

BOISE INC.
Form 10-K
February 25, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from _____ to _____

Commission File Number: 001-33541

Boise Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-8356960

(I.R.S. Employer Identification No.)

1111 West Jefferson Street, Suite 200

Boise, Idaho 83702-5388

(Address of principal executive offices) (Zip Code)

(208) 384-7000

(Registrant's telephone number, including area code)

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$.0001 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated 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.

Large accelerated filer Accelerated filer Nonaccelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes No

As of June 30, 2009, which was the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of Boise Inc.'s Common Stock, par value \$.0001 per share, held by non-affiliates was approximately \$75,667,831 based upon the closing price of \$1.72 per share as quoted on the New York Stock Exchange on that date.

As of January 29, 2010, 84,418,691 shares of Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required for Part III of this Annual Report on Form 10-K is incorporated by reference to the Boise Inc. definitive Proxy Statement for its 2010 Annual Shareholders Meeting, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of Boise Inc.'s year-end.

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PART I

All of our filings with the Securities and Exchange Commission (SEC), which include this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Registration Statements, Current Reports on Form 8-K, and all related amendments are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC Web site 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 Web site at www.boiseinc.com as soon as reasonably practicable after we file with or furnish such reports to the SEC. Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. In this filing, we use the terms the Company, we, us, or our to refer to Boise Inc., the registrant.

ITEM 1. BUSINESS

Boise Inc. is a large, diverse United States-based manufacturer of packaging products and papers, including corrugated containers, containerboard, label and release and flexible packaging papers, imaging papers for the office and home, printing and converting papers, newsprint, and market pulp. We own pulp and paper mill operations in the following locations: Jackson, Alabama; International Falls, Minnesota; St. Helens, Oregon; and Wallula, Washington, all of which manufacture uncoated freesheet paper. We also own a mill in DeRidder, Louisiana, which produces containerboard (linerboard) and newsprint. In addition, we have a network of five corrugated container plants located in the Pacific Northwest, a corrugated sheet plant in Nevada, and a corrugated sheet feeder plant in Texas. We are headquartered in Boise, Idaho, and have approximately 4,100 employees.

On February 22, 2008, Aldabra 2 Acquisition Corp. completed the acquisition (the Acquisition) of Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp. (collectively, the Paper Group), and other assets and liabilities related to the operation of the paper, packaging and newsprint, and transportation businesses of the Paper Group and part of the headquarters operations of Boise Cascade, L.L.C. (Boise Cascade). Subsequent to the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. The acquired business is referred to in this report on Form 10-K as the Predecessor.

We operate our business in three reportable segments: Paper, Packaging, and Corporate and Other (support services). We present information pertaining to each of our three segments and the geographic areas in which they operate in Note 18, Segment Information, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

The accompanying Consolidated Statement of Income (Loss) and Consolidated Statement of Cash Flows for the year ended December 31, 2008, include the activities of Aldabra 2 Acquisition Corp. prior to the Acquisition and the operations of the acquired businesses from February 22, 2008, through December 31, 2008. The Predecessor Consolidated Statements of Income (Loss) and Consolidated Statements of Cash Flows for the period of January 1 through February 21, 2008, and for the year ended December 31, 2007, are presented for comparative purposes. The period of February 1 (Inception) through December 31, 2007, represents the activities of Aldabra 2 Acquisition Corp.

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Corporate Structure

The following chart summarizes our corporate structure at December 31, 2009:

Paper

Products

We manufacture and sell a range of papers, including communication-based papers, packaging-demand-driven papers, and market pulp. We categorize these papers as shown in the table below:

Communication-Based Commodity and Premium Papers	Packaging-Demand-Driven Papers	Other
Cut-Size Office Papers	Label and Release	Market Pulp
Printing and Converting Papers	Corrugating Medium	
Envelope		
Forms	Flexible Packaging	
Commercial Printing		

We are the third-largest manufacturer of uncoated freesheet in North America. We classify cut-size office papers, printing and converting papers, label and release, and flexible packaging products as uncoated freesheet. The majority of our communication-based paper sales are cut-size office papers, which account for approximately 63% of segment sales. Total Paper segment capacity including corrugating medium and market pulp was approximately 1.5 million short tons (a short ton is equal to 2,000 pounds) at December 31, 2009.

Our strategy in our Paper segment is to focus our two largest paper machines on cut-size commodity office paper while dedicating our smaller machines to the production of premium papers, including 100% recycled, high-bright, and colored cut-size office papers, and packaging papers. Our

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long-term supply agreement with OfficeMax allows us to focus our largest paper machines on long, high-volume production runs, continue to improve the capacity utilization of our largest paper machines, achieve supply chain efficiencies, and develop and test product and packaging innovations. We leverage the expertise developed in this relationship to better serve our other customers and to develop new customers and products while pursuing productivity improvements and cost reductions.

We focus our product mix on office and packaging-demand-driven papers to better align ourselves with changing end markets. Many traditional communication paper markets have declined as electronic document transmission and storage alternatives have developed. These declines have varied by specific products. For example, the use of business forms has declined significantly, while cut-size office paper consumption has declined more modestly over the past several years as increased printer placements in home and manufacturing environments have offset reductions in office consumption. Some paper markets, such as label and release papers and flexible packaging papers, are not as sensitive to electronic substitution. During the year ended December 31, 2009, sales volumes of label and release, flexible packaging, and premium office papers grew 4%, compared with the combined year ended December 31, 2008.

The following table sets forth capacity and production by product for the periods indicated (in thousands of short tons):

	Boise Inc.		January 1 Through February 21, 2008	Predecessor Year Ended December 31		
	Year Ended December 31, 2009	Year Ended December 31, 2008		2007	2006	2005
Capacity (a)						
Uncoated freesheet	1,265	1,300		1,484	1,547	1,550
Containerboard (medium)	135	136		138	134	130
Market pulp	145	136		229	224	228
	1,545	1,572		1,851	1,905	1,908
Production (b)						
Uncoated freesheet	1,198	1,204	208	1,458	1,520	1,487
Containerboard (medium)	126	118	19	134	132	128
Market pulp	114	187	31	221	187	229
	1,438	1,509	258	1,813	1,839	1,844

(a) Capacity numbers shown are as of December 31 for the year presented. Capacity assumes production 24 hours per day, 365 days per year, less days allotted for planned maintenance and capital improvements. Accordingly, production can exceed calculated capacity under some operating conditions.

(b) The year ended December 31, 2008, represents operations from February 22, 2008, through December 31, 2008.

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The following table sets forth segment sales; segment income (loss) before interest and taxes; depreciation, amortization, and depletion; and earnings before interest, taxes, depreciation, and amortization (EBITDA) for the periods indicated (dollars, in millions):

	Boise Inc.			Predecessor		
	Year Ended	Year Ended	January 1 Through	Year Ended December 31		
	December 31, 2009	December 31, 2008	February 21, 2008	2007	2006	2005
Sales	\$ 1,420.0	\$ 1,403.7	\$ 253.5	\$ 1,596.2	\$ 1,494.7	\$ 1,415.2
Segment income (loss) before interest and taxes	\$ 262.7	\$ 32.7	\$ 20.7	\$ 133.5	\$ 63.3	\$ 57.5
Depreciation, amortization, and depletion	85.2	71.7	0.3	45.0	62.3	55.2
EBITDA (a) (b)	\$ 347.8	\$ 104.3	\$ 21.1	\$ 178.5	\$ 125.6	\$ 112.6

(a) Segment EBITDA is calculated as segment income (loss) before interest (interest income, interest expense, and change in fair value of interest rate derivatives), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision makers to evaluate segment operating performance and to decide how to allocate resources to segments. See Part II, Item 6. Selected Financial Data of this Form 10-K for a description of our reasons for using EBITDA, for a discussion of the limitations of such a measure, and for a reconciliation of our EBITDA to net income (loss).

(b) The year ended December 31, 2009, includes approximately \$149.9 million of income from alternative fuel mixture credits.

Facilities

We have four paper mills in the Paper segment, all located in the United States. These mills had an annual capacity of 1.3 million short tons of uncoated freesheet as of December 31, 2009. These mills are supported by converting machines that, on a net basis, can produce approximately 0.8 million short tons of cut-size papers annually.

The following table sets forth the annual capacities of manufacturing locations in our Paper segment as of December 31, 2009, and production for the year then ended (in thousands of short tons):

	Number of Machines	Capacity (a)	Production
PULP AND PAPER MILLS			
Jackson, Alabama			
Uncoated freesheet	2	480	469
International Falls, Minnesota			
Uncoated freesheet	4	530	494
St. Helens, Oregon			
Uncoated freesheet	1	55	53
Walla, Washington			
Uncoated freesheet	1	200	182
Containerboard (medium)	1	135	126
Market pulp	1	145	114
	10	1,545	1,438

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- (a) Capacity assumes production 24 hours per day, 365 days per year, less days allotted for planned maintenance and capital improvements.

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Raw Materials and Input Costs

Wood fiber is our principal raw material in this segment. During the year ended December 31, 2009, wood fiber costs accounted for approximately 27% of materials, labor, and other operating expenses in this segment. The primary sources of wood fiber are timber and byproducts of timber. Most of our manufacturing facilities are located in close proximity to active wood markets. Because of the decline in the housing and construction markets, a significant number of building products manufacturers have curtailed or closed their facilities. These curtailments and closures affect the availability and price of wood chips, wood shavings, and other timber byproducts, particularly in the Pacific Northwest. As a result, we have increased our ability to manufacture wood chips from whole logs, which we purchase from third parties.

All of our paper mills, except St. Helens, have on-site pulp production facilities. Some of our paper mills also purchase pulp from third parties pursuant to contractual arrangements. We negotiate these arrangements periodically, and terms can fluctuate based on prevailing pulp market conditions, including pricing and supply dynamics. As we are currently configured and under normal operating conditions, we are a net consumer of pulp, producing and selling approximately 80,000 to 100,000 short tons less pulp volume annually on the open market than we consume.

We generally purchase raw materials through contracts or open-market purchases. Our contracts are generally with suppliers located in closest proximity to the specific facility they supply, and they generally contain price adjustment mechanisms to account for market price and expense volatility.

Our Paper segment consumes substantial amounts of energy, such as electricity, natural gas, and a modest amount of fuel oil. During the year ended December 31, 2009, energy costs accounted for approximately 12% of materials, labor, and other operating expenses in this segment. We purchase substantial portions of our natural gas and electricity under supply contracts. Under most of these contracts, the providers are bound to provide us with all of our needs for a particular type of energy at a specific facility. Most of these contracts have pricing mechanisms that adjust or set prices based on current market prices. In addition, we use derivative instruments such as three-way collars, natural gas caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk for our energy requirements.

We consume a significant amount of chemicals in the production of paper. Important chemicals we use include starch, caustic, sodium chlorate, precipitated calcium carbonate, dyestuffs, and optical brighteners. During the year ended December 31, 2009, chemical costs accounted for approximately 15% of materials, labor, and other operating expenses in this segment. Many of our chemicals are purchased under contracts, which provide more stability than open-market purchases. However, many of these contracts are negotiated annually at prevailing rates. Higher prevailing rates may result in increases to overall chemical costs.

Sales, Marketing, and Distribution

Our uncoated freesheet is sold primarily by our own sales personnel. We ship to customers both directly from our mills and through distribution centers and a network of outside warehouses. This allows us to respond quickly to customer requirements.

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The following table sets forth sales volumes of paper and paper products for the periods indicated (in thousands of short tons):

	Boise Inc.			Predecessor		
	Year Ended December 31, 2009	Year Ended December 31, 2008	January 1 Through February 21, 2008	Year Ended 2007	Year Ended 2006	Year Ended 2005
Commodity	844	768	164	995	999	1,080
Premium and specialty	407	432	72	480	498	436
Uncoated freesheet	1,251	1,200	236	1,475	1,497	1,516
Containerboard (medium)	127	118	19	134	132	128
Market pulp	58	102	20	145	112	142
	1,436	1,420	275	1,754	1,741	1,786

Customers

Our largest customer in this segment is OfficeMax. During the year ended December 31, 2009, sales to OfficeMax accounted for \$545.4 million of Paper segment sales. Sales to OfficeMax constitute 41% of total uncoated freesheet sales volume and 63% of our office papers sales volume. Pursuant to a long-standi