

BOISE INC.
 Form 10-Q
 August 02, 2012

UNITED STATES
 SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 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 June 30, 2012

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	State or Other Jurisdiction of Incorporation or Organization	I.R.S. Employer Identification No.
001-33541	Boise Inc.	Delaware	20-8356960
333-166926-04	BZ Intermediate Holdings LLC	Delaware	27-1197223

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	x	No	..

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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	x	No	..
BZ Intermediate Holdings LLC	Yes	x	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	x	Accelerated filer	..
	Non-accelerated filer	..	Smaller reporting company	..
(Do not check if smaller reporting company)				

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

There were 100,482,144 common shares, \$0.0001 per share par value, of Boise Inc. outstanding as of July 31, 2012.

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.

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		Six Months Ended	
	June 30		June 30	
	2012	2011	2012	2011
Sales				
Trade	\$618,585	\$592,784	\$1,252,113	\$1,153,104
Related parties	19,255	10,351	30,573	18,794
	637,840	603,135	1,282,686	1,171,898
Costs and expenses				
Materials, labor, and other operating expenses	507,343	485,001	1,009,642	934,071
Fiber costs from related parties	4,466	4,383	9,412	8,823
Depreciation, amortization, and depletion	37,303	36,090	74,859	70,064
Selling and distribution expenses	30,568	29,483	61,210	48,856
General and administrative expenses	20,035	14,622	40,043	27,319
Other (income) expense, net	381	(813)	81	264
	600,096	568,766	1,195,247	1,089,397
Income from operations	37,744	34,369	87,439	82,501
Foreign exchange gain	102	55	259	187
Interest expense	(15,433)	(16,072)	(30,798)	(32,439)
Interest income	54	74	98	152
	(15,277)	(15,943)	(30,441)	(32,100)
Income before income taxes	22,467	18,426	56,998	50,401
Income tax provision	(8,805)	(6,529)	(21,998)	(19,810)
Net income	\$13,662	\$11,897	\$35,000	\$30,591
Weighted average common shares outstanding:				
Basic	100,116	106,754	99,584	93,928
Diluted	101,008	111,772	101,182	101,117
Net income per common share:				
Basic	\$0.14	\$0.11	\$0.35	\$0.33
Diluted	\$0.14	\$0.11	\$0.35	\$0.30

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Boise Inc.
 Consolidated Statements of Comprehensive Income
 (unaudited, dollars in thousands)

	Three Months Ended		Six Months Ended		
	June 30		June 30		
	2012	2011	2012	2011	
Net income	\$ 13,662	\$ 11,897	\$ 35,000	\$ 30,591	
Other comprehensive income (loss), net of tax					
Foreign currency translation adjustment	(2,307	) —	(1,452) —	
Cash flow hedges:					
Change in fair value, net of tax of \$913, \$0, (\$475), and \$0, respectively	1,459	—	(756) —	
Loss included in net income, net of tax of \$380, \$0, \$891, and \$0, respectively	604	—	1,421	—	
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of \$990, \$539, \$2,006, and \$1,080, respectively	1,580	861	3,200	1,716	
Other	—	20	—	(1)
	1,336	881	2,413	1,715	
Comprehensive income	\$ 14,998	\$ 12,778	\$ 37,413	\$ 32,306	

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	\$59,502	\$96,996
Receivables		
Trade, less allowances of \$1,091 and \$1,343	240,157	228,838
Other	8,033	7,622
Inventories	327,259	307,305
Deferred income taxes	6,928	20,379
Prepaid and other	14,314	6,944
	656,193	668,084
Property		
Property and equipment, net	1,223,631	1,235,269
Fiber farms	22,331	21,193
	1,245,962	1,256,462
Deferred financing costs	28,940	30,956
Goodwill	160,555	161,691
Intangible assets, net	152,634	159,120
Other assets	8,188	9,757
Total assets	\$2,252,472	\$2,286,070

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Boise Inc.

Consolidated Balance Sheets (continued)

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

	June 30, 2012	December 31, 2011
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Current portion of long-term debt	\$ 15,000	\$ 10,000
Income taxes payable	825	590
Accounts payable	197,339	201,994
Accrued liabilities		
Compensation and benefits	57,402	64,907
Interest payable	10,540	10,528
Other	25,847	22,540
	306,953	310,559
Debt		
Long-term debt, less current portion	780,000	790,000
Other		
Deferred income taxes	172,273	161,260
Compensation and benefits	156,107	172,394
Other long-term liabilities	54,515	57,010
	382,895	390,664
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, \$0.0001 par value per share: 1,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value per share: 250,000 shares authorized; 100,487 and 100,272 shares issued and outstanding	12	12
Treasury stock, 21,151 shares held	(121,423	) (121,421)
Additional paid-in capital	865,206	866,901
Accumulated other comprehensive income (loss)	(119,549	) (121,962)
Retained earnings	158,378	171,317
Total stockholders' equity	782,624	794,847
Total liabilities and stockholders' equity	\$ 2,252,472	\$ 2,286,070

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Six Months Ended	
	June 30	
	2012	2011
Cash provided by (used for) operations		
Net income	\$35,000	\$30,591
Items in net income not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	77,190	73,188
Share-based compensation expense	2,729	1,771
Pension expense	5,474	5,875
Deferred income taxes	12,610	17,182
Other	(43	) 298
Decrease (increase) in working capital, net of acquisitions		
Receivables	(12,050	) (11,060
Inventories	(20,224	) 8,640
Prepaid expenses	(4,869	) (3,326
Accounts payable and accrued liabilities	(14,061	) (4,505
Current and deferred income taxes	7,452	690
Pension payments	(18,191	) (25,291
Other	2,110	2,049
Cash provided by operations	73,127	96,102
Cash provided by (used for) investment		
Acquisition of businesses and facilities, net of cash acquired	—	(200,832
Expenditures for property and equipment	(52,457	) (53,737
Purchases of short-term investments	—	(3,494
Maturities of short-term investments	—	14,114
Other	586	1,318
Cash used for investment	(51,871	) (242,631
Cash provided by (used for) financing		
Payments of special dividend	(47,483	) (47,916
Issuances of long-term debt	—	75,000
Payments of long-term debt	(5,000	) (93,750
Proceeds from exercise of warrants	—	284,785
Other	(6,267	) (2,160
Cash provided by (used for) financing	(58,750	) 215,959
Increase (decrease) in cash and cash equivalents	(37,494	) 69,430
Balance at beginning of the period	96,996	166,833
Balance at end of the period	\$59,502	\$236,263

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

BZ Intermediate Holdings LLC
 Consolidated Statements of Income
 (unaudited, dollars in thousands)

	Three Months Ended		Six Months Ended	
	June 30 2012	2011	June 30 2012	2011
Sales				
Trade	\$618,585	\$592,784	\$1,252,113	\$1,153,104
Related parties	19,255	10,351	30,573	18,794
	637,840	603,135	1,282,686	1,171,898
Costs and expenses				
Materials, labor, and other operating expenses	507,343	485,001	1,009,642	934,071
Fiber costs from related parties	4,466	4,383	9,412	8,823
Depreciation, amortization, and depletion	37,303	36,090	74,859	70,064
Selling and distribution expenses	30,568	29,483	61,210	48,856
General and administrative expenses	20,035	14,622	40,043	27,319
Other (income) expense, net	381	(813)	81	264
	600,096	568,766	1,195,247	1,089,397
Income from operations	37,744	34,369	87,439	82,501
Foreign exchange gain	102	55	259	187
Interest expense	(15,433)	(16,072)	(30,798)	(32,439)
Interest income	54	74	98	152
	(15,277)	(15,943)	(30,441)	(32,100)
Income before income taxes	22,467	18,426	56,998	50,401
Income tax provision	(8,805)	(6,529)	(21,998)	(19,810)
Net income	\$13,662	\$11,897	\$35,000	\$30,591

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

BZ Intermediate Holdings LLC
 Consolidated Statements of Comprehensive Income
 (unaudited, dollars in thousands)

	Three Months Ended		Six Months Ended		
	June 30		June 30		
	2012	2011	2012	2011	
Net income	\$13,662	\$11,897	\$35,000	\$30,591	
Other comprehensive income (loss), net of tax					
Foreign currency translation adjustment	(2,307	) —	(1,452) —	
Cash flow hedges:					
Change in fair value, net of tax of \$913, \$0, (\$475), and \$0, respectively	1,459	—	(756) —	
Loss included in net income, net of tax of \$380, \$0, \$891, and \$0, respectively	604	—	1,421	—	
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of \$990, \$539, \$2,006, and \$1,080, respectively	1,580	861	3,200	1,716	
Other	—	20	—	(1)
	1,336	881	2,413	1,715	
Comprehensive income	\$14,998	\$12,778	\$37,413	\$32,306	

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

BZ Intermediate Holdings LLC
 Consolidated Balance Sheets
 (unaudited, dollars in thousands)

	June 30, 2012	December 31, 2011
ASSETS		
Current		
Cash and cash equivalents	\$59,502	\$96,996
Receivables		
Trade, less allowances of \$1,091 and \$1,343	240,157	228,838
Other	8,033	7,622
Inventories	327,259	307,305
Deferred income taxes	6,928	20,379
Prepaid and other	14,314	6,944
	656,193	668,084
Property		
Property and equipment, net	1,223,631	1,235,269
Fiber farms	22,331	21,193
	1,245,962	1,256,462
Deferred financing costs	28,940	30,956
Goodwill	160,555	161,691
Intangible assets, net	152,634	159,120
Other assets	8,188	9,757
Total assets	\$2,252,472	\$2,286,070

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

BZ Intermediate Holdings LLC
 Consolidated Balance Sheets (continued)
 (unaudited, dollars in thousands)

	June 30, 2012	December 31, 2011
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	\$ 15,000	\$ 10,000
Income taxes payable	825	590
Accounts payable	197,339	201,994
Accrued liabilities		
Compensation and benefits	57,402	64,907
Interest payable	10,540	10,528
Other	25,847	22,540
	306,953	310,559
Debt		
Long-term debt, less current portion	780,000	790,000
Other		
Deferred income taxes	163,726	152,712
Compensation and benefits	156,107	172,394
Other long-term liabilities	54,565	57,061
	374,398	382,167
Commitments and contingent liabilities		
Capital		
Business unit equity	910,670	925,306
Accumulated other comprehensive income (loss)	(119,549	) (121,962
	791,121	803,344
Total liabilities and capital	\$ 2,252,472	\$ 2,286,070

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

BZ Intermediate Holdings LLC
 Consolidated Statements of Cash Flows
 (unaudited, dollars in thousands)

	Six Months Ended		
	June 30 2012	2011	
Cash provided by (used for) operations			
Net income	\$35,000	\$30,591	
Items in net income not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	77,190	73,188	
Share-based compensation expense	2,729	1,771	
Pension expense	5,474	5,875	
Deferred income taxes	12,610	17,182	
Other	(43	) 298	
Decrease (increase) in working capital, net of acquisitions			
Receivables	(12,050	) (11,060)
Inventories	(20,224	) 8,640)
Prepaid expenses	(4,869	) (3,326)
Accounts payable and accrued liabilities	(14,061	) (4,505)
Current and deferred income taxes	7,452	690)
Pension payments	(18,191	) (25,291)
Other	2,110	2,049)
Cash provided by operations	73,127	96,102)
Cash provided by (used for) investment)
Acquisition of businesses and facilities, net of cash acquired	—	(200,832)
Expenditures for property and equipment	(52,457	) (53,737)
Purchases of short-term investments	—	(3,494)
Maturities of short-term investments	—	14,114)
Other	586	1,318)
Cash used for investment	(51,871	) (242,631)
Cash provided by (used for) financing)
Issuances of long-term debt	—	75,000)
Payments of long-term debt	(5,000	) (93,750)
Payments (to) from Boise Inc., net	(52,440	) 236,869)
Other	(1,310	) (2,160)
Cash provided by (used for) financing	(58,750	) 215,959)
Increase (decrease) in cash and cash equivalents	(37,494	) 69,430)
Balance at beginning of the period	96,996	166,833)
Balance at end of the period	\$59,502	\$236,263)

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Boise Inc. is a large, diverse manufacturer and seller of packaging and paper products. Our operations began in February 2008. We are headquartered in Boise, Idaho, and we operate largely in the United States but have recently expanded our operations into Europe, Mexico, and Canada. We manufacture and sell corrugated containers and sheets, protective packaging products and papers associated with packaging, such as label and release papers, and newsprint. Additionally, we manufacture linerboard and corrugating medium, which are combined to make corrugated board, the base raw material in our corrugated sheets and containers. We are also the third-largest North American manufacturer of communication papers such as office papers, commercial printing papers, envelope papers, and forms.

Our organizational structure is noted below:

Boise Inc.

BZ Intermediate Holdings LLC

Boise Paper Holdings, L.L.C.

Packaging Segment

Paper Segment

Corporate Segment

See Note 5, Segment Information, for additional information about our three reportable segments, Packaging, Paper, and Corporate and Other (support services).

The unaudited quarterly 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, parent company to Boise Paper Holdings, L.L.C. (Boise Paper Holdings).

In these unaudited quarterly consolidated financial statements, unless the context indicates otherwise, the terms "the Company," "we," "us," "our," or "Boise" refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate. 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 and common stock activity. Some amounts in prior periods' consolidated financial statements have been reclassified to conform with the current period's presentation, none of which were considered material.

The quarterly consolidated financial statements presented have not been audited by an independent registered public accounting firm but, in the opinion of management, include all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the results for the periods presented. The preparation of the consolidated financial statements involves the use of estimates and accruals. Actual results may vary from those estimates. Quarterly results are not necessarily indicative of results that may be expected for the full year. These condensed notes to unaudited quarterly consolidated financial statements should be read in conjunction with our 2011 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. Acquisition of Hexacomb

On December 1, 2011, we acquired Hexacomb Corporation and its affiliated companies and all of the honeycomb packaging-related assets of Pregis Mexico (Hexacomb) for \$125 million (Hexacomb Acquisition), subject to post-closing adjustments. In connection with the acquisition, we allocated the purchase price to the assets acquired and liabilities assumed based on estimates of the fair value at the date of the acquisition. See Note 3, Acquisitions, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of our 2011 Form 10-K. During the six months ended June 30, 2012, we recorded approximately \$1.1 million of purchase price adjustments that decreased goodwill. These adjustments related primarily to changes in deferred tax liabilities that resulted from further analysis of the tax basis of acquired assets and liabilities and other tax adjustments. The purchase price continues to be preliminary.

3. Net Income Per Common Share

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. Net income per common share is not applicable to BZ Intermediate because it does not have common shares. For the three and six months ended June 30, 2012 and 2011, 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		Six Months Ended	
	June 30	June 30	June 30	June 30
	2012	2011	2012	2011
Net income	\$13,662	\$11,897	\$35,000	\$30,591
Weighted average number of common shares for basic net income per common share (a)	100,116	106,754	99,584	93,928
Incremental effect of dilutive common stock equivalents:				
Restricted stock and restricted stock units	680	2,500	1,362	2,721
Performance units	211	—	235	—
Common stock warrants (a)	—	2,513	—	4,464
Stock options (b)	1	5	1	4
Weighted average number of common shares for diluted net income per common share	101,008	111,772	101,182	101,117
Net income per common share:				
Basic	\$0.14	\$0.11	\$0.35	\$0.33
Diluted	\$0.14	\$0.11	\$0.35	\$0.30

(a) During the six months ended June 30, 2011, warrant holders exercised their warrants, resulting in the issuance of 38.4 million common shares. We repurchased 21.2 million common shares in the second half of 2011.

(b) We excluded 0.8 million and 0.3 million stock options from the computation of diluted net income per share because they were antidilutive for both the three and six months ended June 30, 2012 and 2011, respectively.

4. Income Taxes

For the three and six months ended June 30, 2012, we recorded \$8.8 million and \$22.0 million of income tax expense and had an effective tax rate of 39.2% and 38.6%, respectively. During the three and six months ended June 30, 2012, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of state income taxes.

For the three and six months ended June 30, 2011, we recorded \$6.5 million and \$19.8 million of income tax expense and had an effective tax rate of 35.4% and 39.3%, respectively. During the three and six months ended June 30, 2011, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of state income taxes and discrete tax items.

Uncertain Income Tax Positions

We recognize tax liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur. We recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Income. Interest expense and penalties relating to uncertain tax positions were nominal for all periods presented.

Other

Due to Internal Revenue Code Section 382, changes in our ownership limit the amount of net operating losses that we may utilize in any one year. To the extent the annual limitation is not used in any year, the unutilized limitation amount will carry over and add to the limitation in the subsequent tax year. However, we believe it is more likely than not that our net operating losses will be fully realized before they expire.

We file federal income tax returns in the U.S., state income tax returns in various state jurisdictions, and foreign income tax returns in various foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. BZ Intermediate is a wholly owned, consolidated entity of Boise Inc., and its tax return is filed under the consolidated tax return of Boise Inc. Open tax years for Boise Inc. are 2011, 2010, 2009, and 2008. Some foreign tax jurisdictions are also open for the 2007 tax year.

As of June 30, 2012, we had not recognized U.S. deferred income taxes on our cumulative total of undistributed earnings for non-U.S. subsidiaries. Determining the unrecognized deferred tax liability related to investments in these non-U.S. subsidiaries that are indefinitely reinvested is not practicable. We currently intend to indefinitely reinvest those earnings in operations outside the United States.

During the six months ended June 30, 2012, refunds received, net of cash paid for taxes, were \$0.7 million. Cash paid for taxes, net of refunds received, was \$1.7 million during the six months ended June 30, 2011.

5. Segment Information

We operate and report our business in three reportable segments: Packaging, Paper, and Corporate and Other (support services). These segments represent distinct businesses that are managed separately because of differing products and services. Each of these businesses requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments. 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 6, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2011 Form 10-K.

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

	Sales				Income	Depreciation,
Three Months Ended June 30,	Trade	Related	Inter-	Total	(Loss) Before	Amortization, EBITDA
2012		Parties	segment		Income	and (b)
					Taxes	Depletion