common stock equivalents:				
Common stock warrants (a)				
Restricted stock (b)				
Restricted stock units (b)				
Weighted average number of shares for diluted net income (loss) per share		77,491		62,683
Net income (loss) per share basic and diluted (a) (b)	**$**	**(0.01)**	**$**	**(0.26)**

(a) For the three months ended March 31, 2009 and 2008, warrants to purchase 44.4 million shares of common stock were not included in the computation of diluted net income (loss) per share, because the exercise price exceeded the average market price of our common stock.

(b) For the three months ended March 31, 2009, unvested restricted stock and restricted stock units were not included in the computation of diluted net loss per share, because inclusion of these amounts would be antidilutive.

4. Transactions With Related Parties

During the Predecessor period of January 1 through February 21, 2008, the Predecessor participated in Boise Cascade s centralized cash management system. Cash receipts attributable to the Predecessor s operations were collected by Boise Cascade, and cash disbursements were funded by

Table of Contents

Boise Cascade. The net effect of these transactions has been reflected as Net equity transactions with related parties in the Consolidated Statement of Cash Flows. The following table includes the components of these related-party transactions:

		Predecessor January 1 Through February 21, 2008 (thousands)
Cash collections	$	(354,222)
Payment of accounts payable		336,605
Capital expenditures and acquisitions		10,168
Income taxes		217
Corporate general and administrative expense allocation		1,995
Net equity transactions with related parties	**$**	**(5,237)**

Related-Party Sales

During the Predecessor period of January 1 through February 21, 2008, the Predecessor sold paper and paper products to OfficeMax Incorporated (OfficeMax) at sales prices that were designed to approximate market prices. For the Predecessor period of January 1 through February 21, 2008, sales to OfficeMax were $90.1 million and represented 25% of total sales. These sales are included in Sales, Related parties in the Consolidated Statement of Income (Loss). Subsequent to the Acquisition, OfficeMax is no longer a related party.

Boise Inc. and the Predecessor provided transportation services to Boise Cascade. For the three months ended March 31, 2009 and 2008, and the Predecessor period of January 1 through February 21, 2008, Boise Inc. and the Predecessor recorded $0.6 million, $0.4 million, and $0.6 million of sales for transportation services, respectively.

The Predecessor sold $10.8 million of wood to Boise Cascade s wood products business during the period of January 1 through February 21, 2008. These sales are included in Sales, Related parties in the Consolidated Statements of Income (Loss). Subsequent to the Acquisition, Louisiana Timber Procurement Company, L.L.C., a fully consolidated entity, began selling wood to Boise Cascade. During the three months ended March 31, 2009, we recorded $11.2 million of sales to Boise Cascade in Sales, Related parties in the Consolidated Statement of Income (Loss) and recorded approximately the same amount of expenses in Materials, labor, and other operating expenses.

In connection with the Acquisition, we entered into an outsourcing services agreement under which we provide a number of corporate staff services to Boise Cascade at our cost. These services include information technology, accounting, and human resource services. The initial term of the agreement is for three years. It will automatically renew for one-year terms unless either party provides notice of termination to the other party at least 12 months in advance of the applicable term. For the three months ended March 31, 2009 and 2008, we recognized $3.6 million and $1.5 million, respectively, in Sales, Related parties and the same amounts in Costs and expenses in our Consolidated Statements of Income (Loss) related to this agreement.

Related-Party Costs and Expenses

Boise Inc. and the Predecessor purchased fiber from related parties at prices that approximated market prices. During the three months ended March 31, 2009 and 2008, and the Predecessor period of January 1 through February 21, 2008, fiber purchases from related parties were $5.7 million, $18.6 million, and $7.7 million, respectively. Most of these purchases related to chip and log purchases from Boise Cascade s wood products business. All of the costs associated with these purchases were recorded as Fiber costs from related parties in the Consolidated Statements of Income (Loss).

During the Predecessor period presented, the Predecessor used services and administrative staff of Boise Cascade. These services included, but were not limited to, finance, accounting, legal, information technology, and human resource functions. The costs not specifically identifiable to the

Table of Contents

Predecessor were allocated based primarily on average sales, assets, and labor costs. These costs are included in General and administrative expenses in the Consolidated Statement of Income (Loss). The Predecessor believes the allocations are a reasonable reflection of its use of the services. However, had the Predecessor operated on a stand-alone basis, it estimates that its Corporate and Other segment would have reported approximately $2.5 million of segment expenses before interest, taxes, depreciation, and amortization for the Predecessor period of January 1 through February 21, 2008.

During the Predecessor period presented, some of the Predecessor s employees participated in Boise Cascade s noncontributory defined benefit pension and contributory defined contribution savings plans. For the Predecessor period of January 1 through February 21, 2008, the Statement of Income (Loss) included $3.9 million of expenses attributable to its participation in Boise Cascade s defined benefit and defined contribution plans.

During the three months ended March 31, 2008, we recorded $1.0 million of related-party interest expense in Interest expense in our Consolidated Statement of Income (Loss). This expense is related to the subordinated promissory note we issued to Boise Cascade in connection with the Acquisition. After the Acquisition, the note was transferred to parties unrelated to Boise Cascade or to us. Accordingly, we no longer record the note as a related-party note on our Consolidated Balance Sheet. At March 31, 2009, and December 31, 2008, we had $69.2 million and $66.6 million, respectively, recorded in Notes payable on our Consolidated Balance Sheets.

5. Other (Income) Expense, Net

Other (income) expense, net includes miscellaneous income and expense items. The components of Other (income) expense, net in the Consolidated Statements of Income (Loss) are as follows (in thousands):

	Boise Inc.		Predecessor
	Three Months Ended March 31, 2009	**Three Months Ended March 31, 2008**	**January 1 Through February 21, 2008**
Sales of assets, net	$ (20)	$ (3)	$ (941)
Other, net	259	(25)	(48)
	$ 239	**$ (28)**	**$ (989)**

6. Income Taxes

For the three months ended March 31, 2009 and 2008, our effective tax benefit rate was 38.1% and 17.1%, respectively. During 2009, the primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of establishing valuation allowances on losses incurred during the quarter, which was substantially offset by the effect of various discrete tax items. In 2008, the primary reason for the difference was the effect of valuation allowances.

During the Predecessor period of January 1 through February 21, 2008, the majority of the Predecessor businesses and assets were held and operated by limited liability companies, which are not subject to entity-level federal or state income taxation. For the separate Predecessor subsidiaries that are taxed as corporations, the effective tax rate was 37.6%. During this period, the primary reason for the difference from the federal statutory income tax rate of 34.0% was the effect of state income taxes.

For the three months ended March 31, 2009, we recorded $0.6 million of income tax benefits. We have not recognized an additional $0.9 million of tax benefits related to losses incurred during the quarter, because the realization of these benefits is not considered more likely than not.

For the three months ended March 31, 2008, we recorded $3.4 million of income tax benefits related to losses incurred during the quarter. At March 31, 2008, we had not recognized $4.1 million of tax benefits from the losses resulting from our first-quarter operations, because the realization of these benefits was not considered more likely than not. Because of its pass-through tax structure, the Predecessor recorded tax expense related only to small subsidiaries that are taxed as corporations.

Table of Contents

Income tax expense during the Predecessor period of January 1 through February 21, 2008, was $0.6 million, consisting of federal and state income taxes.

During the three months ended March 31, 2009 and 2008, cash paid for taxes, net of refunds received, was $0.3 million and $1.5 million. During the Predecessor period of January 1 through February 21, 2008, cash paid for taxes, net of refunds received, was not material.

As part of the Acquisition, we acquired two corporate entities, both of which are subject to examination by taxing authorities in their normal course of business. These entities are subject to audit by taxing authorities for the year 2005 and the years that follow. We are responsible for any tax adjustments resulting from such audits. One of these entities, Boise Cascade Transportation Holdings Corp., is currently undergoing examination for the 2006 tax year; however, we do not expect any material adjustments from this audit.

7. *Leases*

We lease our distribution centers, as well as other property and equipment, under operating leases. During the Predecessor period presented, the Predecessor leased its distribution centers, as well as other property and equipment, under operating leases. For purposes of determining straight-line rent expense, the lease term is calculated from the date of possession of the facility, including any periods of free rent and any renewal option periods that are reasonably assured of being exercised. Straight-line rent expense is also adjusted to reflect any allowances or reimbursements provided by the lessor. Rental expense for operating leases and sublease rental income received were as follows (in thousands):

	Boise Inc.		Predecessor
	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008	January 1 Through February 21, 2008
Rental expense	$ 3,919	$ 1,395	$ 2,044
Sublease rental income			

For noncancelable operating leases with remaining terms of more than one year, the minimum lease payment requirements are $9.4 million for the remainder of 2009, $12.0 million in 2010, $11.0 million in 2011, $10.2 million in 2012, $8.2 million in 2013, and $6.9 million in 2014, with total payments thereafter of $19.3 million. Minimum sublease income received in the future is not expected to be material, and future minimum sublease payments have not been reduced by any sublease income.

Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to purchase the leased property. Additionally, some agreements contain renewal options averaging seven years, with fixed payment terms similar to those in the original lease agreements.

8. *Receivables*

We have a large, diversified customer base; however, we sell a large portion of our paper sales volume to OfficeMax. Sales to OfficeMax represent a concentration in the volume of business transacted and a concentration of credit risk. During the three months ended March 31, 2009 and 2008, sales to OfficeMax were $141.9 million and $153.3 million, respectively, and represented approximately 28% and 26% of our total sales for these periods. At March 31, 2009, and December 31, 2008, we had $39.2 million and $30.3 million, respectively, of accounts receivable due from OfficeMax.

Table of Contents

Until recently, we marketed our newsprint exclusively through Abitibi Consolidated Sales Corporation (ACSC), an indirect subsidiary of AbitibiBowater Inc. We terminated this agreement in early 2009, and we now market newsprint directly to customers using our own sales personnel. At March 31, 2009, and December 31, 2008, we had $8.6 million and $32.4 million, respectively, of receivables due from ACSC. Recently, AbitibiBowater announced that certain of its U.S. and Canadian subsidiaries have filed voluntary petitions in the United States under Chapter 11 of the United States Bankruptcy Code. In addition, AbitibiBowater and its Canadian subsidiaries have obtained an Order from the Quebec Superior Court in Canada for creditor protection pursuant to the Companies Creditors Arrangement Act. The Fort Francis, Ontario, pulp mill, which is owned by AbitibiBowater, is a major supplier of purchased pulp to our International Falls, Minnesota, mill. The impact of the bankruptcy proceedings on the operations of the Fort Francis pulp mill is uncertain; however, due to the availability of alternative sources of pulp fiber, we do not anticipate a significant impact on the mill operations at International Falls at this time. The amount ACSC owes us is less than the amount we owe ACSC and other affiliates of AbitibiBowater. It is uncertain what effect the reorganization will have on our ability to collect all or some of the receivables owed to us by ACSC.

9. Inventories

Inventories include the following:

	Boise Inc. March 31, 2009	Boise Inc. December 31, 2008
	(thousands)	
Finished goods	$ 155,994	$ 173,029
Work in process	30,611	37,582
Fiber	42,106	41,241
Other raw materials and supplies	81,241	83,152
	$ 309,952	**$ 335,004**

10. Property and Equipment, Net

Property and equipment consisted of the following asset classes:

	Boise Inc. March 31, 2009	Boise Inc. December 31, 2008
	(thousands)	
Land and land improvements	$ 31,875	$ 31,875
Buildings and improvements	193,723	187,892
Machinery and equipment	1,126,253	1,113,572
Construction in progress	27,926	29,833
	1,379,777	1,363,172
Less accumulated depreciation	(129,558)	(100,362)
	$ 1,250,219	**$ 1,262,810**

11. Intangible Assets

Intangible assets represent primarily the values assigned to the trademark and trade name, customer relationships, and technology in connection with the Acquisition. Customer relationships are amortized over approximately ten years and technology is amortized over approximately five years. Trademarks and trade names are not amortized. During the three months ended March 31, 2009 and 2008, intangible asset amortization was $0.7 million and $0.4 million. During the Predecessor period of January 1 through February 21, 2008, intangible asset amortization was zero. Our estimated amortization expense is $2.1 million for the remainder of 2009, $2.8 million in each of 2010 and 2011, $2.7 million in 2012, $1.6 million in 2013, and $1.4 million in 2014.

Table of Contents

	Boise Inc. Three Months Ended March 31, 2009		
	Gross Carrying Amount	Accumulated Amortization (thousands)	Net Carrying Amount
Trademarks and trade names	$ 16,800	$	$ 16,800
Customer relationships	13,700	(1,484)	12,216
Technology and other	6,895	(1,486)	5,409
	$ 37,395	**$ (2,970)**	**$ 34,425**

	Boise Inc. Year Ended December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization (thousands)	Net Carrying Amount
Trademarks and trade names	$ 16,800	$	$ 16,800
Customer relationships	13,700	(1,142)	12,558
Technology	6,860	(1,143)	5,717
	$ 37,360	**$ (2,285)**	**$ 35,075**

We have not allocated any amounts related to the Acquisition to goodwill.

12. Asset Retirement Obligations

We account for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations*, and Financial Accounting Standards Board (FASB) Interpretation (FIN) No. 47, *Accounting for Conditional Asset Retirement Obligations an Interpretation of FASB Statement No. 143*. We accrue for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. When we record the liability, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

At March 31, 2009, and December 31, 2008, we had $14.6 million and $14.3 million of asset retirement obligations recorded on the Consolidated Balance Sheets. These liabilities related primarily to landfill closure and closed-site monitoring costs. These liabilities are based on the best estimate of current costs and are updated periodically to reflect current technology, laws and regulations, inflation, and other economic factors. No assets are legally restricted for purposes of settling asset retirement obligations. The table below describes changes to the asset retirement obligations for Boise Inc. for the three months ended March 31, 2009, and for the year ended December 31, 2008:

	Boise Inc. (thousands)	
	March 31, 2009	December 31, 2008

Asset retirement obligation at beginning of period	$	14,283	$	
Asset retirement liability recorded in the purchase price allocation				13,655
Liabilities incurred				58
Accretion expense		292		921
Payments		(7)		(542)
Revisions in estimated cash flows				191
Asset retirement obligation at end of period	**$**	**14,568**	**$**	**14,283**

We have additional asset retirement obligations with indeterminate settlement dates. The fair value of these asset retirement obligations cannot be estimated due to the lack of sufficient information to estimate the settlement dates of the obligations. These asset retirement obligations include, for example,

Table of Contents

(i) removal and disposal of potentially hazardous materials related to equipment and/or an operating facility if the equipment and/or facilities were to undergo major maintenance, renovation, or demolition; (ii) wastewater treatment ponds that may be required to be drained and/or cleaned if the related operating facility is closed; and (iii) storage sites or owned facilities for which removal and/or disposal of chemicals and other related materials are required if the operating facility is closed. We will recognize a liability in the period in which sufficient information becomes available to reasonably estimate the fair value of these obligations.

13. Debt

At March 31, 2009, and December 31, 2008, our long-term debt and the interest rates on that debt were as follows:

	March 31, 2009		**December 31, 2008**	
	Amount (thousands)	**Interest Rate**	**Amount (thousands)**	**Interest Rate**
Revolving credit facility, due 2013	$ 20,000	3.81%	$ 60,000	4.33%
Tranche A term loan, due 2013	237,567	3.81%	245,313	4.75%
Tranche B term loan, due 2014	456,552	5.75%	471,437	5.75%
Second lien term loan, due 2015	260,700	9.25%	260,700	9.25%
Current portion of long-term debt	(7,479)	4.11%	(25,822)	5.33%
Long-term debt, less current portion	967,340	6.19%	1,011,628	6.34%
Current portion of long-term debt	7,479	4.11%	25,822	5.33%
	974,819	6.17%	1,037,450	6.31%
15.75% notes payable, due 2015	69,229	15.75%	66,606	15.75%
	$ 1,044,048		**$ 1,104,056**	

Senior Secured Credit Facilities

Our senior secured credit facilities consist of:

- A five-year nonamortizing $250.0 million senior secured revolving credit facility with interest at either the London Interbank Offered Rate (LIBOR) plus 325 basis points or a calculated base rate plus 325 basis points (the Revolving Credit Facility and, collectively with the Tranche A Term Loan Facility and the Tranche B Term Loan Facility, the First Lien Facilities);

- A five-year amortizing $250.0 million senior secured Tranche A term loan facility with interest at LIBOR plus 325 basis points or a calculated base rate plus 325 basis points (the Tranche A Term Loan Facility);

- A six-year amortizing $475.0 million senior secured Tranche B term loan facility with interest at LIBOR (subject to a floor of 4.00%) plus 350 basis points or a calculated base rate plus 250 basis points (the Tranche B Term Loan Facility); and

- A seven-year nonamortizing $260.7 million second lien term loan facility with interest at LIBOR (subject to a floor of 5.50%) plus 700 basis points or a calculated base rate plus 600 basis points (the Second Lien Facility and, together with the First Lien Facilities, the Credit Facilities).

All borrowings under the Credit Facilities bear interest at a rate per annum equal to an applicable margin plus a customary base rate or Eurodollar rate. The base rate means, for any day, a rate per annum equal to the greater of (i) the Prime Rate in effect on such day and (ii) the Federal Funds Effective Rate in effect on such day plus 0.50%. In addition to paying interest, the Company pays a commitment fee to the lenders under the Revolving Credit Facility at a rate of 0.50% per annum (which shall be reduced to 0.375% when the leverage ratio is less than 2.25:1.00) times the daily average undrawn portion of the Revolving Credit Facility (reduced by the amount of letters of credit issued and outstanding), which fee is payable quarterly in arrears. At March 31, 2009, and December 31, 2008, we had $20.0 million and $60.0 million of borrowings outstanding under the Revolving Credit Facility. For the three months ended March 31, 2009, and the year ended December 31, 2008, the average interest rate for our borrowings under our Revolving Credit Facility was 3.7% and 6.0%. The minimum and maximum borrowings under the Revolving Credit Facility were $10.0 million and $60.0 million for the three months

Table of Contents

ended March 31, 2009, and were zero and $80.0 million for the year ended December 31, 2008. The weighted average amount of borrowings outstanding under the Revolving Credit Facility during the three months ended March 31, 2009 and 2008, was $28.1 million and $73.7 million. At March 31, 2009, we had availability of $205.5 million, which is net of outstanding letters of credit of $24.5 million. At December 31, 2008, we had availability of $163.6 million, which was net of outstanding letters of credit of $26.4 million.

The loan documentation for the Credit Facilities contains, among other terms, representations and warranties, covenants, events of default and indemnification customary for loan agreements for similar leveraged acquisition financings, and other representations and warranties, covenants, and events of default deemed by the administrative agents of the First Lien Facilities or the Second Lien Facility, as applicable, to be appropriate for the specific transaction.

Covenants

The First and Second Lien Facilities require BZ Intermediate Holdings LLC (Holdings), a wholly owned consolidated entity of Boise Inc. and the parent company of Boise Paper Holdings, L.L.C. (the Borrower), and its subsidiaries to maintain financial covenant ratios. At March 31, 2009, Holdings is required to maintain a minimum interest coverage ratio of 2.375:1.00 and a maximum leverage ratio of 4.50:1.00 under the First Lien Facilities. Under the Second Lien Facility, Holdings is required to maintain a maximum leverage ratio of 4.75:1.00 at March 31, 2009. The covenant ratios tighten over time. At December 31, 2009, the minimum interest coverage ratio requirement increases to 2.50:1.00 under the First Lien Facilities, and the maximum leverage ratio decreases to 3.75:1.00 and 4.00:1.00 under the First and Second Lien Facilities, respectively. The minimum interest coverage ratio requirement remains 2.50:1.00 throughout the term of the loan, whereas the maximum leverage ratio decreases to a low of 3.00:1.00 and 3.25:1.00 under the First and Second Lien Facilities, respectively, in first quarter 2011.

The interest coverage ratio is defined in our loan agreements at the end of any fiscal quarter as the ratio of (i) consolidated adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) for the four-fiscal-quarter period then ended to (ii) consolidated interest expense payable in cash for such four-fiscal-quarter period. The leverage ratio is defined in our loan agreements at the end of any fiscal quarter as the ratio of (i) consolidated total debt as of such day to (ii) consolidated adjusted EBITDA for the four-fiscal-quarter period ending on such date. Differences between our financial statements and Holdings financial statements are related primarily to notes payable held by Boise Inc. and the related interest expense on those notes, income taxes, and other miscellaneous expenses.

The Credit Facilities also limit the ability of Holdings and its subsidiaries to make capital expenditures, generally to $150 million per year. However, this amount may increase up to an additional $75 million a year if we had less than $150 million of capital expenditures in the previous fiscal year. We may also spend $125 million a year, up to an aggregate of $200 million, for permitted acquisitions under the terms of our Credit Facilities.

Guarantees

The Company s obligations under its Credit Facilities are guaranteed by each of the Borrower s existing and subsequently acquired domestic (and, to the extent no material adverse tax consequences to Holdings or Borrower would result therefrom and as reasonably requested by the administrative agent under each Credit Facility, foreign) subsidiaries and Holdings (collectively, the Guarantors). The First Lien Facilities are secured by a first-priority security interest in substantially all of the real, personal, and mixed property of Borrower and the Guarantors, including a first-priority security interest in 100% of the equity interests of Borrower and each domestic subsidiary of Holdings, 65% of the equity interests of each of Holdings foreign subsidiaries (other than Boise Hong Kong Limited so long as Boise Hong Kong Limited does not account for more than $2.5 million of consolidated EBITDA during any fiscal year of Borrower), and all intercompany debt. The Second Lien Facility is secured by a second-priority security interest in substantially all of the real, personal, and mixed property of Borrower and the Guarantors, including a second-priority security interest in 100% of the equity interests of Borrower and each domestic subsidiary of Holdings, 65% of the equity interests of each of Holdings foreign subsidiaries (other than Boise Hong Kong Limited so long as Boise Hong Kong Limited does not account for more than $2.5 million of consolidated EBITDA during any fiscal year of Borrower), and all intercompany debt.

Table of Contents

Prepayments

In the event all or any portion of the Tranche B Term Loan Facility is repaid pursuant to any voluntary prepayments or mandatory prepayments with respect to asset sale proceeds or proceeds received from the issuance of debt prior to the second anniversary of the Acquisition closing date, such repayments will be made at 101.0% of the amount repaid if such repayment occurs after the first anniversary of the Acquisition closing date and prior to the second anniversary of the Acquisition closing date.

Subject to the provisions of the intercreditor agreement between the First Lien Facilities and the Second Lien Facility, in the event the Second Lien Facility is prepaid as a result of a voluntary or mandatory prepayment (other than as a result of a mandatory prepayment with respect to insurance/condemnation proceeds or excess cash flow) at any time prior to the third anniversary of the Acquisition closing date, Borrower shall pay a prepayment premium equal to the make-whole premium described below.

The make-whole premium means the present value of (a) all required interest payments due on such Second Lien Facility loan from the date of prepayment through and including the make-whole termination date, excluding accrued interest (assuming that the interest rate applicable to all such interest is the LIBOR swap rate at the close of business on the third business day prior to the date of such prepayment with the termination date nearest to the make-whole termination date plus 7.00%) plus (b) the prepayment premium that would be due if such prepayment were made on the day after the make-whole termination date, in each case discounted to the date of prepayment on a quarterly basis (assuming a 360-day year and actual days elapsed) at a rate equal to the sum of such swap rate plus 0.50%.

At any time after the third anniversary of the Acquisition closing date and prior to the sixth anniversary of the Acquisition closing date, subject to the provisions of the First Lien Facilities, the Second Lien Facility may be prepaid in whole or in part subject to the call premium described below, provided that loans bearing interest with reference to the reserve-adjusted Eurodollar rate will be prepayable only on the last day of the related interest period unless Borrower pays any related breakage costs.

The call premium means that in the event all or any portion of the Second Lien Facility is repaid as a result of a voluntary prepayment or mandatory prepayment with respect to asset sale proceeds or proceeds received from the issuance of debt after the third anniversary of the Acquisition closing date and prior to the sixth anniversary of the Acquisition closing date, such repayments will be made at (i) 105.0% of the amount repaid if such repayment occurs on or after the third anniversary of the Acquisition closing date and prior to the fourth anniversary of the Acquisition closing date, (ii) 103.0% of the amount repaid if such repayment occurs on or after the fourth anniversary of the Acquisition closing date and prior to the fifth anniversary of the Acquisition closing date, and (iii) 101.0% of the amount repaid if such repayment occurs on or after the fifth anniversary of the Acquisition closing date and prior to the sixth anniversary of the Acquisition closing date.

Other Provisions

Subject to specified exceptions, the Credit Facilities require that the proceeds from certain asset sales, casualty insurance, certain debt issuances, and 75% (subject to step-downs based on certain leverage ratios) of the excess cash flow for each fiscal year must be used to pay down outstanding borrowings. As of March 31, 2009, required debt principal repayments under the Credit Facilities total $3.2 million during the remainder of 2009, $26.5 million in 2010, $48.4 million in 2011, $134.3 million in 2012, $63.7 million in 2013, $438.0 million in 2014, and $260.7 million thereafter.

Notes Payable

In connection with the Acquisition, we issued a $58.3 million subordinated promissory note. The original note is now represented by eight separate notes payable, each with terms (other than the amount) identical to the original note. With the exception of our subsidiaries that are party to the Credit and Guaranty Agreement dated as of February 22, 2008, each of our current and future domestic subsidiaries are joint and several obligors under this note, as reflected by a Subordinated Guaranty Agreement, which guarantees our obligations under the note.

Table of Contents

The notes bear interest at 15.75% per annum (computed on the basis of a 360-day year) payable quarterly (each such quarterly payment date, an Interest Payment Date). To the extent interest is not paid in cash, interest will be added to the principal amount of the notes on each Interest Payment Date. The notes mature on August 21, 2015, provided that if such date is more than 181 days after the scheduled maturity date of the indebtedness under the Credit Facilities, then the maturity date shall automatically be deemed to be 181 days after the latest maturity date of any such indebtedness. At maturity, the amount of the notes will be approximately $185.9 million, assuming none of the interest has been paid in cash.

We may prepay the notes at any time in whole or in part, without premium or penalty, subject to any restrictions contained in our senior credit facilities. We must prepay the notes upon the occurrence of the following events: (i) a change of control (as defined in the Credit Facilities), (ii) a sale or transfer of 50% or more of the company s assets, and (iii) events of default (as provided in the notes). We must use the proceeds from the sale of equity or debt securities or borrowings to repay the notes, subject to any restrictions contained in our senior credit facilities.

Other

At March 31, 2009, and December 31, 2008, we had $69.7 million and $72.6 million of costs recorded in Deferred financing costs on our Consolidated Balance Sheet related to the Acquisition. The amortization of these costs is recorded in interest expense using the effective interest method over the life of the loans. We recorded $2.9 million and $0.8 million of amortization expense for the three months ended March 31, 2009 and 2008, in Interest expense in our Consolidated Statements of Income (Loss).

In April 2008, we entered into interest rate derivative instruments to hedge a portion of our interest rate risk as required under the terms of the First Lien Facilities. At March 31, 2009, we had $974.8 million of variable-rate debt outstanding, of which $610.0 million was hedged using interest rate derivatives. At March 31, 2009, our average effective interest rate was not affected by our interest rate derivatives, as the effective cap rates were above the interest rates on the hedged debt. For additional information on our interest rate derivatives, see Note 14, Financial Instruments.

For the three months ended March 31, 2009 and 2008, cash payments for interest, net of interest capitalized, were $16.5 million and $8.5 million. No payments were made during the Predecessor period of January 1 through February 21, 2008.

14. Financial Instruments

We are exposed to market risks, including changes in interest rates, energy prices, and foreign currency exchange rates.

Interest Rate Risk

With the exception of the 15.75% notes payable maturing in August 2015, our debt is variable-rate debt. At March 31, 2009, the estimated value of the notes payable, based on then-current interest rates for similar obligations with like maturities, was approximately $64.7 million less than the amount recorded on our Consolidated Balance Sheet. At March 31, 2009, the estimated value of our variable-rate debt, based on then-current interest rates for similar obligations with like maturities, was approximately $334.0 million less than the amount recorded on our Consolidated Balance Sheet. The fair value of long-term debt is estimated based on quoted market prices for the same or similar issues or on the discounted value of the future cash flows expected to be paid using incremental rates of borrowing for similar liabilities.

In April 2008, we entered into interest rate derivative instruments to hedge a portion of our interest rate risk as required under the terms of the First Lien Facilities. At March 31, 2009, we had $974.8 million of variable-rate debt outstanding, $610.0 million of which was hedged using interest rate derivatives. We purchased interest rate caps with a term of three years and a cap rate of 5.50% on a notional amount of $260.0 million to hedge the interest rate on our Second Lien Facility. We also purchased interest rate caps to hedge part of the interest rate risk on our Tranche B Term Loan Facility with a LIBOR cap rate of 5.00% on a notional amount of $425.0 million for the period of April 21, 2008, through March 31, 2009; a notional amount of $350.0 million for the period of March 31, 2009, through March 31, 2010; and a notional amount of $300.0 million for the period of March 31, 2010, through March 31, 2011.

Table of Contents

First Lien Facilities. We account for the interest rate derivatives that hedge part of the interest rate risk on our Tranche B Term Loan Facility as economic hedges. These derivatives have a cap rate of 5.00% on a notional amount of $425.0 million for the period of April 21, 2008, through March 31, 2009; a notional amount of $350.0 million for the period of March 31, 2009, through March 31, 2010; and a notional amount of $300.0 million for the period of March 31, 2010, through March 31, 2011. At March 31, 2009, we recorded the fair value of the interest rate derivatives, or $57,000, in Other assets on our Consolidated Balance Sheet. During the three months ended March 31, 2009, we recorded the change in fair value of these derivatives, or $135,000 of expense, in Change in fair value of interest rate derivatives in our Consolidated Statement of Income (Loss). During the three months ended March 31, 2009, we recorded $143,000 in Interest expense for the amortization of the premiums paid for the interest rate derivatives.

Effective December 31, 2008, we began utilizing the calculated base rate plus 250 basis points on the Tranche B Term Loan Facility rather than the LIBOR plus 350 basis points (subject to a floor of 4.00%) used prior to December 31, 2008. As the interest rate on this debt no longer matched the rate on the interest rate derivatives used to hedge a portion of that debt, we no longer designated the interest rate derivatives as cash flow hedges and account for them as economic hedges. The amounts recorded in Accumulated other comprehensive loss on our Consolidated Balance Sheet are being amortized to interest expense over the remaining life of the interest rate derivatives. During the three months ended March 31, 2009, we amortized $84,000 of the amounts recorded in Accumulated other comprehensive loss on our Consolidated Balance Sheet to Interest expense in our Consolidated Statement of Income (Loss). Changes in the fair value of these derivatives are recorded in Change in fair value of interest rate derivatives in our Consolidated Statements of Income (Loss).

Second Lien Facility. We account for the interest rate derivatives with a notional amount of $260.0 million that hedge our exposure to interest rate fluctuations on our Second Lien Facility as economic hedges. At March 31, 2009, we recorded the fair value of the interest rate derivatives, or $32,000, in Other assets on our Consolidated Balance Sheet. During the three months ended March 31, 2009, we recorded the change in fair value of these derivatives, or $3,000 of income, in Change in fair value of interest rate derivatives in our Consolidated Statement of Income (Loss). During the three months ended March 31, 2009, we recorded $62,000 in Interest expense for the amortization of the premiums paid for the interest rate derivatives.

Energy Risk

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. As of March 31, 2009, we had entered into derivative instruments related to approximately 85% of our forecasted natural gas purchases for April 2009 through October 2009, approximately 45% of our forecasted natural gas purchases for November 2009 through March 2010, approximately 42% of our forecasted natural gas purchases for April 2010 through October 2010, and approximately 5% of our forecasted natural gas purchases for November 2010 through March 2011. At March 31, 2009, these derivatives included three-way collars and call spreads.

A three-way collar is a combination of options: a written put, a purchased call, and a written call. The purchased call establishes a maximum price unless the market price exceeds the written call, at which point the maximum price would be New York Mercantile Exchange (NYMEX) price less the difference between the purchased call and the written call strike price. The written put establishes a minimum price (the floor) for the volumes under contract. The strategy enables us to decrease the floor and the ceiling price of the collar beyond the range of a traditional collar while offsetting the associated cost with the sale of the written call. The following table summarizes our position related to these instruments as of March 31, 2009:

Table of Contents

	Three-Way Collars				
	April 2009 Through October 2009			November 2009 Through March 2010	
Volume hedged	1,000 mmBtu/day	7,000 mmBtu/day	6,000 mmBtu/day	6,000 mmBtu/day	8,500 mmBtu/day
Strike price of call sold	$ 14.00	$ 12.00	$ 9.25	$ 12.00	$ 12.00
Strike price of call bought	11.00	9.00	6.25	9.00	9.00
Strike price of put sold	6.50	6.50	3.94	6.50	5.35
Three-way collar premium	0.10	0.18		0.17	
Approximate percent hedged	3%	23%	20%	16%	23%

	November 2009 Through March 2010	April 2010 Through October 2010		November 2010 Through March 2011
Volume hedged	2,000 mmBtu/day	5,500 mmBtu/day	7,000 mmBtu/day	2,000 mmBtu/day
Strike price of call sold	$ 11.00	$ 12.00	$ 11.00	$ 11.00
Strike price of call bought	8.00	9.00	8.00	8.00
Strike price of put sold	4.60	5.90	5.12	5.63
Three-way collar premium				
Approximate percent hedged	5%	18%	23%	5%

A call spread is a combination of a purchased call and a written call. The purchased call establishes a maximum price unless the market exceeds the written call, at which point the maximum price would be the NYMEX price, less the difference between the purchased call and the written call strike price, plus any applicable net premium associated with the two options. The following table summarizes our position related to these instruments as of March 31, 2009:

	Call Spreads April 2009 Through October 2009	
Volume hedged	10,000 mmBtu/day	1,500 mmBtu/day
Strike price of call sold	$ 15.00	$ 9.00
Strike price of call bought	10.50	6.25
Net cap premium	0.84	0.20
Approximate percent hedged	33%	5%

We have elected to account for these instruments as economic hedges. At March 31, 2009, we recorded the fair value of the derivatives, or $9.5 million, in Accrued liabilities, Other on our Consolidated Balance Sheet. During the three months ended March 31, 2009, we recorded the change in

Table of Contents

fair value of the instruments, or $2.2 million of expense, in Materials, labor, and operating expenses in our Consolidated Statement of Income (Loss).

Foreign Currency Risk

While we are exposed to foreign currency risk in our operations, none of this risk was material to our financial position or results of operations as of March 31, 2009.

Fair Value Measurements

In accordance with the provisions of FASB Staff Position (FSP) No. 157-2 (see Note 15, New and Recently Adopted Accounting Standards), we have applied the provisions of SFAS No. 157 only to our financial assets and liabilities recorded at fair value, which consist of financial instruments that are used to hedge exposures to interest rate and energy risks. For these financial instruments, fair value is determined at each balance sheet date based on LIBOR rates and interest rate curves and NYMEX price quotations, respectively, under the terms of the contracts using current market information as of the reporting date. The following table provides a summary of the inputs used to develop these estimated fair values under the hierarchy defined in SFAS No. 157:

		Fair Value Measurements at March 31, 2009, Using:		
	Total	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(thousands)		
Assets:				
Interest rate derivatives (a)	$ 89	$	$ 89	$
	$ 89	**$**	**$ 89**	**$**
Liabilities:				
Energy derivatives (b)	$ 9,515	$	$ 9,515	$
	$ 9,515	**$**	**$ 9,515**	**$**

(a) Recorded in Other assets on our Consolidated Balance Sheet.

(b) Recorded in Accrued Liabilities, Other on our Consolidated Balance Sheet.

As of March 31, 2009, we did not have any fair value measurements using significant unobservable inputs (level 3).

Table of Contents

Tabular Disclosure of the Fair Values of Derivative Instruments and the Effect of Those Instruments

	Fair Values of Derivative Instruments March 31, 2009 (thousands)			
	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as cash flow hedging instruments (a)				
Interest rate contracts	Other assets	$	Accrued liabilities	$
Total derivatives designated as cash flow hedging instruments		**$**		**$**
Derivatives designated as economic hedging instruments (b)				
Interest rate contracts	Other assets	$ 89	Accrued liabilities	$
Natural gas contracts	Other assets		Accrued liabilities	9,515
Total derivatives designated as economic hedging instruments		**$ 89**		**$ 9,515**
Total Derivatives		**$ 89**		**$ 9,515**

The Effect of Derivative Instruments on the Consolidated Statement of Income (Loss) for the Three Months Ended March 31, 2009

Derivatives Designated as Cash Flow Hedging Instruments (a)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) (thousands)	Derivatives Designated as Economic Hedging Instruments (b)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Interest rate contracts	$	Interest income/ expense	$ (84)	Interest rate contracts	Change in fair value of interest rate derivatives	$ (132)
				Natural gas contracts	Materials, labor, and other operating expenses	(2,191)
	$		**$ (84)**			**$ (2,323)**

(a) As of March 31, 2009, we no longer have interest rate derivatives designated as cash flow hedges. The amounts recorded in Accumulated other comprehensive loss on our Consolidated Balance Sheet are being amortized to interest over the remaining life of the interest rate derivatives. During the three months ended March 31, 2009, these derivatives were accounted for as economic hedges.

(b) See discussion above for additional information on our purpose for entering into derivatives designated as economic hedges and our overall risk management strategies.

Table of Contents

15. New and Recently Adopted Accounting Standards

In April 2009, the FASB issued FSP No. 107-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP 107-1), which increases the frequency of fair value disclosures from an annual to a quarterly basis. The guidance relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet at fair value. The FSP is effective for interim and annual periods ending after June 15, 2009, but entities may choose to adopt it for the interim and annual periods ending after March 15, 2009. We will adopt this FSP in second quarter 2009. The adoption will affect our disclosures only and will have no effect on our financial position or results of operations.

In December 2008, the FASB issued FSP FAS 132(R)-1, *Employer s Disclosures About Postretirement Benefit Plan Assets.* This FSP amends SFAS No. 132 (Revised 2003), *Employers Disclosures About Pensions and Other Postretirement Benefits,* to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The FSP is effective for fiscal years ending after December 15, 2009. The adoption will affect our disclosures only and will have no effect on our financial position or results of operations.

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets.* FSP No. FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, *Goodwill and Other Intangible Assets*. This new guidance also provides additional disclosure requirements related to recognized intangible assets. We adopted FSP No. FAS 142-3 in January 2009, and it did not have a material impact on our financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities*. SFAS No. 161 requires enhanced disclosures about derivative instruments and hedging activities to enable investors to better understand their effects on financial position, financial performance, and cash flows. These requirements include the disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. We adopted SFAS No. 161 in January 2009. As a result of the adoption of SFAS No. 161, we have expanded our disclosures regarding derivative instruments and hedging activities within Note 14, Financial Instruments.

In January 2008, we adopted SFAS No. 157, *Fair Value Measurements*. The adoption did not have a material impact on our financial position or results of operations. The statement established a framework for measuring fair value, and it enhanced the disclosures for fair value measurements. The statement applies when other accounting pronouncements require or permit fair value measurements, but it does not require new fair value measurements. In accordance with the standard, in Note 14, Financial Instruments, we expanded our disclosures about fair value measurements. In February 2008, the FASB issued a one-year deferral for nonfinancial assets and liabilities to comply with SFAS No. 157. We adopted SFAS No. 157 for nonfinancial assets and liabilities in first quarter 2009. We had no required fair value measurements for nonfinancial assets and liabilities in first quarter 2009 and no required additional disclosures upon adoption. There were no material effects on our financial statements upon adoption of this new accounting pronouncement; however, this pronouncement could have an impact in future periods. In addition, we may have additional disclosure requirements in the event we complete an acquisition or incur impairment of our assets in future periods.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations,* and SFAS No. 160, *Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin No. 51.* These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. We adopted SFAS Nos. 141(R) and 160 on January 1, 2009. The impact of adopting these standards will be limited to business combinations occurring on or after January 1, 2009.

16. Retirement and Benefit Plans

During all of the periods presented, some of our employees participated in our retirement plans, and some of the Predecessor s employees participated in Boise Cascade s retirement plans. These plans consist of noncontributory defined benefit pension plans, contributory defined contribution savings plans, deferred compensation plans, and postretirement healthcare benefit plans. Compensation expense was calculated based on costs directly attributable to our employees and, in the case of the Predecessor employees of the Paper Group, an allocation of expense related to corporate employees that serviced all Boise Cascade business units.

Table of Contents

In December 2008, we amended our defined benefit pension plan for salaried employees (Salaried Plan). This amendment freezes the accumulation of benefits and years of service for participants of the Salaried Plan effective April 15, 2009. This amendment also freezes benefits in the Boise Inc. Supplemental Pension Plan (SUPP) and the Boise Inc. Supplemental Early Retirement Plan (SERP) for executive officers. Because the Salaried Plan has unrecognized losses, the curtailment gain associated with this amendment was applied to partially offset those losses in accordance with SFAS No. 88, *Employers Accounting for Settlements of Defined Benefit Pension Plans and for Termination Benefits*. However, we have recognized a $2.9 million gain on our SUPP and SERP plans, because the curtailment gain exceeded our existing unrecognized losses. This gain was recognized in December 2008.

Components of Net Periodic Benefit Cost and Other Comprehensive (Income) Loss

The components of net periodic benefit cost and other comprehensive (income) loss are as follows (in thousands):

	Pension Benefits			Other Benefits		
	Boise Inc. Three Months Ended March 31, 2009	Boise Inc. Three Months Ended March 31, 2008	Predecessor January 1 Through February 21, 2008	Boise Inc. Three Months Ended March 31, 2009	Boise Inc. Three Months Ended March 31, 2008	Predecessor January 1 Through February 21, 2008
Service cost	$ 1,916	$ 1,134	$ 1,566	$ 1	$	$
Interest cost	6,041	2,572	3,458	31	5	18
Expected return on plan assets	(5,734)	(2,517)	(3,452)			
Amortization of actuarial (gain) loss	83		(21)			(12)
Amortization of prior service costs and other	9		194			
Plan settlement curtailment (gain) loss						
Company-sponsored plans	2,315	1,189				