BOISE INC.
Form 10-Q
November 03, 2010
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# 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 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 ______**

**1111 West Jefferson Street, Suite 200**

**Boise, Idaho 83702-5388**

**(Address of principal executive offices) (Zip code)**

**(208) 384-7000**

**(Registrants telephone number, including area code)**

| Commission File Number | Exact Name of Registrant as Specified in Its Charter | I.R.S. Employer Identification No. | State or Other Jurisdiction of Incorporation or Organization |
|---|---|---|---|
| 001-33541 | Boise Inc. | 20-8356960 | Delaware |
| 333-166926-04 | BZ Intermediate Holdings LLC | 27-1197223 | Delaware |

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.

| | | |
|---|---|---|
| Boise Inc. | Yes x | No ¨ |
| BZ Intermediate Holdings LLC | Yes ¨ | No x |

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

| | | |
|---|---|---|
| Boise Inc. | Yes ¨ | No ¨ |
| BZ Intermediate Holdings LLC | 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:

| | | | | |
|---|---|---|---|---|
| Boise Inc. | Large accelerated filer | ¨ | Accelerated filer | x |
| | Non-accelerated filer (Do not check if smaller reporting company) | ¨ | Smaller reporting company | ¨ |
| BZ Intermediate Holdings LLC | Large accelerated filer | ¨ | Accelerated filer | ¨ |
| | Non-accelerated filer (Do not check if smaller reporting company) | x | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

| | | |
|---|---|---|
| Boise Inc. | Yes ¨ | No x |
| BZ Intermediate Holdings LLC | Yes ¨ | No x |

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

There were 84,760,220 common shares, $.0001 per share par value, of Boise Inc. and 1,000 common units, $.01 per unit par value, of BZ Intermediate Holdings LLC outstanding as of October 29, 2010.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Boise Inc. and BZ Intermediate Holdings LLC. BZ Intermediate Holdings LLC meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, any reference in this report to the Company, we, us, our, or Boise refers to Boise Inc. together with BZ Intermediate Holdings LLC and its consolidated subsidiaries.

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All reports we file with the Securities and Exchange Commission (SEC) are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on 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.

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## PART I FINANCIAL INFORMATION

***ITEM 1. FINANCIAL STATEMENTS***

**Boise Inc.**

**Consolidated Statements of Income**

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

| | Three Months Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Sales** | | |
| Trade | $ 543,505 | $ 498,812 |
| Related parties | 10,550 | 9,453 |
| | 554,055 | 508,265 |
| **Costs and expenses** | | |
| Materials, labor, and other operating expenses | 412,847 | 401,607 |
| Fiber costs from related parties | 4,905 | 10,325 |
| Depreciation, amortization, and depletion | 32,457 | 32,916 |
| Selling and distribution expenses | 13,884 | 13,588 |
| General and administrative expenses | 12,594 | 12,813 |
| St. Helens mill restructuring | 234 | 1,402 |
| Alternative fuel mixture credits, net | | (59,572) |
| Other (income) expense, net | 148 | 1,710 |
| | 477,069 | 414,789 |
| **Income from operations** | 76,986 | 93,476 |
| Foreign exchange gain (loss) | 386 | 1,597 |
| Change in fair value of interest rate derivatives | (1) | 125 |
| Interest expense | (16,099) | (21,436) |
| Interest income | 105 | 130 |
| | (15,609) | (19,584) |
| **Income before income taxes** | 61,377 | 73,892 |
| Income tax provision | (25,454) | (25,737) |
| **Net income** | **$ 35,923** | **$ 48,155** |
| **Weighted average common shares outstanding:** | | |
| **Basic** | **80,664** | **78,635** |
| **Diluted** | **84,082** | **84,241** |

| | | | | |
|---|---|---|---|---|
| **Net income per common share:** | | | | |
| **Basic** | **$** | **0.45** | **$** | **0.61** |
| **Diluted** | **$** | **0.43** | **$** | **0.57** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**Boise Inc.**

**Consolidated Statements of Income**

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

| | Nine Months Ended September 30 2010 | 2009 |
|---|---|---|
| **Sales** | | |
| Trade | $ 1,540,368 | $ 1,453,557 |
| Related parties | 29,353 | 34,360 |
| | 1,569,721 | 1,487,917 |
| **Costs and expenses** | | |
| Materials, labor, and other operating expenses | 1,240,926 | 1,200,759 |
| Fiber costs from related parties | 19,904 | 24,961 |
| Depreciation, amortization, and depletion | 96,855 | 97,780 |
| Selling and distribution expenses | 41,872 | 41,394 |
| General and administrative expenses | 36,622 | 35,877 |
| St. Helens mill restructuring | (72) | 6,183 |
| Alternative fuel mixture credits, net | | (134,909) |
| Other (income) expense, net | (166) | 4,383 |
| | 1,435,941 | 1,276,428 |
| **Income from operations** | 133,780 | 211,489 |
| Foreign exchange gain (loss) | 750 | 2,076 |
| Change in fair value of interest rate derivatives | (43) | 620 |
| Loss on extinguishment of debt | (22,225) | |
| Interest expense | (48,709) | (64,979) |
| Interest income | 203 | 275 |
| | (70,024) | (62,008) |
| **Income before income taxes** | 63,756 | 149,481 |
| Income tax provision | (27,208) | (51,359) |
| **Net income** | **$ 36,548** | **$ 98,122** |
| **Weighted average common shares outstanding:** | | |
| **Basic** | **80,366** | **78,093** |
| **Diluted** | **84,123** | **82,693** |
| **Net income per common share:** | | |
| **Basic** | **$ 0.45** | **$ 1.26** |
| **Diluted** | **$ 0.43** | **$ 1.19** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**Boise Inc.**

**Consolidated Balance Sheets**

(unaudited, dollars in thousands)

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 173,449 | $ 69,393 |
| Short-term investments | 10,614 | 10,023 |
| Receivables | | |
| Trade, less allowances of $529 and $839 | 223,153 | 185,110 |
| Related parties | 1,020 | 2,056 |
| Other | 3,779 | 62,410 |
| Inventories | 254,790 | 252,173 |
| Deferred income taxes | 13,524 | |
| Prepaid and other | 8,463 | 4,819 |
| | 688,792 | 585,984 |
| **Property** | | |
| Property and equipment, net | 1,187,520 | 1,205,679 |
| Fiber farms and deposits | 17,850 | 17,094 |
| | 1,205,370 | 1,222,773 |
| **Deferred financing costs** | 31,757 | 47,369 |
| **Intangible assets, net** | 30,293 | 32,358 |
| **Other assets** | 7,890 | 7,306 |
| **Total assets** | **$ 1,964,102** | **$ 1,895,790** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**Boise Inc.**

**Consolidated Balance Sheets (continued)**

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

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Current** | | |
| Current portion of long-term debt | $ 37,500 | $ 30,711 |
| Income taxes payable | 24 | 240 |
| Accounts payable | | |
| Trade | 186,697 | 172,518 |
| Related parties | 274 | 2,598 |
| Accrued liabilities | | |
| Compensation and benefits | 55,964 | 67,948 |
| Interest payable | 24,069 | 4,946 |
| Other | 22,121 | 23,735 |
| | 326,649 | 302,696 |
| **Debt** | | |
| Long-term debt, less current portion | 750,581 | 785,216 |
| **Other** | | |
| Deferred income taxes | 70,862 | 32,253 |
| Compensation and benefits | 112,184 | 123,889 |
| Other long-term liabilities | 43,684 | 30,801 |
| | 226,730 | 186,943 |
| **Commitments and contingent liabilities** | | |
| **Stockholders equity** | | |
| Preferred stock, $.0001 par value per share: | | |
| 1,000 shares authorized; none issued | | |
| Common stock, $.0001 par value per share: | 8 | 8 |
| 250,000 shares authorized; 84,760 shares and 84,419 shares issued and outstanding | | |
| Additional paid-in capital | 579,996 | 578,669 |
| Accumulated other comprehensive income (loss) | (70,221) | (71,553) |
| Retained earnings | 150,359 | 113,811 |
| **Total stockholders equity** | 660,142 | 620,935 |
| **Total liabilities and stockholders equity** | **$ 1,964,102** | **$ 1,895,790** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**Boise Inc.**

**Consolidated Statements of Cash Flows**

(unaudited, dollars in thousands)

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Cash provided by (used for) operations** | | |
| Net income | $ 36,548 | $ 98,122 |
| Items in net income not using (providing) cash | | |
| Depreciation, depletion, and amortization of deferred financing costs and other | 102,856 | 107,471 |
| Share-based compensation expense | 2,774 | 2,631 |
| Notes payable interest expense | | 8,182 |
| Pension and other postretirement benefit expense | 7,309 | 6,605 |
| Deferred income taxes | 27,196 | 42,667 |
| Change in fair value of energy derivatives | 1,502 | (4,902) |
| Change in fair value of interest rate derivatives | 43 | (620) |
| (Gain) loss on sales of assets, net | 82 | 395 |
| Other | (750) | (2,076) |
| Loss on extinguishment of debt | 22,225 | |
| Decrease (increase) in working capital, net of acquisitions | | |
| Receivables | 21,725 | 1,628 |
| Inventories | (4,802) | 79,004 |
| Prepaid expenses | 3,655 | (462) |
| Accounts payable and accrued liabilities | 13,605 | 18,436 |
| Current and deferred income taxes | (543) | 7,991 |
| Pension and other postretirement benefit payments | (18,509) | (7,204) |
| Other | 374 | 1,779 |
| Cash provided by (used for) operations | 215,290 | 359,647 |
| **Cash provided by (used for) investment** | | |
| Acquisition of businesses and facilities | | (543) |
| Expenditures for property and equipment | (66,697) | (53,562) |
| Purchases of short-term investments | (17,675) | (13,792) |
| Maturities of short-term investments | 17,090 | 3,774 |
| Sales of assets | 646 | 639 |
| Other | 1,689 | 1,621 |
| Cash provided by (used for) investment | (64,947) | (61,863) |
| **Cash provided by (used for) financing** | | |
| Issuances of long-term debt | 300,000 | 10,000 |
| Payments of long-term debt | (327,846) | (92,698) |
| Payments of short-term borrowings | (5,288) | |
| Payments of deferred financing fees | (11,861) | |
| Other | (1,292) | |

| | | |
|---|---|---|
| Cash provided by (used for) financing | (46,287) | (82,698) |
| **Increase in cash and cash equivalents** | 104,056 | 215,086 |
| **Balance at beginning of the period** | 69,393 | 22,518 |
| **Balance at end of the period** | **$ 173,449** | **$ 237,604** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**BZ Intermediate Holdings LLC**

**Consolidated Statements of Income**

(unaudited, dollars in thousands)

| | Three Months Ended September 30 2010 | Three Months Ended September 30 2009 |
|---|---|---|
| **Sales** | | |
| Trade | $ 543,505 | $ 498,812 |
| Related parties | 10,550 | 9,453 |
| | 554,055 | 508,265 |
| **Costs and expenses** | | |
| Materials, labor, and other operating expenses | 412,847 | 401,607 |
| Fiber costs from related parties | 4,905 | 10,325 |
| Depreciation, amortization, and depletion | 32,457 | 32,916 |
| Selling and distribution expenses | 13,884 | 13,588 |
| General and administrative expenses | 12,594 | 12,813 |
| St. Helens mill restructuring | 234 | 1,402 |
| Alternative fuel mixture credits, net | | (59,572) |
| Other (income) expense, net | 148 | 1,710 |
| | 477,069 | 414,789 |
| **Income from operations** | 76,986 | 93,476 |
| Foreign exchange gain (loss) | 386 | 1,597 |
| Change in fair value of interest rate derivatives | (1) | 125 |
| Interest expense | (16,099) | (18,603) |
| Interest income | 105 | 130 |
| | (15,609) | (16,751) |
| **Income before income taxes** | 61,377 | 76,725 |
| Income tax provision | (25,421) | (26,571) |
| **Net income** | **$ 35,956** | **$ 50,154** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**BZ Intermediate Holdings LLC**

**Consolidated Statements of Income**

(unaudited, dollars in thousands)

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Sales** | | |
| Trade | $ 1,540,368 | $ 1,453,557 |
| Related parties | 29,353 | 34,360 |
| | 1,569,721 | 1,487,917 |
| **Costs and expenses** | | |
| Materials, labor, and other operating expenses | 1,240,926 | 1,200,759 |
| Fiber costs from related parties | 19,904 | 24,961 |
| Depreciation, amortization, and depletion | 96,855 | 97,780 |
| Selling and distribution expenses | 41,872 | 41,394 |
| General and administrative expenses | 36,622 | 35,877 |
| St. Helens mill restructuring | (72) | 6,183 |
| Alternative fuel mixture credits, net | | (134,909) |
| Other (income) expense, net | (166) | 4,383 |
| | 1,435,941 | 1,276,428 |
| **Income from operations** | 133,780 | 211,489 |
| Foreign exchange gain (loss) | 750 | 2,076 |
| Change in fair value of interest rate derivatives | (43) | 620 |
| Loss on extinguishment of debt | (22,225) | |
| Interest expense | (48,709) | (56,797) |
| Interest income | 203 | 275 |
| | (70,024) | (53,826) |
| **Income before income taxes** | 63,756 | 157,663 |
| Income tax provision | (26,334) | (51,939) |
| **Net income** | **$ 37,422** | **$ 105,724** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**BZ Intermediate Holdings LLC**

**Consolidated Balance Sheets**

(unaudited, dollars in thousands)

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **ASSETS** | | |
| **Current** | | |
| Cash and cash equivalents | $ 173,449 | $ 69,393 |
| Short-term investments | 10,614 | 10,023 |
| Receivables | | |
| Trade, less allowances of $529 and $839 | 223,153 | 185,110 |
| Related parties | 1,020 | 2,056 |
| Other | 3,779 | 62,410 |
| Inventories | 254,790 | 252,173 |
| Deferred income taxes | 13,524 | |
| Prepaid and other | 8,463 | 4,819 |
| | 688,792 | 585,984 |
| **Property** | | |
| Property and equipment, net | 1,187,520 | 1,205,679 |
| Fiber farms and deposits | 17,850 | 17,094 |
| | 1,205,370 | 1,222,773 |
| **Deferred financing costs** | 31,757 | 47,369 |
| **Intangible assets, net** | 30,293 | 32,358 |
| **Other assets** | 7,890 | 7,306 |
| **Total assets** | **$ 1,964,102** | **$ 1,895,790** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**BZ Intermediate Holdings LLC**

**Consolidated Balance Sheets (continued)**

(unaudited, dollars in thousands)

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| **LIABILITIES AND CAPITAL** | | |
| **Current** | | |
| Current portion of long-term debt | $ 37,500 | $ 30,711 |
| Income taxes payable | 24 | 240 |
| Accounts payable | | |
| Trade | 186,697 | 172,518 |
| Related parties | 274 | 2,598 |
| Accrued liabilities | | |
| Compensation and benefits | 55,964 | 67,948 |
| Interest payable | 24,069 | 4,946 |
| Other | 22,121 | 23,735 |
| | 326,649 | 302,696 |
| **Debt** | | |
| Long-term debt, less current portion | 750,581 | 785,216 |
| **Other** | | |
| Deferred income taxes | 62,407 | 24,563 |
| Compensation and benefits | 112,184 | 123,889 |
| Other long-term liabilities | 43,611 | 30,836 |
| | 218,202 | 179,288 |
| **Commitments and contingent liabilities** | | |
| **Capital** | | |
| Business unit equity | 668,670 | 628,590 |
| **Total liabilities and capital** | **$ 1,964,102** | **$ 1,895,790** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**BZ Intermediate Holdings LLC**

**Consolidated Statements of Cash Flows**

(unaudited, dollars in thousands)

| | Nine Months Ended September 30 | |
|---|---|---|
| | **2010** | **2009** |
| **Cash provided by (used for) operations** | | |
| Net income | $ 37,422 | $ 105,724 |
| Items in net income not using (providing) cash | | |
| Depreciation, depletion, and amortization of deferred financing costs and other | 102,856 | 107,471 |
| Share-based compensation expense | 2,774 | 2,631 |
| Pension and other postretirement benefit expense | 7,309 | 6,605 |
| Deferred income taxes | 26,307 | 44,646 |
| Change in fair value of energy derivatives | 1,502 | (4,902) |
| Change in fair value of interest rate derivatives | 43 | (620) |
| (Gain) loss on sales of assets, net | 82 | 395 |
| Other | (750) | (2,076) |
| Loss on extinguishment of debt | 22,225 | |
| Decrease (increase) in working capital, net of acquisitions | | |
| Receivables | 21,725 | 1,628 |
| Inventories | (4,802) | 79,004 |
| Prepaid expenses | 3,655 | (462) |
| Accounts payable and accrued liabilities | 13,605 | 18,436 |
| Current and deferred income taxes | (528) | 6,592 |
| Pension and other postretirement benefit payments | (18,509) | (7,204) |
| Other | 374 | 1,779 |
| Cash provided by (used for) operations | 215,290 | 359,647 |
| **Cash provided by (used for) investment** | | |
| Acquisition of businesses and facilities | | (543) |
| Expenditures for property and equipment | (66,697) | (53,562) |
| Purchases of short-term investments | (17,675) | (13,792) |
| Maturities of short-term investments | 17,090 | 3,774 |
| Sales of assets | 646 | 639 |
| Other | 1,689 | 1,621 |
| Cash provided by (used for) investment | (64,947) | (61,863) |
| **Cash provided by (used for) financing** | | |
| Issuances of long-term debt | 300,000 | 10,000 |
| Payments of long-term debt | (327,846) | (92,698) |
| Payments of short-term borrowings | (5,288) | |
| Payments of deferred financing fees | (11,861) | |
| Other | (1,292) | |
| Cash provided by (used for) financing | (46,287) | (82,698) |

| | | |
|---|---|---|
| **Increase in cash and cash equivalents** | 104,056 | 215,086 |
| **Balance at beginning of the period** | 69,393 | 22,518 |
| **Balance at end of the period** | **$ 173,449** | **$ 237,604** |

See accompanying notes to unaudited quarterly consolidated financial statements.

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**Notes to Unaudited Quarterly Consolidated Financial Statements**

***1. Nature of Operations and Basis of Presentation***

Boise Inc. is a large, diverse United States-based manufacturer of 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. We own pulp and paper mill operations in the following locations: Jackson, Alabama; International Falls, Minnesota; St. Helens, Oregon; and Wallula, Washington, all of which manufacture uncoated freesheet paper. We also own a mill in DeRidder, Louisiana, which produces containerboard (linerboard) as well as newsprint. Additionally, we have a network of five corrugated container plants located in the Pacific Northwest, a corrugated sheet plant in Nevada, and a corrugated sheet feeder plant in Texas. Headquartered in Boise, Idaho, we operate our business in three reportable segments: Paper, Packaging, and Corporate and Other (support services).

The unaudited consolidated financial statements included herein are those of the following:

- Boise Inc. and its wholly owned subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate).

- BZ Intermediate and its wholly owned subsidiaries.

There are no significant differences between the results of operations, financial condition, and cash flows of Boise Inc. and those of BZ Intermediate other than income taxes. Historical differences between the two entities resulted primarily from the effect of income taxes, the notes payable at Boise Inc. that were repurchased and canceled in October 2009, and the associated interest expense on those notes. Unless the context indicates otherwise, the terms Company, we, us, our, or Boise refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate.

The following sets forth our operating structure:

Boise Finance Company and Boise Co-Issuer Company, two wholly owned subsidiaries of Boise Paper Holdings, L.L.C. (Boise Paper Holdings), are not shown on this chart. This chart also excludes Boise Paper Holdings indirect subsidiaries.

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

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results may vary from those estimates. Quarterly results are not necessarily indicative of results that may be expected for the full year. These notes to unaudited consolidated financial statements should be read in conjunction with our 2009 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and the other reports we file with the Securities and Exchange Commission (SEC).

***2. Net Income Per Common Share***

For the three and nine months ended September 30, 2010, net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Boise Inc. s basic and diluted net income per share is calculated as follows (dollars and shares in thousands, except per-share data):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Net income | $ 35,923 | $ 48,155 | $ 36,548 | $ 98,122 |
| Weighted average number of common shares for basic net income per share | 80,664 | 78,635 | 80,366 | 78,093 |
| Incremental effect of dilutive common stock equivalents: | | | | |
| Common stock warrants (a) | | | | |
| Restricted stock and restricted stock units | 3,418 | 5,606 | 3,757 | 4,600 |
| Weighted average number of shares for diluted net income per share | 84,082 | 84,241 | 84,123 | 82,693 |
| Net income per share: | | | | |
| Basic | **$ 0.45** | **$ 0.61** | **$ 0.45** | **$ 1.26** |
| Diluted (a) | **$ 0.43** | **$ 0.57** | **$ 0.43** | **$ 1.19** |

(a) For the three and nine months ended September 30, 2010 and 2009, warrants to purchase shares of common stock were not included in the computation of diluted net income per share, because the exercise price exceeded the average market price of our common stock.

Net income per common share is not applicable to BZ Intermediate, because it does not have common shares.

***3. Transactions With Related Parties***

From February 22, 2008, through early March 2010, Boise Cascade Holdings, L.L.C. (Boise Cascade) held a significant interest in us, and our transactions with Boise Cascade were related-party transactions. In early March 2010, Boise Cascade sold all of its remaining investment in us, and accordingly, it is no longer a related party.

The transportation and other outsourcing services revenues described below were earned during January and February 2010. Beginning in March 2010, no transactions between Boise Cascade and us will be considered related-party transactions, except those concerning Louisiana Timber Procurement Company, L.L.C. (LTP) described below.

*Related-Party Sales*

We provide transportation services to Boise Cascade. For the nine months ended September 30, 2010, we recorded $0.3 million of sales for transportation services in Sales, Related parties in the Consolidated Statements of Income, and for the three and nine months ended September 30, 2009, we recorded $0.6 million and $1.9 million, respectively.

We are party to 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 agreement, as extended, expires on February 22, 2012. 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 expiration date. For the nine months ended September 30, 2010, we

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recognized $2.3 million in Sales, Related parties in the Consolidated Statements of Income, and for the three and nine months ended September 30, 2009, we recognized $3.9 million and $11.1 million, respectively.

LTP, a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade, sells wood to Boise Cascade and Boise Inc. at prices designed to approximate market prices. LTP procures saw timber, pulpwood, residual chips, and other residual wood fiber to meet the wood and fiber requirements of Boise Inc. and Boise Cascade. We are the primary beneficiary of LTP; therefore, we consolidate LTP in our financial statements in our Packaging segment. Although Boise Cascade is no longer a related party to our operations, Boise Cascade continues to be a related party to LTP; therefore, sales between Boise Cascade and LTP are related-party sales in our consolidated financial statements. As of September 30, 2010, the carrying amounts of LTP s assets and liabilities on our Consolidated Balance Sheet were both $3.4 million and related primarily to noninventory working capital. During the three and nine months ended September 30, 2010, we recorded $10.6 million and $26.7 million, respectively, of LTP sales to Boise Cascade in Sales, Related parties in the Consolidated Statements of Income and approximately the same amount of expenses in Materials, labor, and other operating expenses. During the three and nine months ended September 30, 2009, we recorded $5.0 million and $21.4 million, respectively, of LTP sales to Boise Cascade in Sales, Related parties in the Consolidated Statements of Income.

*Related-Party Costs and Expenses*

During the three and nine months ended September 30, 2010, fiber purchases from related parties were $4.9 million and $19.9 million, respectively. During the three and nine months ended September 30, 2009, fiber purchases from related parties were $10.3 million and $25.0 million, respectively. All of the costs associated with these purchases were recorded as Fiber costs from related parties in the Consolidated Statements of Income. Beginning in March 2010, Fiber costs from related parties represent only LTP s purchases from Boise Cascade. Fiber purchases from Boise Cascade by Boise Inc. subsequent to February 2010 are recorded as Materials, labor, and other operating expenses in the Consolidated Statements of Income.

***4. Other (Income) Expense, Net***

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Sales of assets, net | $ 37 | $ 385 | $ 82 | $ 395 |
| Other, net (a) | 111 | 1,325 | (248) | 3,988 |
| | **$ 148** | **$ 1,710** | **$ (166)** | **$ 4,383** |

(a) The three and nine months ended September 30, 2009, included $1.0 million and $2.9 million, respectively, of expense related to the indefinite idling of the #2 newsprint machine (D-2) at our mill in DeRidder, Louisiana.

***5. Income Taxes***

For the three months ended September 30, 2010, Boise Inc. s effective tax rate was 41.5%. For the nine months ended September 30, 2010, Boise Inc. s effective tax rate was 42.7%. During both of these periods, the primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes and discrete tax items. For the three and nine months ended September 30, 2010, we recorded $25.5 million and $27.2 million, respectively, of income tax expense. For the three and nine months ended September 30, 2009, our effective tax rate was 34.8% and 34.4%, respectively. During both of these periods, the primary reason for the difference from the federal statutory income tax rate was the release of valuation allowances recorded in the prior year due to expected taxable income. For the three and nine months ended September 30, 2009, we recorded $25.7 million and $51.4 million, respectively, of income tax expense.

For the three and nine months ended September 30, 2010, BZ Intermediate s effective tax rates were 41.4% and 41.3%, respectively. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes and discrete tax items. For the three and nine months ended September 30, 2010, we recorded $25.4 million and $26.3 million, respectively, of income tax

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expense. For the three and nine months ended September 30, 2009, our effective tax rates were 34.6% and 32.9%, respectively. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the release of valuation allowances recorded in the prior year due to expected taxable income. For the three and nine months ended September 30, 2009, we recorded $26.6 million and $51.9 million, respectively, of income tax expense.

*Uncertain Income Tax Positions*

Both Boise Inc. and BZ Intermediate recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Income. Interest expense related to uncertain tax positions was nominal for the three and nine months ended September 30, 2010 and 2009. We did not record any penalties associated with our uncertain tax positions during the three and nine months ended September 30, 2010 and 2009.

*Other*

During the nine months ended September 30, 2010, refunds received for taxes, net of payments made, were $0.1 million, and during the nine months ended September 30, 2009, cash paid for taxes, net of refunds, was $0.6 million.

Due to Internal Revenue Code Section 382, Boise Cascade s sales of its remaining investment in us limit the amount of net operating losses that we may utilize in any one year. However, we believe it is more likely than not that our net operating losses will be fully realizable before they expire in 2028 and 2029.

We file federal income tax returns in the U.S. and state income tax returns in various state jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. Boise Inc. s open tax years are 2009, 2008, and 2007.

Two corporate consolidated entities of Boise Inc. are subject to audit by taxing authorities for the year 2006 and the years that follow. We are responsible for any tax adjustments resulting from such audits.

***6. Leases***

We lease our 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. We do not have any sublease rental income for the periods presented below. We do not expect sublease rental income in the future to be material. Accordingly, our future minimum lease payment requirements have not been reduced by sublease rental income. Rental expense for operating leases is as follows (dollars in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2010 | 2009 | 2010 | 2009 |
| Rental expense | $ 3,820 | $ 4,452 | $ 11,350 | $ 12,239 |

For noncancelable operating leases with remaining terms of more than one year, the minimum lease payment requirements are as follows (dollars in thousands):

| | Remaining 2010 | 2011 | 2012 | 2013 | 2014 | 2015 & Thereafter |
|---|---|---|---|---|---|---|
| Minimum payment | $ 3,021 | $ 11,563 | $ 10,768 | $ 8,385 | $ 6,918 | $ 19,358 |

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 approximately six years, with fixed payment terms similar to those in the original lease agreements.

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***7. Concentrations of Risk***

*Business*

Sales to OfficeMax represent a concentration in the volume of business transacted and in revenue generated from those transactions and a concentration of credit risk. Sales to OfficeMax were $123.2 million and $378.1 million, respectively, during the three and nine months ended September 30, 2010, representing 22% and 24%, respectively, of total sales for those periods. During the three and nine months ended September 30, 2009, sales to OfficeMax were $132.5 million and $412.6 million, respectively, representing 26% and 28% of total sales for those periods. At September 30, 2010, and December 31, 2009, we had $34.5 million and $34.7 million, respectively, of accounts receivable due from OfficeMax.

*Labor*

As of September 30, 2010, we had approximately 4,100 employees. Approximately 57% of these employees work pursuant to collective bargaining agreements. As of September 30, 2010, approximately 49% of our employees were working pursuant to collective bargaining agreements that have expired or will expire within one year, including agreements at the following facility locations: Wallula, Washington; DeRidder, Louisiana; St. Helens, Oregon; Jackson, Alabama; Nampa, Idaho; and International Falls, Minnesota. The labor contract at our paper mill in Wallula, Washington (332 employees represented by the Association of Western Pulp & Paper Workers, or AWPPW) expired in March 2009 and was terminated by the AWPPW in October 2009. In February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously, and we declared an impasse in the bargaining process and implemented the terms of the last contract offer. We are currently negotiating the labor contract at our mill in DeRidder, Louisiana (387 employees represented by the United Steelworkers), which expired in February 2010, and the labor contract at our mill in Jackson, Alabama (379 employees also represented by the United Steelworkers), which expired in August 2010. In early October, our employees ratified a new labor contract at our mill in St. Helens, Oregon (87 employees represented by the AWPPW).

***8. Inventories***

Inventories include the following (dollars in thousands):

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Finished goods | $ 116,983 | $ 120,817 |
| Work in process | 32,109 | 22,677 |
| Fiber | 33,147 | 34,557 |
| Other raw materials and supplies | 72,551 | 74,122 |
| | **$ 254,790** | **$ 252,173** |

***9. Property and Equipment, Net***

Property and equipment consist of the following asset classes (dollars in thousands):

| | September 30, 2010 | December 31, 2009 |
|---|---|---|
| Land and land improvements | $ 31,875 | $ 31,875 |
| Buildings and improvements | 208,083 | 199,086 |
| Machinery and equipment | 1,214,613 | 1,176,494 |

| | | |
|---|---|---|
| Construction in progress | 42,606 | 18,992 |
| | 1,497,177 | 1,426,447 |
| Less accumulated depreciation | (309,657) | (220,768) |
| | **$ 1,187,520** | **$ 1,205,679** |

***10. Intangible Assets***

Intangible assets represent primarily the values assigned to trademarks and trade names, customer relationships, and technology. Customer relationships are amortized over approximately ten years, and technology is amortized over approximately five years. Trademarks and trade names are not amortized.

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During the three and nine months ended September 30, 2010, intangible asset amortization was $0.7 million and $2.1 million, respectively. During the three and nine months ended September 30, 2009, intangible asset amortization was $0.7 million and $2.1 million, respectively. Our estimated future amortization expense is as follows (dollars in thousands):

| | Remaining 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|
| Amortization expenses | $ 688 | $ 2,754 | $ 2,744 | $ 1,599 | $ 1,370 | $ 1,370 |

The gross carrying amount, accumulated amortization, and net carrying amount as of September 30, 2010, and December 31, 2009, were as follows (dollars in thousands):

| | As of September 30, 2010 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks and trade names | $ 16,800 | $ | $ 16,800 |
| Customer relationships | 13,700 | (3,539) | 10,161 |
| Technology and other | 6,895 | (3,563) | 3,332 |
| | **$ 37,395** | **$ (7,102)** | **$ 30,293** |

| | As of December 31, 2009 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks and trade names | $ 16,800 | $ | $ 16,800 |
| Customer relationships | 13,700 | (2,512) | 11,188 |
| Technology and other | 6,895 | (2,525) | 4,370 |
| | **$ 37,395** | **$ (5,037)** | **$ 32,358** |

***11. Asset Retirement Obligations***

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. Occasionally, we become aware of events or circumstances that require us to revise our future estimated cash flows. When revision becomes necessary, we recalculate our obligation and adjust our asset and liability accounts utilizing appropriate discount rates. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

At September 30, 2010, and December 31, 2009, we had $11.0 million and $10.4 million, respectively, of asset retirement obligations recorded primarily in Other long-term liabilities 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. During 2009, our estimated future cash flows for retirement obligations relating to items at two of our mills were reduced as a result of discussions with third-party organizations. These changes reduced our expected asset retirement obligations. No assets are legally restricted for purposes of settling asset retirement obligations. The table below describes changes to the asset retirement obligations for the nine months ended September 30, 2010, and for the year ended December 31, 2009 (dollars in thousands):

| | Period Ended | |
|---|---|---|
| | September 30, 2010 | December 31, 2009 |
| Asset retirement obligation at beginning of period | $ 10,362 | $ 14,283 |
| Liabilities incurred | | |
| Accretion expense | 619 | 1,165 |
| Payments | | (122) |
| Revisions in estimated cash flows | | (4,964) |
| Asset retirement obligation at end of period | **$ 10,981** | **$ 10,362** |

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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, (i) removal and disposal of potentially hazardous materials related to equipment and/or an operating facility if the equipment and/or facility 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.

***12. Debt***

At September 30, 2010, and December 31, 2009, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

| | September 30, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| | **Amount** | **Interest Rate** | **Amount** | **Interest Rate** |
| Revolving credit facility, due 2013 | $ | % | $ | % |
| Tranche A term loan, due 2013 | 188,081 | 3.06 | 203,706 | 3.25 |
| Tranche B term loan, due 2014 | | | 312,221 | 5.75 |
| 9% senior notes, due 2017 | 300,000 | 9.00 | 300,000 | 9.00 |
| 8% senior notes, due 2020 | 300,000 | 8.00 | | |
| Current portion of long-term debt | (37,500) | 3.06 | (30,711) | 3.97 |
| Long-term debt, less current portion | 750,581 | 7.41 | 785,216 | 6.41 |
| Current portion of long-term debt | 37,500 | 3.06 | 30,711 | 3.97 |
| | **$ 788,081** | 7.20% | **$ 815,927** | 6.32% |

As of September 30, 2010, Boise Inc. and BZ Intermediate s debt consisted of the following:

The Revolving Credit Facility: A five-year nonamortizing $250.0 million senior secured revolving credit facility (the Revolving Credit Facility) with interest at either the London Interbank Offered Rate (LIBOR) plus an applicable margin, which is currently 275 basis points, or a calculated base rate plus an applicable margin, which is currently 175 basis points (collectively with the Tranche A term loan facility, the Credit Facilities).

The Tranche A Term Loan Facility: A five-year amortizing senior secured loan facility with interest at LIBOR plus an applicable margin, which is currently 275 basis points, or a calculated base rate plus an applicable margin, which is currently 175 basis points. The Tranche A term loan facility was originally issued at $250.0 million. At December 31, 2009, our LIBOR applicable margin was 300 basis points, and our calculated base rate applicable margin was 200 basis points.

The 9% Senior Notes: An eight-year nonamortizing $300.0 million senior unsecured debt obligation with annual interest at 9%.

The 8% Senior Notes: A ten-year nonamortizing $300.0 million senior unsecured debt obligation with annual interest at 8%.

The Credit Facilities are secured by a first-priority lien on all of the assets of our subsidiaries that guarantee or are borrowers, and in the event of default, the lenders generally would be entitled to seize these assets. All borrowings under the Credit Facilities bear interest at a rate per annum equal to an applicable margin plus a calculated base rate or adjusted Eurodollar rate. The calculated 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

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Federal Funds Effective Rate in effect on such day plus 0.50%. The adjusted Eurodollar rate means LIBOR rounded to the nearest 1/16 of 1.0% and adjusted for any applicable reserve requirements. In addition to paying interest, we pay a commitment fee to the lenders under the Revolving Credit Facility at a rate of 0.375% per annum 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. We also pay letter of credit fees of 275 basis points times the average daily maximum outstanding amount of the letters of credit and a fronting fee of 15 basis points to the issuing bank of outstanding letters of credit. These fees are payable quarterly and in arrears.

At September 30, 2010, and December 31, 2009, we had no borrowings outstanding under the Revolving Credit Facility. For the nine months ended September 30, 2010, and the year ended December 31, 2009, the average interest rates for our borrowings under our Revolving Credit Facility were zero and 3.7%, respectively. The minimum and maximum borrowings under the Revolving Credit Facility were zero for the nine months ended September 30, 2010, and zero and $60.0 million for the year ended December 31, 2009. The weighted average amount of borrowings outstanding under the Revolving Credit Facility during the nine months ended September 30, 2010 and 2009, was zero and $11.4 million, respectively. At September 30, 2010, we had availability of $245.1 million, which is net of outstanding letters of credit of $4.9 million.

*Debt Refinancing*

On March 19, 2010, Boise Paper Holdings and Boise Co-Issuer Company (together, the 8% Senior Notes Issuers), two of our wholly owned indirect subsidiaries, issued a $300 million aggregate principal amount of 8% senior notes due on April 1, 2020 (the 8% Senior Notes) through a private placement that is exempt from the registration requirements of the Securities Act of 1933, as amended. The 8% Senior Notes pay interest semiannually in arrears on April 1 and October 1, commencing on October 1, 2010.

Following the sale of the 8% Senior Notes, we used the net proceeds of the sale, as well as cash on hand, to repay the Tranche B term loan facility plus accrued and unpaid interest at par. Upon the repayment of all of the indebtedness outstanding under the Tranche B term loan facility, such debt was canceled.

The issuance of the 8% Senior Notes and the repayment of our Tranche B term loan facility represented a substantial modification to our debt structure. Therefore, we wrote off $22.2 million of previously unamortized deferred financing costs for the Tranche B term loan facility in Loss on extinguishment of debt in our Consolidated Statements of Income. We recorded $11.6 million of new deferred financing costs related to the March 2010 debt refinancing.

In connection with the issuance of the 8% Senior Notes, the 8% Senior Notes Issuers and BZ Intermediate, the parent company of Boise Paper Holdings and its restricted subsidiaries (together the 8% Senior Notes Guarantors) entered into the 8% Senior Notes Registration Rights Agreement, dated as of March 19, 2010. The 8% Senior Notes Registration Rights Agreement required us to register under the Securities Act the 8% Senior Notes due in 2020 (the 8% Exchange Notes) having substantially identical terms to the 8% Senior Notes and to complete an exchange of the privately placed 8% Senior Notes for the publicly registered 8% Exchange Notes or, in certain circumstances, to file and keep effective a shelf registration statement for resale of the privately placed 8% Senior Notes. We completed the public registration of the 8% Exchange Notes in June 2010, and in July 2010, we completed an exchange of the privately placed 8% Senior Notes for the publicly registered 8% Exchange Notes having substantially identical terms.

The 8% Senior Notes are senior unsecured obligations and rank equally with all of the Issuers present and future senior indebtedness, senior to all of their future subordinated indebtedness, and effectively subordinated to all of our present and future senior secured indebtedness (including all borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness).

*Debt Restructuring*

On October 26, 2009, Boise Paper Holdings and Boise Finance Company (together, the 9% Senior Notes Issuers), two of our wholly owned indirect subsidiaries, issued a $300 million aggregate principal amount of 9% senior notes due on November 1, 2017 (the 9% Senior Notes) through a private placement that is exempt from the registration requirements of the Securities Act of 1933, as amended. The 9% Senior Notes pay interest semiannually in arrears on May 1 and November 1, commencing on May 1, 2010.

In connection with the issuance of the 9% Senior Notes, the 9% Senior Notes Issuers and BZ Intermediate, the parent company of Boise Paper Holdings and its restricted subsidiaries (together the 9% Senior Notes Guarantors) entered into the 9% Senior Notes Registration Rights Agreement, dated as of October 26, 2009. The 9% Senior Notes Registration Rights Agreement required us to register under the Securities Act the 9% Senior Notes due in 2017 (the 9% Exchange Notes) having substantially identical terms to the 9% Senior Notes and to complete an exchange of the privately placed 9% Senior Notes for the publicly registered 9% Exchange Notes or, in certain circumstances, to file and keep effective a shelf registration statement for resale of the privately placed 9% Senior Notes. We completed the public registration of the 9% Exchange Notes in June 2010, and in July 2010, we completed an exchange of the privately placed 9% Senior Notes for the publicly registered 9% Exchange Notes having substantially identical terms.

The 9% Senior Notes are senior unsecured obligations and rank equally with all of the Issuers present and future senior indebtedness, senior to all of their future subordinated indebtedness, and effectively subordinated to all of our present and future senior secured indebtedness (including all borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness).

*Second Amendment to Credit Facilities*

On October 20, 2010, we entered into a Second Amendment to Credit and Guaranty Agreement, which amended various terms of our Credit Facilities. This amendment allows us to make various types of restricted payments, including the payment of dividends, the repurchase of our stock and warrants, and the repayment or repurchase of our senior notes. These restricted payments are limited to a permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions together with other amounts, all as described in the amendment. In addition, the amendment eliminates any ongoing requirement that we use our excess cash flow to repay debt.

*Covenants*

The Credit Facilities require BZ Intermediate and its subsidiaries to maintain financial covenant ratios. We are required to have a total leverage ratio of less than 4.75:1.00, stepping down to 4.50:1.00 at September 30, 2011, and a secured leverage ratio of 3.25:1.00, stepping down to 3.00:1.00 at September 30, 2011. The total leverage ratio is defined in our loan agreements at the end of any fiscal quarter as the ratio of (i) consolidated total net debt as defined in our Credit Facilities debt agreement as of such day to (ii) consolidated adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) for the four-fiscal-quarter period ending on such date. The Credit Facilities secured leverage ratio is defined in our First Amendment to our loan agreement as the ratio as of the last day of any fiscal quarter of (i) consolidated first lien secured total net debt as defined in our credit agreement amendments as of such day to (ii) consolidated adjusted EBITDA for the four-fiscal-quarter period ending on such date. The Credit Facilities also limit the ability of BZ Intermediate and its subsidiaries to make capital expenditures, generally to $150 million per year.

The 9% and 8% Senior Notes indenture agreements contain covenants which, subject to certain exceptions, limit the ability of the 9% and 8% Senior Notes Issuers and the 9% and 8% Senior Notes Guarantors to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates, and create liens on assets of the 9% and 8% Senior Notes Issuers or 9% and 8% Senior Notes Guarantors. Upon a change of control, the 9% and 8% Senior Notes Issuers must offer to repurchase the 9% and 8% Senior Notes at 101% of the principal amount, plus accrued and unpaid interest. If the 9% and 8% Senior Notes Issuers sell certain assets and do not use the proceeds from such sales for specified purposes, they must offer to repurchase the 9% and 8% Senior Notes at 100% of the principal amount, plus accrued and unpaid interest.

*Guarantees*

Our obligations under our Credit Facilities are guaranteed by each of Boise Paper Holdings existing and subsequently acquired domestic subsidiaries (collectively, the Credit Facility Guarantors). The Credit Facilities are secured by a first-priority security interest in substantially all of the real, personal, and mixed property of Boise Paper Holdings and the Credit Facility Guarantors, including 100% of the equity interests of Boise Paper Holdings and each domestic subsidiary of Boise Paper Holdings, 65% of the equity interests of each of Boise Paper 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 Boise Paper Holdings), and all intercompany debt.

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The 9% and 8% Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each existing and future subsidiary of BZ Intermediate (other than their respective issuers). The 9% and 8% Senior Notes Guarantors do not include Louisiana Timber Procurement Company, L.L.C., or foreign subsidiaries.

*Prepayments*

We may redeem all or a portion of the 9% Senior Notes at any time on or after November 1, 2013, at a premium decreasing to zero by November 1, 2015, plus accrued and unpaid interest. In addition, prior to November 1, 2012, the 9% Senior Notes Issuers may redeem up to 35% of the aggregate principal amount of the 9% Senior Notes at a redemption price of 109% of the principal amount thereof with the net proceeds of one or more qualified equity offerings.

We may redeem all or a portion of the 8% Senior Notes at any time on or after April 1, 2015, at a premium decreasing to zero by April 1, 2018, plus accrued and unpaid interest. In addition, prior to April 1, 2013, the 8% Senior Notes Issuers may redeem up to 35% of the aggregate principal amount of the 8% Senior Notes at a redemption price of 108% of the principal amount thereof with the net proceeds of one or more qualified equity offerings.

*Other Provisions*

Subject to specified exceptions, the Credit Facilities require that the proceeds from certain asset sales, casualty insurance, and certain debt issuances must be used to pay down outstanding borrowings. As of September 30, 2010, required debt principal repayments total as follows (dollars in thousands):

| | Remaining 2010 | 2011 | 2012 | 2013 | 2014-2015 | Thereafter |
|---|---|---|---|---|---|---|
| Required debt principal repayments | $ 6,250 | $ 43,750 | $ 129,688 | $ 8,393 | $ | $ 600,000 |

*Other*

At September 30, 2010, and December 31, 2009, we had $31.8 million and $47.4 million, respectively, of costs recorded in Deferred financing costs on our Consolidated Balance Sheet. As noted above, we repaid the Tranche B term loan facility with the proceeds from the March 2010 debt refinancing, and as a result, we expensed approximately $22.2 million of previously unamortized deferred financing costs. We recorded this charge in Loss on extinguishment of debt in our Consolidated Statements of Income. In addition, $11.6 million of new deferred financing costs related to the debt refinancing are included, net of amortization, in Deferred financing costs on our Consolidated Balance Sheet. The amortization of these costs is recorded in interest expense using the effective interest method over the life of the loans. In Interest expense in our Consolidated Statements of Income, we recorded $1.5 million and $5.3 million, respectively, of amortization expense for the three and nine months ended September 30, 2010, and $3.0 million and $8.7 million, respectively, for the three and nine months ended September 30, 2009.

In April 2010, we entered into a short-term borrowing agreement for $5.3 million at a fixed interest rate of 2.5%. Principal and interest payments were payable monthly through January 2011. In August 2010, the short-term borrowings were repaid in full.

For the nine months ended September 30, 2010 and 2009, cash payments for interest, net of interest capitalized, were $23.6 million and $47.1 million, respectively.

***13. Financial Instruments***

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

*Interest Rate Risk Debt*

With the exception of the Tranche A term loan facility, our debt is fixed-rate debt. At September 30, 2010, the estimated fair value of our fixed-rate debt, based on quoted market prices for our debt, was approximately $30.4 million more than the amount recorded on our

Consolidated Balance Sheet. At September 30, 2010, the estimated fair value of our variable-rate debt, based on quoted market prices for our debt, was approximately $1.8 million less than the amount recorded on our Consolidated Balance Sheet.

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The fair value of long-term debt is estimated based on quoted market prices for our debt and the discounted value of our expected future cash payments.

We use interest rate derivative instruments to hedge a portion of our interest rate risk. We have derivatives in place with a cap rate of 5% on a notional amount of $300 million through the period ending March 31, 2011. At September 30, 2010, the fair value of the interest rate derivatives was nominal. We recorded the change in fair value of these derivatives, or $1 thousand and $43 thousand of expense, respectively, during the three and nine months ended September 30, 2010, and $0.1 million and $0.6 million of income, respectively, during the three and nine months ended September 30, 2009, in Change in fair value of interest rate derivatives in our Consolidated Statements of Income. For the amortization of the premiums paid for the interest rate derivatives, we recorded zero and $0.1 million, respectively, in Interest expense during the three and nine months ended September 30, 2010, and $0.2 million and $0.6 million, respectively, during the three and nine months ended September 30, 2009. 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.

In connection with the repayment of our Tranche B term loan facility, the remaining amounts recorded in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet relating to the interest rate derivatives were charged to Interest expense in our Consolidated Statement of Income. As a result, during the three and nine months ended September 30, 2010, we recognized zero and $0.4 million, respectively, in Interest expense in our Consolidated Statements of Income. For the three and nine months ended September 30, 2009, we amortized $0.1 million and $0.4 million, respectively, of the amounts recorded in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet to Interest expense in our Consolidated Statement of Income.

*Interest Rate Risk Investments*

Our exposure to market risk for changes in interest rates also relates to our cash, cash equivalents, and short-term investments. As of September 30, 2010, our cash, cash equivalents, and short-term investments consisted primarily of funds invested in money market accounts and Federal Deposit Insurance Corporation (FDIC) insured certificates of deposit. As the interest rates on a significant portion of our cash, cash equivalents, and short-term investments are variable, a change in interest rates earned would affect interest income and cash flows but would not have a significant impact on the fair market value of the related underlying instruments.

The components of cash, cash equivalents, and short-term investments as of and for the nine months ended September 30, 2010, are as follows (dollars in thousands):

| | Nine Months Ended September 30, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | **Cost Basis** | **Accrued Interest** | **Unrealized Gains (Losses)** | **Recorded Basis** | **Cash and Cash Equivalents** | **Short-Term Investments** |
| Cash | $ 4,381 | $ | $ | $ 4,381 | $ 4,381 | $ |
| Money market accounts | 169,068 | | | 169,068 | 169,068 | |
| Certificates of deposit | 10,608 | 6 | | 10,614 | | 10,614 |
| Total | **$ 184,057** | **$ 6** | **$** | **$ 184,063** | **$ 173,449** | **$ 10,614** |

During the nine months ended September 30, 2010, $17.1 million of certificates of deposit matured and $17.7 million were purchased. At September 30, 2010, we did not have any investments in individual securities that had been in a continual unrealized loss position for more than 12 months.

*Energy Risk*

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At September 30, 2010, these derivatives included three-way collars, call spreads, and swaps. As of September 30, 2010, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

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| | October 2010 | November 2010 Through March 2011 | April 2011 Through October 2011 | November 2011 Through March 2012 | April 2012 Through October 2012 | November 2012 Through March 2013 |
|---|---|---|---|---|---|---|
| Approximate percent hedged | 50% | 82% | 45% | 19% | 18% | 1% |

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 the 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 September 30, 2010 (in millions of British thermal units, or mmBtu, per day):

| | Three-Way Collars | | | |
|---|---|---|---|---|
| | October 2010 | | November 2010 Through March 2011 | April 2011 Through October 2011 |
| Volume hedged | 5,500 | 9,500 | 4,000 | 1,000 |
| Strike price of call sold | $ 12.00 | $ 11.00 | $ 11.00 | $ 11.00 |
| Strike price of call bought | 9.00 | 8.00 | 8.00 | 8.00 |
| Strike price of put sold | 5.90 | 5.03 | 5.66 | 5.33 |

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 September 30, 2010 (in mmBtu per day):

| | Call Spreads | | | |
|---|---|---|---|---|
| | November 2010 Through March 2011 | | April 2011 Through October 2011 | |
| Volume hedged | 4,500 | 10,000 | 2,500 | 10,000 |
| Strike price of call sold | $ 11.00 | $ 10.00 | $ 11.00 | $ 10.00 |
| Strike price of call bought | 8.00 | 7.00 | 8.00 | 7.00 |
| Net cap premium | 0.40 | 0.19 | 0.36 | 0.24 |

| | November 2011 Through March 2012 | April 2012 Through October 2012 | November 2012 Through March 2013 |
|---|---|---|---|
| Volume hedged | 7,000 | 5,500 | 500 |
| Strike price of call sold | $ 11.00 | $ 11.00 | $ 11.00 |
| Strike price of call bought | 8.00 | 8.00 | 8.00 |
| Net cap premium | 0.29 | 0.21 | 0.30 |

A swap fixes the price of the volumes under contract by paying our counterparty a fixed price for such volumes and receiving the variable NYMEX price for each month from our counterparty. The following table summarizes our position related to fixed-price swap instruments as of September 30, 2010 (in mmBtu per day):

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| | Swaps November 2010 Through March 2011 |
|---|---|
| Volume hedged | 12,000 |
| Fixed price | $ 4.48 |

We have elected to account for these instruments as economic hedges. At September 30, 2010, we recorded the fair value of the derivatives, or $2.9 million, in Accrued liabilities, Other on our Consolidated Balance Sheet. During the three months and nine months ended September 30, 2010, we recorded the change in fair value of the instruments, or $0.9 million and $1.5 million of expense, respectively, in Materials, labor, and other operating expenses in our Consolidated Statements of Income.

*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 September 30, 2010.

*Fair Value Measurements*

We record our financial assets and liabilities, which consist of cash equivalents, short-term investments, and derivative financial instruments that are used to hedge exposures to interest rate and energy risks, at fair value. The fair value hierarchy under U.S. generally accepted accounting principles (GAAP) gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). In general, and where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value (Level 1). If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly (Level 2). If quoted prices for identical or similar assets are not available or are unobservable, we may use internally developed valuation models, whose inputs include bid prices and third-party valuations utilizing underlying asset assumptions (Level 3). We enter into these hedges with large financial institutions, and we monitor their credit ratings to determine if any adjustments to fair value need to be made. No such adjustments were made in any period presented.

At September 30, 2010, and December 31, 2009, fair value for these financial instruments was determined based on applicable interest rates such as LIBOR, interest rate curves, and NYMEX price quotations under the terms of the contracts, using current market information as of the reporting date. Our certificates of deposit, interest rate derivatives, and energy derivatives are valued using third-party valuations based on quoted prices for similar assets and liabilities. The following table provides a summary of our assets and liabilities measured at fair value on a recurring basis and the inputs used to develop these estimated fair values under the hierarchy discussed above (dollars in thousands):

| | Fair Value Measurements at September 30, 2010, Using: | | | |
|---|---|---|---|---|
| | **Total** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| Assets: | | | | |
| Money market accounts (a) | $ 169,068 | $ 169,068 | $ | $ |
| Certificates of deposit (b) | 10,614 | | 10,614 | |
| Interest rate derivatives (c) | | | | |
| | **$ 179,682** | **$ 169,068** | **$ 10,614** | **$** |
| Liabilities: | | | | |
| Energy derivatives (d) | $ 2,949 | $ | $ 2,949 | $ |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **$** | **2,949** | **$** | | **$** | **2,949** | **$** | |

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| | Fair Value Measurements at December 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) |
|---|---|---|---|---|
| Assets: | | | | |
| Money market accounts (a) | $ 65,125 | $ 65,125 | $ | $ |
| Certificates of deposit (b) | 10,023 | | 10,023 | |
| Interest rate derivatives (c) | 163 | | 163 | |
| | **$ 75,311** | **$ 65,125** | **$ 10,186** | **$** |
| Liabilities: | | | | |
| Energy derivatives (d) | $ 1,447 | $ | $ 1,447 | $ |
| | **$ 1,447** | **$** | **$ 1,447** | **$** |

(a) Recorded in Cash and cash equivalents on our Consolidated Balance Sheet.

(b) Recorded in Short-term investments on our Consolidated Balance Sheet.

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

(d) Recorded in Accrued liabilities, Other on our Consolidated Balance Sheet.

As of September 30, 2010, and December 31, 2009, we did not have any fair value measurements using significant unobservable inputs (Level 3).

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

(dollars in thousands)

| | Fair Values of Derivative Instruments — September 30, 2010 — Asset Derivatives: Balance Sheet Location | Fair Value | Liability Derivatives: Balance Sheet Location | Fair Value |
|---|---|---|---|---|
| Derivatives designated as economic hedging instruments (a) | | | | |
| Interest rate contracts | Other assets | $ | Accrued liabilities | $ |
| Natural gas contracts | Other assets | | Accrued liabilities | 2,949 |
| **Total derivatives designated as economic hedging instruments** | | **$** | | **$ 2,949** |

| | | |
|---|---|---|
| **Total derivatives** | **$** | **$ 2,949** |

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**Fair Values of Derivative Instruments**

| | Asset Derivatives | | Liability Derivatives | |
|---|---|---|---|---|
| | December 31, 2009 | | | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated economic hedging instruments (a) | | | | |
| Interest rate contracts | Other assets | $ 163 | Accrued liabilities | $ |
| Natural gas contracts | Other assets | | Accrued liabilities | 1,447 |
| **Total derivatives designated as economic hedging instruments** | | **$ 163** | | **$ 1,447** |
| **Total derivatives** | | **$ 163** | | **$ 1,447** |

**The Effect of Derivative Instruments on the Consolidated Statement of Income for the Three Months Ended September 30, 2010**

| Derivatives Designated as Cash Flow Hedging Instruments (b) | Amount of Gain or (Loss) Recognized in Accumulated 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) | Derivatives Designated as Economic Hedging Instruments (a) | 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 | $ | Interest rate contracts | Change in fair value of interest rate derivatives | $ (1) |
| | | | | Natural gas contracts | Materials, labor, and other operating expenses | (884) |
| | **$** | | **$** | | | **$ (885)** |

**The Effect of Derivative Instruments on the Consolidated Statement of Income for the Nine Months Ended September 30, 2010**

| Derivatives Designated as Cash Flow Hedging Instruments (b) | Amount of Gain or (Loss) Recognized in Accumulated 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) | Derivatives Designated as Economic Hedging Instruments (a) | 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 | $ (422) | Interest rate contracts | Change in fair value of interest rate derivatives | $ (43) |

| | | | | | |
|---|---|---|---|---|---|
| | | | Natural gas contracts | Materials, labor, and other operating expenses | (1,502) |
| **$** | **$** | **(422)** | | **$** | **(1,545)** |

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**The Effect of Derivative Instruments on the Consolidated Statement of Income for the Three Months Ended September 30, 2009**

| Derivatives Designated as Cash Flow Hedging Instruments (b) | Amount of Gain or (Loss) Recognized in Accumulated 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) | Derivatives Designated as Economic Hedging Instruments (a) | 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 | $ 124 |
| | | | | Natural gas contracts | Materials, labor, and other operating expenses | 3,624 |
| | **$** | | **$ 84** | | | **$ 3,748** |

**The Effect of Derivative Instruments on the Consolidated Statement of Income for the Nine Months Ended September 30, 2009**

| Derivatives Designated as Cash Flow Hedging Instruments (b) | Amount of Gain or (Loss) Recognized in Accumulated 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) | Derivatives Designated as Economic Hedging Instruments (a) | 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 | $ 253 | Interest rate contracts | Change in fair value of interest rate derivatives | $ 620 |
| | | | | Natural gas contracts | Materials, labor, and other operating expenses | 4,902 |
| | **$** | | **$ 253** | | | **$ 5,522** |

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

(b) As of January 1, 2009, we no longer have interest rate derivatives designated as cash flow hedges. During the three and nine months ended September 30, 2010 and 2009, these derivatives were accounted for as economic hedges.

***14. New and Recently Adopted Accounting Standards***

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. This ASU amends FASB Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures, to require reporting entities to make new disclosures about recurring or nonrecurring fair value measurements, including significant transfers into and out of Level 1 and Level 2 fair value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair value measurements. The ASU also clarifies existing fair value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques. We adopted this guidance on January 1, 2010, and the adoption did not have a material impact on our financial position or results of operations. The detailed Level 3 roll-forward disclosures are effective for fiscal years beginning after December 15, 2010. We do not expect the adoption of the Level 3 roll-forward disclosures to have a material impact on our financial position or results of operation.

In June 2009, the FASB issued ASU 2009-17 (Statement of Financial Accounting Standards No. 167), *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends the consolidation guidance applicable to variable-interest entities (VIEs). This guidance requires that entities evaluate former qualified special-purpose entities for

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consolidation, changes the approach to determining a VIE s primary beneficiary from a quantitative assessment to a qualitative assessment, and increases the frequency of required reassessment to determine whether a company is the primary beneficiary of a VIE. It also requires additional year-end and interim disclosures. We adopted this guidance on January 1, 2010, and the adoption did not have a material impact on our financial position or results of operations. During first quarter 2010, we reassessed our primary beneficiary assertion relating to Louisiana Timber Procurement, L.L.C., our only VIE, after Boise Cascade sold all of its remaining interest in us. This analysis did not change our assertions or have a material impact on our financial position or results of operations. In accordance with the terms of the standard, we reassess this relationship quarterly.

There were no other accounting standards recently issued that had or are expected to have a material impact on our financial position or results of operations.

***15. Retirement and Benefit Plans***

During all of the periods presented, some of our employees participated in our 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.

*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 (dollars in thousands):

| | **Pension Benefits Three Months Ended September 30** | | **Other Benefits Three Months Ended September 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Service cost | $ 1,174 | $ 1,915 | $ | $ 1 |
| Interest cost | 6,312 | 6,031 | 8 | (7) |
| Expected return on plan assets | (5,786) | (5,735) | | |
| Amortization of actuarial (gain) loss | 439 | 83 | (3) | (672) |
| Amortization of prior service costs and other | 12 | 9 | | |
| Plan settlement curtailment loss | 345 | | | |
| Company-sponsored plans | 2,496 | 2,303 | 5 | (678) |
| Multiemployer plans | 103 | 103 | | |
| Net periodic benefit cost | **$ 2,599** | **$ 2,406** | **$ 5** | **$ (678)** |

| | **Pension Benefits Nine Months Ended September 30** | | **Other Benefits Nine Months Ended September 30** | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| Service cost | $ 3,874 | $ 5,745 | $ 2 | $ 2 |
| Interest cost | 18,967 | 18,104 | 24 | 55 |
| Expected return on plan assets | (17,455) | (17,204) | | |
| Amortization of actuarial (gain) loss | 1,334 | 249 | (146) | (672) |
| Amortization of prior service costs and other | 38 | 27 | | |
| Plan settlement curtailment loss | 345 | | | |
| Company-sponsored plans | 7,103 | 6,921 | (120) | (615) |
| Multiemployer plans | 326 | 299 | | |

| | | | | |
|---|---|---|---|---|
| Net periodic benefit cost | **$ 7,429** | **$ 7,220** | **$ (120)** | **$ (615)** |

During the three and nine months ended September 30, 2010, net periodic pension expense included $0.4 million and $1.4 million, respectively, that was amortized from Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets. During the three and nine months ended September 30, 2009, net periodic pension expense included $0.1 million and $0.3 million, respectively, of net loss that was amortized from Accumulated other comprehensive income (loss) on our Consolidated Balance Sheets.

We made voluntary contributions of $18.0 million to our qualified pension plans during the nine months ended September 30, 2010. We have satisfied our pension contribution requirements for 2010; however, we may choose to make further voluntary contributions during the remainder of 2010.

***16. Stockholders Equity and Capital***

*Boise Inc.*

*Preferred Stock.* We are authorized to issue 1.0 million shares of preferred stock with such designations, voting, and other rights and preferences as may be determined from time to time by the board of directors. No shares were issued or outstanding at September 30, 2010, and December 31, 2009.

*Common Stock.* We are authorized to issue 250.0 million shares of common stock, of which 84.8 million shares were issued and outstanding at September 30, 2010. Of these shares outstanding, 4.2 million shares were restricted stock (discussed below). At December 31, 2009, we had 84.4 million shares issued and outstanding, of which 6.5 million shares were restricted stock. The common stock outstanding does not include restricted stock units.

*Warrants*. In connection with our public offering in June 2007, we issued 41.4 million units (the Units). Each Unit consists of one share of our common stock and one Redeemable Common Stock Purchase Warrant (the Warrants). Each Warrant entitled the holder to purchase one share of common stock at an exercise price of $7.50 and expires on June 18, 2011. We may redeem the Warrants, at a price of $0.01 per Warrant, upon 30 days notice while the Warrants are exercisable, only in the event that the last sale price of the common stock is at least $14.25 per share for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given.

Simultaneous with the consummation of our public offering, our then chairman and our chief executive officer each privately purchased 1.5 million warrants for an aggregate total of 3.0 million warrants (the Insider Warrants) at $1.00 per warrant (for an aggregate purchase price of $3.0 million). The amount paid for the Insider Warrants approximated fair value on the date of issuance. All of the proceeds received from these purchases were placed in cash held in trust. The Insider Warrants purchased were identical to the Warrants underlying the Units issued in the public offering, except that the Insider Warrants may not be called for redemption and may be exercisable on a cashless basis, at the holder s option, so long as such securities are held by such purchaser or his affiliates. At September 30, 2010, and December 31, 2009, 44.4 million warrants, which included both Warrants and Insider Warrants, were outstanding. At September 30, 2010, 2.3 million of the original Insider Warrants continued to be held by insiders. If all outstanding warrants were exercised today at the exercise price of $7.50, we would receive cash proceeds of approximately $316 million.

*Restricted Stock and Restricted Stock Units.* In our consolidated financial statements, we evaluate share-based compensation for awards granted under the Boise Inc. Incentive and Performance Plan (the Plan) on a quarterly basis based on our estimate of expected restricted stock forfeiture, review of recent forfeiture activity, and expected future turnover. We recognize the effect of adjusting the forfeiture rate for all expense amortization in the period that we change the forfeiture estimate. The effect of forfeiture adjustments during the three and nine months ended September 30, 2010 and 2009, was zero.

*Service-Condition Vesting Awards.* In March 2010, pursuant to the Plan, we granted 0.2 million shares of restricted stock to our nonemployee directors. The shares will vest fully on March 15, 2011. Any shares not vested on or before March 15, 2011, will be forfeited.

In March 2009, pursuant to the Plan, we granted to directors and members of management 4.6 million shares of restricted stock and 1.2 million restricted stock units (collectively, restricted stock). The 2.0 million shares of restricted stock granted to the directors vested on March 15, 2010. The grants to members of management vested or will vest as follows: one-fifth on March 15, 2010, one-fifth on March 15, 2011, and three-fifths on March 15, 2012. Any shares not vested on or before March 15, 2012, will be forfeited.

In May 2008, directors and members of management were granted awards of 0.4 million and 0.8 million shares, respectively, of restricted stock subject to service-condition vesting. The restricted stock granted to directors vested on March 2, 2009. Additionally, one-third of the management grants subject to service-condition vesting restrictions vested on March 2, 2009. Half of the remaining management grants subject to service-condition vesting restrictions vested on February 28, 2010, and the remaining half will vest on February 28, 2011. Any shares not vested on or before February 28, 2011, will be forfeited.

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*Market-Condition Vesting Awards*. In May 2008, members of management were granted 1.9 million shares of restricted stock subject to market-based vesting restrictions. Of this 1.9 million, 0.7 million will vest on February 28, 2011, if the closing price of Boise Inc. stock has been at least $10 per share for at least 20 trading days in any period of 30 consecutive trading days between the grant date and February 28, 2011. The weighted average grant-date fair value of these awards was $2.03 per share. The remaining 1.2 million shares of the restricted stock grants will vest on February 28, 2011, if the closing price of Boise Inc. stock has been at least $12.50 per share for at least 20 trading days in any period of 30 consecutive trading days between the grant date and February 28, 2011. The weighted average grant-date fair value of these awards was $1.57 per share. Any shares not vested on February 28, 2011, will be forfeited.

*Compensation Expense*. We recognize compensation expense for the restricted stock based on the fair value on the date of the grant, as described below. Compensation expense is recognized ratably over the vesting period for the restricted stock grants that vest over time and ratably over the award period for the restricted stock grants that vest based on the closing price of Boise Inc. stock, as discussed above. During the three and nine months ended September 30, 2010, we recognized $1.0 million and $2.8 million, respectively, of compensation expense, and during the three and nine months ended September 30, 2009, we recognized $0.9 million and $2.6 million, respectively. Most of these costs were recorded in General and administrative expenses in our Consolidated Statements of Income.

*Fair Value Measurement*. The fair value of service-condition restricted stock is determined based on the number of shares or units granted and the quoted price of our stock at the date of grant and is expensed on a straight-line basis over the vesting period. The fair value on the date of grant was $5.46 per share for the 2010 restricted stock grant, $0.43 per share for the 2009 grant, and $4.16 per share for the 2008 grant. Compensation expense is adjusted if the service condition is not met.

The equity grants that vest based on the stock price of Boise Inc. are market-condition grants. Because the market-based restrictions represent a more difficult threshold to meet before payout, with greater uncertainty that the market condition will be satisfied, these awards have a lower fair value than those that vest based primarily on the passage of time. However, compensation expense is required to be recognized for an award regardless of when, if ever, the market condition is satisfied. We determined the fair value on the date of grant of the market-condition awards that vest based on the stock price of Boise Inc. at $10 per share and $12.50 per share to be approximately $2.03 per share and $1.57 per share, respectively. The fair value of market-condition restricted stock or units is estimated at the grant date using a Monte Carlo simulation. We assumed a risk-free rate of 2.59%, an expected stock volatility of 58.60%, and a stock price for Boise Inc. s common shares of $4.16 per share. The $4.16-per-share value is based on Boise Inc. s closing stock price on the date of grant. Expense is recognized on a straight-line basis over the service period.

The following summarizes the activity of our outstanding service- and market-condition restricted stock and units awarded under the Plan as of September 30, 2010, and December 31, 2009, and changes during the nine months ended September 30, 2010, and the year ended December 31, 2009 (number of shares and aggregate fair value in thousands):

| | Service-Condition Vesting Awards | | | Market-Condition Vesting Awards | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Weighted Average Grant-Date Fair Value | Aggregate Fair Value | Number of Shares | Weighted Average Grant-Date Fair Value | Aggregate Fair Value |
| Outstanding at December 31, 2008 (a) | 1,143 | $ 4.16 | $ 4,754 | 1,916 | $ 1.75 | $ 3,345 |
| Granted | 5,841 | 0.43 | 2,512 | | | |
| Vested (b) | (604) | 4.16 | (2,511) | | | |
| Forfeited | (49) | 1.27 | (63) | (32) | 1.75 | (56) |
| Outstanding at December 31, 2009 (a)(c) | 6,331 | $ 0.74 | $ 4,692 | 1,884 | $ 1.75 | $ 3,289 |
| Granted | 200 | $ 5.46 | $ 1,090 | | $ | $ |
| Vested (b) | (3,009) | 0.77 | (2,304) | (4) | 1.75 | (7) |
| Forfeited | (43) | 4.26 | (180) | (2) | 1.75 | (3) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Outstanding at September 30, 2010 (a)(c) | **3,479** | **$ 0.95** | **$ 3,298** | **1,878** | **$ 1.75** | **$ 3,279** |

(a) Outstanding awards included all nonvested and nonforfeited awards.

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(b) We repurchase for cash any fractional shares as they vest. During the nine months ended September 30, 2010, and the year ended December 31, 2009, we repurchased 25.18 shares and 24.33 shares, respectively.

(c) The remaining weighted average contractual term is approximately 0.9 years for the service-condition awards and 0.5 years for the market-condition awards.

In 2010, employees were given the option to utilize shares to cover minimum tax withholdings upon the vesting of restricted stock. As of September 30, 2010, a total of 0.2 million shares and 0.1 million units were withheld from employees to cover taxes. The shares were canceled and retired.

At September 30, 2010, we had approximately $1.7 million and $0.4 million, respectively, of total unrecognized compensation cost related to the nonvested service-condition and market-condition restricted stock grants under the Plan. The cost is expected to be recognized generally over a weighted average period of 2.0 years and 3.0 years for the service-condition and market-condition awards, respectively. Unrecognized compensation expense is calculated net of estimated forfeitures. During the three and nine months ended September 30, 2010, we recognized $1.0 million and $2.8 million, respectively, of compensation expense, $0.7 million and $2.0 million of which related to the grant-date fair value of service-condition awards and $0.3 million and $0.8 million of which related to the market-condition awards, respectively. During the three and nine months ended September 30, 2009, we recognized $0.9 million and $2.6 million, respectively, of compensation expense, $0.6 million and $1.8 million of which related to the grant-date fair value of service-condition awards and $0.3 million and $0.8 million of which related to the market-condition awards.

*Dividends.* Our ability to pay dividends continues to be restricted by our Credit Facilities, as amended, and by Delaware law and state regulatory authorities. Under Delaware law, our board of directors may not authorize payment of a dividend unless it is either paid out of our capital surplus, as calculated in accordance with the Delaware General Corporation Law, or if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Under our Credit Facilities, as amended, a dividend may now be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions together with other amounts as specified in the amended Credit Facilities. To the extent we do not have adequate surplus or net profits, we will be prohibited from paying dividends. We had not paid any cash dividends on our common stock through September 30, 2010. See Note 23, Subsequent Event, for additional information relating to our special dividend.

***BZ Intermediate Holdings LLC***

BZ Intermediate has authorized 1,000 voting common units with a par value of $.01. All of these units have been issued to Boise Inc. BZ Intermediate refers to its capital as Business unit equity on its Consolidated Balance Sheets, and this represents its equity transactions with Boise Inc., net income (loss) from the operations of its subsidiaries, the effect of changes in other comprehensive income, and restricted stock. Share-based compensation costs in BZ Intermediate s financial statements represent expenses for restricted stock of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes and are explained in more detail above.

***17. Comprehensive Income***

Comprehensive income includes the following (dollars in thousands):

| | Boise Inc. | | | |
|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| Net income | $ 35,923 | $ 48,155 | $ 36,548 | $ 98,122 |
| Other comprehensive income (loss), net of tax: | | | | |
| Cash flow hedges | 294 | 51 | 553 | 449 |
| Unfunded accumulated benefit obligation | 254 | (579) | 773 | (395) |
| Unrealized gains (losses) on short-term investments | 1 | (4) | 6 | (8) |

| | | | | |
|---|---|---|---|---|
| Comprehensive income | **$ 36,472** | **$ 47,623** | **$ 37,880** | **$ 98,168** |

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| | BZ Intermediate Holdings LLC | | | |
|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | 2010 | 2009 | 2010 | 2009 |
| Net income | $ 35,956 | $ 50,154 | $ 37,422 | $ 105,724 |
| Other comprehensive income (loss), net of tax: | | | | |
| Cash flow hedges | 294 | 51 | 553 | 449 |
| Unfunded accumulated benefit obligation | 254 | (579) | 773 | (395) |
| Unrealized gains (losses) on short-term investments | 1 | (4) | 6 | (8) |
| Comprehensive income | **$ 36,505** | **$ 49,622** | **$ 38,754** | **$ 105,770** |

***18. St. Helens Mill Restructuring***

In November 2008, we announced the restructuring of our paper mill in St. Helens, Oregon. The restructuring was primarily the result of declining product demand coupled with continuing high costs. During the three and nine months ended September 30, 2010, we recorded net expense of approximately $0.2 million and income of approximately $0.1 million, respectively, related to the restructuring. In the future, net cash expenditures in decommissioning and other costs are not expected to be material. During the three and nine months ended September 30, 2009, we spent $1.3 million and $5.6 million, respectively, in decommissioning costs and $0.1 million and $0.6 million, respectively, in other costs, all of which are recorded in St. Helens mill restructuring in our Consolidated Statements of Income. These expenses are recorded in our Paper segment when the liability is incurred. At September 30, 2010, and December 31, 2009, we had $0.1 million and $0.5 million, respectively, of severance liabilities included in Accrued liabilities, Compensation and benefits on the Consolidated Balance Sheets.

***19. Segment Information***

There are no differences in our basis of segmentation or in our basis of measurement of segment profit or loss from those disclosed in Note 18, Segment Information, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2009 Form 10-K. Segment operating results for Boise Inc. and BZ Intermediate are identical for all periods presented. For differences in interest expense and income tax provision (benefit), see the reconciliation of net income to EBITDA that concludes this Note 19, Segment Information.

An analysis of operations by segment is as follows (dollars in millions):

| | Sales | | | | | | |
|---|---|---|---|---|---|---|---|
| **Three Months Ended September 30, 2010** | **Trade** | **Related Parties** | **Inter-segment** | **Total** | **Income Before Income Taxes** | **Depre-ciation, Amorti-zation, and Depletion** | **EBITDA (c)** |
| Paper | $ 370.0 | $ | $ 18.2 | $ 388.2 | $ 56.9(a) | $ 21.9 | $ 78.8(a) |
| Packaging | 165.7 | 10.6 | 0.8 | 177.1 | 24.8(a) | 9.6 | 34.4(a) |
| Corporate and Other | 7.8 | | 8.8 | 16.6 | (4.3) | 1.0 | (3.3) |
| | 543.5 | 10.6 | 27.8 | 581.9 | 77.4 | 32.5 | 109.8 |
| Intersegment eliminations | | | (27.8) | (27.8) | | | |
| Change in fair value of interest rate derivatives | | | | | | | |
| Interest expense | | | | | (16.1) | | |
| Interest income | | | | | 0.1 | | |
| | **$ 543.5** | **$ 10.6** | **$** | **$ 554.1** | **$ 61.4** | **$ 32.5** | **$ 109.8** |

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| Three Months Ended September 30, 2009 | Sales: Trade | Sales: Related Parties | Sales: Inter-segment | Sales: Total | Income Before Income Taxes | Depreciation, Amortization, and Depletion | EBITDA (c) |
|---|---|---|---|---|---|---|---|
| Paper | $ 351.1 | $ | $ 14.9 | $ 366.0 | $ 78.3(b) | $ 21.2 | $ 99.4(b) |
| Packaging | 144.9 | 5.0 | 0.6 | 150.5 | 22.3(b) | 10.7 | 33.0(b) |
| Corporate and Other | 2.8 | 4.5 | 9.3 | 16.6 | (5.5)(b) | 1.1 | (4.4) |
| | 498.8 | 9.5 | 24.8 | 533.1 | 95.1 | 32.9 | 128.0 |
| Intersegment eliminations | | | (24.8) | (24.8) | | | |
| Change in fair value of interest rate derivatives | | | | | 0.1 | | |
| Interest expense | | | | | (21.4) | | |
| Interest income | | | | | 0.1 | | |
| | **$ 498.8** | **$ 9.5** | **$** | **$ 508.3** | **$ 73.9** | **$ 32.9** | **$ 128.0** |

| Nine Months Ended September 30, 2010 | Sales: Trade | Sales: Related Parties | Sales: Inter-segment | Sales: Total | Income Before Income Taxes | Depreciation, Amortization, and Depletion | EBITDA (c) |
|---|---|---|---|---|---|---|---|
| Paper | $ 1,057.7 | $ | $ 48.2 | $ 1,105.9 | $ 112.5(a) | $ 65.1 | $ 177.6(a) |
| Packaging | 462.6 | 26.7 | 2.1 | 491.4 | 36.1(a) | 28.9 | 65.0(a) |
| Corporate and Other | 20.1 | 2.6 | 26.9 | 49.6 | (14.1) | 2.9 | (11.2) |
| | 1,540.4 | 29.3 | 77.2 | 1,646.9 | 134.5 | 96.9 | 231.4 |
| Intersegment eliminations | | | (77.2) | (77.2) | | | |
| Change in fair value of interest rate derivatives | | | | | | | |
| Loss on extinguishment of debt | | | | | (22.2)(a) | | (22.2)(a) |
| Interest expense | | | | | (48.7) | | |
| Interest income | | | | | 0.2 | | |
| | **$ 1,540.4** | **$ 29.3** | **$** | **$ 1,569.7** | **$ 63.8** | **$ 96.9** | **$ 209.2** |

| Nine Months Ended September 30, 2009 | Sales: Trade | Sales: Related Parties | Sales: Inter-segment | Sales: Total | Income (Loss) Before Taxes | Depreciation, Amortization, and Depletion | EBITDA (c) |
|---|---|---|---|---|---|---|---|
| Paper | $ 1,030.5 | $ | $ 43.9 | $ 1,074.4 | $ 187.6(b) | $ 63.6 | $ 251.2(b) |
| Packaging | 414.6 | 21.4 | 1.8 | 437.8 | 43.7(b) | 31.1 | 74.8(b) |
| Corporate and Other | 8.5 | 12.9 | 25.6 | 47.0 | (17.7)(b) | 3.1 | (14.7)(b) |
| | 1,453.6 | 34.3 | 71.3 | 1,559.2 | 213.6 | 97.8 | 311.3 |
| Intersegment eliminations | | | (71.3) | (71.3) | | | |
| Change in fair value of interest rate derivatives | | | | | 0.6 | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Interest expense | | | | | (65.0) | | |
| Interest income | | | | | 0.3 | | |
| | **$ 1,453.6** | **$ 34.3** | **$** | **$ 1,487.9** | **$ 149.5** | **$ 97.8** | **$ 311.3** |

(a) The three and nine months ended September 30, 2010, included $0.2 million of expense and $0.1 million of income recorded in the Paper segment associated with the restructuring of the St. Helens mill.

The three and nine months ended September 30, 2010, included $0.9 million and $1.5 million of expense related to the change in fair value of energy hedges, of which $0.7 million and $1.3 million was recorded in the Paper segment and $0.1 million and $0.2 million in the Packaging segment, respectively.

The nine months ended September 30, 2010, included $22.2 million of noncash expense recorded in the Corporate and Other segment associated with the refinancing of our debt.

(b) The three and nine months ended September 30, 2009, included $42.9 million and $99.9 million, respectively, of income recorded in the Paper segment; $19.4 million and $39.3 million, respectively, of income recorded in the Packaging segment; and $2.7 million and $4.3 million, respectively, of expenses recorded in the Corporate and Other segment relating to alternative fuel mixture credits. These amounts are net of fees and expenses and before taxes.

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The three and nine months ended September 30, 2009, included $1.0 million and $2.9 million, respectively, of expense related to the indefinite idling of our D-2 newsprint machine at our mill in DeRidder, Louisiana, which was recorded in the Packaging segment.

The three and nine months ended September 30, 2009, included $1.4 million and $6.2 million, respectively, of expense recorded in the Paper segment associated with the restructuring of the St. Helens mill.

The three and nine months ended September 30, 2009, included $3.6 million and $4.9 million of income related to the impact of energy hedges, $2.9 million and $3.9 million of which was recorded in the Paper segment and $0.7 million and $1.0 million in the Packaging segment.

(c) EBITDA represents income (loss) before interest (interest expense, interest income, and change in fair value of interest rate derivatives), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision makers to evaluate segment operating performance and to decide how to allocate resources to segments. We believe EBITDA is useful to investors because it provides a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that are used by our internal decision makers and because it is frequently used by investors and other interested parties in the evaluation of companies with substantial financial leverage. We believe EBITDA is a meaningful measure because it presents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons, and identify strategies to improve operating performance. For example, we believe that the inclusion of items such as taxes, interest expense, and interest income distorts management s ability to assess and view the core operating trends in our segments. EBITDA, however, is not a measure of our liquidity or financial performance under generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income (loss), income (loss) from operations, or any other performance measure derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity. The use of EBITDA instead of net income (loss) or segment income (loss) has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense, interest income, change in fair value of interest rate derivatives, and associated significant cash requirements; and the exclusion of depreciation, amortization, and depletion, which represent significant and unavoidable operating costs, given the level of our indebtedness and the capital expenditures needed to maintain our businesses. Management compensates for these limitations by relying on our GAAP results. Our measures of EBITDA are not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

The following is a reconciliation of net income to EBITDA (dollars in millions):

| | **Boise Inc.** | | | |
|---|---|---|---|---|
| | **Three Months Ended September 30** | | **Nine Months Ended September 30** | |
| | **2010** | **2009** | **2010** | **2009** |
| Net income | $ 35.9 | $ 48.2 | $ 36.5 | $ 98.1 |
| Change in fair value of interest rate derivatives | | (0.1) | | (0.6) |
| Interest expense | 16.1 | 21.4 | 48.7 | 65.0 |
| Interest income | (0.1) | (0.1) | (0.2) | (0.3) |
| Income tax provision | 25.5 | 25.7 | 27.2 | 51.4 |
| Depreciation, amortization, and depletion | 32.5 | 32.9 | 96.9 | 97.8 |
| EBITDA | **$ 109.8** | **$ 128.0** | **$ 209.2** | **$ 311.3** |

| | **BZ Intermediate Holdings LLC** | | | |
|---|---|---|---|---|
| | **Three Months Ended September 30** | | **Nine Months Ended September 30** | |
| | **2010** | **2009** | **2010** | **2009** |
| Net income | $ 36.0 | $ 50.2 | $ 37.4 | $ 105.7 |

| | | | | |
|---|---|---|---|---|
| Change in fair value of interest rate derivatives | | (0.1) | | (0.6) |
| Interest expense | 16.1 | 18.6 | 48.7 | 56.8 |
| Interest income | (0.1) | (0.1) | (0.2) | (0.3) |
| Income tax provision | 25.4 | 26.6 | 26.3 | 51.9 |
| Depreciation, amortization, and depletion | 32.5 | 32.9 | 96.9 | 97.8 |
| EBITDA | **$ 109.8** | **$ 128.0** | **$ 209.2** | **$ 311.3** |

***20. Alternative Fuel Mixture Credits***

The U.S. Internal Revenue Code allowed an excise tax credit for taxpayers using alternative fuels in the taxpayer s trade or business. As of December 31, 2009, we recorded a receivable of $56.6 million in Receivables, Other on our Consolidated Balance Sheet for alternative fuel mixture credits. We received this credit in March 2010 after we filed our 2009 federal income tax return. Eligibility for new credits expired on December 31, 2009. During the three and nine months ended September 30, 2009, we recorded $59.6 million and $134.9 million, respectively, in Alternative fuel mixture credits, net in our Consolidated Statements of Income.

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In mid October 2010, the Internal Revenue Service Office of Chief Counsel released a memo providing further clarification on the cellulosic biofuel producer credit (CBPC). This guidance clarifies that companies may elect to apply for the $1.01 per gallon CBPC for any black liquor that was produced in 2009 and not claimed as alternative fuel mixture credits. We became eligible for the alternative fuel mixture credit at our mills at varying dates throughout first quarter 2009 and would be eligible to claim the CBPC credit for black liquor produced prior to becoming eligible for the alternative fuel mixture credits. However, this credit is taxable, may only be used to offset a portion of taxable income, and has a relatively short carry-forward period. We are evaluating the impact of filing for the CBPC on our specific tax situation.

***21. Commitments and Guarantees***

*Commitments*

We have financial commitments for lease payments and for the purchase of wood fiber and utilities. In addition, we have other financial obligations that we enter into in the normal course of our business to purchase goods and services and to make capital improvements to our facilities.

These agreements are discussed in Note 19, Commitments and Guarantees, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2009 Form 10-K. At September 30, 2010, there have been no material changes to our commitments outside of the normal course of business, except as disclosed in Note 12, Debt.

*Guarantees*

We provide guarantees, indemnifications, and assurances to others in the normal course of our business. See Note 12, Debt, for a description of the guarantees, including the approximate terms of the guarantees, how the guarantees arose, the events or circumstances that would require us to perform under the guarantees, and the maximum potential undiscounted amounts of future payments we could be required to make.

***22. Legal Proceedings and Contingencies***

We are a party to routine proceedings that arise in the course of our business. We are not currently a party to any legal proceedings or environmental claims that we believe would have a material adverse effect on our financial position, results of operations, or liquidity.

***23. Subsequent Event***

We announced a special cash dividend of $0.40 per common share, payable December 3, 2010, to shareholders of record at the close of business on November 17, 2010. The total special dividend payout is estimated to be $32.3 million, based on the number of common shares outstanding as of October 29, 2010.

***24. Consolidating Guarantor and Nonguarantor Financial Information***

Our 9% and 8% Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each of its existing and future subsidiaries (other than: (i) the co-issuers, Boise Paper Holdings, Boise Co-Issuer Company, and Boise Finance Company; (ii) Louisiana Timber Procurement Company, L.L.C.; and (iii) our foreign subsidiaries). The following consolidating financial statements present the results of operations, financial position, and cash flows of (i) BZ Intermediate Holdings LLC (parent); (ii) co-issuers; (iii) guarantor subsidiaries; (iv) nonguarantor subsidiaries; and (v) eliminations to arrive at the information on a consolidated basis.

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**BZ Intermediate Holdings LLC and Subsidiaries**

**Consolidating Statements of Income**

**For the Three Months Ended September 30, 2010**

(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Sales** | | | | | | |
| Trade | $ | $ 3,697 | $ 537,766 | $ 2,042 | $ | $ 543,505 |
| Intercompany | | | | 28,883 | (28,883) | |
| Related parties | | | | 10,550 | | 10,550 |
| | | 3,697 | 537,766 | 41,475 | (28,883) | 554,055 |
| **Costs and expenses** | | | | | | |
| Materials, labor, and other operating expenses | | 3,523 | 396,732 | 41,475 | (28,883) | 412,847 |
| Fiber costs from related parties | | | 4,905 | | | 4,905 |
| Depreciation, amortization, and depletion | | 824 | 31,633 | | | 32,457 |
| Selling and distribution expenses | | | 13,827 | 57 | | 13,884 |
| General and administrative expenses | | 4,709 | 7,885 | | | 12,594 |
| St. Helens mill restructuring | | | 234 | | | 234 |
| Other (income) expense, net | | 171 | 87 | (110) | | 148 |
| | | 9,227 | 455,303 | 41,422 | (28,883) | 477,069 |
| **Income (loss) from operations** | | (5,530) | 82,463 | 53 | | 76,986 |
| Foreign exchange gain (loss) | | 347 | 39 | | | 386 |
| Change in fair value of interest rate derivatives | | (1) | | | | (1) |
| Interest expense | | (16,099) | | | | (16,099) |
| Interest expense intercompany | | (55) | | (4) | 59 | |
| Interest income | | | | | | |