

BOISE INC.
Form 10-Q
November 03, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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 333-166926-04	Boise Inc. BZ Intermediate Holdings LLC	20-8356960 27-1197223	Delaware 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

Edgar Filing: BOISE INC. - Form 10-Q

to such filing requirements for the past 90 days.

Boise Inc.	Yes <input checked="" type="checkbox"/>	No <input type="checkbox"/>
BZ Intermediate Holdings LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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 <input type="checkbox"/>	No <input type="checkbox"/>
BZ Intermediate Holdings LLC	Yes <input type="checkbox"/>	No <input type="checkbox"/>

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 <input type="checkbox"/> Non-accelerated filer (Do not check if smaller reporting company)	Accelerated filer <input checked="" type="checkbox"/> Smaller reporting company <input type="checkbox"/>
BZ Intermediate Holdings LLC	Large accelerated filer <input type="checkbox"/> Non-accelerated filer (Do not check if smaller reporting company)	Accelerated filer <input type="checkbox"/> Smaller reporting company <input checked="" type="checkbox"/>

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

Boise Inc.	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>
BZ Intermediate Holdings LLC	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

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.

Table of Contents**Table of Contents****PART I FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	1
	<u>Boise Inc. and Subsidiaries</u>	
	<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009</u>	1
	<u>Consolidated Balance Sheets as of September 30, 2010, and December 31, 2009</u>	3
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	5
	<u>BZ Intermediate Holdings LLC and Subsidiaries</u>	
	<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009</u>	6
	<u>Consolidated Balance Sheets as of September 30, 2010, and December 31, 2009</u>	8
	<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	10
	<u>Notes to Unaudited Quarterly Consolidated Financial Statements</u>	11
	<u>1. Nature of Operations and Basis of Presentation</u>	11
	<u>2. Net Income Per Common Share</u>	12
	<u>3. Transactions With Related Parties</u>	12
	<u>4. Other (Income) Expense, Net</u>	13
	<u>5. Income Taxes</u>	13
	<u>6. Leases</u>	14
	<u>7. Concentrations of Risk</u>	15
	<u>8. Inventories</u>	15
	<u>9. Property and Equipment, Net</u>	15
	<u>10. Intangible Assets</u>	15
	<u>11. Asset Retirement Obligations</u>	16
	<u>12. Debt</u>	17
	<u>13. Financial Instruments</u>	20
	<u>14. New and Recently Adopted Accounting Standards</u>	26
	<u>15. Retirement and Benefit Plans</u>	27
	<u>16. Stockholders' Equity and Capital</u>	28
	<u>17. Comprehensive Income</u>	30
	<u>18. St. Helens Mill Restructuring</u>	31
	<u>19. Segment Information</u>	31
	<u>20. Alternative Fuel Mixture Credits</u>	33
	<u>21. Commitments and Guarantees</u>	34
	<u>22. Legal Proceedings and Contingencies</u>	34
	<u>23. Subsequent Event</u>	34
	<u>24. Consolidating Guarantor and Nonguarantor Financial Information</u>	34
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	45
	<u>Background</u>	45
	<u>Our Segments</u>	45
	<u>Financial Highlights</u>	46
	<u>Special Dividend</u>	47
	<u>Recent Trends and Operational Outlook</u>	47
	<u>Factors That Affect Our Operating Results</u>	48
	<u>Our Operating Results</u>	53
	<u>Liquidity and Capital Resources</u>	60
	<u>Contractual Obligations</u>	67
	<u>Off-Balance-Sheet Activities</u>	67
	<u>Guarantees</u>	67
	<u>Inflationary and Seasonal Influences</u>	67
	<u>Working Capital</u>	67
	<u>Environmental</u>	67

Edgar Filing: BOISE INC. - Form 10-Q

	<u>Critical Accounting Estimates</u>	68
	<u>New and Recently Adopted Accounting Standards</u>	68
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	68
Item 4.	<u>Controls and Procedures</u>	68

Table of Contents

PART II OTHER INFORMATION

Item 1.	<u>Legal Proceedings</u>	70
Item 1A.	<u>Risk Factors</u>	70
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	70
Item 3.	<u>Defaults Upon Senior Securities</u>	70
Item 4.	<u>(Removed and Reserved)</u>	70
Item 5.	<u>Other Information</u>	70
Item 6.	<u>Exhibits</u>	70

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.

Table of Contents**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

Edgar Filing: BOISE INC. - Form 10-Q

Net income per common share:

Basic	\$ 0.45	\$ 0.61
Diluted	\$ 0.43	\$ 0.57

See accompanying notes to unaudited quarterly consolidated financial statements.

Table of Contents**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.

Table of Contents

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	