OFFICEMAX INC
Form 10-Q
November 08, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 29, 2007

or

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

For the transition period from to

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**82-0100960**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
263 Shuman Boulevard Naperville, Illinois	**60563**
(Address of principal executive offices)	(Zip Code)

(630) 438-7800

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Shares Outstanding as of October 31, 2007
Common Stock, $2.50 par value	75,397,045

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Income
(thousands, except per-share amounts)

	Quarter Ended September 29, 2007	Quarter Ended September 30, 2006
	(unaudited)	
Sales	$ 2,315,219	$ 2,244,414
Cost of goods sold and occupancy costs	1,727,161	1,659,603
Gross profit	588,058	584,811
Operating expenses:		
Operating and selling	419,765	413,185
General and administrative	79,581	91,479
Other operating (income) expense, net	(1,521)	17,860
Operating income	90,233	62,287
Interest expense	(31,220)	(30,557)
Interest income	21,814	22,900
Other income (expense), net	(179)	(1,401)
Income from operations before income taxes and minority interest	80,648	53,229
Income taxes	(29,080)	(20,250)
Income from operations before minority interest	51,568	32,979
Minority interest, net of income tax	(1,639)	(1,604)
Net Income	49,929	31,375
Preferred dividends	(931)	(1,009)
Net income applicable to common shareholders	$ 48,998	$ 30,366
Net income per common share:		
Basic	$ 0.65	$ 0.41
Diluted	$ 0.64	$ 0.41

See accompanying notes to quarterly consolidated financial statements.

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OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Income
(thousands, except per-share amounts)

	Nine Months Ended September 29, 2007	Nine Months Ended September 30, 2006
	(unaudited)	
Sales	$ 6,883,890	$ 6,708,902
Cost of goods sold and occupancy costs	5,136,809	4,978,340
Gross profit	1,747,081	1,730,562
Operating expenses:		
Operating and selling	1,233,114	1,231,529
General and administrative	262,237	267,383
Other operating (income) expense, net	(4,543)	131,156
Operating income	256,273	100,494
Interest expense	(91,296)	(92,274)
Interest income	66,628	66,117
Other income (expense), net	(5,858)	3,160
Income from continuing operations before income taxes and minority interest	225,747	77,497
Income taxes	(85,669)	(29,540)
Income from continuing operations before minority interest	140,078	47,957
Minority interest, net of income tax	(4,174)	(3,293)
Income from continuing operations	135,904	44,664
Discontinued operations:		
Operating loss		(17,972)
Income tax benefit		6,991
Loss from discontinued operations		(10,981)
Net income	135,904	33,683
Preferred dividends	(2,947)	(3,027)
Net income applicable to common shareholders	$ 132,957	$ 30,656

Basic income (loss) per common share:				
Continuing operations	$	1.77	$	0.57
Discontinued operations				(0.15)
Basic income (loss) per common share	$	1.77	$	0.42
Diluted income (loss) per common share:				
Continuing operations	$	1.74	$	0.57
Discontinued operations				(0.15)
Diluted income (loss) per common share	$	1.74	$	0.42

See accompanying notes to quarterly consolidated financial statements.

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OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands, except share and per-share amounts)

	September 29, 2007 (unaudited)	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 147,351	$ 282,070
Receivables, net	749,902	556,733
Related party receivables	7,260	5,795
Inventories	997,613	1,071,486
Deferred income taxes	69,463	129,496
Other	60,830	51,264
Total current assets	2,032,419	2,096,844
Property and equipment:		
Land and land improvements	38,062	36,195
Buildings and improvements	389,322	359,481
Machinery and equipment	828,730	794,010
Total property and equipment	1,256,114	1,189,686
Accumulated depreciation	(675,130)	(610,061)
Net property and equipment	580,984	579,625
Goodwill	1,242,095	1,216,032
Intangible assets, net	200,173	201,304
Investments in affiliates	175,000	175,000
Timber notes receivable	1,635,000	1,635,000
Restricted investments	22,377	22,292
Deferred charges	51,484	40,439
Other non-current assets	169,492	249,512
Total assets	$ 6,109,024	$ 6,216,048

See accompanying notes to quarterly consolidated financial statements.

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OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands, except share and per-share amounts)

	September 29, 2007 (unaudited)	December 30, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 28	$
Current portion of long-term debt	34,888	25,634
Accounts payable:		
Trade	798,522	965,218
Related parties	45,920	32,482
Accrued expenses and other current liabilities:		
Compensation and benefits	141,299	172,632
Other	364,272	332,937
Total current liabilities	1,384,929	1,528,903
Long-term debt:		
Long-term debt, less current portion	349,517	384,246
Timber notes securitized	1,470,000	1,470,000
Total long-term debt	1,819,517	1,854,246
Other long-term obligations:		
Compensation and benefits	266,139	287,122
Deferred gain on sale of assets	179,757	179,757
Other long-term obligations	270,866	350,491
Total other long-term obligations	716,762	817,370
Minority interest	30,997	29,885
Commitments and contingent liabilities		
Shareholders equity:		
Preferred stock no par value; 10,000,000 shares authorized; Series D ESOP: $.01 stated value; 1,138,860 and 1,216,335 shares outstanding	51,249	54,735
Common stock $2.50 par value; 200,000,000 shares authorized; 75,394,765 and 74,903,220 shares outstanding	188,462	187,226
Additional paid-in capital	913,079	893,848
Retained earnings	1,035,937	941,830
Accumulated other comprehensive loss	(31,908)	(91,995)
Total shareholders equity	2,156,819	1,985,644
Total liabilities and shareholders equity	$ 6,109,024	$ 6,216,048

See accompanying notes to quarterly consolidated financial statements.

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OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
(thousands)

	Nine Months Ended	
	September 29, 2007	September 30, 2006
	(unaudited)	
Cash provided by operations:		
Net income	$ 135,904	$ 33,683
Items in net income not using (providing) cash:		
Earnings from affiliates	(4,543)	(4,356)
Depreciation and amortization	97,512	92,570
Minority interest, net of income tax	4,174	3,293
Pension and other postretirement benefits expense	6,086	10,321
Discontinued operations	4	6,566
Other	23,453	30,997
Changes other than from acquisition of business:		
Receivables	(173,568)	48,972
Inventories	86,329	205,890
Accounts payable and accrued liabilities	(205,878)	(133,226)
Current and deferred income taxes	16,641	43,911
Other	45,339	1,151
Cash provided by operations	31,453	339,772
Cash used for investment:		
Expenditures for property and equipment	(101,339)	(96,775)
Proceeds from sale of assets	1,200	4,438
Other	(1,948)	
Cash used for investment	(102,087)	(92,337)
Cash used for financing:		
Cash dividends paid	(35,758)	(34,376)
Short-term borrowings, net	28	(18,666)
Payments of long-term debt	(25,510)	(65,478)
Proceeds from exercise of stock options	5,852	112,682
Other	(10,022)	(34)
Cash used for financing	(65,410)	(5,872)
Effect of exchange rates on cash and cash equivalents	1,325	(7)
Increase (decrease) in cash and cash equivalents	(134,719)	241,556
Cash and cash equivalents at beginning of period	282,070	72,198
Cash and cash equivalents at end of period	**$ 147,351**	**$ 313,754**

See accompanying notes to quarterly consolidated financial statements.

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Notes to Quarterly Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

OfficeMax Incorporated (OfficeMax , the Company , we or our) is a leader in both business-to-business and retail office products distribution. The Company provides office supplies and paper, print and document services, technology products and solutions and furniture to large, medium and small businesses, governmental offices, and consumers. OfficeMax customers are served by more than 36,000 associates through direct sales, catalogs, the Internet and a network of retail stores located throughout the United States, Canada, Australia, New Zealand and Mexico.

The accompanying quarterly consolidated financial statements include the accounts of OfficeMax and all majority-owned subsidiaries as well as those of variable interest entities in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. These financial statements are for the thirteen and thirty-nine week periods ended on September 29, 2007 (also referred to as the third quarter of 2007 and year-to-date 2007) and the thirteen and thirty-nine week periods ended on September 30, 2006 (also referred to as the third quarter of 2006 and year-to-date 2006). The Company s fiscal year ends on the last Saturday in December. Due primarily to statutory audit requirements, the Company s international businesses maintain December 31 year-ends.

The Company has prepared the quarterly consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. These quarterly consolidated financial statements should be read together with the consolidated financial statements and the accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 30, 2006.

The quarterly consolidated financial statements included herein have not been audited by an independent registered public accounting firm, but in the opinion of management, include all adjustments necessary to present fairly the results for the periods. Except as may be disclosed within these Notes to Quarterly Consolidated Financial Statements, the adjustments made were of a normal, recurring nature. Quarterly results are not necessarily indicative of results which may be expected for a full year.

In 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-03, How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation). This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22, Disclosure of Accounting Policies. The EITF Issue is effective for the Company beginning in fiscal year 2007. We collect such taxes from our customers and account for them on a net (excluded from revenues) basis. The adoption of EITF Issue No. 06-03 did not impact our consolidated financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued (Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of SFAS 157 are effective beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 157.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS 115, (SFAS 159). SFAS 159 allows entities to choose, at specific election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item s fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 is effective beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 159.

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2. Discontinued Operations

In December 2004, the Company s board of directors authorized management to pursue the divestiture of a facility near Elma, Washington that manufactured integrated wood-polymer building materials. The board of directors and management concluded that the operations of the facility were no longer consistent with the Company s strategic direction. As a result of that decision, the Company recorded the facility s assets as held for sale on the Consolidated Balance Sheets and reported the results of its operations as discontinued operations.

During 2005, the Company experienced unexpected difficulties in achieving anticipated levels of production at the facility. These issues delayed the process of identifying and qualifying a buyer for the business and as a result, the Company concluded that it was unable to attract a buyer in the near term and elected to cease operations at the facility during the first quarter of 2006.

During the first quarter of 2006, the Company recorded pre-tax expenses of $18.0 million for contract termination and other closure costs. These charges and expenses were reflected within discontinued operations in the Consolidated Statements of Income (Loss).

The liabilities of the Elma, Washington facility are included in current liabilities ($15.5 million at September 29, 2007 and $15.5 million at December 30, 2006, respectively) in the Consolidated Balance Sheets. The estimated fair value of the related assets was zero at September 29, 2007 and December 30, 2006.

See Note 3, Discontinued Operations, of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data in the Company s Annual Report on Form 10-K for the year ended December 30, 2006 for additional information related to the discontinued operations.

3. Integration Activities and Facility Closures

In September 2005, the board of directors approved a plan to relocate and consolidate the Company s retail headquarters in Shaker Heights, Ohio and its existing corporate headquarters in Itasca, Illinois into a new facility in Naperville, Illinois. The Company began the consolidation and relocation process in the latter half of 2005. During the third quarter and first nine months of 2006, the Company incurred and expensed approximately $11.5 million and $38.1 million, respectively, of costs related to the headquarters consolidation, all of which were reflected in the Corporate and Other segment. The consolidation and relocation process was completed during the second half of 2006.

During the first nine months of 2006, the Company closed 109 underperforming domestic retail stores and recorded a pre-tax charge of $89.5 million ($11.3 million for employee severance, asset write-off and impairment and other closure costs and $78.2 million for estimated future lease obligations, net of estimated sublease income). Also, during the third quarter of 2006, the Company announced the reorganization of our Contract segment and recorded a pre-tax charge of $7.9 million for employee severance.

At September 29, 2007, approximately $31.3 million of the reserve for integration and facility closures was included in accrued liabilities, other, and $51.8 million was included in other long-term liabilities. At September 29, 2007, the integration and facility closure reserve included approximately $78.2 million for estimated future lease obligations, which represents the estimated net present value of the lease obligations and is net of anticipated future sublease income of approximately $86.7 million.

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Integration and facility closure reserve account activity during the first nine months of 2007 and 2006, including the headquarters consolidation, the 2006 store closures and the Contract segment reorganization, as well as other previously disclosed integration and facility closure activities, was as follows:

	Lease\ Contract Terminations	Severance\ Retention	Asset Write-off & Impairment (thousands)	Other	Total
Balance at December 30, 2006	$ 107,824	$ 10,838	$	$ 3,142	$ 121,804
Charges to income					
Change in goodwill					
Changes to estimated costs included in income					
Cash payments	(32,455)	(7,462)		(1,656)	(41,573)
Non-cash charges					
Accretion	2,825				2,825
Balance at September 29, 2007	$ 78,194	$ 3,376	$	$ 1,486	$ 83,056

	Lease\ Contract Terminations	Severance\ Retention	Asset Write-off & Impairment (thousands)	Other	Total
Balance at December 31, 2005	$ 91,455	$ 21,502	$	$ 739	$ 113,696
Charges to income	81,830	18,801	9,089	25,792	135,512
Change in goodwill	(11,000)				(11,000)
Changes to estimated costs included in income		(1,080)			(1,080)
Cash payments	(55,572)	(24,808)		(17,988)	(98,368)
Non-cash charges			(9,089)	(5,978)	(15,067)
Accretion	4,850				4,850
Balance at September 30, 2006	$ 111,563	$ 14,415	$	$ 2,565	$ 128,543

4. Net Income (Loss) Per Common Share

The computation of basic and diluted income (loss) per common share for the third quarter and first nine months of 2007 and 2006 is as follows:

	Quarter Ended		Nine Months Ended	
	September 29,	September 30,	September 29,	September 30,

