BOISE INC.
Form 10-Q
August 04, 2011
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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 June 30, 2011

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 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	¨	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 121,421,080 common shares, $0.0001 per share par value, of Boise Inc. and 1,000 common units, $0.01 per unit par value, of BZ Intermediate Holdings LLC outstanding as of July 29, 2011.

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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PART I FINANCIAL INFORMATION

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PART II OTHER INFORMATION

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 June 30	
	2011	**2010**
Sales		
Trade	$ 592,784	$ 511,012
Related parties	10,351	10,549
	603,135	521,561
Costs and expenses		
Materials, labor, and other operating expenses	485,001	419,594
Fiber costs from related parties	4,383	5,168
Depreciation, amortization, and depletion	36,090	32,267
Selling and distribution expenses	29,483	14,254
General and administrative expenses	14,622	12,569
Other (income) expense, net	(813)	(445)
	568,766	483,407
Income from operations	34,369	38,154
Foreign exchange gain (loss)	55	(323)
Loss on extinguishment of debt		(28)
Interest expense	(16,072)	(16,178)
Interest income	74	61
	(15,943)	(16,468)
Income before income taxes	18,426	21,686
Income tax provision	(6,529)	(8,376)
Net income	**$ 11,897**	**$ 13,310**
Weighted average common shares outstanding:		
Basic	**106,754**	**80,624**
Diluted	**111,772**	**84,093**
Net income per common share:		
Basic	**$ 0.11**	**$ 0.17**

Diluted	**$**	**0.11**	**$**	**0.16**

See accompanying condensed 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)

	Six Months Ended June 30	
	2011	**2010**
Sales		
Trade	$ 1,153,104	$ 996,863
Related parties	18,794	18,803
	1,171,898	1,015,666
Costs and expenses		
Materials, labor, and other operating expenses	934,071	828,079
Fiber costs from related parties	8,823	14,999
Depreciation, amortization, and depletion	70,064	64,398
Selling and distribution expenses	48,856	27,988
General and administrative expenses	27,319	24,028
Other (income) expense, net	264	(620)
	1,089,397	958,872
Income from operations	82,501	56,794
Foreign exchange gain	187	364
Loss on extinguishment of debt		(22,225)
Interest expense	(32,439)	(32,652)
Interest income	152	98
	(32,100)	(54,415)
Income before income taxes	50,401	2,379
Income tax provision	(19,810)	(1,754)
Net income	**$ 30,591**	**$ 625**
Weighted average common shares outstanding:		
Basic	**93,928**	**80,214**
Diluted	**101,117**	**84,143**
Net income per common share:		
Basic	**$ 0.33**	**$ 0.01**
Diluted	**$ 0.30**	**$ 0.01**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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Boise Inc.

Consolidated Balance Sheets

(unaudited, dollars in thousands)

	June 30, 2011	December 31, 2010
ASSETS		
Current		
Cash and cash equivalents	$ 236,263	$ 166,833
Short-term investments		10,621
Receivables		
Trade, less allowances of $879 and $603	228,631	188,589
Other	7,629	3,839
Inventories	271,759	261,471
Deferred income taxes	19,473	16,658
Prepaid and other	12,568	5,214
	776,323	653,225
Property		
Property and equipment, net	1,213,357	1,199,035
Fiber farms and deposits	19,373	18,285
	1,232,730	1,217,320
Deferred financing costs	27,534	30,396
Goodwill	103,280	
Intangible assets, net	99,129	29,605
Other assets	8,414	8,444
Total assets	**$ 2,247,410**	**$ 1,938,990**

See accompanying condensed 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)

	June 30, 2011	December 31, 2010
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Current portion of long-term debt	$ 76,563	$ 43,750
Income taxes payable	311	82
Accounts payable	194,294	179,214
Accrued liabilities		
Compensation and benefits	55,386	54,574
Interest payable	10,525	10,535
Other	18,146	16,123
	355,225	304,278
Debt		
Long-term debt, less current portion	686,518	738,081
Other		
Deferred income taxes	141,328	88,200
Compensation and benefits	100,554	121,318
Other long-term liabilities	48,953	40,278
	290,835	249,796
Commitments and contingent liabilities		
Stockholders equity		
Preferred stock, $0.0001 par value per share: 1,000 shares authorized; none issued		
Common stock, $0.0001 par value per share: 250,000 shares authorized; 121,421 shares and 84,845 shares issued and outstanding	12	8
Additional paid-in capital	865,229	581,442
Accumulated other comprehensive income (loss)	(77,107)	(78,822)
Retained earnings	126,698	144,207
Total stockholders equity	914,832	646,835
Total liabilities and stockholders equity	**$ 2,247,410**	**$ 1,938,990**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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Boise Inc.

Consolidated Statements of Cash Flows

(unaudited, dollars in thousands)

	Six Months Ended June 30	
	2011	**2010**
Cash provided by (used for) operations		
Net income	$ 30,591	$ 625
Items in net income not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	73,188	68,864
Share-based compensation expense	1,771	1,834
Pension expense	6,096	4,830
Deferred income taxes	17,182	912
Change in fair value of energy derivatives	(684)	617
Other	982	(277)
Loss on extinguishment of debt		22,225
Decrease (increase) in working capital, net of acquisitions		
Receivables	(11,060)	37,899
Inventories	8,640	(5,347)
Prepaid expenses	(3,326)	1,503
Accounts payable and accrued liabilities	(4,505)	6,352
Current and deferred income taxes	690	344
Pension payments	(25,512)	(5,824)
Other	2,726	(266)
Cash provided by operations	96,779	134,291
Cash provided by (used for) investment		
Acquisition of businesses and facilities, net of cash acquired	(201,509)	
Expenditures for property and equipment	(53,737)	(37,481)
Purchases of short-term investments	(3,494)	(11,825)
Maturities of short-term investments	14,114	11,247
Sales of assets	1,181	575
Other	137	230
Cash used for investment	(243,308)	(37,254)
Cash provided by (used for) financing		
Issuances of long-term debt	75,000	300,000
Payments of long-term debt	(93,750)	(323,683)
Payments of deferred financing costs	(160)	(11,613)
Proceeds from exercise of warrants	284,785	
Payments of special dividend	(47,916)	
Other	(2,000)	(3,072)
Cash provided by (used for) financing	215,959	(38,368)
Increase in cash and cash equivalents	69,430	58,669

Balance at beginning of the period	166,833	69,393
Balance at end of the period	**$ 236,263**	**$ 128,062**

See accompanying condensed 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 June 30	
	2011	**2010**
Sales		
Trade	$ 592,784	$ 511,012
Related parties	10,351	10,549
	603,135	521,561
Costs and expenses		
Materials, labor, and other operating expenses	485,001	419,594
Fiber costs from related parties	4,383	5,168
Depreciation, amortization, and depletion	36,090	32,267
Selling and distribution expenses	29,483	14,254
General and administrative expenses	14,622	12,569
Other (income) expense, net	(813)	(445)
	568,766	483,407
Income from operations	34,369	38,154
Foreign exchange gain (loss)	55	(323)
Loss on extinguishment of debt		(28)
Interest expense	(16,072)	(16,178)
Interest income	74	61
	(15,943)	(16,468)
Income before income taxes	18,426	21,686
Income tax provision	(6,529)	(8,371)
Net income	**$ 11,897**	**$ 13,315**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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BZ Intermediate Holdings LLC

Consolidated Statements of Income

(unaudited, dollars in thousands)

	Six Months Ended June 30	
	2011	**2010**
Sales		
Trade	$ 1,153,104	$ 996,863
Related parties	18,794	18,803
	1,171,898	1,015,666
Costs and expenses		
Materials, labor, and other operating expenses	934,071	828,079
Fiber costs from related parties	8,823	14,999
Depreciation, amortization, and depletion	70,064	64,398
Selling and distribution expenses	48,856	27,988
General and administrative expenses	27,319	24,028
Other (income) expense, net	264	(620)
	1,089,397	958,872
Income from operations	82,501	56,794
Foreign exchange gain	187	364
Loss on extinguishment of debt		(22,225)
Interest expense	(32,439)	(32,652)
Interest income	152	98
	(32,100)	(54,415)
Income before income taxes	50,401	2,379
Income tax provision	(19,810)	(913)
Net income	**$ 30,591**	**$ 1,466**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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BZ Intermediate Holdings LLC

Consolidated Balance Sheets

(unaudited, dollars in thousands)

	June 30, 2011	December 31, 2010
ASSETS		
Current		
Cash and cash equivalents	$ 236,263	$ 166,833
Short-term investments		10,621
Receivables		
Trade, less allowances of $879 and $603	228,631	188,589
Other	7,629	3,839
Inventories	271,759	261,471
Deferred income taxes	19,473	16,658
Prepaid and other	12,568	5,214
	776,323	653,225
Property		
Property and equipment, net	1,213,357	1,199,035
Fiber farms and deposits	19,373	18,285
	1,232,730	1,217,320
Deferred financing costs	27,534	30,396
Goodwill	103,280	
Intangible assets, net	99,129	29,605
Other assets	8,414	8,444
Total assets	**$ 2,247,410**	**$ 1,938,990**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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BZ Intermediate Holdings LLC

Consolidated Balance Sheets (continued)

(unaudited, dollars in thousands)

	June 30, 2011	December 31, 2010
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	$ 76,563	$ 43,750
Income taxes payable	311	82
Accounts payable	194,294	179,214
Accrued liabilities		
Compensation and benefits	55,386	54,574
Interest payable	10,525	10,535
Other	18,146	16,123
	355,225	304,278
Debt		
Long-term debt, less current portion	686,518	738,081
Other		
Deferred income taxes	132,579	79,451
Compensation and benefits	100,554	121,318
Other long-term liabilities	49,205	40,530
	282,338	241,299
Commitments and contingent liabilities		
Capital		
Business unit equity	923,329	655,332
Total liabilities and capital	**$ 2,247,410**	**$ 1,938,990**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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BZ Intermediate Holdings LLC

Consolidated Statements of Cash Flows

(unaudited, dollars in thousands)

	Six Months Ended June 30	
	2011	**2010**
Cash provided by (used for) operations		
Net income	$ 30,591	$ 1,466
Items in net income not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	73,188	68,864
Share-based compensation expense	1,771	1,834
Pension expense	6,096	4,830
Deferred income taxes	17,182	907
Change in fair value of energy derivatives	(684)	617
Other	982	(277)
Loss on extinguishment of debt		22,225
Decrease (increase) in working capital, net of acquisitions		
Receivables	(11,060)	37,899
Inventories	8,640	(5,347)
Prepaid expenses	(3,326)	1,503
Accounts payable and accrued liabilities	(4,505)	6,352
Current and deferred income taxes	690	(492)
Pension payments	(25,512)	(5,824)
Other	2,726	(266)
Cash provided by operations	96,779	134,291
Cash provided by (used for) investment		
Acquisition of businesses and facilities, net of cash acquired	(201,509)	
Expenditures for property and equipment	(53,737)	(37,481)
Purchases of short-term investments	(3,494)	(11,825)
Maturities of short-term investments	14,114	11,247
Sales of assets	1,181	575
Other	137	230
Cash used for investment	(243,308)	(37,254)
Cash provided by (used for) financing		
Issuances of long-term debt	75,000	300,000
Payments of long-term debt	(93,750)	(323,683)
Payments of deferred financing costs	(160)	(11,613)
Proceeds from Boise Inc., net	236,869	
Other	(2,000)	(3,072)
Cash provided by (used for) financing	215,959	(38,368)
Increase in cash and cash equivalents	69,430	58,669
Balance at beginning of the period	166,833	69,393

Balance at end of the period	**$ 236,263**	**$ 128,062**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Nature of Operations

Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products. The products we manufacture include papers used for communication, such as office papers, commercial printing papers, envelopes, forms, and newsprint, as well as papers that are associated with packaging, including label and release and flexible papers used for food wrap and other applications. We also manufacture linerboard and corrugating medium, which are combined to make containerboard, the base raw material in our corrugated sheets and containers. We own 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 linerboard as well as newsprint. Additionally, we have a network of eight corrugated container plants located in the Western U.S.; four corrugated sheet plants in Georgia, Nevada, Texas, and Washington; a corrugated sheet feeder plant in Texas; and four distribution facilities.

The following sets forth our operating structure:

As of June 30, 2011, we had approximately 5,000 employees. Approximately 53% of these employees worked pursuant to collective bargaining agreements. During second quarter 2011, we ratified agreements with labor unions at four of our five paper mills and one container plant, with terms ranging from 4 to 8 years. The four paper mills affected include Jackson, Alabama; DeRidder, Louisiana; International Falls, Minnesota; and Wallula, Washington. As a result, only a small number of our employees, approximately 7%, work pursuant to collective bargaining agreements that have expired or will expire within one year. Approximately 11% of our employees work pursuant to agreements that have expired or will expire within the next three years.

Basis of Presentation

Boise Inc., headquartered in Boise, Idaho, operates and reports its business in three reportable segments: Paper, Packaging, and Corporate and Other (support services). See Note 17, Segment Information, for additional information about our reportable segments.

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

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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. Unless the context indicates otherwise, the terms Company, we, us, our, or Boise refer to Boise Inc. ar consolidated subsidiaries, including BZ Intermediate.

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 2010 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 Tharco Packaging, Inc.

On March 1, 2011, our wholly owned subsidiary Boise Paper Holdings acquired 100% of the outstanding stock of Tharco Packaging, Inc. (Tharco) for a preliminary purchase price of $200.8 million plus or minus working capital adjustments (the Tharco Acquisition). We financed the acquisition with existing cash and $75 million in borrowings on our revolving credit facility, which is discussed further in Note 11, Debt. The acquisition expands and diversifies our presence in packaging markets; extends our geographical reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia; and will increase our containerboard integration from approximately 70% to approximately 85%.

Our purchase price allocation is preliminary. Once fair values are finalized, we may have changes to the amounts we have included in our preliminary allocation. The stock purchase agreement provides for, among other terms, (1) an adjustment to the purchase price based on a final working capital true-up and (2) indemnification provisions for claims that may arise, including other third-party claims.

The following table summarizes our preliminary allocation of the purchase price to the assets acquired and liabilities assumed, based on our current estimates of the fair value at the date of the Tharco Acquisition (dollars in thousands):

	March 1, 2011 Fair Value
Current assets (a)	$ 53,889
Property and equipment (b)	27,505
Intangible assets (c):	
Customer relationships	61,200
Trademarks and trade name	10,900
Noncompete agreement	300
Goodwill (d)	103,280
Other long-term assets	476
Assets acquired	257,550
Current liabilities	21,625
Deferred tax liability	32,374
Unfavorable leases	2,583
Other long-term liabilities	136
Liabilities assumed	56,718
Net assets acquired	**$ 200,832**

(a) Includes $29.6 million of receivables and $20.7 million of inventories.

(b) We are depreciating the property and equipment acquired on a straight-line basis over their estimated remaining lives, which range from one to 20 years.

(c) We are amortizing the intangible assets on a straight-line basis over the following (in years):

Customer relationships	17
Trademarks and trade name	15
Noncompete agreement	2

(d) The Tharco Acquisition resulted in $103.3 million of goodwill, which we recorded in our Packaging segment. Goodwill is the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill recognized in the transaction is not deductible for income tax purposes. However, we assumed $12.9 million of goodwill in the transaction that Tharco had been amortizing in connection with previous acquisitions, which we will continue to amortize and deduct for income tax purposes.

We expensed $0.7 million of costs related to the Tharco Acquisition for legal, professional, and advisory services during the six months ended June 30, 2011. All costs were expensed as incurred and recorded in Other (income) expense, net in our Consolidated Statement of Income.

The six months ended June 30, 2011, included $92.8 million of net sales and $1.7 million of operating income from Tharco s operations. Tharco s operating income was negatively affected by $2.2 million of expense related to the inventory purchase price adjustments that were recognized in March 2011. These results are included in our Packaging segment.

The following pro forma financial information presents the combined results of operations as if Tharco had been combined with us on January 1, 2010. The pro forma results are intended for information purposes only and do not purport to represent what the combined companies results of operations would actually have been had the transaction in fact occurred on January 1, 2010. They also do not reflect any cost savings, operating synergies, or revenue enhancements that we may achieve or the costs necessary to achieve those cost savings, operating synergies, revenue enhancements, or integration efforts (dollars in thousands, except per-share amounts).

	Pro Forma	
	Six Months Ended June 30, 2011	**Year Ended December 31, 2010**
Sales	$ 1,213,549	$ 2,355,737
Net income (a)	31,434	67,647
Net income per share diluted	0.31	0.80

(a) The June 30, 2011, pro forma financial information was adjusted to exclude $2.2 million of expense related to inventory purchase price adjustments and $3.4 million of expenses for legal, accounting, and other advisory-related services incurred by us, including costs incurred by Tharco prior to closing on March 1, 2011. The December 31, 2010, pro forma financial information was adjusted to include these charges. Pro forma net income for the year ended December 31, 2010, includes $22.2 million of noncash expense associated with refinancing our debt in 2010.

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3. Net Income Per Common Share

For the three and six months ended June 30, 2011 and 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 June 30		Six Months Ended June 30	
	2011	**2010**	**2011**	**2010**
Net income	$ 11,897	$ 13,310	$ 30,591	$ 625
Weighted average number of common shares for basic net income per share (a)	106,754	80,624	93,928	80,214
Incremental effect of dilutive common stock equivalents:				
Common stock warrants (a) (b)	2,513		4,464	
Stock options	5		4	
Restricted stock and restricted stock units	2,500	3,469	2,721	3,929
Weighted average number of shares for diluted net income per share	111,772	84,093	101,117	84,143
Net income per share:				
Basic	**$ 0.11**	**$ 0.17**	**$ 0.33**	**$ 0.01**
Diluted (b)	**$ 0.11**	**$ 0.16**	**$ 0.30**	**$ 0.01**

(a) During second quarter 2011, 40.3 million warrants were exercised, resulting in the issuance of 38.4 million additional common shares. For the three and six months ended June 30, 2011, the exercise added 25.3 million and 12.7 million, respectively, to the number of weighted average shares included in basic net income per share and an incremental 2.5 million and 4.5 million, respectively, to the weighted average diluted net income per share for the period the warrants were outstanding. Unexercised warrants expired on June 20, 2011.

(b) For the three and six months ended June 30, 2010, warrants to purchase 44.4 million shares of common stock, which are accounted for under the treasury stock method, 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.

4. Income Taxes

For the three and six months ended June 30, 2011, Boise Inc. and BZ Intermediate recorded $6.5 million and $19.8 million of income tax expense, respectively. For the three and six months ended June 30, 2011, Boise Inc s and BZ Intermediate s effective tax rates were 35.4% and 39.3%, respectively, and in both periods, the primary reasons for the difference from the federal statutory income tax rate of 35.0% were the effects of state income taxes and discrete tax items.

For the three and six months ended June 30, 2010, Boise Inc. recorded $8.4 million and $1.8 million of income tax expense, respectively. For the three months ended June 30, 2010, Boise Inc. s effective tax rate was 38.6%, and 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 six months ended June 30, 2010, Boise Inc. s effective tax rate was not meaningful as a result of discrete tax items.

For the three and six months ended June 30, 2010, BZ Intermediate recorded $8.4 million and $0.9 million of income tax expense, respectively. For the three and six months ended June 30, 2010, BZ Intermediate s effective tax rates were 38.6% and 38.4%, respectively, and the primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes.

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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 six months ended June 30, 2011 and 2010. We did not record any penalties associated with our uncertain tax positions during the six months ended June 30, 2011 and 2010.

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. However, we believe it is more likely than not that our net operating losses will be fully realized 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. 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 2010, 2009, 2008, and 2007.

During the six months ended June 30, 2011, payments made for taxes, net of refunds received, were $1.7 million, and during the six months ended June 30, 2010, refunds received for taxes, net of payments made, were $0.1 million.

5. Transactions With Related Parties

For the period of February 22, 2008, through early March 2010, Boise Cascade Holdings, L.L.C. (Boise Cascade) held a significant equity interest in us, and our transactions with Boise Cascade were recorded as 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. As a result, beginning in March 2010, transactions (discussed below) of Louisiana Timber Procurement Company, L.L.C. (LTP) represent the only significant related-party activity recorded in our Consolidated Financial Statements.

Related-Party Sales

LTP is a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade. 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, as we have the power to direct the activities that most significantly affect the economic performance of LTP. Therefore, we consolidate LTP in our financial statements in our Packaging segment. At both June 30, 2011, and December 31, 2010, the carrying amounts of LTP s assets and liabilities on our Consolidated Balance Sheets were $3.2 million and $2.1 million, and they related primarily to noninventory working capital items. During the three and six months ended June 30, 2011, we recorded $10.3 million and $18.8 million, respectively, of LTP sales to Boise Cascade in Sales, Related parties in the Consolidated Statements of Income and approximately the same amount in expenses. During the three and six months ended June 30, 2010, we recorded $10.5 million and $16.2 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. The sales were at prices designed to approximate market prices.

We have 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, 2013. 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. During the six months ended June 30, 2010, we recorded $2.3 million of revenues in Sales, Related parties in our Consolidated Statements of Income. We also provide transportation services to Boise Cascade at our cost. During the six months ended June 30, 2010, the costs and revenues associated with our transportation services to Boise Cascade were $0.3 million.

Related-Party Costs and Expenses

During the three and six months ended June 30, 2011, fiber purchases from related parties were $4.4 million and $8.8 million, respectively, and during the three and six months ended June 30, 2010, fiber purchases from related parties were $5.2 million and $15.0 million, respectively. In 2011, most of these purchases related to chip and log purchases by LTP from Boise Cascade s wood products business. In 2010, the purchases included both direct chip and log purchases from Boise Cascade while they were a related party and LTP s purchases from Boise Cascade. All of the costs associated with these purchases were recorded as Fiber costs from related parties in the Consolidated Statements of Income. Fiber purchases from Boise Cascade subsequent to February 2010 are recorded as Materials, labor, and other operating expenses in the Consolidated Statements of Income.

6. Leases

We lease our distribution centers, as well as other property and equipment, under operating leases including facilities and equipment acquired in the Tharco Acquisition. 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 had an insignificant amount of sublease rental income in the periods presented below. 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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Rental expense	$ 6,522	$ 3,803	$ 11,127	$ 7,530

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

	Remaining 2011	2012	2013	2014	2015	2016 & Thereafter
Minimum payment	$ 10,425	$ 20,539	$ 16,441	$ 12,485	$ 10,175	$ 18,731

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

7. Concentrations of Risk

Sales to OfficeMax represent a concentration in the volume of business transacted and in revenue generated from those transactions. Sales to OfficeMax were $118.0 million and $244.4 million, respectively, during the three and six months ended June 30, 2011, representing 20% and 21% of total sales for those periods. During the three and six months ended June 30, 2010, sales to OfficeMax were $126.7 million and $254.9 million, respectively, representing 24% and 25% of total sales for those periods. At June 30, 2011, and December 31, 2010, we had $34.2 million and $30.3 million, respectively, of accounts receivable due from OfficeMax. Pursuant to an agreement entered into in June 2011, we expect OfficeMax to continue to represent a concentration of our revenues and transacted business.

8. Inventories

The majority of our inventories are valued at the lower of cost or market, where cost is based on the average cost method of inventory valuation. Manufactured inventories include costs for materials, labor, and factory overhead. Other inventories are valued at the lower of either standard cost, which approximates cost based on actual first-in, first-out usage pattern, or market.

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Inventories include the following (dollars in thousands):

	June 30, 2011	December 31, 2010
Finished goods	$ 130,829	$ 123,329
Work in process	34,295	34,906
Fiber	34,073	36,166
Other raw materials and supplies	72,562	67,070
	$ 271,759	**$ 261,471**

9. Property and Equipment

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

	June 30, 2011	December 31, 2010
Land	$ 31,845	$ 31,875
Buildings and improvements	227,715	219,345
Machinery and equipment	1,317,513	1,260,265
Construction in progress	38,708	27,667
	1,615,781	1,539,152
Less accumulated depreciation	(402,424)	(340,117)
	$ 1,213,357	**$ 1,199,035**

Depreciation expense during the three and six months ended June 30, 2011, was $32.4 million and $63.7 million, respectively, and during the three and six months ended June 30, 2010, was $29.8 million and $59.6 million, respectively.

10. Goodwill and Intangible Assets

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. At June 30, 2011, we had $103.3 million of goodwill recorded on our Consolidated Balance Sheet, all of which was recorded in connection with the Tharco Acquisition in our Packaging segment. For further information regarding the Tharco Acquisition, see Note 2, Acquisition of Tharco Packaging, Inc. At June 30, 2011, the net carrying amount of intangible assets with indefinite lives, which represents the trade names and trademarks acquired from Boise Cascade, L.L.C., in 2008, was $16.8 million, all of which is recorded in our Paper segment. All of our other intangible assets amortize based on their estimated useful lives.

We maintain two reporting units for purposes of our goodwill and intangible asset impairment testing, Paper and Packaging, which are the same as our operating segments discussed in Note 17, Segment Information. We test the goodwill and indefinite-lived intangible assets in each of our reporting units for impairment annually in the fourth quarter or sooner if events or changes in circumstances indicate that the carrying value of the asset may exceed fair value. Additionally, we evaluate the remaining useful lives of our finite-lived purchased intangible assets to determine whether any adjustments to the useful lives are necessary. There is currently no indication of goodwill and intangible asset impairment.

The following table sets forth our intangible asset amortization for the three and six months ended June 30, 2011 and 2010 (dollars in thousands):

	Three Months Ended June 30	Six Months Ended June 30

	2011	2010	2011	2010
Intangible asset amortization	$ 1,797	$ 689	$ 2,876	$ 1,377

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Our estimated future amortization expense for the remainder of 2011 and each of the next five years is as follows (dollars in thousands):

	Remaining 2011	2012	2013	2014	2015	2016
Amortization expense	$ 3,626	$ 7,241	$ 5,971	$ 5,717	$ 5,717	$ 5,717

The gross carrying amount, accumulated amortization, and net carrying amount of our intangible assets at June 30, 2011, and December 31, 2010, were as follows (dollars in thousands):

	As of June 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 74,900	$ (5,767)	$ 69,133
Trademarks and trade names	27,700	(249)	27,451
Technology and other	6,895	(4,601)	2,295
Noncompete agreements	300	(50)	250
	$ 109,795	**$ (10,667)**	**$ 99,129**

	As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Trademarks and trade names	$ 16,800	$	$ 16,800
Customer relationships	13,700	(3,882)	9,818
Technology and other	6,895	(3,908)	2,987
	$ 37,395	**$ (7,790)**	**$ 29,605**

11. Debt

At June 30, 2011, and December 31, 2010, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

	June 30, 2011		December 31, 2010	
	Amount	Interest Rate	Amount	Interest Rate
Revolving credit facility, due 2013	$	%	$	%
Tranche A term loan, due 2013	163,081	2.94	181,831	3.06
9% senior notes, due 2017	300,000	9.00	300,000	9.00
8% senior notes, due 2020	300,000	8.00	300,000	8.00
Current portion of long-term debt	(76,563)	2.94	(43,750)	3.06
Long-term debt, less current portion	686,518	7.80	738,081	7.48
Current portion of long-term debt	76,563	2.94	43,750	3.06
	$ 763,081	7.31%	**$ 781,831**	7.24%

As of June 30, 2011, Boise Inc.   s 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 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 Amended 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.

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%.
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 (which shall be increased to 0.50% when the leverage ratio is more than 2.25:1.00) times the daily average undrawn portion of the Revolving Credit Facility (reduced by the amount of letters of credit issued and outstanding). 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.

The borrowings under the Revolving Credit Facility ranged from a low of zero to a high of $75.0 million during the six months ended June 30, 2011. The weighted average amount of borrowings outstanding under the Revolving Credit Facility during the six months ended June 30, 2011, was $22.7 million. At June 30, 2011, we had availability of $243.7 million, which is net of outstanding letters of credit of $6.3 million.

The Amended Credit Facilities and the senior note agreements contain certain restrictions relating to dividend payments, capital expenditures, financial ratios, guarantees, and the incurrence of additional indebtedness, which are discussed in Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2010 Form 10-K.

Other Provisions

Subject to specified exceptions, the Amended Credit Facilities require that the proceeds from certain asset sales, casualty insurance, and certain debt issuances be used to pay down outstanding borrowings. As of June 30, 2011, required debt principal repayments were as follows (dollars in thousands):

	Remaining 2011	2012	2013	2014-2016	Thereafter
Required debt principal repayments	$ 25,000	$ 129,688	$ 8,393	$	$ 600,000

Other

At June 30, 2011, and December 31, 2010, we had $27.5 million and $30.4 million, respectively, of costs recorded 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. For the three and six months ended June 30, 2011, we recorded $1.5 million and $3.0 million, respectively, of amortization expense in Interest expense in our Consolidated Statements of Income, and for the three and six months ended June 30, 2010, we recorded $1.5 million and $3.8 million, respectively.

For the six months ended June 30, 2011 and 2010, cash payments for interest were $29.4 million and $21.8 million, respectively.

12. Financial Instruments

Our primary objective in holding derivative financial instruments is to manage cash flow risk related to natural gas purchases and, to a lesser extent, interest rate risk. We do not use derivative instruments for speculative purposes.

Interest Rate Risk

With the exception of the Amended Credit Facilities, our debt is fixed-rate debt. At June 30, 2011, the book value of our fixed-rate debt was $600.0 million, and the fair value was estimated to be $657.0 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value based on quoted market prices for our debt.

During first quarter 2011, we liquidated our certificates of deposit portfolio and recognized an insignificant loss upon liquidation. At December 31, 2010, the fair value of the certificates of deposit was $10.6 million, and they were valued using third-party valuations based on quoted market prices.

Energy Risk

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At June 30, 2011, these derivatives included caps, call spreads, swaps, and three-way collars. We have elected to account for these instruments as economic hedges. As of June 30, 2011, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

	July 2011 Through October 2011	November 2011 Through March 2012	April 2012 Through October 2013
Approximate percent hedged	45%	43%	38%

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy, which prioritizes the inputs of valuation techniques used to measure fair value into three levels. The fair value hierarchy 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 our hedges with large financial institutions, and we monitor credit ratings to consider the impact, if any, on the determination of fair value. No significant adjustments were made in any periods presented.

Fair Values of Derivative Instruments

At June 30, 2011, and December 31, 2010, the fair value of our financial instruments was determined based on applicable interest rates such as LIBOR, interest rate curves, and New York Mercantile Exchange (NYMEX) price quotations under the terms of the contracts, using current market information as of the reporting date. Interest rate contracts and energy derivatives were valued using third-party valuations based on quoted prices for similar assets and liabilities. Accordingly, all of our fair value measurements use Level 2 inputs.

The fair value of our derivative instruments as of June 30, 2011, and December 31, 2010, was as follows (dollars in thousands):

	Level 2: Significant Other Observable Inputs			
	Assets		Liabilities	
	June 30, 2011	December 31, 2010	June 30, 2011	December 31, 2010
Derivatives not designated as hedging instruments				
Energy derivatives (a)	$	$	$ 1,372	$ 2,056
Total derivatives not designated as hedging instruments			1,372	2,056
Total derivatives	**$**	**$**	**$ 1,372**	**$ 2,056**

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

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Derivatives Not Designated as Hedging Instruments

The effects of derivative instruments not designated as hedging instruments in our Consolidated Statements of Income were as follows (dollars in thousands):

Derivative	Location of Gain (Loss) Recognized in Income on Derivatives	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Interest rate contracts	Interest expense	$	$ (13)	$	$ (42)
Energy derivatives	Materials, labor, and other operating expenses	(58)	2,713	684	(617)
		$ (58)	**$ 2,700**	**$ 684**	**$ (659)**

13. Retirement and Benefit Plans

The components of net periodic pension benefit costs are as follows (dollars in thousands):

	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Service cost	$ 1,140	$ 1,192	$ 2,478	$ 2,700
Interest cost	6,402	6,309	12,811	12,655
Expected return on plan assets	(6,125)	(5,790)	(12,223)	(11,669)
Amortization of actuarial loss	1,395	440	2,784	895
Amortization of prior service costs and other	12	13	25	26
Company-sponsored plans	2,824	2,164	5,875	4,607
Multiemployer plans	103	98	221	223
Net periodic benefit cost	**$ 2,927**	**$ 2,262**	**$ 6,096**	**$ 4,830**

Our funding policy for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that we determine to be appropriate considering the funded status of the plan, tax deductibility, our cash flows from operations, and other factors. During the six months ended June 30, 2011, we contributed $25.5 million to our plans, which exceeds our 2011 estimated pension contribution requirements.

14. Stockholders Equity and Capital

Warrants. During second quarter 2011, Boise Inc. warrant holders exercised 40.3 million warrants, resulting in the issuance of 38.4 million additional common shares. There were approximately 4.0 million unexercised warrants on June 20, 2011, when the warrants expired. During 2011, we received cash proceeds of approximately $284.8 million, which primarily increased Additional paid-in capital on our Consolidated Balance Sheet at June 30, 2011, compared with December 31, 2010.

Special Dividend. On May 13, 2011, we paid a special cash dividend of $0.40 per share to Boise Inc. shareholders of record at the close of business on May 4, 2011. The total payout was approximately $47.9 million.

Share-based Compensation

Under the Boise Inc. Incentive and Performance Plan (the Plan), the compensation committee of our board of directors has the ability to authorize the grant of restricted stock, restricted stock units, performance awards payable in stock upon the attainment of specified performance goals, stock options, and other stock- and cash-based awards. Awards granted under the Plan vest and expire in accordance with terms established at the time of grant. Shares issued pursuant to awards under the Plan are from our authorized but unissued shares. A detailed discussion of previous grants made under the Plan is presented in Note 14, Stockholders Equity and Capital, of the Notes to Consolidated Financial

Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2010 Form 10-K. The discussion below focuses on material activity from January through June 30, 2011.

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.

March 15, 2011, Equity Grants. Pursuant to the Plan, on March 15, 2011, we granted a combination of restricted stock, restricted stock units, stock options, and performance units to our directors and key employees as noted below. The 2011 restricted stock and performance unit awards are eligible to participate in dividends, which we accrue to be paid upon the vesting of those awards.

Restricted Stock Awards. We granted approximately 137,000 shares of restricted stock and approximately 103,000 restricted stock units (collectively restricted stock), the majority of which are subject to an EBITDA (earnings before interest, taxes, and depreciation, amortization, and depletion) goal and all of which are subject to time-based vesting restrictions. For members of management, 50% of the awards vest on March 15, 2013, and the remaining 50% vest on March 17, 2014, subject to the provisions of the award agreements. We also granted to our directors approximately 99,000 shares of restricted stock, which will vest on March 15, 2012. The fair values of these awards were based on the closing market price of our common stock on the date of grant, and compensation expense is recorded over the awards vesting periods.

Stock Option Awards. We granted approximately 359,000 nonqualified stock options to members of management. 50% of the option awards vest and become exercisable on March 15, 2013, and the remaining 50% vest and become exercisable on March 17, 2014. The stock options have a contractual term of ten years. The exercise price of these stock options is $8.55 per share, which was the closing market price of our common stock on the grant date. We recognize the grant date fair value of stock options as compensation expense over the awards vesting periods.

The fair value of the stock options granted on March 15, 2011, was $4.21. We calculated the fair value using a Black-Scholes-Merton option-pricing model based on the market price of our common stock at the grant date and the assumptions specific to the underlying options. We based the expected volatility assumption on our historic stock performance and the volatility of related industry stocks. As this is our first issuance of stock options and our equity shares have been traded for a relatively short period of time, we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected life. Therefore, we used the simplified method defined in SEC Staff Accounting Bulletin (SAB) No. 107 to determine the expected life assumption for the options. We based the risk-free interest rate upon yields of U.S. Treasury issues with terms similar to the expected life of the options.

The following table presents the assumptions used to calculate the fair value of stock options:

Black-Scholes-Merton assumptions:	
Expected volatility	47.85%
Expected life (years)	6.25
Risk-free interest rate	2.48%
Expected dividend yield	

Performance Unit Awards. We granted members of management approximately 200,000 performance units, subject to adjustment based on the achievement of defined percentages of the two-year average return on net operating assets (RONOA). Because the RONOA component contains a performance condition, we record compensation expense, net of estimated forfeitures, over the requisite service period based on the most probable number of awards expected to vest. If the RONOA performance criteria are met, 50% of the performance units will vest on March 15, 2013, and the remaining 50% will vest on March 17, 2014. Any shares not vested on or before March 17, 2014, will be forfeited. We based the fair value of this award on the closing market price of our common stock on the grant date, and we record compensation expense over the awards vesting periods.

Special Equity Award in Lieu of Special Dividend. In 2010, we declared a special cash dividend payable on December 3, 2010, to shareholders of record on November 17, 2010. On the record date, the executive officers held unvested restricted stock that, pursuant to the terms of their award agreements, did not accrue dividends. In February 2011, we approved a special equity award to our executive officers to align management and shareholder interests regarding dividend strategy. We awarded approximately

67,000 shares of restricted stock and approximately 27,000 restricted stock units to our executive officers, equivalent in value to the dividends the officer would have received on his or her restricted stock held as of the record date. These awards will vest on March 15, 2012. We calculated the number of shares awarded to each officer by using the company s share price on February 28, 2011 (for restricted stock vesting on that date) or March 15, 2011 (for remaining restricted stock). We based the fair value of this award on the closing market price of our common stock on the grant date, and we record compensation expense on a straight-line basis over the awards vesting periods.

Compensation expense. Total recognized share-based compensation expense related to restricted stock, performance units, and stock options, net of estimated forfeitures, for the three and six months ended June 30, 2011 and 2010, is as follows (dollars in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2011 (a)	**2010 (a)**	**2011 (a)**	**2010 (a)**
Restricted stock and performance units	$ 1,007	$ 940	$ 1,615	$ 1,834
Stock options	116		156	
Total share-based compensation expense	**$ 1,123**	**$ 940**	**$ 1,771**	**$ 1,834**

(a) Most of these costs were recorded in General and administrative expenses in our Consolidated Statements of Income.

The unrecognized compensation expense related to restricted stock and performance units was $4.6 million at June 30, 2011, and is expected to be recognized over a weighted average period of 1.8 years. The unrecognized compensation expense related to stock options was $1.2 million at June 30, 2011, and is expected to be recognized over a weighted average period of 2.7 years.

15. New and Recently Adopted Accounting Standards

In June 2011, the FASB issued Accounting Standards Update (ASU) 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*, which amends current comprehensive income guidance. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, we will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance is to be applied retrospectively and will be effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. We are currently evaluating the impact of ASU 2011-05 on our consolidated financial statements and associated disclosures; however, we do not believe the adoption of this guidance will have a material impact on our financial position and results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. This ASU was issued to provide largely identical guidance about fair value measurement and disclosure requirements for entities that disclose the fair value of an asset, a liability, or an instrument classified in shareholders equity in their consolidated financial statements as that provided in the International Accounting Standards Board s new IFRS 13, *Fair Value Measurement.* This ASU does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under U.S. GAAP. This guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted for public entities. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that results from applying the ASU to quantify the total effect, if practicable. We are currently evaluating the impact that ASU 2011-04 will have on our financial statement disclosures.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): *Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force)*. This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The ASU states that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current

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year had occurred as of the beginning of the comparable prior annual reporting period only. In addition, the ASU expands the supplemental pro forma disclosures under FASB Accounting Standards Codification (ASC) 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We adopted this guidance on January 1, 2011, and the adoption did not have a material impact on our financial position or results of operations. See Note 2, Acquisition of Tharco Packaging, Inc., for our pro forma disclosures.

In January 2010, the FASB issued ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): *Improving Disclosures about Fair Value Measurements*. This ASU amends FASB 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 were effective January 1, 2011. The Level 3 roll-forward disclosures did not have a material impact on our financial position or results of operations.

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.

16. Comprehensive Income

Comprehensive income includes the following (dollars in thousands):

	Boise Inc.			
	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income	$ 11,897	$ 13,310	$ 30,591	$ 625
Other comprehensive income, net of tax:				
Cash flow hedges				259
Unfunded accumulated benefit obligation	861	255	1,716	519
Unrealized gains (losses) on short-term investments	20	2	(1)	5
Comprehensive income	**$ 12,778**	**$ 13,567**	**$ 32,306**	**$ 1,408**

	BZ Intermediate Holdings LLC			
	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income	$ 11,897	$ 13,315	$ 30,591	$ 1,466
Other comprehensive income, net of tax:				
Cash flow hedges				259
Unfunded accumulated benefit obligation	861	255	1,716	519
Unrealized gains (losses) on short-term investments	20	2	(1)	5
Comprehensive income	**$ 12,778**	**$ 13,572**	**$ 32,306**	**$ 2,249**

17. 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 2010 Form 10-K. As discussed in Note 2, Acquisition of Tharco Packaging, Inc., we acquired $257.6 million of assets as part of the Tharco Acquisition on March 1, 2011. Tharco is included in the Packaging segment.

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Segment operating results for Boise Inc. and BZ Intermediate are identical for all periods presented, except for insignificant differences in their income tax provisions. See below for a reconciliation of Boise Inc. and BZ Intermediate s net income to EBITDA.

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

Three Months Ended June 30, 2011	Sales Trade	Sales Related Parties	Sales Inter-segment	Sales Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)
Paper	$ 353.2	$	$ 17.9	$ 371.1	$ 13.1	$ 22.4	$ 35.5
Packaging	231.9	10.3	1.1	243.3	27.5	12.8	40.3
Corporate and Other	7.7		8.9	16.6	(6.2)	0.9	(5.3)
	592.8	10.3	27.9	631.0	34.4	36.1	70.5
Intersegment eliminations			(27.9)	(27.9)			
Interest expense					(16.1)		
Interest income					0.1		
	$ 592.8	**$ 10.3**	**$**	**$ 603.1**	**$ 18.4**	**$ 36.1**	**$ 70.5**

Three Months Ended June 30, 2010	Sales Trade	Sales Related Parties	Sales Inter-segment	Sales Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)
Paper	$ 348.5	$	$ 15.7	$ 364.2	$ 25.7(b)	$ 21.7	$ 47.4(b)
Packaging	155.0	10.5	0.6	166.2	17.1(b)	9.6	26.7(b)
Corporate and Other	7.5		8.9	16.4	(5.0)	1.0	(4.0)
	511.0	10.5	25.2	546.8	37.8	32.3	70.1
Intersegment eliminations			(25.2)	(25.2)			
Interest expense					(16.2)		
Interest income					0.1		
	$ 511.0	**$ 10.5**	**$**	**$ 521.6**	**$ 21.7**	**$ 32.3**	**$ 70.1**

Six Months Ended June 30, 2011	Sales Trade	Sales Related Parties	Sales Inter-segment	Sales Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)
Paper	$ 711.9	$	$ 34.3	$ 746.2	$ 54.2	$ 44.4	$ 98.5
Packaging	426.3	18.8	1.6	446.7	41.1(a)	23.8	64.9(a)
Corporate and Other	14.9		17.9	32.8	(12.6)	1.9	(10.7)

	Trade	Related Parties	Intersegment	Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)
	1,153.1	18.8	53.8	1,225.7	82.7	70.1	152.8
Intersegment eliminations			(53.8)	(53.8)			
Interest expense					(32.4)		
Interest income					0.2		
	$ 1,153.1	**$ 18.8**	**$**	**$ 1,171.9**	**$ 50.4**	**$ 70.1**	**$ 152.8**

	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)
Six Months Ended June 30, 2010	**Trade**	**Related Parties**	**Inter-segment**	**Total**			
Paper	$ 687.8	$	$ 29.9	$ 717.7	$ 55.7	$ 43.2	$ 98.8
Packaging	296.9	16.2	1.2	314.3	11.3	19.3	30.6
Corporate and Other	12.2	2.6	18.2	33.0	(9.8)	1.9	(7.9)
	996.9	18.8	49.3	1,065.0	57.2	64.4	121.5
Intersegment eliminations			(49.3)	(49.3)			
Loss on extinguishment of debt					(22.2)(b)		(22.2)(b)
Interest expense					(32.7)		
Interest income					0.1		
	$ 996.9	**$ 18.8**	**$**	**$ 1,015.7**	**$ 2.4**	**$ 64.4**	**$ 99.3**

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(a) The six months ended June 30, 2011, included $2.2 million of expense related to inventory purchase price accounting adjustments.

(b) The three months ended June 30, 2010, included $2.7 million of income related to the change in fair value of energy hedges, of which $2.3 million was recorded in the Paper segment and $0.4 million was recorded in the Packaging segment.

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

(c) EBITDA represents income before interest (interest expense and interest income), income tax provision, and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision maker 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. 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, income 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 or segment income (loss) has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense, interest income, 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 June 30		**Six Months Ended June 30**	
	2011	**2010**	**2011**	**2010**
Net income	$ 11.9	$ 13.3	$ 30.6	$ 0.6
Interest expense	16.1	16.2	32.4	32.7
Interest income	(0.1)	(0.1)	(0.2)	(0.1)
Income tax provision	6.5	8.4	19.8	1.8
Depreciation, amortization, and depletion	36.1	32.3	70.1	64.4
EBITDA	**$ 70.5**	**$ 70.1**	**$ 152.8**	**$ 99.3**

	BZ Intermediate Holdings LLC			
	Three Months Ended June 30		**Six Months Ended June 30**	
	2011	**2010**	**2011**	**2010**
Net income	$ 11.9	$ 13.3	$ 30.6	$ 1.5
Interest expense	16.1	16.2	32.4	32.7
Interest income	(0.1)	(0.1)	(0.2)	(0.1)

Income tax provision	6.5	8.4	19.8	0.9
Depreciation, amortization, and depletion	36.1	32.3	70.1	64.4
EBITDA	**$ 70.5**	**$ 70.1**	**$ 152.8**	**$ 99.3**

18. Commitments, Guarantees, and Legal Proceedings

Commitments

We have financial commitments for leases and long-term debt that are disclosed in Note 6, Leases, and Note 11, Debt. We are party to a number of wood fiber and utilities contracts that are discussed in Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2010 Form 10-K. 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. At June 30, 2011, there have been no material changes to our commitments outside of the normal course of business, except as disclosed in Note 2, Acquisition of Tharco Packaging, Inc.

Guarantees

We provide guarantees, indemnifications, and assurances to others in the normal course of our business. See Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data in our 2010 Form 10-K 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.

Legal Proceedings

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, either individually or in the aggregate.

19. Subsequent Event

In August, Boise Inc. s board of directors authorized a program, effective immediately, to repurchase up to $75 million of Boise s outstanding common stock. The timing and exact number of shares actually repurchased will be affected by several factors, including legal and regulatory requirements and changes in the market price of Boise Inc. stock. The program, which does not obligate us to repurchase any particular amount of common stock, may be modified or suspended at any time at the board s discretion.

20. 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. Other than the consolidated financial statements and footnotes for Boise Inc. and BZ Intermediate, financial statements and other disclosures concerning the guarantors have not been presented because management believes that such information is not material to investors.

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BZ Intermediate Holdings LLC and Subsidiaries

Consolidating Statements of Income (Loss)

For the Three Months Ended June 30, 2011

(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$	$ 3,688	$ 587,606	$ 1,490	$	$ 592,784
Intercompany				23,060	(23,060)	
Related parties				10,351		10,351
		3,688	587,606	34,901	(23,060)	603,135
Costs and expenses						
Materials, labor, and other operating expenses		3,492	469,668	34,901	(23,060)	485,001
Fiber costs from related parties			4,383			4,383
Depreciation, amortization, and depletion		733	35,357			36,090
Selling and distribution expenses						