

BOISE INC.  
Form 10-K  
March 02, 2011

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2010

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

1111 West Jefferson Street, Suite 200

Boise, Idaho 83702-5388

(Address of principal executive offices) (Zip code)

(208) 384-7000

(Registrants telephone number, including area code)

| Commission File Number | Exact Name of Registrant as Specified in Its Charter | I.R.S. Employer Identification No. | State or Other Jurisdiction of Incorporation or Organization |
|------------------------|--|------------------------------------|--|
| 001-33541              | Boise Inc.   | 20-8356960                         | Delaware   |
| 333-166926-04          | BZ Intermediate Holdings LLC                         | 27-1197223                         | Delaware   |

**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:**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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|                              |     |    |    |   |
|------------------------------|-----|----|----|---|
| Boise Inc.                   | Yes | .. | No | x |
| BZ Intermediate Holdings LLC | Yes | .. | No | x |

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

|                              |     |    |    |   |
|------------------------------|-----|----|----|---|
| Boise Inc.                   | Yes | .. | No | x |
| BZ Intermediate Holdings LLC | Yes | .. | No | x |

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 | .. | No | .. |
| BZ Intermediate Holdings LLC | 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 or any amendments to this Form 10-K. x

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<br>(Do not check if smaller reporting company) | .. | Smaller reporting company | .. |
| BZ Intermediate Holdings LLC | Large accelerated filer  | .. | Accelerated filer         | .. |
|                              | Non-accelerated filer<br>(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 Act).

|                              |     |    |    |   |
|------------------------------|-----|----|----|---|
| Boise Inc.                   | Yes | .. | No | x |
| BZ Intermediate Holdings LLC | Yes | .. | No | x |

As of June 30, 2010, 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 \$432,546,329 based upon the closing price of \$5.49 per share as quoted on the New York Stock Exchange on that date.

There were 84,355,255 common shares, \$.0001 per share par value, of Boise Inc. and 1,000 common units, \$.01 per unit par value, of BZ Intermediate Holdings LLC outstanding as of January 31, 2011.

This Form 10-K is a combined annual 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 I(1)(a) and (b) of Form 10-K 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.

**DOCUMENTS INCORPORATED BY REFERENCE**

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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 2011 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 website at [www.sec.gov](http://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](http://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, unless the context indicates otherwise, the terms the Company, we, us, our, or Boise refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate).

### **ITEM 1. BUSINESS**

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.

Headquartered in Boise, Idaho, we have approximately 4,100 employees. We own paper mills in the following locations: Jackson, Alabama; International Falls, Minnesota; St. Helens, Oregon; and Wallula, Washington, all of which manufacture imaging, printing, and converting papers. All of these mills, except St. Helens, also manufacture pulp, which is either sold on the market or used in our own operations to manufacture paper.

We also own a mill in DeRidder, Louisiana, which produces linerboard and newsprint. Additionally, we own seven plants that manufacture corrugated packaging products. Our plants in Burley, Idaho; Nampa, Idaho; Sparks, Nevada; Salem, Oregon; Salt Lake City, Utah; and Wallula, Washington, all manufacture corrugated containers. Our plant in Waco, Texas, manufactures corrugated sheets.

Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their paper and packaging assets to Aldabra 2 Acquisition Corp. (the Acquisition). As part of the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. In this Form 10-K, we use the term Predecessor to reference the periods before the Acquisition, including the period when our assets were operated by Boise Cascade.

Since the Acquisition, we have operated and reported our business in three reportable segments: Paper, Packaging, and Corporate and Other (support services). We present information about each of our 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.

## ***Corporate Structure***

The following sets forth our operating structure at December 31, 2010:

### ***Paper***

#### ***Products***

In our Paper segment, we manufacture and sell three general categories of products: (1) communication-based papers; (2) packaging-demand-driven papers; and (3) market pulp. These products can be either commodity papers or papers with specialized or custom features, such as colors, coatings, high brightness, or recycled content, which make them specialty or premium products.

#### ***Communication-Based Papers***

Imaging papers for the office and home, also known as cut-size office papers.

Printing and converting papers: papers used by commercial printers or converters to manufacture envelopes, forms, and other commercial paper products.

#### ***Packaging-Demand-Driven Papers***

Label and release papers: These papers include label facestocks, as well as release liners, which our customers combine and convert to labels for use on consumer and commercial packaged products.

Flexible packaging papers: coated and uncoated papers sold to customers that create flexible packaging products for food and nonfood applications.

Corrugating medium: unbleached paperboard, which when corrugated and combined with linerboard, forms corrugated board the key raw material in the manufacture of corrugated sheets and containers. Corrugating medium is also part of a broader category of products called containerboard.

*Market Pulp*

Market pulp: pulp sold to customers in the open market for use in the manufacture of paper products.

We are the third-largest manufacturer of uncoated freesheet papers in North America. Cut-size office papers, printing and converting papers, label and release, and flexible packaging products are a subset of a larger product category called uncoated freesheet papers. Our cut-size office papers account for approximately 57% 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, 2010.

Our strategy in our Paper segment is to focus our two largest paper machines on cut-size commodity office paper. Our long-term supply agreement with OfficeMax allows us to focus our largest paper machines on long, high-volume production runs, to continue to improve the capacity utilization of our largest paper machines, to achieve supply chain efficiencies, and to 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 cut-size office papers 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. Sales volumes of label and release, flexible packaging, and premium office papers grew 13%, during the year ended December 31, 2010, compared with the year ended December 31, 2009.

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

|                         | Boise Inc.<br>Year Ended December 31 |              |              | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |              |
|-------------------------|--------------------------------------|--------------|--------------|---|---------------------------------------|--------------|
|                         | 2010                                 | 2009         | 2008         |   | 2007                                  | 2006         |
| <b>Capacity (a)</b>     |                                      |              |              |   |                                       |              |
| Uncoated freesheet      | 1,263                                | 1,265        | 1,300        |   | 1,484                                 | 1,547        |
| Containerboard (medium) | 136                                  | 135          | 136          |   | 138                                   | 134          |
| Market pulp             | 142                                  | 145          | 136          |   | 229                                   | 224          |
|                         | <b>1,541</b>                         | <b>1,545</b> | <b>1,572</b> |   | <b>1,851</b>                          | <b>1,905</b> |
| <b>Production (b)</b>   |                                      |              |              |   |                                       |              |
| Uncoated freesheet      | 1,229                                | 1,198        | 1,204        | 208   | 1,458                                 | 1,520        |
| Containerboard (medium) | 127                                  | 126          | 118          | 19  | 134                                   | 132          |
| Market pulp             | 142                                  | 114          | 187          | 31  | 221                                   | 187          |
|                         | <b>1,498</b>                         | <b>1,438</b> | <b>1,509</b> | <b>258</b>                                      | <b>1,813</b>                          | <b>1,839</b> |

(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 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.<br>Year Ended December 31 |            |            | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |            |
|---|--------------------------------------|------------|------------|---|---------------------------------------|------------|
|   | 2010                                 | 2009       | 2008       |   | 2007                                  | 2006       |
|   | Sales                                | \$ 1,458.3 | \$ 1,420.0 | \$ 1,403.7                                      | \$ 253.5                              | \$ 1,596.2 |
| Segment income before interest and taxes  | \$ 151.5                             | \$ 262.7   | \$ 32.7    | \$ 20.7   | \$ 133.5                              | \$ 63.3    |
| Depreciation, amortization, and depletion | 87.4                                 | 85.2       | 71.7       | 0.3   | 45.0                                  | 62.3       |
| EBITDA (a) (b)                            | \$ 238.9                             | \$ 347.8   | \$ 104.3   | \$ 21.1   | \$ 178.5                              | \$ 125.6   |

(a) Segment EBITDA is calculated as segment income 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 papers as of December 31, 2010. These mills are supported by converting machines that, on a net basis, can produce approximately 0.8 million short tons of cut-size office papers annually.

The following table sets forth the annual capacities of manufacturing locations in our Paper segment as of December 31, 2010, and production for the year then ended (in thousands of short tons):

|                                | Number of<br>Machines | Capacity (a) | Production   |
|--------------------------------|-----------------------|--------------|--------------|
| <b>PULP AND PAPER MILLS</b>    |                       |              |              |
| Jackson, Alabama               |                       |              |              |
| Uncoated freesheet             | 2                     | 486          | 471          |
| International Falls, Minnesota |                       |              |              |
| Uncoated freesheet             | 4                     | 531          | 511          |
| St. Helens, Oregon             |                       |              |              |
| Uncoated freesheet             | 1                     | 58           | 58           |
| Walla Walla, Washington        |                       |              |              |
| Uncoated freesheet             | 1                     | 188          | 189          |
| Containerboard (medium)        | 1                     | 136          | 127          |
| Market pulp                    | 1                     | 142          | 142          |
|                                | <b>10</b>             | <b>1,541</b> | <b>1,498</b> |

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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. Accordingly, production can exceed calculated capacity under some operating conditions.

*Raw Materials and Input Costs*

Fiber is our principal raw material in this segment. During the year ended December 31, 2010, fiber costs accounted for approximately 31% of materials, labor, and other operating expenses in this segment. The primary sources of 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. At our mill in Jackson, Alabama, we also utilize recycled fiber to produce our line of recycled office papers.

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, purchasing approximately 80,000 to 110,000 short tons annually.

We purchase raw materials through contracts or open-market purchases. Our contracts are generally with suppliers located in close proximity to the specific facility they supply, and they commonly 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, 2010, energy costs accounted for approximately 13% 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 contractually 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. We also use derivative instruments such as three-way collars, caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk for our energy requirements. For more information about our derivative instruments, see *Disclosures of Financial Market Risks* in *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-K.

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, 2010, 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. These contracts are negotiated periodically at prevailing rates.

*Sales, Marketing, and Distribution*

Our uncoated freesheet paper 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.

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

|                         | Boise Inc.<br>Year Ended December 31 |              |              | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |              |
|-------------------------|--------------------------------------|--------------|--------------|---|---------------------------------------|--------------|
|                         | 2010                                 | 2009         | 2008         | 2007  | 2006                                  |              |
| Commodity               | 784                                  | 844          | 768          | 164   | 995                                   | 999          |
| Premium and specialty   | 449                                  | 407          | 432          | 72  | 480                                   | 498          |
| Uncoated freesheet      | 1,233                                | 1,251        | 1,200        | 236   | 1,475                                 | 1,497        |
| Containerboard (medium) | 127                                  | 127          | 118          | 19  | 134                                   | 132          |
| Market pulp             | 81                                   | 58           | 102          | 20  | 145                                   | 112          |
|                         | <b>1,441</b>                         | <b>1,436</b> | <b>1,420</b> | <b>275</b>                                      | <b>1,754</b>                          | <b>1,741</b> |

### Customers

Our largest customer in this segment is OfficeMax. During the year ended December 31, 2010, sales to OfficeMax accounted for \$504.2 million of Paper segment sales. Sales to OfficeMax constitute 38% of total uncoated freesheet paper sales volume and 61% of our office papers sales volume. Pursuant to a long-standing contractual agreement, OfficeMax has agreed to purchase its full North American requirements for cut-size office paper from Boise Inc. through December 2012. OfficeMax's purchase obligations under the agreement will phase out ratably over a four-year period beginning one year after the delivery of notice of termination, but in no event will the purchase obligation be reduced prior to December 31, 2012. The price for paper sold under this supply agreement approximates market prices. However, due to the structure of the contract, price changes to OfficeMax lag the market by up to 60 days.

In addition to OfficeMax, we have approximately 700 uncoated freesheet paper customers. Our customers include paper merchants, commercial and financial printers, paper converters such as envelope and form manufacturers, and customers who use our paper for specialty applications such as label and release products. In addition to the paper supply agreement with OfficeMax, we have long-term relationships with many other customers. No single customer, other than OfficeMax, exceeds 6% of segment sales.

### Packaging

#### Products

In our Packaging segment, we manufacture and sell linerboard, which is used to manufacture corrugated sheets and containers. We also manufacture newsprint.

#### Packaging

**Linerboard:** paperboard, which when combined with corrugating medium, forms corrugated board – the key raw material in the manufacture of corrugated sheets and containers. Linerboard is also part of a broader category of products called containerboard.

**Corrugated sheets:** containerboard sheets that are sold primarily to converters that produce a variety of corrugated products.

**Corrugated containers:** corrugated sheets that have been fed through converting machines to create containers, which are used in the packaging of fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products.

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Newsprint: paper commonly used for printing newspapers, other publications, and advertising material.

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During the year ended December 31, 2010, our Packaging segment produced approximately 602,000 short tons of linerboard and our Paper segment produced approximately 127,000 short tons of corrugating medium, both of which are used in the production of containerboard. During the year ended December 31, 2010, our corrugated container and sheet feeder plants consumed approximately 500,000 short tons of containerboard (including both linerboard and corrugating medium) or the equivalent of 69% of our containerboard production.

We operate our Packaging segment to maximize profitability through integration of our containerboard and converting operations and through operational improvements in our facilities to lower costs and improve efficiency. We plan to increase our integration levels through acquisitions and leverage our corrugated container position. We are a low-volume producer of newsprint, and we believe that our newsprint production has a low delivered cost to southern U.S. markets.

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

|                             | Boise Inc.<br>Year Ended December 31 |            |              | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |            |
|-----------------------------|--------------------------------------|------------|--------------|---|---------------------------------------|------------|
|                             | 2010                                 | 2009       | 2008         |   | 2007                                  | 2006       |
| <b>Capacity (a)</b>         |                                      |            |              |   |                                       |            |
| Containerboard (linerboard) | 610                                  | 610        | 600          |   | 575                                   | 559        |
| Newsprint                   | 225                                  | 225        | 410          |   | 425                                   | 426        |
|                             | <b>835</b>                           | <b>835</b> | <b>1,010</b> |   | <b>1,000</b>                          | <b>985</b> |
| <b>Production (b)</b>       |                                      |            |              |   |                                       |            |
| Containerboard (linerboard) | 602                                  | 544        | 446          | 83  | 573                                   | 554        |
| Newsprint                   | 229                                  | 188        | 331          | 59  | 409                                   | 415        |
|                             | <b>831</b>                           | <b>732</b> | <b>777</b>   | <b>142</b>                                      | <b>982</b>                            | <b>969</b> |

(a) Capacity numbers are shown 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.

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

|       | Boise Inc.<br>Year Ended December 31 |          |          | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |          |
|-------|--------------------------------------|----------|----------|---|---------------------------------------|----------|
|       | 2010                                 | 2009     | 2008     |   | 2007                                  | 2006     |
| Sales | \$ 671.9                             | \$ 588.4 | \$ 703.7 | \$ 113.5  | \$ 783.1                              | \$ 766.5 |

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|   |                 |                 |                |               |                |                |
|---|-----------------|-----------------|----------------|---------------|----------------|----------------|
| Segment income before interest and taxes  | \$ 65.0         | \$ 67.1         | \$ 21.1        | \$ 5.7        | \$ 40.1        | \$ 45.3        |
| Depreciation, amortization, and depletion | 38.6            | 42.2            | 35.1           | 0.1           | 37.7           | 50.8           |
| <b>EBITDA (a) (b)</b>                     | <b>\$ 103.6</b> | <b>\$ 109.3</b> | <b>\$ 56.2</b> | <b>\$ 5.7</b> | <b>\$ 77.8</b> | <b>\$ 96.1</b> |

(a) Segment EBITDA is calculated as segment income 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 \$61.6 million of income from alternative fuel mixture credits.



We manufactured approximately 229,000 short tons of newsprint during the year ended December 31, 2010, for use primarily in printing daily newspapers and other publications in North America. Demand for newsprint in North America has declined dramatically in the last several years and may continue to decline as newspapers are replaced with electronic media.

#### *Facilities*

We manufacture containerboard (linerboard) and newsprint at our mill in DeRidder, Louisiana. This mill's annual production capacity is approximately 835,000 short tons as of December 31, 2010. We also manufacture corrugated containers and sheets at seven plants, with an aggregate annual capacity of approximately 7,900 million square feet (which assumes operating the plants five days a week, 24 hours a day).

The following table sets forth annual capacities of our containerboard (linerboard) and newsprint mill in DeRidder, Louisiana, as of December 31, 2010, and production for the year then ended (in thousands of short tons):

|                             | <b>Number of<br/>Machines</b> | <b>Capacity (a)</b> | <b>Production</b> |
|-----------------------------|-------------------------------|---------------------|-------------------|
| <b>PULP AND PAPER MILL</b>  |                               |                     |                   |
| DeRidder, Louisiana         |                               |                     |                   |
| Containerboard (linerboard) | 1                             | 610                 | 602               |
| Newsprint                   | 1                             | 225                 | 229               |
|                             | <b>2</b>                      | <b>835</b>          | <b>831</b>        |

(a) 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.

#### *Raw Materials and Input Costs*

Wood fiber is the principal raw material in this segment. The primary sources of wood fiber are timber and its byproducts, such as wood chips. During the year ended December 31, 2010, wood fiber costs accounted for approximately 18% of materials, labor, and other operating expenses in this segment. We generally purchase raw materials through market-based contracts or on the open market from suppliers located in close proximity to DeRidder.

Our Packaging segment consumes substantial amounts of energy, such as electricity and natural gas. During the year ended December 31, 2010, 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 contractually bound to supply us with all of our needs for a particular type of energy at a specific facility. Our natural gas contracts have pricing mechanisms based primarily on current market prices, and our electricity contracts have pricing mechanisms based primarily on published tariffs. We also use derivative instruments such as three-way collars, caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk for our energy requirements. For more information about our derivative instruments, see *Disclosures of Financial Market Risks* in *Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-K.

We consume chemicals in the manufacturing of our Packaging segment products. Important chemicals we use include pulping and bleaching chemicals such as caustic, starch, sulfuric acid, and other sulfur-based chemicals. During the year ended December 31, 2010, chemical costs accounted

for approximately 6% 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. These contracts are negotiated periodically at prevailing rates.

*Sales, Marketing, and Distribution*

Our containerboard (linerboard), corrugated containers and sheets, and newsprint are sold by our own sales personnel or brokers.

The following table sets forth sales volumes of containerboard (linerboard) and newsprint (in thousands of short tons) and corrugated containers and sheets (in millions of square feet) for the periods indicated:

|                                  | Boise Inc.<br>Year Ended December 31 |       |       | January 1<br>Through<br>February<br>21,<br>2008 | Predecessor<br>Year Ended December 31 |       |
|----------------------------------|--------------------------------------|-------|-------|---|---------------------------------------|-------|
|                                  | 2010                                 | 2009  | 2008  |   | 2007                                  | 2006  |
| Containerboard (linerboard)      | 225                                  | 253   | 194   | 36  | 239                                   | 266   |
| Newsprint                        | 231                                  | 199   | 326   | 56  | 415                                   | 411   |
| Corrugated containers and sheets | 6,735                                | 5,963 | 5,337 | 914   | 6,609                                 | 6,599 |

*Customers*

During the year ended December 31, 2010, approximately 37% of our linerboard volume was sold in the open market, both domestically and internationally. The remaining volume was used in our operations. We consume virtually all of the corrugating medium we produce. We sell our finished corrugated containers to approximately 1,100 active customers, including large agricultural producers and food and beverage processors. We sell corrugated sheets to over 200 converters, who use the sheets to manufacture corrugated containers for a variety of customers.

We have a focused position in the agricultural and food markets for corrugated containers. We service these less cyclical end markets with our strategically located corrugated container operations. With our regional focus and footprint, we are able to service our customers' needs from multiple plants, schedule operating runs to maximize productivity, and reduce waste and better utilize different paper roll sizes. We believe this position in favorable end markets has made us more resistant to economic downturns. We sell our newsprint to newspaper publishers located in regional markets near our DeRidder, Louisiana, manufacturing facility and to a lesser extent to export markets primarily in Latin America.

***Corporate and Other***

Our Corporate and Other segment includes primarily corporate support services, related assets and liabilities, and foreign exchange gains and losses. This segment also includes transportation assets, such as rail cars and trucks, which we use to transport our products from our manufacturing sites. We provide transportation services not only to our own facilities but also, on a limited basis, to third parties when geographic proximity and logistics are favorable. Rail cars and trucks are generally leased. During the years ended December 31, 2010, 2009, and 2008, and the Predecessor period of January 1 through February 21, 2008, segment sales related primarily to our rail and truck business were \$65.4 million, \$63.8 million, \$67.7 million, and \$8.5 million, respectively.

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

|   | Boise Inc.<br>Year Ended December 31 |                  |                  | January 1<br>Through<br>February | Predecessor<br>Year Ended December 31 |                  |
|---|--------------------------------------|------------------|------------------|----------------------------------|---------------------------------------|------------------|
|   | 2010                                 | 2009             | 2008             | 21,<br>2008                      | 2007                                  | 2006             |
| Sales   | \$ 65.4                              | \$ 63.8          | \$ 67.7          | \$ 8.5                           | \$ 58.9                               | \$ 61.4          |
| Segment income (loss) before interest and taxes | \$ (21.6)                            | \$ (21.5)        | \$ (18.6)        | \$ (3.2)                         | \$ (11.9)                             | \$ (14.9)        |
| Loss on extinguishment of debt                  | (22.2)                               | (44.1)           |                  |                                  |                                       |                  |
| Depreciation, amortization, and depletion       | 3.9                                  | 4.1              | 3.2              | 0.1                              | 1.9                                   | 3.3              |
| <b>EBITDA (a) (b)</b>                           | <b>\$ (39.9)</b>                     | <b>\$ (61.5)</b> | <b>\$ (15.4)</b> | <b>\$ (3.1)</b>                  | <b>\$ (10.0)</b>                      | <b>\$ (11.6)</b> |

(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 \$3.9 million of expense from alternative fuel mixture credits.

### **Competition**

The markets in which we operate are large and highly competitive. Our products and services compete with similar products manufactured and distributed by others both domestically and globally. Many factors influence our competitive position in each of our operating segments. Those factors include price, service, quality, product selection, and convenience of location as well as our manufacturing and overhead costs.

Some of our competitors in each of our segments are larger than we are and have greater financial resources. These resources afford those competitors greater purchasing power, increased financial flexibility, and more capital resources for expansion and improvement, which may enable those competitors to compete more effectively than we can.

*Paper.* The markets in which our Paper segment competes are large and highly competitive. Commodity grades of uncoated freesheet paper are globally traded, with numerous worldwide manufacturers, and as a result, these products compete primarily on the basis of price. All of our paper manufacturing facilities are located in the United States, and although we compete primarily in the domestic market, we do face competition from foreign producers, some of which have lower operating costs than we do. The level of this competition varies, depending on domestic and foreign demand and foreign currency exchange rates. In general, paper production does not rely on proprietary processes or formulas, except in highly specialized or custom grades.

North American uncoated freesheet paper producers shipped 10.9 million short tons in 2010, and four major manufacturers account for approximately 66% of capacity, according to Resource Information Systems Inc. (RISI) and our estimates. As of December 31, 2010, we believe that we are the third-largest producer of uncoated freesheet paper in North America. Our largest competitors include Domtar Corporation (the largest producer), International Paper Company, and Georgia-Pacific LLC. Although price is the primary basis for competition in most of our paper grades, quality and service are important competitive determinants, especially in premium and specialty grades. Our uncoated freesheet papers compete with electronic data transmission, document storage alternatives, and paper grades we do not produce. Increasing shifts to these alternatives and increasing use of the Internet have had, and are likely

to continue to have, an adverse effect on traditional print media and paper usage. These secular trends are in addition to the current demand decline driven by a weak economy and reduced white-collar employment.

Major uncoated freesheet paper producers, including Boise Inc., have closed or significantly curtailed capacity in response to lower demand in recent years. In December 2008, we permanently closed the pulp mill and two of our three paper machines at our St. Helens, Oregon, facility. Our production curtailment in 2010 was significantly less than in 2009; however, we may choose to take downtime or slow production in the future if market conditions warrant.

*Packaging.* North American containerboard (corrugating medium and linerboard) manufacturers produced 36.2 million short tons in 2010, and five major manufacturers account for approximately 71% of capacity, according to RISI and our estimates. Our largest competitors include International Paper Company, Smurfit-Stone Container Corporation, Georgia-Pacific LLC, Temple-Inland Inc., and Packaging Corporation of America. Rock-Tenn Company recently announced its intent to acquire Smurfit-Stone Container Corporation. Containerboard (corrugating medium and linerboard) and newsprint are globally traded commodities with numerous worldwide manufacturers. Although price is the primary basis for competition in most of our packaging grades, quality and service are important competitive determinants. The intensity of competition in these industries fluctuates based on demand and supply levels as well as prevailing foreign currency exchange rates. Our corrugated container operations in the Pacific Northwest have a leading regional market position and compete with several national and regional manufacturers. Our plant in Waco, Texas, known as Central Texas Corrugated, or CTC, produces corrugated sheets that are sold to sheet plants in the Southwest, where they are converted into corrugated containers for a variety of customers. Some of our competitors have lower operating costs and/or enjoy greater integration between their containerboard production and corrugated container production than we do.

North American newsprint producers shipped 7.9 million metric tonnes (a metric tonne is equal to 2,205 pounds) in 2010, and three major manufacturers account for approximately 76% of capacity, according to RISI and our estimates. Our largest competitors include AbitibiBowater Inc., White Birch Paper Company, and Kruger Inc.

Demand for newsprint has declined dramatically in the last several years and may continue to decline as electronic media compete with newspapers. Major producers have closed significant capacity and taken substantial downtime as demand has fallen. In 2009, we announced that we had indefinitely idled the D2 newsprint machine at our mill in DeRidder, Louisiana. As of December 31, 2010, our remaining newsprint machine was running at full capacity. During 2010, our capacity and production were reduced only for scheduled maintenance.

### ***Environmental Issues***

Our discussion of environmental issues is presented under the caption *Environmental* in Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Part I, Item 3. *Legal Proceedings* of this Form 10-K.

### ***Capital Investment***

Information concerning our capital expenditures is presented under the caption *Investment Activities* in Part II, Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-K.

### ***Seasonality***

Our businesses experience some seasonality, based primarily on buying patterns associated with particular products. For example, the demand for our corrugated containers is influenced by changes in agricultural demand in the Pacific Northwest. In addition, seasonally cold weather increases costs, especially energy consumption, at all of our manufacturing facilities. Seasonality also affects working capital levels as described below.

### ***Working Capital***

Working capital levels fluctuate throughout the year and are affected by seasonality, scheduled annual maintenance shutdowns, and changing sales patterns. Typically, we build working capital in our Paper segment at the end of the fourth quarter, as we build finished goods inventory in preparation for first-quarter sales. Finished goods inventories are also increased prior to scheduled annual maintenance shutdowns to maintain sales volumes while production is stopped. Inventories for some raw materials, such as fiber, exhibit seasonal swings, as we increase log and chip inventories to ensure ample supply of fiber to our mills throughout the winter. In our Packaging segment, agricultural demand influences working capital, as finished good inventory levels are increased in preparation for the harvest season in third and fourth quarters. Changes in sales volumes can affect accounts receivable levels in both our Paper and Packaging segments, influencing overall working capital levels. We believe our management practices with respect to working capital conform to common business practices in the U.S.

### ***Acquisitions and Divestitures***

We may engage in acquisition and divestiture discussions with other companies and make acquisitions and divestitures from time to time. We review our operations and dispose of assets that fail to meet our criteria for return on investment or cease to warrant retention for other reasons.

On February 21, 2011, our wholly owned subsidiary, Boise Paper Holdings, L.L.C., entered into a Stock Purchase Agreement (the Agreement) to purchase all of the outstanding stock of Tharco Packaging, Inc., for \$200 million of cash consideration, subject to adjustments set forth in the Agreement. This acquisition, which closed on March 1, 2011, expands our presence in packaging markets; extends our geographical reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia; and increases our containerboard integration to over 85% from approximately 70%. We obtained appropriate consents from our lenders to enable the acquisition under our Credit Facilities.

### ***Employees***

As of January 31, 2011, we had approximately 4,100 employees. Approximately 57% of these employees worked pursuant to collective bargaining agreements. As of January 31, 2011, approximately 50% of our employees were working pursuant to collective bargaining agreements that have expired or will expire within one year. We do not expect material work interruptions or increases in our costs during the course of the negotiations with our collective bargaining units. Nevertheless, if our expectations are not accurate, we could experience a material labor disruption or significantly increased labor costs at one or more of our facilities, any of which could prevent us from meeting customer demand or reduce our sales and profitability.

### ***Executive Officers of Registrant***

The following individuals are deemed our executive officers pursuant to Section 16 of the Securities Exchange Act of 1934. Our executive officers are elected by our board of directors and hold office until their successors are elected and qualified or until their earlier resignation or removal. There are no arrangements or understandings between any of our executive officers and any other

persons pursuant to which they were selected as officers. No family relationships exist among any of our executive officers.

**Alexander Toeldte, 51, President and Chief Executive Officer, Director** Mr. Toeldte has served as the company's president and chief executive officer and a director since February 2008. Mr. Toeldte joined Boise Cascade Holdings, L.L.C., in early October 2005 as president of the company's Packaging and Newsprint segment and in late October 2005 became its executive vice president, Paper and Packaging and Newsprint segments. From 2004 to 2006, Mr. Toeldte was chair of Algonac Limited, a private management and consulting firm based in Auckland, New Zealand. Mr. Toeldte's previous experience includes serving as executive vice president of Fonterra Co-operative Group, Ltd., and chief executive officer of Fonterra Enterprises (Fonterra, based in New Zealand, is a global dairy company). Previously, Mr. Toeldte served in various capacities with Fletcher Challenge Limited Group (formerly one of the largest companies in New Zealand, with holdings in paper, forestry, building materials, and energy) including as chief executive officer of Fletcher Challenge Building and as chief executive officer of Fletcher Challenge Paper, both of which were publicly traded units of the Fletcher Challenge Limited Group. Mr. Toeldte also served as a partner at McKinsey & Company in Toronto, Brussels, Montreal, and Stockholm. Mr. Toeldte is vice chairman of the board of directors of the American Forest & Paper Association (AF&PA). Mr. Toeldte studied economics at the Albert-Ludwigs-Universität in Freiburg, Germany, and received an M.B.A. from McGill University in Montreal, Canada.

**Robert A. Warren, 58, Executive Vice President and Chief Operating Officer** Mr. Warren has served as our executive vice president and chief operating officer since November 2010. From April 2008 to October 2010, he served as senior vice president and general manager of our paper operations and supply chain management function. From February 2008 to April 2008, Mr. Warren served as general manager of our supply chain management function. From 2006 to February 2008, Mr. Warren served as general manager of Boise Cascade, L.L.C.'s supply chain management function, and from October 2004 to 2005, he was the business leader for Boise Cascade, L.L.C.'s printing papers business. From 2003 to October 2004, Mr. Warren was a project leader for Boise Cascade Corporation. Prior to joining Boise Cascade Corporation, Mr. Warren was the president and chief executive officer for Strategy in Action Group, a private business consulting firm. Mr. Warren received a B.S. in General Engineering from Oregon State University and an M.B.A. from Kellogg Graduate School of Management, Northwestern University.

**Samuel K. Cotterell, 59, Senior Vice President and Chief Financial Officer** Mr. Cotterell has served as our senior vice president and chief financial officer since January 2011. From February 2008 to December 2010, Mr. Cotterell served as our vice president and controller. From October 2004 to February 2008, Mr. Cotterell served as vice president and controller of Boise Cascade, L.L.C. From 1999 to October 2004, Mr. Cotterell served as director of financial reporting of Boise Cascade Corporation. Mr. Cotterell received a B.A. in Spanish from the University of Idaho, a B.S. in Accounting from Boise State University, and a Masters of International Business from the American Graduate School of International Management. Mr. Cotterell is a certified public accountant.

**Karen E. Gowland, 52, Senior Vice President, General Counsel, and Secretary** Ms. Gowland has served as our senior vice president, general counsel, and secretary since August 2010. From February 2008 to July 2010, she served as our vice president, general counsel, and secretary. From October 2004 to February 2008, Ms. Gowland served as vice president, general counsel and secretary of Boise Cascade, L.L.C. From 1997 to October 2004, Ms. Gowland served as vice president, corporate secretary, and associate general counsel of Boise Cascade Corporation. From 1989 to 1997, Ms. Gowland was associate general counsel of Boise Cascade Corporation, and from 1984 to 1989, she was counsel of Boise Cascade Corporation. Ms. Gowland received a B.S. in Accounting and a J.D. from the University of Idaho.

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**Jeffrey P. Lane, 55, Senior Vice President and General Manager, Packaging** Mr. Lane has served as senior vice president and general manager of our packaging operations since April 2008. Prior to joining the company, Mr. Lane was a partner at McKinsey & Company from 1989 to 1995 and from 1998 until 2008. From 2000 until 2008, Mr. Lane led McKinsey's global packaging industry practice. Mr. Lane served as the president of MicroCoating Technologies, an advanced materials technology start-up, during 1997 and served as the vice president of marketing and business development for Westinghouse Security Systems, a division of Westinghouse Electric Corporation, during 1996. From 1983 to 1989, Mr. Lane served as brand manager at The Procter & Gamble Company, a global consumer products company. Mr. Lane received a B.S. in Biology from Georgia Institute of Technology and an M.B.A. from Kellogg Graduate School of Management, Northwestern University.

**Judith M. Lassa, 52, Senior Vice President, Paper and Specialty Products** Ms. Lassa has served as senior vice president and general manager of our paper and specialty products operations since November 2010. From February 2008 to October 2010, Ms. Lassa served as vice president of our Packaging segment. From October 2004 to February 2008, Ms. Lassa served as vice president, Packaging, of Boise Cascade, L.L.C. From 2000 to October 2004, Ms. Lassa served as vice president, Packaging, of Boise Cascade Corporation, and from 1997 to 2000, she served as packaging business leader of Boise Cascade Corporation. Ms. Lassa received a B.S. in Paper Science and Engineering from the University of Wisconsin-Stevens Point.

**Robert E. Streng, 56, Senior Vice President, Manufacturing** Mr. Streng has served as senior vice president of our paper manufacturing operations since April 2008. From February 2008 to April 2008, Mr. Streng served as vice president of our Newsprint segment. From October 2004 to February 2008, Mr. Streng served as vice president of the Newsprint segment of Boise Cascade, L.L.C. From 2003 to October 2004, Mr. Streng served as vice president of Boise Cascade Corporation's DeRidder operations, and from 1997 to 2003, he served as mill manager of Boise Cascade Corporation's St. Helens, Oregon, paper mill. Mr. Streng received a B.S. in Pulp and Paper Technology from Syracuse University.

**Bernadette M. Madarieta, 35, Vice President and Controller** Ms. Madarieta has served as our vice president and controller since February 2011. From February 2008 to January 2011, Ms. Madarieta served as vice president and controller of Boise Cascade, L.L.C. From October 2004 to January 2008, Ms. Madarieta served as Boise Cascade, L.L.C.'s director of financial reporting. From 2002 to October 2004, Ms. Madarieta served as supervisor of external financial reporting for Boise Cascade Corporation. Prior to joining Boise Cascade Corporation, Ms. Madarieta was an assurance and business advisory manager at KPMG and Arthur Andersen, where she was responsible for planning and supervising audit engagements for corporations and privately held companies. Ms. Madarieta received a B.B.A. in Accounting from Boise State University and is a certified public accountant.

#### ***ITEM 1A. RISK FACTORS***

In addition to the risks and uncertainties we discuss elsewhere in this Form 10-K (particularly in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations) or in our other filings with the SEC, the following are some important factors that could cause our actual results to differ materially from those we project in any forward-looking statement. We cannot guarantee that our actual results will be consistent with the forward-looking statements we make in this report, and we do not assume an obligation to update any forward-looking statement.

**Adverse business and economic conditions may have a material adverse effect on our business, results of operations, and financial position.** General economic conditions adversely affect the demand and production of consumer goods, employment levels, the availability and cost of credit, and ultimately, the profitability of our business. High unemployment rates, lower family income, lower corporate earnings, lower business investment, and lower consumer spending typically result in decreased demand for our products. These conditions are beyond our control and may have a significant impact on our business, results of operations, cash flows, and financial position.

*Risks Related to Industry Conditions*

**The paper industry experiences cyclical; changes in the prices of our products could materially affect our financial condition, results of operations, and cash flows.** Historically, macroeconomic conditions and fluctuations in industry capacity have created cyclical changes in prices, sales volumes, and margins for our products. Changing industry conditions can influence paper and packaging producers to idle or permanently close individual machines or entire mills. In addition, to avoid substantial cash costs in connection with idling or closing a mill, some producers will choose to continue to operate at a loss, sometimes even a cash loss, which could prolong weak pricing environments due to oversupply. Oversupply in these markets can also result from producers introducing new capacity in response to favorable short-term pricing trends.

Industry supply is also influenced by overseas production capacity, which has grown in recent years and is expected to continue to grow. A weak U.S. dollar tends to mitigate the levels of imports, while a strong U.S. dollar tends to increase imports of commodity paper products from overseas, putting downward pressure on prices.

Prices for all of our products are driven by many factors outside our control, and we have little influence over the timing and extent of price changes, which are often volatile. Market conditions beyond our control determine the prices for our commodity products, and as a result, the price for any one or more of these products may fall below our cash production costs, requiring us to either incur short-term losses on product sales or cease production at one or more of our manufacturing facilities. From time to time, we have taken downtime (or slowed production) at some of our mills to balance our production with the market demand for our products, and we may continue to do so in the future. Some of our competitors may also close or reduce production at their operating facilities, some of which could reopen and increase production capacity. This potential supply and demand imbalance could cause prices to fall. Therefore, our ability to achieve acceptable operating performance and margins is principally dependent on managing our cost structure, managing changes in raw materials prices (which represent a large component of our operating costs and fluctuate based upon factors beyond our control), and general conditions in the paper market. If the prices for our products decline or if our raw material costs increase, it could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

**Some of our paper products are vulnerable to long-term declines in demand due to competing technologies or materials.** Our uncoated freesheet papers and newsprint compete with electronic data transmission, document storage alternatives, and paper grades we do not produce. Increasing shifts to these alternatives have had and are likely to continue to have an adverse effect on traditional print media and paper usage. Neither the timing nor the extent of this shift can be predicted with certainty. Because of these trends, demand for paper products may shift from one grade of paper to another or be eliminated altogether.

**We face strong competition in our markets.** The paper and packaging and newsprint industries are highly competitive. We face competition from numerous competitors, domestic as well as foreign. Some of our competitors are large, vertically integrated companies that have greater financial and other resources, greater manufacturing economies of scale, greater energy self-



sufficiency, or lower operating costs, compared with our company. We may be unable to compete with other companies in the market during the various stages of the business cycle and particularly during any downturns. Some of the factors that may adversely affect our ability to compete in the markets in which we participate include the entry of new competitors (including foreign producers) into the markets we serve, our competitors' pricing strategies, our failure to anticipate and respond to changing customer preferences, and our inability to maintain the cost-efficiency of our facilities.

**Increases in the cost of our raw materials, including wood fiber, chemicals, and energy, could affect our profitability.** We rely heavily on raw materials, including wood fiber and chemicals, and energy sources, including natural gas and electricity. Our profitability has been, and will continue to be, affected by changes in the costs and availability of such raw materials. For most of our products, the relationship between industry supply and demand, rather than changes in the cost of raw materials, determines our ability to increase prices. Consequently, we may be unable to pass increases in our operating costs on to our customers in the short term. Any sustained increase in raw material costs, coupled with our inability to increase prices, would reduce our operating margins and potentially require us to limit or cease operations of one or more of our machines or facilities.

Wood fiber is our principal raw material, accounting for approximately 31% and 18%, respectively, of the aggregate amount of materials, labor, and other operating expenses, including fiber costs, for our Paper and Packaging segments for the year ended December 31, 2010. Wood fiber is a commodity, and prices have historically been cyclical. In addition, wood fiber, including wood chips, sawdust, and shavings, is a byproduct in the manufacture of building products, and the availability of wood fiber is often negatively affected if demand for building products declines. Severe or sustained shortages of fiber could cause us to curtail our own operations, resulting in material and adverse effects on our sales and profitability. Future domestic or foreign legislation and litigation concerning the use of timberlands, the protection of endangered species, and forest health can also affect log and fiber supply.

Energy accounts for approximately 13% and 12%, respectively, of the aggregate amount of materials, labor, and other operating expenses, including fiber costs, for our Paper and Packaging segments for the year ended December 31, 2010. Energy prices, particularly for electricity and natural gas, have been volatile in recent years. These fluctuations affect our manufacturing costs and can contribute significantly to earnings volatility.

Other raw materials we use include various chemical compounds, such as starch, caustic soda, precipitated calcium carbonate, sodium chlorate, dyestuffs, and optical brighteners. Purchases of chemicals accounted for approximately 15% and 6%, respectively, of the aggregate amount of materials, labor, and other operating expenses, including fiber costs, for our Paper and Packaging segments for the year ended December 31, 2010. The costs of these chemicals have been volatile historically and are influenced by capacity utilization, energy prices, and other factors beyond our control.

#### *Risks Related to Our Operations*

**We depend on OfficeMax for a significant portion of our business.** Our largest customer, OfficeMax, accounted for approximately 24% of our total sales for the year ended December 31, 2010. In October 2004, OfficeMax agreed to purchase, from our Predecessor, its full North American requirements for cut-size office paper, to the extent Boise chooses to supply such paper to them, through December 2012. OfficeMax's purchase obligations under the agreement will phase out ratably over a four-year period beginning one year after the delivery of notice of termination, but in no event will the purchase obligation be reduced prior to December 31, 2012. If this contract is not renewed or not renewed on terms similar to the existing terms, our future business operations may be adversely affected. If OfficeMax were unable to pay, our financial performance could be affected significantly and negatively. Any significant deterioration in the financial condition of OfficeMax or a significant change in its business that would affect its willingness to continue to purchase our

products could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

**A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales, or negatively affect our net income.** Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including the following:

Maintenance outages.

Prolonged power failures.

Equipment failure.

Disruption in the supply of raw materials, such as wood fiber, energy, or chemicals.

A chemical spill or release.

Closure because of environmental-related concerns.

Explosion of a boiler.

The effect of a drought or reduced rainfall on our water supply.

Disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels.

Fires, floods, earthquakes, hurricanes, or other catastrophes.

Terrorism or threats of terrorism.

Labor difficulties.

Other operational problems.

Any such downtime or facility damage could prevent us from meeting customer demand for our products or require us to make unplanned capital expenditures. If our machines or facilities were to incur significant downtime, our ability to meet our production capacity targets and satisfy customer requirements would be impaired, resulting in lower sales and having a negative effect on our financial results.

**Labor disruptions or increased labor costs could materially adversely affect our business.** While we believe we have good labor relations, we could experience a material labor disruption, strike, or significantly increased labor costs at one or more of our facilities, either in the course of negotiations of a labor agreement or otherwise. Either of these situations could prevent us from meeting customer demands or result in increased costs, thereby reducing our sales and profitability. As of January 31, 2011, we had approximately 4,100 employees. Approximately 57% of these employees worked pursuant to collective bargaining agreements. As of January 31, 2011, approximately 50% of our employees

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were working pursuant to collective bargaining agreements that have expired or will expire within one year, including agreements at the following facility locations: Wallula, Washington; Nampa, Idaho; DeRidder, Louisiana; Jackson, Alabama; and International Falls, Minnesota. The labor contract at our paper mill in Wallula, Washington (332 employees represented by the Association of Western Pulp & Paper Workers, or AWPPW) expired in March 2009 and was terminated by the AWPPW in October 2009. In February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously, and we declared an impasse in the bargaining process and implemented the terms of the last contract offer. We are currently negotiating the labor contract at our corrugated container plant in Nampa, Idaho (108 employees represented by the AWPPW), which expired on December 31, 2010. In February 2011, union employees represented by the United

Steelworkers at our mills in DeRidder, Louisiana (approximately 360 employees); Jackson, Alabama (approximately 400 employees); and International Falls, Minnesota (approximately 160 employees) ratified a new master labor contract. We have 60 days to negotiate local issues. The negotiations with the remaining unions at our paper mill in International Falls began in late February 2011.

Our potential inability to reach a mutually acceptable labor contract at any of our facilities could result in, among other things, strikes or other work stoppages or slowdowns by the affected employees. While the company has in place contingency plans to address labor disturbances, we could experience disruption to our operations that could have a material adverse effect on our results of operations, financial condition, and liquidity. Future labor agreements could increase our costs of healthcare, retirement benefits, wages, and other employee benefits. Additionally, labor issues that affect our suppliers could also have a material adverse effect on us if those issues interfere with our ability to obtain raw materials on a cost-effective and timely basis.

**We are subject to significant environmental, health, and safety laws and regulations, and the cost of compliance could adversely affect our business and results of operation.** We are subject to a wide range of general and industry-specific environmental, health, and safety laws and regulations. If we fail to comply with these laws and regulations, we may face civil or criminal fines, penalties, or enforcement actions, including orders limiting our operations or requiring corrective measures, installation of pollution control equipment, or other remedial actions.

We anticipate that governmental regulation of our operations will continue to become more burdensome and that we will continue to incur significant capital and operating expenditures in order to maintain compliance with applicable laws. For example, on June 4, 2010, the U. S. Environmental Protection Agency (EPA) proposed National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters (aka Boiler MACT rules). The recently released Boiler MACT rules will require process modifications and/or installation of air pollution controls on power boilers (principally our biomass-fuel-fired boilers) at our pulp and paper mills, and we are currently reviewing those rules to understand the effect they will have on our operations. The cost of compliance is likely to be significant. Our early estimates indicated compliance could result in additional capital spending of up to \$90 million over a three-year period.

We may also be affected by the enactment of laws concerning climate change that regulate greenhouse gas (GHG) emissions. Such laws may require buying allowances for mill GHG emissions or capital expenditures to reduce GHG emissions. Because environmental regulations are not consistent worldwide, our capital and operating expenditures for environmental compliance may adversely affect our ability to compete.

We spent \$4 million in 2010 and expect to spend about the same amount in 2011 for capital environmental compliance requirements. Enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant additional expenditures. We may be unable to generate funds or other sources of liquidity and capital to fund unforeseen environmental liabilities or expenditures.

**We recently acquired Tharco Packaging, Inc., and may engage in future acquisitions, which in each case could materially affect our business, operating results, and financial condition.** In addition to our recent acquisition, we may continue seeking to acquire other businesses, products, or assets. However, we may not be able to find other suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. Our recent acquisition and, assuming we complete them, additional acquisitions may not strengthen our competitive position or achieve our goals. Our recent acquisition and any future acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses, and adversely affect our business, operating results, and financial condition. Our recent

acquisition and future acquisitions may reduce our cash available for operations and other uses. There can be no assurance that we will be able to effectively manage the integration of our recently acquired business, or businesses we may acquire in the future, or be able to retain and motivate key personnel from those businesses. Any difficulties we encounter in the integration process could increase our expenses and have a material adverse effect on our business, financial condition, and results of operations.

*Risks Related to Economic and Financial Factors*

**We have substantial indebtedness, and our ability to repay our debt is dependent on our ability to generate cash from operations.** As of December 31, 2010, our total indebtedness was \$781.8 million. Our ability to repay our indebtedness and to fund planned capital expenditures depends on our ability to generate cash from future operations. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. Our inability to generate sufficient cash flow to satisfy our debt obligations, to obtain additional debt, or to refinance our obligations on commercially reasonable terms would have a material adverse effect on our business, financial condition, and results of operations.

**Our operations require substantial capital, and we may not have adequate capital resources to provide for all of our capital requirements.** Our businesses are capital-intensive, and we regularly incur capital expenditures to maintain our equipment, increase our operating efficiency, and comply with environmental laws. In addition, significant amounts of capital are required to modify our equipment to produce alternative or additional products or to make significant improvements in the characteristics of our current products. During the year ended December 31, 2010, our total capital expenditures, excluding acquisitions, were \$111.6 million. We expect to spend between \$115 million and \$125 million on capital investments during 2011.

If we require funds for operating needs and capital expenditures beyond those generated from operations, we may not be able to obtain them on favorable terms or at all. In addition, our debt service obligations will reduce our available cash flows. If we cannot maintain or upgrade our equipment as necessary for our continued operations or as needed to ensure environmental compliance, we could be required to cease or curtail some of our manufacturing operations or we may become unable to manufacture products that can compete effectively in one or more of our markets.

**Our indebtedness imposes restrictive covenants on us, and a default under our debt agreements could have a material adverse effect on our business and financial condition.** Our credit facilities require BZ Intermediate Holdings LLC (Holdings) and its subsidiaries to maintain specified financial ratios and to satisfy certain financial tests. These tests include, in the case of our credit facilities, a total leverage ratio, a secured leverage ratio, and a minimum interest coverage ratio. In addition, our credit facilities restrict, and the indenture governing the 9% and 8% senior notes restrict, among other things, the ability of Holdings and its subsidiaries to create additional liens on assets, make investments or acquisitions, pay dividends, incur additional indebtedness, sell assets including capital stock of subsidiaries, make capital expenditures, place restrictions on the ability of such subsidiaries to make distributions, enter into transactions with our affiliates, enter into new lines of business, and engage in consolidations, mergers, or sales of substantially all of our assets. We will need to seek permission from the lenders under our indebtedness to engage in specified corporate actions. The lenders' interests may be different from our interests, and no assurance can be given that we will be able to obtain the lenders' permission when needed.

Various risks, uncertainties, and events beyond our control could affect our ability to comply with these covenants. Failure to comply with these covenants (or similar covenants contained in future financing agreements) could result in a default under the credit facilities, the indenture governing the 9% and 8% senior notes, and other agreements containing cross-default provisions, which, if not cured or waived, could have a material adverse effect on our business, financial condition, and

results of operations. A default would permit lenders or holders to accelerate the maturity of the debt under these agreements, to foreclose upon any collateral securing the debt, and to terminate any commitments to lend. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including the obligations of Boise Paper Holdings, L.L.C., Boise Finance Company, and Boise Co-Issuer Company under the 9% and 8% senior notes. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

**We anticipate significant future funding obligations for pension benefits.** In December 2008, we enacted a freeze on our defined benefit pension plan for salaried employees (the Salaried Plan); however, we continue to maintain defined benefit pension plans for most of our union employees. Despite the freeze of the Salaried Plan, we will continue to have significant obligations for pension benefits. As of December 31, 2010, our pension assets had a market value of \$356 million, compared with \$302 million at December 31, 2009. Assuming a return on plan assets of 7.25% in 2011 and 2012, we estimate we will be required to contribute approximately \$3 million in 2011 and approximately \$32 million in 2012. The amount of required contributions will depend, among other things, on actual returns on plan assets, changes in interest rates that affect our discount rate assumptions, changes in pension funding requirement laws, and modifications to our plans. Our estimates may change materially depending upon the impact of these and other factors, and the amount of our contributions may adversely affect our cash flows, financial condition, and results of operations.

***ITEM 1B. UNRESOLVED STAFF COMMENTS***

We have no unresolved comments.

***ITEM 2. PROPERTIES***

We own substantially all of our manufacturing facilities and substantially all of the equipment used in our facilities. Information concerning encumbrances attached to the properties described in the table below are presented in Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K. Information concerning production capacity and the utilization of our manufacturing facilities is presented in Part I, Item 1. Business of this Form 10-K.

Following is a map of our facilities by segment as of January 31, 2011. We lease a portion of the corporate headquarters building in Boise, Idaho:

We assess our manufacturing, distribution, and other facilities needed to meet our operating requirements. Our properties have been generally well maintained and are in good operating condition. In general, our facilities have sufficient capacity and are adequate for our production and distribution requirements.

***ITEM 3. 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.

***ITEM 4. (REMOVED AND RESERVED)***

## PART II

### **ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

#### *Market Information*

The New York Stock Exchange (NYSE) is the principal market in which our common stock is traded. The following table indicates the last reported high and low closing prices of our common stock as reported by the NYSE and the cash dividends declared per common share for the periods indicated:

| Quarter     | Market Price |         | Dividends Declared |
|-------------|--------------|---------|--------------------|
|             | High         | Low     |                    |
| <b>2010</b> |              |         |                    |
| Fourth      | \$ 8.10      | \$ 6.40 | \$ 0.40            |
| Third       | 7.36         | 4.96    |                    |
| Second      | 7.40         | 4.91    |                    |
| First       | 6.13         | 4.60    |                    |
| Total       |              |         | \$ 0.40            |
| <b>2009</b> |              |         |                    |
| Fourth      | \$ 6.29      | \$ 4.71 | \$                 |
| Third       | 5.40         | 1.41    |                    |
| Second      | 2.47         | 0.51    |                    |
| First       | 0.75         | 0.24    |                    |
| Total       |              |         | \$                 |

#### *Holders*

On January 31, 2011, there were approximately ten holders of record of our common stock, one of which was Cede & Co., which is the holder of record of shares held through the Depository Trust Company.

#### *Dividends*

We paid a special cash dividend of \$0.40 per common share on December 3, 2010, to shareholders of record at the close of business on November 17, 2010. The total dividend payout was approximately \$32.3 million. Our ability to pay dividends continues to be restricted by our credit facilities, as amended, and by Delaware law and state regulatory authorities. Under Delaware law, our board of directors may not authorize payment of a dividend unless it is either paid out of our capital surplus, as calculated in accordance with the Delaware General Corporation Law, or if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Under our credit facilities, as amended, a dividend may now be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions together with other amounts as specified in the amended credit facilities. To the extent we do not have adequate surplus or net profits, we will be prohibited from paying dividends.



*Securities Authorized for Issuance Under Our Equity Compensation Plan*

| Plan Category   | Number of Securities to<br>Be Issued Upon Exercise<br>of Outstanding<br>Options,<br>Warrants, and<br>Rights<br>(a) | Weighted Average<br>Exercise Price of<br>Outstanding Options,<br>Warrants, and<br>Rights<br>(b) (2) | Number of Securities<br>Remaining Available for<br>Future Issuance<br>Under<br>Equity Compensation Plans<br>(Excluding Securities<br>Reflected in Column<br>(a))<br>(c) |
|---|--|---|---|
| Equity compensation plans approved by securityholders (1) | 5,407,537  | \$ N/A  | 8,203,972   |
| Equity compensation plans not approved by securityholders | N/A  | N/A   | N/A   |
| <b>Total</b>  | <b>5,407,537</b>   | <b>\$ N/A</b>   | <b>8,203,972</b>  |

(1) We have approximately 17 million shares of the Company's common stock reserved for issuance under the BIPP. Since the Acquisition, 13 officers, 52 other employees, and 7 nonemployee directors have received restricted stock or restricted stock unit awards under the BIPP. These awards are reflected in column (a) above.

(2) Because there is no exercise price associated with the restricted stock and restricted stock units that were awarded under the BIPP, a weighted average exercise price calculation for the restricted stock and restricted stock units cannot be made.

*Issuer Purchases of Equity Securities*

We did not purchase any of our equity securities during the fourth quarter of our fiscal year ended December 31, 2010.

*Performance Graph*

The following graph compares the return on a \$100 investment in our common stock on February 25, 2008 (the day we first began trading on the New York Stock Exchange) with a \$100 investment also made on February 25, 2008, in the S&P 500 Index and our peer group. The companies included in our peer group are AbitibiBowater Inc., Domtar Corp., Glatfelter, International Paper Co., KapStone Paper & Packaging, MeadWestvaco Corp., Neenah Paper Inc., Packaging Corp. of America, Sappi Ltd., Smurfit-Stone Container Corp., Stora Enso Corp., Temple-Inland Inc., UPM-Kymmene Corp., Verso Paper Corp., and Wausau Paper Corp. Because pre- and post-bankruptcy returns are not comparable, the graph includes the returns for AbitibiBowater Inc. only through December 9, 2010, and returns for Smurfit-Stone Container Corp. only through June 30, 2010:

**ITEM 6. SELECTED FINANCIAL DATA**

Except where otherwise indicated, this Selected Financial Data is provided with respect to Boise Inc., which has materially the same financial condition and results of operations as BZ Intermediate Holdings LLC (BZ Intermediate) except for income taxes. Historical differences between the two entities resulted primarily from the effect of income taxes, the notes payable at Boise Inc. that were repurchased and canceled in October 2009, and the associated interest expense on those notes. The following table sets forth selected financial data for the periods indicated and should be read in conjunction with the disclosures in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K (dollars in millions, except per-share data):

|  | Boise Inc.<br>Year Ended December 31 |          |          | Predecessor<br>February 1 January Year Ended December 31<br>(Inception) Through<br>Through February<br>December 31, 21,<br>2007 2008 |        | 2007 (d) 2006 (e) |          |
|--|--------------------------------------|----------|----------|--|--------|-------------------|----------|
|  | 2010 (a)                             | 2009 (b) | 2008 (c) | 2007   | 2008   | 2007 (d)          | 2006 (e) |
| <b>Statement of income (loss) data</b>                                       |                                      |          |          |  |        |                   |          |
| Net sales  | \$ 2,094                             | \$ 1,978 | \$ 2,071 | \$   | \$ 360 | \$ 2,333          | \$ 2,222 |
| Income from operations   | 194                                  | 306      | 40       |  | 23     | 160               | 94       |
| Net income (loss)  | 63                                   | 154      | (46)     | 5  | 23     | 160               | 93       |
| Net Income (loss) per common share:  |                                      |          |          |  |        |                   |          |
| Basic  | 0.78                                 | 1.96     | (0.62)   | 0.16   |        |                   |          |
| Diluted  | 0.75                                 | 1.85     | (0.62)   | 0.16   |        |                   |          |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) (f) | 303                                  | 396      | 145      |  | 24     | 246               | 210      |
| Cash dividends declared per common share                                     | \$ 0.40                              | \$       | \$       | \$   | \$     | \$                | \$       |
| <b>Balance sheet data (at end of year)</b>                                   |                                      |          |          |  |        |                   |          |
| Current assets   | \$ 653                               | \$ 586   | \$ 596   | \$ 404   | \$     | \$ 560            | \$ 572   |
| Property and equipment, net  | 1,217                                | 1,223    | 1,277    |  |        | 1,210             | 1,144    |
| Total assets   | 1,939                                | 1,896    | 1,988    | 408  |        | 1,846             | 1,759    |
| Current liabilities  | 304                                  | 303      | 269      | 15   |        | 250               | 241      |
| Long-term debt, less current portion   | 738                                  | 785      | 1,012    |  |        |                   |          |
| Notes payable  |                                      |          | 67       |  |        |                   |          |
| Total liabilities  | 1,292                                | 1,275    | 1,539    | 175  |        | 286               | 278      |
| Stockholders' equity   | 647                                  | 621      | 449      | 233  |        | 1,560             | 1,481    |

Included in the selected financial data above are 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 financial data is presented for the periods prior to the Acquisition. The period of February 1 (Inception) through December 31, 2007, represents the activities of Aldabra 2 Acquisition Corp.

(a) Included \$22.2 million of loss on extinguishment of debt.

(b) Included \$5.8 million of expense associated with the restructuring of the St. Helens, Oregon, mill.

Included \$5.9 million of income related to energy hedges.

Included \$44.1 million of loss on extinguishment of debt for Boise Inc., or \$66.8 million of loss on extinguishment of debt for BZ Intermediate, as a result of the October 2009 debt restructuring. The difference is due to the gain recognized by Boise Inc. related to the notes payable, which were held by Boise Inc.

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Included \$207.6 million of income as a result of alternative fuel mixture credits.

- (c) Included \$37.6 million of expense associated with the restructuring of the St. Helens, Oregon, mill.

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Included \$7.4 million of expense related to energy hedges.

Included \$5.5 million of expense related to lost production and costs incurred as a result of Hurricanes Gustav and Ike.

Included \$10.2 million related to inventory purchase accounting adjustments.

Included \$19.8 million of expense related to the outage at the DeRidder, Louisiana, mill.

Included a \$2.9 million gain for changes in supplemental pension plans.

- (d) Included approximately \$21.7 million, \$19.1 million, and \$1.0 million of lower depreciation and amortization expense in the Paper, Packaging, and Corporate and Other segments, respectively, as a result of discontinuing depreciation and amortization on the assets recorded as held for sale.

Included a \$4.4 million gain for changes in retiree healthcare benefits.

Included \$8.7 million of expense related to the impact of energy hedges.

Included \$4.0 million of expense related to the start-up of the reconfigured paper machine at the Wallula, Washington, mill.

- (e) Included a \$3.7 million gain for changes in retiree healthcare programs.

Included \$18.1 million of expense related to the impact of energy hedges.

Included \$2.8 million of expense for special project costs.

Included \$2.4 million of expense related to write-downs associated with the sale of the Vancouver, Washington, mill.

- (f) The following table reconciles net income (loss) to EBITDA for the periods indicated (dollars in millions):

|   | <b>Boise Inc.</b>             |                   |                | <b>Predecessor</b>            |             |                               |             |
|---|-------------------------------|-------------------|----------------|-------------------------------|-------------|-------------------------------|-------------|
|   | <b>Year Ended December 31</b> | <b>February 1</b> | <b>January</b> | <b>Year Ended December 31</b> |             | <b>Year Ended December 31</b> |             |
|   | <b>2010</b>                   | <b>2009</b>       | <b>2008</b>    | <b>(Inception) Through</b>    |             | <b>(Inception) Through</b>    |             |
|   |                               |                   |                | <b>December 31, 21,</b>       |             | <b>December 31,</b>           |             |
|   |                               |                   |                | <b>2007</b>                   | <b>2008</b> | <b>2007</b>                   | <b>2006</b> |
| Net income (loss)                                 | \$ 63                         | \$ 154            | \$ (46)        | \$ 5                          | \$ 23       | \$ 160                        | \$ 93       |
| Change in fair value of interest rate derivatives |                               | (1)               |                |                               |             |                               |             |
| Interest expense                                  | 65                            | 83                | 91             |                               |             |                               |             |
| Interest income                                   |                               |                   | (2)            | (10)                          |             | (1)                           | (1)         |
| Income tax provision (benefit)                    | 45                            | 28                | (9)            | 5                             | 1           | 3                             | 1           |
| Depreciation, amortization, and depletion         | 130                           | 132               | 110            |                               |             | 85                            | 116         |

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|        |        |        |        |    |       |        |        |
|--------|--------|--------|--------|----|-------|--------|--------|
| EBITDA | \$ 303 | \$ 396 | \$ 145 | \$ | \$ 24 | \$ 246 | \$ 210 |
|--------|--------|--------|--------|----|-------|--------|--------|

EBITDA represents income (loss) before interest (interest expense, interest income, 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. 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 with substantial financial leverage. 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 (loss), income (loss) 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 (loss) or segment income (loss) has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense, interest income, change in fair value of interest rate derivatives, 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.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This discussion and analysis includes statements regarding our expectations with respect to our future performance, liquidity, and capital resources. Such statements, along with any other nonhistorical statements in the discussion, are forward-looking. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Part I, Item 1A. Risk Factors of this Form 10-K, as well as those factors listed in other documents we file with the Securities and Exchange Commission (SEC). We do not assume an obligation to update any forward-looking statement. Our actual results may differ materially from those contained in or implied by any of the forward-looking statements in this Form 10-K.

**Background**

In this filing, unless the context indicates otherwise, the terms the Company, we, us, our, or Boise refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate). Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products.

Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their paper and packaging assets to Aldabra 2 Acquisition Corp. (the Acquisition). As part of the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. In this Form 10-K, we use the term Predecessor to reference the periods before the Acquisition, including the period when our assets were operated by Boise Cascade.

This Management's Discussion and Analysis of Financial Condition and Results of Operations at times refers to the combined activities of Boise Inc. and the Predecessor for the period specifically indicated, which we believe is the most useful comparison between periods. The Acquisition resulted in a new basis of accounting from those previously reported by the Predecessor. However, sales and most operating cost items are substantially consistent with those reported by the Predecessor. Finished goods inventories were revalued to estimated selling prices less costs of disposal and a reasonable profit on the disposal. Depreciation changed as a result of adjustments to the fair values of property and equipment due to our purchase price allocation. These items, along with changes in interest expense and income taxes, are explained independently where appropriate.

Since the Acquisition, we have operated and reported our results in three reportable segments: Paper, Packaging, and Corporate and Other (support services). See 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 for more information related to our segments.

**Executive Summary**

We reported \$2.1 billion of sales in 2010, compared with \$2.0 billion in 2009, which represented a 6% increase. Net income totaled \$62.7 million in 2010, compared with \$153.8 million in 2009. Excluding the special items disclosed in the table below, net income was \$76.8 million, compared with \$20.4 million in 2009. The increase in net income before special items was due primarily to increased net sales prices and sales volumes and, to a lesser extent, lower chemical costs in both the Paper and Packaging segments. During 2010, net selling prices of uncoated freesheet papers and segment linerboard improved \$23 and \$64 per short ton, compared with 2009, as we benefited from two price increases implemented during the first half of the year. As a result of strong cash flows from operations, we increased cash and cash equivalents \$97.4 million to \$166.8 million in 2010, compared with \$69.4 million in 2009. In addition, during 2010, we reduced long-term debt \$34.1 million and paid a special dividend of \$0.40 per common share, or \$32.3 million.

U.S. industry demand for uncoated freesheet paper declined during 2010, compared with 2009. According to the American Forest & Paper Association (AF&PA), as of December 2010, U.S. industry shipments were down 2.1%, compared with the same period in 2009. Year-to-date industry operating rates, measured as total uncoated freesheet paper shipments in the U.S. as a percentage of total capacity, were at 89%. Demand for commodity communication papers has been negatively affected by weak macroeconomic conditions and elevated unemployment and continues to be negatively affected by the secular shift to electronic media for communications. Despite recent demand increases, long-term demand for printing and converting products has also been negatively affected by weak macroeconomic conditions and by the decline in direct-mail advertising. Declines in demand have been mitigated by significant reductions in uncoated freesheet paper industry capacity in 2008, 2009, and 2010. Compared with prior years, U.S. uncoated freesheet paper inventories remained very low at approximately 913,000 short tons in December 2010, compared with 941,000 short tons in December 2009.

U.S. industry containerboard demand improved in 2010, compared with 2009. Industry box shipments in the U.S. increased 3.5% through December 2010, compared with the same period in 2009, and year-to-date industry operating rates through December 2010, measured as total production in the U.S. as a percentage of total capacity, were at 95%, according to AF&PA. Total U.S. containerboard inventories were 2.3 million short tons in December 2010, an increase from 2.1 million short tons in December 2009.

Packaging demand in our agriculture, food, and beverage markets, which has historically been less correlated to broad economic activity, remained stable in 2010, compared with 2009. These markets constitute just over half of our corrugated product end-use markets. Demand in our industrial markets and containerboard export markets is more closely aligned with general economic activity and showed improvement during 2010, compared with 2009.

The majority of our fiber needs in our Paper segment and nearly all of our fiber needs in our Packaging segment are supplied by wood fiber, which exhibited stable pricing on a year-to-year basis. However, fiber costs in total increased in 2010, compared with 2009, driven primarily by higher purchased pulp prices, which began to decline in early third quarter 2010. Prices for some key commodity chemicals declined, compared with the prior-year period, but increased sequentially from third quarter 2010 and have continued to increase in 2011. Prices for our fuel energy inputs declined, while electricity prices increased for 2010, compared with 2009. Total consumption of energy increased sequentially for fourth quarter 2010, compared with third quarter 2010, primarily due to higher seasonal consumption as a result of colder winter weather.

During fourth quarter 2010, we performed a scheduled annual maintenance outage at our Jackson, Alabama, pulp and paper mill. We will have our scheduled annual maintenance outage at our DeRidder, Louisiana, mill during first quarter 2011.

Looking ahead, we continue to pursue growth opportunities in our Packaging segment to improve our competitive position. We expect continued growth in our premium office, label and release, and flexible packaging papers, offsetting declining demand in commodity paper markets. In late 2010 and early 2011, we have seen indications of rising input costs, including increased prices for chemicals and energy, which we expect to persist through 2011. We continue to monitor regulatory and competitive developments across the industry, including Boiler MACT legislation, to determine potential impacts on our businesses.

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The following table sets forth our financial results for the years ended December 31, 2010, 2009, and 2008, the Predecessor period of January 1 through February 21, 2008, and the combined year ended December 31, 2008 both before and after special items (dollars in millions, except per-share data):

|  | Boise Inc.<br>Year Ended December 31 |            |            | Predecessor<br>January 1<br>Through<br>February<br>21,<br>2008 | Combined<br>Year Ended<br>December 31,<br>2008 |
|--|--------------------------------------|------------|------------|--|--|
|  | 2010                                 | 2009       | 2008       |  |  |
| Sales  | \$ 2,093.8                           | \$ 1,978.2 | \$ 2,070.6 | \$ 359.9   | \$ 2,430.5                                     |
| Net income (loss)                                    | 62.7                                 | 153.8      | (45.5)     | 22.8   | (22.7)   |
| Net income (loss) per diluted share                  | 0.75                                 | 1.85       | (0.62)     |  |  |
| Net income excluding special items                   | 76.8                                 | 20.4       | 2.1        |  |  |
| Net income excluding special items per diluted share | 0.91                                 | 0.25       | 0.03       |  |  |
| EBITDA   | 302.6                                | 395.7      | 145.1      | 23.7   | 168.8  |
| EBITDA excluding special items                       | 325.6                                | 232.1      | 222.8      | 24.4   | 247.1  |

Net income excluding special items, net income excluding special items per diluted share, EBITDA, and EBITDA excluding special items are not measures under U.S. generally accepted accounting principles (GAAP). EBITDA represents income (loss) before interest (changes in fair value of interest rate derivatives, interest expense, and interest income), income taxes, 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. 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 with substantial financial leverage. EBITDA excluding special items and net income (loss) excluding special items represent EBITDA and net income (loss) adjusted by eliminating items that we believe are not consistent with our ongoing operations. The Company uses these measures to focus on ongoing operations and believes they are useful to investors because these measures enable meaningful comparisons of past and present operating results.



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The Company believes that using this information, along with their comparable GAAP measures, provides for a more complete analysis of the results of operations. The following table provides a reconciliation of net income (loss) to EBITDA, segment income (loss) to EBITDA, and EBITDA to EBITDA excluding special items for the years ended December 31, 2010, 2009, and 2008, the Predecessor period of January 1 through February 21, 2008, and the combined year ended December 31, 2008 (dollars in millions):

|   | Boise Inc.<br>Year Ended December 31 |                  |                  | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Combined<br>Year Ended<br>December 31,<br>2008 |
|---|--------------------------------------|------------------|------------------|---|--|
|   | 2010                                 | 2009             | 2008             |   |  |
| Net income (loss)                                 | \$ 62.7                              | \$ 153.8         | \$ (45.5)        | \$ 22.8   | \$ (22.7)                                      |
| Change in fair value of interest rate derivatives |                                      | (0.6)            | 0.5              |   | 0.5  |
| Interest expense                                  | 64.8                                 | 83.3             | 91.2             |   | 91.2   |
| Interest income                                   | (0.3)                                | (0.4)            | (2.2)            | (0.2)   | (2.4)  |
| Income tax (provision) benefit                    | 45.4                                 | 28.0             | (8.8)            | 0.6   | (8.2)  |
| Depreciation, amortization, and depletion         | 129.9                                | 131.5            | 110.0            | 0.5   | 110.5  |
| <b>EBITDA</b>                                     | <b>\$ 302.6</b>                      | <b>\$ 395.7</b>  | <b>\$ 145.1</b>  | <b>\$ 23.7</b>  | <b>\$ 168.8</b>                                |
| <b>Paper</b>                                      |                                      |                  |                  |   |  |
| Segment income                                    | \$ 151.5                             | \$ 262.7         | \$ 32.7          | \$ 20.7   | \$ 53.4  |
| Depreciation, amortization, and depletion         | 87.4                                 | 85.2             | 71.7             | 0.3   | 72.0   |
| <b>EBITDA</b>                                     | <b>\$ 238.9</b>                      | <b>\$ 347.8</b>  | <b>\$ 104.3</b>  | <b>\$ 21.1</b>  | <b>\$ 125.4</b>                                |
| Inventory revaluation expense                     |                                      |                  | 7.4              |   | 7.4  |
| St. Helens mill restructuring                     | 0.2                                  | 5.8              | 37.6             |   | 37.6   |
| Change in fair value of energy hedges             | 0.5                                  | (4.8)            | 6.1              |   | 6.0  |
| Alternative fuel mixture credits, net             |                                      | (149.9)          |                  |   |  |
| <b>EBITDA excluding special items</b>             | <b>\$ 239.6</b>                      | <b>\$ 198.9</b>  | <b>\$ 155.4</b>  | <b>\$ 21.0</b>  | <b>\$ 176.4</b>                                |
| <b>Packaging</b>                                  |                                      |                  |                  |   |  |
| Segment income                                    | \$ 65.0                              | \$ 67.1          | \$ 21.1          | \$ 5.7  | \$ 26.8  |
| Depreciation, amortization, and depletion         | 38.6                                 | 42.2             | 35.1             | 0.1   | 35.1   |
| <b>EBITDA</b>                                     | <b>\$ 103.6</b>                      | <b>\$ 109.3</b>  | <b>\$ 56.2</b>   | <b>\$ 5.7</b>   | <b>\$ 61.9</b>                                 |
| Inventory revaluation expense                     |                                      |                  | 2.8              |   | 2.8  |
| Impact of DeRidder outage                         |                                      |                  | 19.8             | 0.7   | 20.5   |
| Hurricane losses                                  |                                      |                  | 5.5              |   | 5.5  |
| Change in fair value of energy hedges             | 0.1                                  | (1.1)            | 1.3              |   | 1.3  |
| Alternative fuel mixture credits, net             |                                      | (61.6)           |                  |   |  |
| <b>EBITDA excluding special items</b>             | <b>\$ 103.7</b>                      | <b>\$ 46.6</b>   | <b>\$ 85.6</b>   | <b>\$ 6.5</b>   | <b>\$ 92.1</b>                                 |
| <b>Corporate and Other</b>                        |                                      |                  |                  |   |  |
| Segment loss                                      | \$ (21.6)                            | \$ (21.5)        | \$ (18.6)        | \$ (3.2)  | \$ (21.8)                                      |
| Depreciation, amortization, and depletion         | 3.9                                  | 4.1              | 3.2              | 0.1   | 3.3  |
| Loss on extinguishment of debt                    | (22.2)                               | (44.1)           |                  |   |  |
| <b>EBITDA</b>                                     | <b>\$ (39.9)</b>                     | <b>\$ (61.4)</b> | <b>\$ (15.4)</b> | <b>\$ (3.1)</b>   | <b>\$ (18.5)</b>                               |
| Gain on changes in supplemental pension plans     |                                      |                  | (2.9)            |   | (2.9)  |
| Alternative fuel mixture credits, net             |                                      | 3.9              |                  |   |  |
| Loss on extinguishment of debt                    | 22.2                                 | 44.1             |                  |   |  |

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|                                       |                 |                 |                 |                |                 |
|---------------------------------------|-----------------|-----------------|-----------------|----------------|-----------------|
| EBITDA excluding special items        | \$ (17.7)       | \$ (13.4)       | \$ (18.3)       | \$ (3.1)       | \$ (21.4)       |
| <b>EBITDA</b>                         | <b>\$ 302.6</b> | <b>\$ 395.7</b> | <b>\$ 145.1</b> | <b>\$ 23.7</b> | <b>\$ 168.8</b> |
| <b>EBITDA excluding special items</b> | <b>\$ 325.6</b> | <b>\$ 232.1</b> | <b>\$ 222.8</b> | <b>\$ 24.4</b> | <b>\$ 247.1</b> |

The following table reconciles net income (loss) to net income excluding special items and presents net income excluding special items per diluted share for the years ended December 31, 2010, 2009, and 2008, when we had publicly traded shares outstanding (dollars and shares in millions, except per-share data):

|   | Year Ended December 31 |                |                |
|---|------------------------|----------------|----------------|
|   | 2010                   | 2009           | 2008           |
| Net income (loss)   | \$ 62.7                | \$ 153.8       | \$ (45.5)      |
| St. Helens mill restructuring                               | 0.2                    | 5.8            | 37.6           |
| Change in fair value of energy hedges                       | 0.6                    | (5.9)          | 7.4            |
| Alternative fuel mixture credits, net                       |                        | (207.6)        |                |
| Loss on extinguishment of debt                              | 22.2                   | 44.1           |                |
| Hurricane losses  |                        |                | 5.5            |
| Gain on changes in supplemental pension plans               |                        |                | (2.9)          |
| Inventory revaluation expense                               |                        |                | 10.2           |
| Impact of DeRidder outage                                   |                        |                | 19.8           |
| Tax benefit (provision) for special items (a)               | (8.9)                  | 63.3           | (30.0)         |
| Reversal of income tax valuation allowances                 |                        | (33.2)         |                |
| <b>Net income excluding special items</b>                   | <b>\$ 76.8</b>         | <b>\$ 20.4</b> | <b>\$ 2.1</b>  |
| <b>Weighted average common shares outstanding: diluted</b>  | <b>84,131</b>          | <b>83,081</b>  | <b>73,636</b>  |
| <b>Net income excluding special items per diluted share</b> | <b>\$ 0.91</b>         | <b>\$ 0.25</b> | <b>\$ 0.03</b> |

(a) Special items are tax affected in the aggregate at an assumed combined federal and state statutory rate of 38.7%.

### ***Factors That Affect Our Operating Results***

Our results of operations and financial performance are influenced by a variety of factors, including the following:

Labor and personnel relations.

General economic conditions, including but not limited to durable and nondurable goods production, white-collar employment, electronic substitution, and relative currency values.

Legislative or regulatory environments, requirements, or changes affecting the businesses in which we are engaged.

Competing technologies that affect the demand for our products.

The commodity nature of our products and their price movements, which are driven largely by supply and demand.

Availability and affordability of raw materials, fiber, energy, and chemicals.

The ability of our lenders, customers, and suppliers to continue to conduct their businesses.

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Our customer concentration and the ability of our customers to pay.

Pension funding requirements.

Credit or currency risks affecting our revenue and profitability.

Major equipment failure.

Severe weather phenomena such as drought, hurricanes and significant rainfall, tornadoes, and fire.

The other factors described in Part I, Item 1A. Risk Factors of this Form 10-K.

### *Demand*

The overall level of demand for the products we make and distribute is affected by, among other things, employment, electronic media substitution, manufacturing activity, consumer spending, and currency exchange rates. Accordingly, we believe that our financial results depend in large part on general macroeconomic conditions in North America, as well as on regional economic conditions in the geographic markets in which we operate. While extended high unemployment levels or a second economic downturn could negatively affect overall demand, no single product line drives our overall financial performance, and individual product lines are influenced by conditions in their respective industries. For example:

Historically, demand for uncoated freesheet papers correlated positively with general economic activity. However, demand for communication paper grades, such as imaging and printing and converting papers, which we produce, has decreased as the use of electronic transmission and document storage alternatives has become more widespread and more efficient.

Demand for recycled-content papers is linked to an increased public awareness of environmental and sustainability issues and is less sensitive to general economic activity. We produce grades that contain from 10% to 100% recycled content.

Demand for our packaging products, including corrugated containers and sheets, containerboard, label and release, and flexible packaging papers, is driven by packaging demand. This demand is affected by macroeconomic conditions and is less susceptible to electronic media substitution.

A large share of the demand for corrugated containers and, therefore, containerboard is driven by unprocessed and processed food production and manufacturing, specifically the manufacture of nondurable goods. Inventory levels and currency exchange rates also affect import and export volumes and influence demand for corrugated containers.

### *Supply*

Industry supply of paper is affected by the number of operational or idled facilities, the building of new capacity, and the shutting down of existing capacity. Capacity also tends to increase gradually over time without significant capital expenditures as manufacturers improve production efficiencies. Generally, more capacity is added or employed when supply is tight and margins are relatively high, and capacity is idled or eliminated when capacity significantly exceeds demand and margins are poor.

From 2005 to 2010, North American uncoated freesheet paper, containerboard, and newsprint capacities declined approximately 24%, 4%, and 39%, respectively, according to Resource Information Systems Inc. (RISI). New capacity additions are constrained by the high capital investment and long lead times required to plan, obtain regulatory approvals for, and build a new mill.

Industry supply of paper is also influenced by the level of imports, relative currency values, and overseas production capacity, which has grown over the past decade. According to RISI, U.S. uncoated freesheet paper imports increased in 2010, compared with 2009. U.S. exports also increased over the same time period, mitigating some of the impact of increased imports.

### *Operating Costs*

The major costs of production are fiber, energy, chemicals, and labor. The relative size of these costs varies by segment. Given the significance of raw material and energy costs to total operating expenses and the limited ability to control these costs, compared with other operating costs, volatility

in these costs can materially affect operating margins. In addition, the timing and degree of price cycles of raw materials and energy differ with respect to each type of raw material and energy used.

*Fiber.* The primary raw material is wood fiber in various forms, accounting for the following percentages of materials, labor, and other operating expenses, including related-party fiber costs, for Boise Inc. and the Predecessor for each of the periods listed below:

|           | Boise Inc.<br>Year Ended December 31 |      |      | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Combined<br>Year<br>Ended<br>December 31,<br>2008 |
|-----------|--------------------------------------|------|------|---|---|
|           | 2010                                 | 2009 | 2008 |   |   |
| Paper     | 31%                                  | 27%  | 29%  | 26%   | 29%   |
| Packaging | 18%                                  | 17%  | 15%  | 17%   | 15%   |

The primary sources of logs and wood fiber are timber and byproducts of timber, such as wood chips, wood shavings, and sawdust. Substantially all fiber is acquired from outside sources. We convert logs and wood chips into pulp, which we use at our paper mills to produce paper. On an aggregate basis, operating at capacity, we are a net consumer of market pulp, producing and selling less market pulp on the open market than we purchase on the open market. The net market pulp consumed is a relatively small portion of our overall fiber needs.

Logs and wood fiber are commodities, and prices for logs and wood fiber have historically been cyclical due to changing levels of supply and demand. Log and wood fiber supply may be limited by public policy or government regulation as well as fire, insect infestation, disease, ice storms, windstorms, hurricanes, flooding, other weather conditions, and other natural and man-made causes. Residual fiber supply may be limited due to a reduction in primary manufacturing at sawmills and plywood plants. Declines in log and wood fiber supplies have been severe enough to cause the closure of numerous facilities in some of the regions in which we operate. In addition, new or proposed regulations related to the production and use of biofuel may increase the competition for wood fiber in a number of operating regions. Any sustained undersupply and resulting increase in wood fiber prices could decrease our production volumes and/or increase our operating costs. Prices for our products might not reflect increases or decreases in log and wood fiber prices, and as a result, our operating margins could fluctuate. Delivered-fiber costs in all of our operating regions include the cost of diesel, which increased in 2010, compared with 2009. Higher diesel costs increase the cost to harvest and transport wood to the mills, unfavorably affecting fiber costs in all of our regions.

In Minnesota, our overall fiber costs increased in 2010, compared with 2009, driven by higher prices and increased consumption of purchased pulp as a result of increased production and sales volumes. This was offset partially by lower wood fiber prices, compared with 2009.

In the Pacific Northwest, our fiber costs increased in 2010, compared with 2009, as a result of higher prices and increased consumption of purchased pulp. The increased consumption of pulp was driven both by increased production and sales volumes and by increased purchases of pulp from third parties, compared with 2009. For 2010, increased wood fiber costs also resulted from increased whole-log chipping and species mix changes.

In the South, during 2010, total fiber costs at our DeRidder mill increased overall, compared with 2009, due to higher consumption as a result of increased production and sales. In Alabama, fiber costs increased in 2010, compared with 2009, driven by increased prices for purchased pulp and recycled fiber, offset partially by lower consumption of purchased pulp and recycled fiber.

*Other Raw Materials and Energy Purchasing and Pricing.* We purchase other raw materials and energy used to manufacture our products in both the open market and through long-term contracts. These contracts are generally with regional suppliers who agree to supply all of our needs for a certain raw material or energy at a single facility. These contracts frequently contain minimum

purchase requirements and are for terms of various lengths. They also contain price adjustment mechanisms that take into account changes in market prices. Therefore, although our long-term contracts provide us with supplies of raw materials and energy that are more stable than open-market purchases, they may not, in many cases, alleviate fluctuations in market prices.

Our costs for raw materials are influenced by increases in energy costs. Specifically, some of our key chemicals, including pulping and bleaching chemicals consumed in our paper and packaging mills, are heavily influenced by energy costs. The relationship between industry supply and demand, rather than changes in the cost of raw materials, determines our ability to increase prices. Consequently, we may be unable to pass increases in our operating costs to our customers in the short term.

*Energy.* Energy prices, particularly for electricity, natural gas, and fuel oil, have been volatile in recent years. Currently, energy prices are favorable, compared with historical averages. In 2010, energy costs were higher, compared with 2009, due mainly to the increased consumption and price of electricity, offset partially by lower natural gas costs. Under normal operations, we expect to consume approximately 12 million mmBtu (millions of British thermal units) of natural gas annually. Energy costs represent the following percentages of materials, labor, and other operating expenses, including fiber costs from related parties, for Boise Inc. and the Predecessor in each of the periods listed below:

|           | Boise Inc.<br>Year Ended December 31 |      |      | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Combined<br>Year<br>Ended<br>December 31,<br>2008 |
|-----------|--------------------------------------|------|------|---|---|
|           | 2010                                 | 2009 | 2008 |   |   |
| Paper     | 13%                                  | 12%  | 16%  | 15%   | 16%   |
| Packaging | 12%                                  | 10%  | 15%  | 14%   | 15%   |

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. For more information about our energy derivative instruments, see *Disclosures of Financial Market Risks* in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

*Chemicals.* Important chemicals we use in the production of our products include starch, sodium chlorate, caustic, precipitated calcium carbonate, and dyestuffs and optical brighteners. Purchases of chemicals represent the following percentages of materials, labor, and other operating expenses, including fiber costs, for Boise Inc. and the Predecessor for each of the periods listed below:

|           | Boise Inc.<br>Year Ended December 31 |      |      | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Combined<br>Year<br>Ended<br>December 31,<br>2008 |
|-----------|--------------------------------------|------|------|---|---|
|           | 2010                                 | 2009 | 2008 |   |   |
| Paper     | 15%                                  | 15%  | 15%  | 13%   | 15%   |
| Packaging | 6%                                   | 7%   | 6%   | 6%  | 6%  |

Total chemical costs for 2010 were lower, compared with 2009, as a result of a more favorable chemical mix, which reduced consumption of some higher-cost commodity chemicals. Many of our chemicals are purchased under contracts, which provide more stability than open-market purchases. These contracts are negotiated periodically at prevailing rates.

*Labor.* Labor costs tend to increase steadily due to inflation in healthcare and wage costs. As of January 31, 2011, we had approximately 4,100 employees. Approximately 57% of these employees worked pursuant to collective bargaining agreements, and approximately 50% are working pursuant to collective bargaining agreements that have expired or will expire within one year.

**Our Operating Results**

The following table sets forth operating results in dollars and as a percentage of sales for the years ended December 31, 2010, 2009, and 2008, and the Predecessor period of January 1 through February 21, 2008 (dollars in millions, except percent-of-sales data):

|  | <b>Boise Inc.<br/>Year Ended December 31</b> |                 |                | <b>Predecessor<br/>January 1<br/>Through<br/>February 21,<br/>2008</b> |
|--|--|-----------------|----------------|--|
|  | <b>2010</b>                                  | <b>2009</b>     | <b>2008</b>    |  |
| <b>Sales</b>                                   |  |                 |                |  |
| Trade  | \$ 2,058.1                                   | \$ 1,935.4      | \$ 1,990.2     | \$ 258.4   |
| Related parties                                | 35.7   | 42.8            | 80.4           | 101.5  |
|  | 2,093.8                                      | 1,978.2         | 2,070.6        | 359.9  |
| <b>Costs and expenses</b>                      |  |                 |                |  |
| Materials, labor, and other operating expenses | 1,634.0                                      | 1,596.2         | 1,756.8        | 313.9  |
| Fiber costs from related parties               | 25.3   | 36.9            | 54.6           | 7.7  |
| Depreciation, amortization, and depletion      | 129.9  | 131.5           | 110.0          | 0.5  |
| Selling and distribution expenses              | 58.1   | 55.5            | 48.3           | 9.1  |
| General and administrative expenses            | 52.3   | 50.3            | 34.2           | 6.6  |
| St. Helens mill restructuring                  | 0.2  | 5.8             | 29.8           |  |
| Alternative fuel mixture credits, net          |  | (207.6)         |                |  |
| Other (income) expense, net                    |  | 4.0             | (3.0)          | (1.0)  |
|  | 1,899.8                                      | 1,672.6         | 2,030.7        | 336.8  |
| <b>Income from operations</b>                  | <b>\$ 194.0</b>                              | <b>\$ 305.6</b> | <b>\$ 39.9</b> | <b>\$ 23.1</b>   |
| <b>Sales</b>                                   |  |                 |                |  |
| Trade  | 98.3%  | 97.8%           | 96.1%          | 71.8%  |
| Related parties                                | 1.7  | 2.2             | 3.9            | 28.2   |
|  | 100.0%                                       | 100.0%          | 100.0%         | 100.0%   |
| <b>Costs and expenses</b>                      |  |                 |                |  |
| Materials, labor, and other operating expenses | 78.0%  | 80.7%           | 84.9%          | 87.2%  |
| Fiber costs from related parties               | 1.2  | 1.9             | 2.6            | 2.2  |
| Depreciation, amortization, and depletion      | 6.2  | 6.6             | 5.3            | 0.1  |
| Selling and distribution expenses              | 2.8  | 2.8             | 2.3            | 2.5  |
| General and administrative expenses            | 2.5  | 2.5             | 1.7            | 1.9  |
| St. Helens mill restructuring                  |  | 0.3             | 1.4            |  |
| Alternative fuel mixture credits, net          |  | (10.5)          |                |  |
| Other (income) expense, net                    |  | 0.2             | (0.1)          | (0.3)  |
|  | 90.7%  | 84.5%           | 98.1%          | 93.6%  |
| <b>Income from operations</b>                  | <b>9.3%</b>                                  | <b>15.5%</b>    | <b>1.9%</b>    | <b>6.4%</b>  |





**Sales Volumes and Prices**

Set forth below are our segment sales volumes and average net selling prices for our principal products for the years ended December 31, 2010, 2009, and 2008, the Predecessor period of January 1 through February 21, 2008, and the combined year ended December 31, 2008 (in thousands of short tons and dollars per short ton, except corrugated containers and sheets, which are in millions of square feet or dollars per thousands of square feet):

|                         | Boise Inc.<br>Year Ended December 31 |       |          | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Combined<br>Year<br>Ended<br>December 31,<br>2008 |
|-------------------------|--------------------------------------|-------|----------|---|---|
|                         | 2010                                 | 2009  | 2008     |   |   |
| <b>Paper</b>            |                                      |       |          |   |   |
| Uncoated freesheet      | 1,233                                | 1,251 | 1,200(a) | 236   | 1,436(a)  |
| Containerboard (medium) | 127                                  | 127   | 118      | 19  | 137   |
| Market pulp             | 81                                   | 58    | 102(a)   | 20  | 122(a)  |
|                         | 1,441                                | 1,436 | 1,420    | 275   | 1,695   |

**Packaging**

|   |       |       |       |     |       |
|---|-------|-------|-------|-----|-------|
| Containerboard (linerboard)             | 225   | 253   | 194   | 36  | 230   |
| Newsprint                               | 231   | 199   | 326   | 56  | 382   |
| Corrugated containers and sheets (mmsf) | 6,735 | 5,963 | 5,337 | 914 | 6,251 |

**Paper**

|                         |        |        |        |        |        |
|-------------------------|--------|--------|--------|--------|--------|
| Uncoated freesheet      | \$ 977 | \$ 954 | \$ 942 | \$ 868 | \$ 930 |
| Containerboard (medium) | 467    | 418    | 481    | 454    | 477    |
| Market pulp             | 549    | 429    | 512    | 535    | 516    |

**Packaging**

|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Containerboard (linerboard)               | \$ 365 | \$ 301 | \$ 396 | \$ 399 | \$ 397 |
| Newsprint                                 | 493    | 459    | 584    | 494    | 571    |
| Corrugated containers and sheets (\$/msf) | 57     | 58     | 58     | 55     | 57     |

(a) The year ended December 31, 2008, and the combined year ended December 31, 2008, included 177,000 and 206,000 short tons, respectively, of uncoated freesheet papers and 24,000 and 29,000 short tons, respectively, of market pulp from machines at the St. Helens, Oregon, paper mill that have been shut down.

**Operating Results**

The following presents a discussion of sales and costs for the year ended December 31, 2010, compared with the year ended December 31, 2009, and for the year ended December 31, 2009, compared with the combined year ended December 31, 2008. The combined year ended December 31, 2008, represents the results of Boise Inc. for the year ended December 31, 2008, and the results of the Predecessor for the period of January 1 through February 21, 2008. See *Background* in this Management's Discussion and Analysis of Financial Condition and Results of Operations for more information related to the Acquisition.

**Year Ended December 31, 2010, Compared With the Year Ended December 31, 2009****Sales**

For the year ended December 31, 2010, total sales increased \$115.6 million, or 6%, to \$2,093.8 million from \$1,978.2 million for the year ended December 31, 2009. The increase was driven primarily by increased sales prices in both the Paper and Packaging segments and, to a lesser extent, by increased sales volumes in the Packaging segment.



*Paper.* Sales increased \$38.3 million, or 3%, to \$1,458.3 million from \$1,420.0 million for the year ended December 31, 2009. The increase was driven primarily by increased sales prices across the majority of our products. Overall uncoated freesheet net sales prices increased 2%, compared with the same period in 2009, as commodity uncoated freesheet net sales prices increased 2% and premium and specialty net sales prices increased 3%, compared with the prior year. Overall uncoated freesheet sales volumes were down 1%, compared with the prior year, driven by a 7% decline in sales volumes of commodity grades, offset by a 10% increase in sales volumes of premium and specialty grades. Increased premium and specialty sales volumes were driven primarily by 13% growth in combined sales volumes of premium office, label and release, and flexible packaging papers, which represented 31% of our total 2010 uncoated freesheet sales volumes.

*Packaging.* Sales increased \$83.5 million, or 14%, to \$671.9 million from \$588.4 million for the year ended December 31, 2009. The increase was driven by a 21% increase in segment linerboard net selling prices, a 7% increase in newsprint net selling prices coupled with a 16% increase in sales volumes, and a 13% increase in sales volumes of corrugated containers and sheets. The increase in corrugated containers and sheets was due to improved market conditions and increased sheet sales volumes from our sheet feeder plant in Texas. Corrugated products net sales price decreased 2%, as a result of an increased sales mix of lower-priced corrugated sheets relative to containers due to strong corrugated sheet demand. Partially offsetting these factors were 11% lower sales volumes of segment linerboard, driven by increased corrugated sheet sales volumes, which consumed more linerboard and resulted in a smaller proportion of linerboard available for sale to third parties.

#### *Costs and Expenses*

Materials, labor, and other operating expenses, including the cost of fiber from related parties, increased \$26.2 million to \$1,659.3 million for the year ended December 31, 2010, compared with \$1,633.1 million for the year ended December 31, 2009. The increase was driven primarily by higher fiber and energy costs, compared with 2009.

Fiber, energy, and chemical costs were \$461.8 million, \$211.7 million, and \$204.9 million, respectively, for the year ended December 31, 2010, and \$401.1 million, \$188.9 million, and \$210.3 million, respectively, for the year ended December 31, 2009. This represents a cost increase of \$78.1 million for the year ended December 31, 2010, compared with 2009. This increase was driven primarily by increased costs for fiber as a result of higher purchased pulp and recycled fiber prices and increased wood consumption. Increased consumption of fiber was driven primarily by higher production volumes. These costs were offset partially by lower prices for chemicals.

Fiber costs increased \$48.0 million in our Paper segment and \$12.8 million in our Packaging segment, compared with 2009, due primarily to increased purchased pulp prices, increased recycled fiber prices, and increased fiber consumption as a result of increased production volumes.

Compared with 2009, energy costs increased \$8.3 million in our Paper segment and \$14.5 million in our Packaging segment, due primarily to higher electrical rates in our Packaging segment and increased consumption in both our Packaging and Paper segments as a result of increased production. This was offset partially by lower natural gas prices.

Chemical costs decreased \$2.0 million in our Paper segment and \$3.4 million in our Packaging segment, compared with 2009, as a result of a more favorable chemical mix, which reduced consumption of some higher-cost commodity chemicals.

Selling and distribution expenses increased \$2.6 million to \$58.1 million for the year ended December 31, 2010, compared with \$55.5 million for the year ended December 31, 2009. As a percentage of sales, selling and distribution expenses remained flat at 2.8%, compared with the prior year.

General and administrative expenses increased \$2.0 million to \$52.3 million for the year ended December 31, 2010, compared with \$50.3 million for year ended December 31, 2009. While total general and administrative expenses increased, the costs remained flat as a percentage of sales, compared with the prior year.

*St. Helens mill restructuring.* The year ended December 31, 2010, included \$0.2 million of costs associated with the restructuring of our St. Helens, Oregon, paper mill, compared with \$5.8 million of costs for the year ended December 31, 2009. These costs are recorded in our Paper segment. These costs included decommissioning and other costs related to the restructuring of the mill.

*Alternative fuel mixture credits.* The year ended December 31, 2009, included \$207.6 million of alternative fuel mixture credits, of which \$149.9 million was recorded in our Paper segment and \$61.6 million was recorded in our Packaging segment. These amounts are net of fees and expenses and before taxes. We also recorded \$3.9 million of expenses in our Corporate and Other segment relating to alternative fuel mixture credits. Eligibility for new credits expired on December 31, 2009.

*Other (income) expense.* Other (income) expense, net includes miscellaneous income and expense items. For the year ended December 31, 2010, we had an immaterial amount of other expense, and for the year ended December 31, 2009, we had \$4.0 million of other expense that consisted primarily of expenses related to the idling of our D2 newsprint machine at our DeRidder mill.

#### *Income From Operations*

Income from operations for the year ended December 31, 2010, decreased \$111.6 million to \$194.0 million, compared with \$305.6 million for the year ended December 31, 2009. This decrease was driven primarily by \$207.6 million of income from alternative fuel mixture credits recognized for the year ended December 31, 2009. Excluding the \$207.6 million of income from alternative fuel mixture credits, income from operations increased \$96.0 million, compared with the prior-year period. This increase was due primarily to overall increased net sales prices and sales volumes and, to a lesser extent, lower chemical costs in both the Paper and Packaging segments. These increases were offset partially by increased fiber and energy costs. Our operating segment results are discussed below. Income from operations also includes net costs from our Corporate and Other segment.

*Paper.* Segment income from operations decreased \$111.2 million to \$151.5 million for the year ended December 31, 2010, compared with \$262.7 million for the year ended December 31, 2009. This decrease was driven primarily by \$149.9 million of income from alternative fuel mixture credits recognized for the year ended December 31, 2009. Excluding the \$149.9 million of income from alternative fuel mixture credits, income from operations increased \$38.8 million, compared with the prior-year period. This increase was due primarily to increased net sales prices across all major product categories and, to a lesser extent, lower chemical prices. These increases were offset partially by increased fiber costs due to increased purchased pulp and recycled fiber costs.

*Packaging.* Segment income from operations decreased \$2.1 million to \$65.0 million for the year ended December 31, 2010, compared with \$67.1 million for the year ended December 31, 2009. Segment income for the year ended December 31, 2009, included \$61.6 million of income from alternative fuel mixture credits. Excluding the \$61.6 million of income from alternative fuel mixture credits, income from operations increased \$59.5 million, compared with the prior-year period. This increase was due primarily to increased net sales prices for linerboard and newsprint along with increased sales volumes for newsprint and corrugated products and, to a lesser extent, lower chemical prices. This increase was offset partially by increased energy costs, as well as additional maintenance costs as a result of a more extensive outage at DeRidder in first quarter 2010, compared with 2009.

*Other*

*Loss on extinguishment of debt.* For the year ended December 31, 2010, loss on extinguishment of debt was \$22.2 million. This amount consists primarily of previously unamortized deferred financing costs for our Tranche B term loan facility, which was paid off as part of our March 2010 debt refinancing. For the year ended December 31, 2009, loss on extinguishment of debt was \$44.1 million as a result of the October 2009 debt restructuring. For the year ended December 31, 2009, BZ Intermediate loss on extinguishment of debt was \$66.8 million as a result of excluding the gain on the repurchase of the notes payable, which was held by, and therefore recognized by, Boise Inc. as part of the October 2009 debt restructuring.

*Interest expense.* For the year ended December 31, 2010 and 2009, interest expense was \$64.8 million and \$83.3 million, respectively, which includes interest on our debt obligations as well as the amortization of deferred financing costs and other. Interest expense decreased period over period due to our reduced principal balances. Interest expense for BZ Intermediate was \$74.3 million for the year ended December 31, 2009. This amount does not include the gain on repurchase of Boise Inc.'s notes payable, which were recognized by Boise Inc.

*Income taxes.* For the year ended December 31, 2010, Boise Inc. recorded \$45.4 million of income tax expense, and Boise Inc.'s effective tax rate was 42.0%. For the year ended December 31, 2009, Boise Inc. recorded \$28.0 million of income tax expense and had an effective tax rate of 15.4%. In the prior year, Boise Inc. released valuation allowances recorded during 2008 because Boise Inc. expected to be able to utilize deferred tax assets to offset deferred tax liabilities. This resulted in a lower effective tax rate during 2009, relative to 2010.

For the year ended December 31, 2010, BZ Intermediate recorded \$44.5 million of income tax expense and had an effective tax rate of 41.2%. For the year ended December 31, 2009, BZ Intermediate recorded \$20.4 million of income tax expense and had an effective tax rate of 12.1%. In the prior year, BZ Intermediate released valuation allowances recorded during 2008 because BZ Intermediate expected to be able to utilize deferred tax assets to offset deferred tax liabilities. This resulted in a lower effective tax rate during 2009, relative to 2010.

***Year Ended December 31, 2009, Compared With the Combined Year Ended December 31, 2008***

Management believes this combined presentation of the Boise Inc. and Predecessor statement of operations is the most useful comparison between periods. The Acquisition resulted in a new basis of accounting from that previously reported by the Predecessor. However, sales and most operating cost items are substantially consistent with those reflected by the Predecessor. Some inventories were revalued in accordance with purchase accounting rules. Depreciation changed as a result of adjustments to the fair values of property and equipment due to our purchase price allocation. These items, along with changes in interest expense and income taxes, are explained independently where appropriate.

*Sales*

For the year ended December 31, 2009, total sales decreased \$452.4 million, or 19%, to \$1,978.2 million from \$2,430.6 million for the combined year ended December 31, 2008. The decrease was driven primarily by a 14% decrease in Paper segment sales due to lower sales volumes, offset partially by higher sales prices, and a 28% decline in Packaging segment sales due primarily to lower sales volumes and prices.

*Paper.* Sales decreased \$237.2 million, or 14%, to \$1,420.0 million for the year ended December 31, 2009, from \$1,657.2 million for the combined year ended December 31, 2008. This decrease was driven primarily by a 13% decline in uncoated freesheet paper sales volumes, due primarily to lower production capacity as a result of the St. Helens mill restructuring and to market

downtime as a result of declining demand. Sales volumes for uncoated freesheet paper commodity grades declined 10%, and premium and specialty grades declined 19%, compared with 2008, driven primarily by sharp reductions in printing and converting sales volumes. Sales volumes in our label and release, flexible packaging, and premium office grades grew 4%, compared with 2008, as we continued to convert commodity production to label and release at our Wallula, Washington, mill. Reduced volumes were offset partially by higher prices. Overall uncoated freesheet paper net sales prices increased 3%, compared with 2008, as both commodity and premium and specialty uncoated freesheet paper net sales prices increased.

*Packaging.* Sales decreased \$228.8 million, or 28%, to \$588.4 million for the year ended December 31, 2009, from \$817.2 million for the year ended December 31, 2008. The decrease was driven by lower sales volumes for newsprint and corrugated products and lower net sales prices for newsprint and linerboard, offset partially by higher segment linerboard sales volumes and higher corrugated products sales prices. Sales volumes for newsprint declined 48% and for corrugated container and sheets declined 5%, while segment linerboard sales volumes increased 10%, compared with 2008. Net sales prices for segment linerboard declined 24%, newsprint net sales prices declined 20%, and corrugated products net sales prices increased 2% over the same time period. Demand for linerboard was weak early in 2009 but improved later in the year, particularly in export markets. Newsprint experienced a significant decline in demand during 2009, resulting in market downtime during the period to match production with demand. In April 2009, we indefinitely idled our D2 newsprint machine in DeRidder, Louisiana.

#### *Costs and Expenses*

Materials, labor, and other operating expenses, including the cost of fiber from related parties, decreased \$499.9 million, or 23%, to \$1,633.1 million for the year ended December 31, 2009, from \$2,133.0 million for the combined year ended December 31, 2008. The decrease was driven primarily by lower prices and lower consumption of inputs and by fixed cost reductions as a result of the St. Helens mill restructuring and the idling of our D2 newsprint machine.

Fiber, energy, and chemical costs were \$401.1 million, \$188.9 million, and \$210.3 million, respectively, for the year ended December 31, 2009, and \$530.0 million, \$340.2 million, and \$262.6 million, respectively, for the combined year ended December 31, 2008. Combined, this represents a cost decrease of \$332.5 million in 2009, compared with 2008. This decrease was driven primarily by lower prices for energy, fiber, and chemicals and reduced consumption of inputs due to lower production volumes.

Fiber costs decreased \$100.9 million in our Paper segment and \$28.0 million in our Packaging segment, compared with the combined year ended December 31, 2008, due primarily to lower prices for wood, purchased pulp, and recycled fiber and reduced overall consumption of fiber.

Compared with the combined year ended December 31, 2008, energy costs decreased \$96.4 million in our Paper segment and \$54.8 million in our Packaging segment, driven by lower prices for fuel and electricity and reduced consumption of energy.

Chemical costs decreased \$40.7 million in our Paper segment and \$11.6 million in our Packaging segment, compared with the combined year ended December 31, 2008, due primarily to lower consumption and lower prices for chemical inputs.

Depreciation, amortization, and depletion was \$131.5 million for the year ended December 31, 2009, and \$110.0 million for the year ended December 31, 2008. The year ended December 31, 2008, included depreciation, amortization, and depletion for the period of February 22, 2008, through December 31, 2008. For the Predecessor period of January 1 through February 21, 2008, depreciation, amortization, and depletion was \$0.5 million due to the suspension of depreciation for the assets being held for sale as a result of the Acquisition.

Selling and distribution expenses decreased \$1.9 million, or 3%, to \$55.5 million for the year ended December 31, 2009, from \$57.4 million for the combined year ended December 31, 2008. As a percentage of sales, selling and distribution expenses increased to 2.8% for the year ended December 31, 2009, compared with 2.4% for the combined year ended December 31, 2008, as these expenses declined less than sales.

General and administrative expenses increased \$9.4 million, or 23%, to \$50.3 million for the year ended December 31, 2009, from \$40.9 million for the combined year ended December 31, 2008. As a percentage of sales, general and administrative expenses increased to 2.5% for the year ended December 31, 2009, compared with 1.7% for the combined year ended December 31, 2008, due primarily to increased employee compensation costs. Short-term incentive compensation was suspended for 2008.

*St. Helens mill restructuring.* The years ended December 31, 2009 and 2008, include \$5.8 million and \$37.6 million, respectively, of costs associated with the restructuring of our St. Helens, Oregon, paper mill. For 2008, \$28.8 million of the costs related to noncash expenses. These costs are recorded in our Paper segment. The \$5.8 million of costs recorded in 2009 related to decommissioning and other costs associated with the restructuring of the mill and are recorded in *St. Helens mill restructuring* in the Consolidated Statement of Income (Loss). Of the \$37.6 million pretax loss recorded in 2008, \$7.8 million related to the write-down of inventory and is recorded in *Materials, labor, and other operating expenses* in the Consolidated Statement of Income (Loss). We recorded the remaining \$29.8 million of restructuring costs in *St. Helens mill restructuring* in the Consolidated Statement of Income (Loss). These costs included asset write-downs for plant and equipment at the St. Helens mill, employee-related severance costs, pension curtailment losses, and other miscellaneous costs related to the restructuring of the mill.

*Alternative fuel mixture credits.* The year ended December 31, 2009, includes \$207.6 million of alternative fuel mixture credits, of which \$149.9 million is recorded in our Paper segment and \$61.6 million is recorded in our Packaging segment. These amounts are net of fees and expenses and before taxes. We also recorded \$3.9 million of expenses in our Corporate and Other segment relating to alternative fuel mixture credits. For more information, see *Alternative Fuel Mixture Credits* in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

*Other (income) expense, net.* Other (income) expense, net includes miscellaneous income and expense items. For the year ended December 31, 2009, we had \$4.0 million of expense, compared with \$4.0 million of income in the combined prior year. In 2009, \$4.0 million of expense consisted primarily of expenses related to the idling of our D2 newsprint machine at our DeRidder mill. In 2008 the \$4.0 million of income consisted primarily of a \$2.9 million gain on changes in supplemental pension plans and a net gain on sales of assets of \$1.0 million for the Predecessor period of January 1 through February 21, 2008.

*Income from operations.* Income from operations for the year ended December 31, 2009, increased \$242.6 million to \$305.6 million, compared with \$63.0 million for the combined year ended December 31, 2008. This increase was driven primarily by reduced input and fixed costs, alternative fuel mixture credits for our use of renewable biomass fuels, and the restructuring of our St. Helens mill in late 2008. This increase was offset partially by reduced depreciation in 2008 due to the suspension of depreciation for the assets being held for sale as a result of the Acquisition, reduced volumes, and lower net sales prices in our Packaging segment. Income for the combined year ended December 31, 2008, was negatively affected by approximately \$20.5 million due to the DeRidder outage in the first quarter and \$10.2 million due to inventory purchase price adjustments.

*Paper.* Segment income increased \$209.3 million, or 392%, to \$262.7 million in 2009 from \$53.4 million in the combined year ended December 31, 2008. The impact of the alternative fuel



mixture credits was \$149.9 million. The remainder of this increase was due primarily to reduced input and fixed costs and the restructuring of our St. Helen's mill in late 2008, offset partially by lower sales volumes and reduced depreciation due to the suspension of depreciation for the assets being held for sale as a result of the Acquisition. The combined year ended December 31, 2008, included \$7.4 million of expense from inventory purchase accounting adjustments.

*Packaging.* Segment income increased \$40.3 million, or 150%, to \$67.1 million in 2009 from \$26.8 million in the combined year ended December 31, 2008. The impact of the alternative fuel mixture credits was \$61.6 million. The remainder of this increase was due primarily to reduced input and fixed costs (offset partially by lower net sales prices and sales volumes) and reduced depreciation due to the suspension of depreciation for the assets being held for sale as a result of the Acquisition. The combined year ended December 31, 2008, included \$20.5 million in costs due to the planned DeRidder outage in the first quarter and \$2.8 million of expense from inventory purchase accounting adjustments.

*Other*

*Foreign exchange gain (loss).* For the year ended December 31, 2009, foreign exchange gain was \$2.6 million, compared with a \$4.6 million loss for the same period in the combined year ended December 31, 2008. This gain was driven primarily by weakening of the U.S. dollar, compared with other global currencies, particularly the Canadian dollar.

*Loss on extinguishment of debt.* For the year ended December 31, 2009, Boise Inc.'s loss on extinguishment of debt was \$44.1 million as a result of the October 2009 debt restructuring, and the loss for BZ Intermediate was \$66.8 million. BZ Intermediate's loss was greater because it did not receive the gain on repurchase of notes payable, which were held by Boise Inc. For additional information, refer to our discussion under Liquidity and Capital Resources in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

*Interest expense.* For the year ended December 31, 2009, interest expense was \$83.3 million, of which \$56.9 million consisted of cash interest payments related to debt under our senior secured credit facilities. The remaining amount of interest expense consisted primarily of noncash items, including the following: \$9.0 million related to notes payable and \$11.3 million for amortization of deferred financing costs. For the combined year ended December 31, 2008, interest expense was \$91.2 million, of which \$72.1 million consisted of cash interest payments related to debt under our senior secured credit facilities. The remaining amount of interest expense consisted primarily of noncash items, including the following: \$8.3 million related to notes payable and \$9.3 million for amortization of deferred financing costs.

*Interest income.* For the year ended December 31, 2009, interest income was \$0.4 million, compared with \$2.4 million for the combined year ended December 31, 2008. Interest income for the period prior to February 22, 2008, is attributable to income from interest earned on trust assets held by Aldabra 2 Acquisition Corp.

*Income taxes.* For the year ended December 31, 2009, Boise Inc. recorded \$28.0 million of income tax expense and had an effective tax rate of 15.4%. Boise Inc. increased its income tax expense in 2009 as a result of its uncertain tax position regarding alternative fuel mixture credits. This increase was offset by a \$44.1 million tax benefit from the release of valuation allowances. For the year ended December 31, 2008, Boise Inc. recorded \$8.8 million of income tax benefits related to losses incurred during the year and had an effective tax benefit rate of 16.2%.

For the year ended December 31, 2009, BZ Intermediate recorded \$20.4 million of income tax expense and had an effective tax rate of 12.1%. BZ Intermediate increased its income tax expense in 2009 as a result of its uncertain tax position regarding alternative fuel mixture credits. This

increase was offset by a \$45.7 million tax benefit from the release of valuation allowances. For the year ended December 31, 2008, BZ Intermediate recorded \$5.8 million of income tax benefits related to losses incurred during the year and had an effective tax benefit rate of 12.3%.

### ***Liquidity and Capital Resources***

During 2010, we continued to improve our liquidity position. At December 31, 2010 and 2009, we had \$177.5 million and \$79.4 million, respectively, of cash, cash equivalents, and short-term investments and \$781.8 million and \$815.9 million of debt, respectively. In 2010, we generated higher operating cash flows from increased sales prices in both the Paper and Packaging segments and, to a lesser extent, increased sales volumes in the Packaging segment. During 2010, we paid a special dividend of \$0.40 per common share, or \$32.3 million, and we refinanced some of our variable-rate debt to fixed-rate debt, which reduced our exposure to future interest rate changes. At December 31, 2010, 42.0 million warrants and 2.3 million insider warrants for which we will receive no proceeds were outstanding. The warrants expire on June 18, 2011. If all outstanding warrants were exercised at the \$7.50 exercise price, we would receive cash proceeds of approximately \$315 million.

At December 31, 2010, our cash was invested in high-quality, short-term investments, which we record in Cash and cash equivalents. The credit quality of our portfolio of short-term investments remains strong, with the majority of our cash and cash equivalents invested in money market funds that are broadly diversified in high-quality, short-duration securities, including commercial paper, certificates of deposit, U.S. government agency securities, and similar instruments.

If a contractually committed lender fails to honor its commitment under the \$250.0 million Revolving Credit Facility, the other lenders would remain committed for their portion of the total facility. A total of 12 lenders participated in the revolving credit facility (the Revolving Credit Facility) at December 31, 2010, and the largest single commitment under the Revolving Credit Facility was \$100.0 million. At December 31, 2010, we did not have any borrowings outstanding under the Revolving Credit Facility. Thus, at December 31, 2010, our aggregate liquidity from unused borrowing capacity under the Revolving Credit Facility totaled \$245.4 million, net of outstanding letters of credit of \$4.6 million.

We believe that our cash as well as our cash flows from operations and the available borrowing capacity under our \$250.0 million Revolving Credit Facility will be adequate to provide cash as required to support our ongoing operations, property and equipment expenditures, and debt service obligations for at least the next 12 months.

### ***Sources and Uses of Cash***

We generate cash from sales of our products and from short- and long-term borrowings, as well as from cash proceeds from the sale of nonstrategic assets. In 2010 and 2009, we received cash from the alternative fuel mixture credits the U.S. Internal Revenue Code allowed for taxpayers using alternative fuels in the taxpayer's trade or business. Eligibility for new credits expired on December 31, 2009. In addition to paying for ongoing operating costs, we use cash to invest in our business, repay debt, pay dividends, and meet our contractual obligations and commercial commitments. Below is a discussion of our sources and uses of cash through operating activities (including a sensitivity analysis related to our sources and uses of cash from/for operating activities), investing activities, and financing activities.

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***Operating Activities***

We operate in a cyclical industry, and our operating cash flows vary accordingly. Our principal operating cash expenditures are for fiber, compensation, energy, chemicals, and interest. Operating activities provided cash in 2010, 2009, and 2008 as follows:

*2010 Compared With 2009*

In 2010 and 2009, our operating activities provided \$289.8 million and \$458.7 million of cash, respectively. Compared with 2009, the decrease in cash provided by operations relates primarily to the following:

A \$91.1 million decrease in net income. As discussed under *Operating Results* above, the lower net income in 2010 was due primarily to the cessation of the alternative fuel mixture credits that we received during 2009. We recorded \$207.6 million of income from alternative fuel mixture credits, including fees and expenses and before taxes during 2009. The decrease in net income during 2010 was partially offset by a \$38.8 million and \$59.5 million increase in income, excluding alternative fuel mixture credits in our Paper and Packaging segments, respectively.

During 2010, decreases in working capital provided \$38.1 million in cash, compared with \$91.6 million in 2009. Working capital is subject to cyclical operating needs, the timing of the collection of receivables, the payment of payables and expenses, and to a lesser extent, seasonal fluctuations in our operations. During 2010, the decreases in working capital primarily related to the collection of a \$56.6 million receivable related to the alternative fuel mixture credits partially offset by a \$17.1 million increase in inventories. The increase in inventories is primarily due to higher linerboard prices. Additionally, we had slightly higher inventory at the end of 2010, compared with the end of 2009.

More cash contributions to our pension and other postretirement benefit plans. During 2010, we contributed \$25.6 million to our pension and other postretirement benefit plans, compared with \$13.0 million during 2009.

*2009 Compared With 2008*

Unless otherwise noted, this discussion of liquidity and capital resources with respect to 2008 refers to the combined activities of Boise Inc. and the Predecessor.

In 2009 and 2008, our operating activities provided \$458.7 million and \$104.6 million of cash, respectively. Compared with 2008, the increase in cash provided by operations related primarily to the following:

A \$176.6 million increase in net income. As discussed under *Operating Results* above, we recorded \$207.6 million of income from alternative fuel mixture credits, including fees and expenses and before taxes in 2009. Also contributing to the increase in net income was increased income in our Paper segment, which increased \$59.4 million, excluding the impact of the alternative fuel mixture credits. These increases were partially offset by a \$44.1 million (Boise Inc.) or \$66.8 million (BZ Intermediate) loss on extinguishment of debt related to the write-off of previously unamortized deferred financing costs.

During 2009, we generated \$91.6 million of cash through working capital reductions, compared with using \$50.5 million of cash in 2008. During 2009, the working capital reduction primarily related to decreased inventories, increased accounts payable and accrued liabilities, offset partially by increased receivables.

Inventories in the Paper and the Packaging segments were down \$59.1 million and \$23.7 million, respectively, providing \$83.0 million in cash from operations as we concentrated on inventory reduction. The decline in Paper segment inventories was due in part to the liquidation of St. Helens inventory related to the mill restructuring. The annual shutdown during December 2009 at our mill in Jackson, Alabama, reduced inventory levels at year end as we sold inventory that we had on hand. Further declines in inventory within the Packaging segment resulted from operating one newsprint machine rather than the two we were operating at the end of 2008.

Higher levels of accounts payable and accrued liabilities provided \$25.7 million of cash from operations. We experienced higher accounts payable and accrued liabilities in the Paper and Corporate and Other segments. These increases were offset by decreases in the Packaging segment. We had higher incentive compensation accruals at December 31, 2009, than at December 31, 2008, as we did not pay any incentive compensation related to 2008. The increase in accounts payable and accrued liabilities in the Paper segment was due primarily to the annual mill shutdown at our Jackson mill, offset by the reduction of payables and accrued liabilities as a result of the St. Helens mill restructuring. The decrease in accounts payable and accrued liabilities within the Packaging segment was due in part to reconfigured newsprint operations.

Higher levels of receivables used \$18.6 million of cash from operations, which is attributable primarily to an increase in Other receivables relating to the alternative fuel mixture credits of \$56.6 million, offset partially by a \$35.5 million decrease in trade receivables. The decrease in trade receivables was due primarily to lower sales within each of our operating segments.

The increase in cash provided by the items above was partially offset by more cash contributions to our pension and postretirement benefit plans in 2009. During 2009, we contributed \$13.0 million to our pension and other postretirement benefit plans, compared with \$2.5 million during 2008.

*Sensitivity Analysis Related to Sources and Uses of Cash From/For Our Operating Activities*

*Sources and uses of cash flows from operating activities*

Our primary source of cash is revenue generated by the sale of our packaging and paper products, including uncoated freesheet papers, linerboard, corrugated containers and sheets, and newsprint. Declines in working capital also provide cash for operations, including declines in receivables from sales of our products, reductions in inventory levels, reductions in prepaid expenses, and increases in accounts payable and other accrued liabilities.

In 2010, we sold the following:

1.2 million short tons of uncoated freesheet paper.

225,000 short tons of linerboard to third parties.

6,735 million square feet of corrugated containers and sheets.

231,000 short tons of newsprint.

81,000 short tons of market pulp.

During 2010, selling prices for linerboard (sold to third parties), newsprint, and uncoated freesheet increased 21%, 7%, and 2%, respectively, while prices for corrugated containers and sheets declined 2%. Selling prices for linerboard (sold to third parties) and newsprint improved due to strengthening demand and improved market conditions. During 2009, we took 44,000 and 225,000 short tons of market related downtime for linerboard and newsprint, respectively, while we



did not take any during 2010. The newsprint downtime in 2009 included the idled short tons related to the April 2009 D2 newsprint machine idling. During 2010, we took 17,000 short tons of downtime in uncoated freesheet, compared with 42,000 short tons taken during 2009.

Our primary uses of cash are for expenses related to the manufacture of packaging and paper products, including fiber, compensation, energy, and chemicals. For further information pertaining to our expenses see *Our Operating Results* in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### *Sensitivity Analysis*

Our operations can be affected by the following sensitivities, which are based on 2010 operations (dollars in millions):

| <b>Sensitivity Analysis</b>  | <b>Estimated<br/>Annual Impact<br/>on<br/>Income<br/>Before Taxes</b> |
|--|---|
| Each \$10/short ton change in the selling price of the following products (except for corrugated containers and sheets): |   |
| <i>Paper</i>   |   |
| Uncoated freesheet   | \$ 12   |
| <i>Packaging</i>   |   |
| Containerboard (linerboard)  | 2   |
| Newsprint  | 2   |
| Corrugated containers and sheets (\$1.00/msf change in price)  | 7   |
| Interest rate (1% change in interest rate on our variable-rate debt before hedging)                                      | 2   |
| <i>Energy (a)</i>  |   |
| Natural gas (\$1.00/mmBtu change in price)   | 12  |
| Diesel (\$0.50/gallon change in price)   | 8   |
| Fiber (1% change in cost of fiber)   | 5   |
| Chemicals (1% change in cost of chemicals)   | 2   |

(a) Based on 2010 consumption levels. The allocation between energy sources may vary during the year in order to take advantage of market conditions. The diesel sensitivity does not take into account any floors that may exist in rail or truck fuel surcharge formulas.

#### ***Investment Activities***

##### *2010*

For the year ended December 31, 2010, investing activities consisted primarily of expenditures for property and equipment and purchases and maturities of short-term investments. Cash investing activities used \$109.3 million, \$84.5 million, and \$900.0 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Cash capital expenditures for property, plant, and equipment for the year ended December 31, 2010, were \$111.6 million. Cash investing activities for the year ended December 31, 2010, also included \$25.3 million for purchases of short-term investments and \$24.7 million of maturities of short-term investments, which consisted of funds invested in certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC).

Details of cash capital expenditures for property, plant, and equipment by segment for the year ended December 31, 2010, are included in the table below (dollars in millions):

|                     | Year Ended December 31, 2010 |                            |   | Total           |
|---------------------|------------------------------|----------------------------|---|-----------------|
|                     | Acquisition/<br>Expansion    | Quality/<br>Efficiency (a) | Replacement,<br>Environmental,<br>and Other |                 |
| Paper               | \$ 0.1                       | \$ 18.5                    | \$ 49.2                                     | \$ 67.8         |
| Packaging           | 2.1                          | 9.1                        | 27.4  | 38.6            |
| Corporate and Other |                              | 1.2                        | 4.0   | 5.2             |
|                     | <b>\$ 2.2</b>                | <b>\$ 28.8</b>             | <b>\$ 80.6</b>                              | <b>\$ 111.6</b> |

(a) Quality and efficiency projects include quality improvements, modernization, energy, and cost-saving projects.

We expect capital investments in 2011 to be between \$115 million and \$125 million, excluding acquisitions. This level of capital expenditures could increase or decrease as a result of a number of factors, including our financial results, future economic conditions, and our regulatory compliance requirements. Our capital spending in 2011 will be for cost savings, business improvement, quality/efficiency projects, replacement projects, and ongoing environmental compliance. Our performance improvement projects also focus on opportunities to improve our energy efficiency. We spent \$4 million in 2010 and expect to spend about the same amount in 2011 for capital environmental compliance requirements.

#### 2009

For the year ended December 31, 2009, investing activities consisted primarily of expenditures for property and equipment and purchases and maturities of short-term investments. Cash investing activities used \$84.5 million for the year ended December 31, 2009.

Cash capital expenditures for property, plant, and equipment for the year ended December 31, 2009, were \$77.1 million. Cash investing activities for the year ended December 31, 2009, also included a net amount of \$10.0 million for purchases of short-term investments, which consisted of funds invested in certificates of deposit insured by the FDIC.

#### 2008

On February 22, 2008, Aldabra 2 Acquisition Corp. completed the Acquisition of 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 for a total purchase price of \$1.7 billion, which included \$1.3 billion of net cash and fees. Subsequent to the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. Boise Inc. obtained \$1.1 billion of financing in conjunction with the Acquisition, which is discussed below in Financing Activities.

For the year ended December 31, 2008, investing activities included \$1.2 billion in cash spent for the Acquisition, excluding deferred financing costs, as discussed above.

Combined cash capital expenditures for property, plant, and equipment for the year ended December 31, 2008, were \$100.8 million. This amount included \$10.2 million spent by the Predecessor for the period of January 1, 2008, through February 21, 2008, and \$90.6 million spent by us from February 22, 2008, through December 31, 2008. Of these amounts, \$10.4 million related to the installation of a shoe press in our DeRidder mill in March to reduce the use of energy in producing linerboard. Total capital spending for this project was \$22.4 million, part of which was spent in 2007.

***Financing Activities***

Cash used for financing activities was \$83.1 million for the year ended December 31, 2010, compared with \$327.3 million of cash used for financing activities for the same period in 2009. Financing activities for the year ended December 31, 2010, reflect \$334.1 million of long-term debt repayments, \$300.0 million of debt issuances, \$12.0 million of cash paid for deferred financing costs, and \$32.3 million for payments of a special dividend of \$0.40 per common share. Financing activities for the year ended December 31, 2009, reflect the issuance of \$300 million of 9% Senior Notes due in 2017 obtained as a result of our debt restructuring and repayment of approximately \$510 million of existing debt.

Our expected debt service obligation, assuming debt and interest rates stay at December 31, 2010, levels, is estimated to be approximately \$101 million for 2011 and \$185 million for 2012, consisting of cash payments for principal, interest, and fees. These amounts remain subject to change, and such changes may be material. For example, a 1% increase in interest rates would increase interest expense by approximately \$2 million per year (based on debt levels and interest rates as of December 31, 2010). Our sensitivity to increases in interest rates decreased in 2010 as a result of paying off our variable-rate debt and exchanging variable-rate debt for fixed-rate debt.

We lease our distribution centers, as well as other property and equipment, under operating leases. These operating leases are not included in debt; however, they represent a commitment. Obligations under operating leases are shown in the Contractual Obligations in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the year ended December 31, 2008, cash financing activities were \$817.7 million and reflect approximately \$1.1 billion of debt financing obtained in conjunction with the Acquisition, offset partially by \$120.2 million paid to stockholders who exercised their conversion rights, \$94.3 million of deferred financing costs and underwriting fees, and \$88.3 million of debt repayments.

For more information about our debt, see Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.



**Contractual Obligations**

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2010. Some of the amounts included in the table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. Because these estimates and assumptions are necessarily subjective, our actual payments may vary from those reflected in the table. Purchase orders made in the ordinary course of business are excluded from the table below. Any amounts for which we are liable under purchase orders are reflected on the Consolidated Balance Sheets as accounts payable and accrued liabilities (dollars in millions):

|   | Payments Due by Period |                 |                 |                 | Total             |
|---|------------------------|-----------------|-----------------|-----------------|-------------------|
|   | 2011                   | 2012-2013       | 2014-2015       | Thereafter      |                   |
| Long-term debt, including current portion (a)                   | \$ 43.8                | \$ 138.0        | \$              | \$ 600.0        | \$ 781.8          |
| Interest (b)  | 56.1                   | 105.1           | 102.0           | 162.0           | 425.2             |
| Operating leases (c)  | 11.7                   | 19.3            | 13.8            | 12.8            | 57.6              |
| Purchase obligations  |                        |                 |                 |                 |                   |
| Raw materials and finished goods inventory (d)                  | 54.7                   | 24.8            | 8.6             |                 | 88.1              |
| Utilities (e)   | 22.8                   | 4.2             | 0.2             |                 | 27.2              |
| Other   | 2.9                    | 0.4             |                 |                 | 3.3               |
| Other long-term liabilities reflected on our Balance Sheet (f): |                        |                 |                 |                 |                   |
| Compensation and benefits (g)                                   | 3.4                    | 57.3            | 46.5            | 14.5            | 121.7             |
| Other (h)   | 3.5                    | 3.8             | 2.5             | 34.0            | 43.8              |
|   | <b>\$ 198.9</b>        | <b>\$ 352.9</b> | <b>\$ 173.6</b> | <b>\$ 823.3</b> | <b>\$ 1,548.7</b> |

- (a) The table assumes our long-term debt is held to maturity and includes the current portion of long-term debt. For more information, see Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplemental Data of this Form 10-K.
- (b) Amounts represent estimated interest payments as of December 31, 2010, and assume our long-term debt is held to maturity.
- (c) We enter into operating leases in the normal course of business. We lease our distribution centers as well as other property and equipment under operating leases. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our operating lease obligations would change if we exercised these renewal options and/or if we entered into additional operating lease agreements. For more information, see Note 7, Leases, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.
- (d) Included among our raw materials purchase obligations are contracts to purchase approximately \$81 million of wood fiber. Under most of these log and fiber supply agreements, we have the right to cancel or reduce our commitments in the event of a mill curtailment or shutdown. Future purchase prices under most of these agreements are set quarterly or semiannually based on regional market prices, and the estimate is based on contract terms or first quarter 2011 pricing. Our log and fiber obligations are subject to change based on, among other things, the effect of governmental laws and regulations, our manufacturing operations not operating in the normal course of business, log and fiber availability, and the status of environmental appeals. Except for deposits required pursuant to wood supply contracts, these obligations are not recorded in our consolidated financial statements until contract payment terms take effect.
- (e) We enter into utility contracts for the purchase of electricity and natural gas. We also purchase these services under utility tariffs. The contractual and tariff arrangements include multiple-year commitments and minimum annual purchase requirements. Our payment obligations were based upon prices in effect on December 31, 2010, or upon contract language, if available. Because we consume the energy in the manufacture of our products, these obligations represent the face value of the contracts, not resale value.
- (f) Long-term deferred income taxes of \$88.2 million are excluded from this table because the timing of their future cash outflows are uncertain.



- (g) Amounts consist primarily of pension and other postretirement benefit obligations, including current portion of \$0.4 million. Actuarially determined liabilities related to pension benefits are recorded based on estimates and assumptions. Key factors used in developing estimates of these liabilities include assumptions related to discount rates, expected return on plan assets, expected rate of compensation increases, retirement and mortality rates, expected contributions, and other factors. Changes in estimates and assumptions related to the measurement of funded status could have a material impact on the amount reported. In the table above, we allocated our pension obligations by year based on the future required minimum pension contributions, as determined by our actuaries.
- (h) Includes current liabilities of \$3.5 million primarily related to the current portion of workers' compensation liability.

### ***Off-Balance-Sheet Activities***

At December 31, 2010 and 2009, we had no off-balance-sheet arrangements with unconsolidated entities.

### ***Guarantees***

Note 11, Debt, and Note 19, Commitments, Guarantees, and Legal Proceedings, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K describe the nature of our 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.

### ***Inflationary and Seasonal Influences***

Our major costs of production are compensation, fiber, energy, and chemicals. Pricing for these manufacturing inputs can be subject to both macroeconomic inflationary influences and regional supply and demand. For example, fiber prices are highly dependent on regional wood supply and demand trends. Pricing for natural gas, which constitutes a significant portion of our energy costs, tends to follow macroeconomic supply and demand trends and can fluctuate based on many factors, including weather and natural gas storage levels. Many of our chemicals are specialized, and pricing may not correlate with macroeconomic trends. Pricing for our manufactured end products is dependent on industry supply and demand trends, which in turn can be influenced by macroeconomic manufacturing activity, employment levels, and consumer spending.

We experience some seasonality, based primarily on buying patterns associated with particular products. For example, the demand for our corrugated containers is influenced by changes in agricultural demand in the Pacific Northwest. In addition, seasonally cold weather increases costs, especially energy consumption, at all of our manufacturing facilities. Seasonality also affects working capital levels as described in Seasonality in Part I, Item 1. Business of this Form 10-K.

### ***Disclosures of Financial Market Risks***

We are exposed to market risks, including changes in interest rates, energy prices, and foreign currency exchange rates. We employ a variety of practices to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading. Derivatives are such that a specific debt instrument, contract, or anticipated purchase determines the amount, maturity, and other specifics of the hedge. If a derivative contract is entered into, we either determine that it is an economic hedge or we designate the derivative as a cash flow or fair value hedge. We formally document all relationships between hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking various hedged transactions. For those derivatives that are not designated as economic hedges, such as cash flow or fair value hedges, we

formally assess, both at the derivatives inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the hedged items. The ineffective portion of hedging transactions is recognized in income (loss).

We record all derivative instruments as assets or liabilities on our Consolidated Balance Sheets at fair value. The fair value of these instruments is determined by third parties. Changes in the fair value of derivatives are recorded in either Net income (loss) or Other comprehensive income (loss) as appropriate. The gain or loss on derivatives designated as cash flow hedges is included in Other comprehensive income (loss) in the period in which changes in fair value occur and is reclassified to income (loss) in the period in which the hedged item affects income (loss), and any ineffectiveness is recognized currently in our Consolidated Statements of Income (Loss). The fair value of the hedged exposure is presumed to be the market value of the hedging instrument when critical terms match. The gain or loss on derivatives designated as fair value hedges and the offsetting gain or loss on the hedged item attributable to the hedged risk are included in income (loss) in the period in which changes in fair value occur. The gain or loss on derivatives that have not been designated as hedging instruments is included in income (loss) in the period in which changes in fair value occur.

The table below provides a summary of our long-term debt obligations as of December 31, 2010. The table presents principal cash flows and related weighted average interest rates by expected maturity dates. For obligations with variable interest rates, the table sets forth payout amounts based on current rates and does not attempt to project future rates. Changes in market rates of interest affect the fair value of our fixed-rate debt (dollars in millions):

|   | 2011    | 2012     | 2013   | 2014 | 2015 | There-<br>after | December 31,<br>2010<br>Total | Fair<br>Value |
|---|---------|----------|--------|------|------|-----------------|-------------------------------|---------------|
| <b>Debt</b>                               |         |          |        |      |      |                 |                               |               |
| Long-term debt (a)                        | \$ 43.8 | \$ 129.6 | \$ 8.4 | \$   | \$   | \$ 600.0        | \$ 781.8                      | \$ 843.6      |
| Fixed-rate debt payments (b)              |         |          |        |      |      |                 |                               |               |
| 9% senior notes (c)                       | \$      | \$       | \$     | \$   | \$   | \$ 300.0        | \$ 300.0                      | \$ 337.9      |
| 8% senior notes (c)                       |         |          |        |      |      | 300.0           | 300.0                         | 325.8         |
| Average interest rate (as percentage)     |         |          |        |      |      | 8.50            | 8.50                          |               |
| Variable-rate debt                        |         |          |        |      |      |                 |                               |               |
| payments (b)                              | \$ 43.8 | \$ 129.6 | \$ 8.4 | \$   | \$   | \$              | \$ 181.8                      | \$ 179.9      |
| Average interest rate (as percentage) (d) | 3.06    | 3.06     | 3.06   |      |      |                 | 3.06                          |               |

(a) Includes current portion.

(b) These obligations are further explained in Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

(c) The table assumes that accumulated interest is paid semiannually.

(d) Does not include the effect of interest rate derivatives.

### **Environmental**

Our businesses are subject to a wide range of general and industry-specific environmental laws and regulations. In particular, we are affected by laws and regulations covering air emissions, wastewater discharges, solid and hazardous waste management, and site remediation. Compliance with these laws and regulations is a significant factor in the operation of our businesses. We believe

that we have created a corporate culture of strong compliance by taking a conservative approach to environmental issues in order to assure that we are operating well within the bounds of regulatory requirements. However, we cannot assure you that we will at all times be in full compliance with environmental requirements, and we cannot assure you that we will not incur fines and penalties in the future. In all periods presented, environmental spending for fines and penalties across all of our segments was immaterial.

We incur, and we expect to incur, substantial capital and operating expenditures to comply with federal, state, and local environmental laws and regulations. Failure to comply with these laws and regulations could result in civil or criminal fines or penalties or in enforcement actions. Our failure to comply could also result in governmental or judicial orders that stop or interrupt our operations or require us to take corrective measures, install additional pollution control equipment, or take other remedial actions. We spent \$4 million in 2010 and expect to spend about the same amount in 2011 for capital environmental compliance requirements. Our estimated environmental expenditures could vary significantly depending upon the enactment of new environmental laws and regulations, including those related to greenhouse gas emissions and industrial boilers.

As an owner and operator of real estate, we may be liable under environmental laws for the cleanup of past and present spills and releases of hazardous or toxic substances on or from our properties and operations. We can be found liable under these laws if we knew of or were responsible for the presence of such substances. In some cases, this liability may exceed the value of the property itself.

On June 4, 2010, the EPA proposed National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters (aka Boiler MACT rules). The recently released Boiler MACT rules will require process modifications and/or installation of air pollution controls on power boilers (principally our biomass-fuel-fired boilers) at our pulp and paper mills, and we are currently reviewing those rules to understand the effect they will have on our operations. The cost of compliance is likely to be significant. Our early estimates indicated compliance could result in additional capital spending of up to \$90 million over a three-year period.

Climate change, in its many dimensions (legislative, regulatory, market, and physical), has the potential to significantly affect our business. Boise relies on a sustainably managed supply of woody biomass as our principal raw material and main energy source. About 67% of our energy comes from renewable woody biomass. The carbon dioxide emitted when burning biomass from sustainably managed sources for energy is generally considered to be carbon neutral (does not contribute to climate change) because it is recycled in a closed loop whereby the carbon is removed from the atmosphere by the biomass and then returned to the atmosphere when the biomass is burned, resulting in no net increase of carbon dioxide in the atmosphere. Significant amounts of carbon are permanently sequestered in forests and forest products.

Our manufacturing operations emit greenhouse gases (GHGs), which may contribute to global warming and climate change. We are a voluntary member of the United States Environmental Protection Agency (EPA) Climate Leaders program and the Chicago Climate Exchange (CCX). Under these programs, we have established GHG emission inventories using established protocols, and in the case of the CCX, the emissions have been third-party verified. In 2009 (the last reported year), our company emitted about 2.0 million metric tonnes of GHG carbon dioxide equivalents, comprising about 0.8 million metric tonnes of direct emissions and 1.2 million metric tonnes of indirect emissions from purchased electricity. A metric tonne is 2,205 pounds. The carbon dioxide from burning biomass, which is generally considered to be carbon neutral, is excluded from our GHG inventories. In 2011, we will begin reporting GHGs for calendar year 2010 under the EPA's mandatory regulatory program.

Climate change legislative and regulatory activities that affect our operations generally focus on reducing GHG emissions through some combination of GHG limitations (such as cap and trade or emission standards) and a renewable electricity standard (RES). Three of the five states in which our primary GHG emitting facilities operate (Minnesota, Oregon, and Washington) have an RES. There is currently no national RES in effect. The RES could increase our energy cost due to the higher-cost of renewable electrical generation facilities, compared with those generating electricity from fossil fuel.

The prognosis for enacting national climate change legislation into law is uncertain. The effect of any climate change legislation on our operations is also uncertain. Furthermore, U.S. legislation and regulation may put our operations at a competitive disadvantage relative to foreign competition if competing countries have not enacted commensurate GHG reduction programs.

The EPA initiated the regulation of GHGs following its endangerment finding in December 2009. The EPA has issued final regulations (known as the Tailoring Rule) for GHGs from stationary sources under its Clean Air Act Title V permitting and Prevention of Significant Deterioration programs in 2010. These rules are to be phased in, but they begin taking effect on January 2, 2011. Such rules could lead to longer permitting times and additional costs to reduce GHG emissions at our pulp and paper mills.

Increased interest in biomass as a renewable energy source could increase demand for and the cost of wood, our principal raw material. On the other hand, as incentives for biofuels manufacturing increase, there may be opportunities to locate biorefineries at our paper mills to produce biofuels as a coproduct. We are a significant manufacturer of recycled paper. Recycling of paper reduces greenhouse gas emissions from landfills.

There is considerable uncertainty concerning the physical risks that may be presented by climate change. Predictions range widely and can include more weather extremes (floods and drought), increased storm intensity, and rising sea levels. Climate change could also affect forests supplying our wood both positively and negatively. Increased carbon dioxide in the atmosphere and warmer temperatures could increase forest biomass production. Weather patterns and insects might affect forests either favorably or unfavorably. We cannot predict the effect of climate change on our operations with any degree of certainty until the legislative and regulatory landscape takes shape.

OfficeMax retained responsibility for environmental liabilities that occurred with respect to businesses, facilities, and other assets not purchased by Madison Dearborn from OfficeMax in the 2004 transaction. In addition, OfficeMax generally indemnifies our operating subsidiaries, Boise White Paper, L.L.C., and Boise Packaging & Newsprint, L.L.C., for hazardous substance releases and other environmental violations that occurred prior to the 2004 transaction at the businesses, facilities, and other assets purchased by such subsidiaries. However, OfficeMax may not have sufficient funds to fully satisfy its indemnification obligations when required, and in some cases, we may not be contractually entitled to indemnification by OfficeMax.

### ***Critical Accounting Estimates***

Critical accounting estimates are those that are most important to the portrayal of our financial condition and results. These estimates require management's most difficult, subjective, or complex judgments, often as a result of the need to estimate matters that are inherently uncertain. We review the development, selection, and disclosure of our critical accounting estimates with the Audit Committee of our board of directors. Our current critical accounting estimates are as follows:

### *Pensions*

We calculate pension expense and liabilities using actuarial assumptions, including discount rates, expected return on plan assets, expected rate of compensation increases, retirement rates, mortality rates, expected contributions, and other factors. We based the assumptions used in this analysis to calculate pension expense on the following factors:

*Discount Rate Assumption.* The discount rate reflects the current rate at which the pension obligations could be settled on the measurement date December 31. The discount rate assumption was determined using a spot rate yield curve constructed to replicate Aa-graded corporate bonds. The Aa-graded bonds included in the yield curve reflect anticipated investments that would be made to match the expected monthly benefit payments over time and do not include all Aa-graded corporate bonds. The plan's projected cash flows were duration-matched to this yield curve to develop an appropriate discount rate.

*Asset Return Assumption.* The expected long-term rate of return on plan assets was based on a weighted average of the expected returns for the major investment asset classes. Expected returns for the asset classes are based on long-term historical returns, inflation expectations, forecasted gross domestic product, earnings growth, and other economic factors. The weights assigned to each asset class were based on the investment strategy. The weighted average expected return on plan assets we will use in our calculation of 2011 net periodic benefit cost is 7.25%. In 2010, plan assets performed well above the long-term return assumption.

*Rate of Compensation Increases.* Salaried pension benefits are frozen, so the compensation increase assumption is not applicable. Negotiated compensation increases are reflected in the projected benefit obligation for certain hourly employees with salary-related benefits.

*Retirement and Mortality Rates.* These rates were developed to reflect actual and projected plan experience.

*Expected Contributions.* Plan obligations and expenses are based on existing retirement plan provisions. No assumption is made for future changes to benefit provisions beyond those to which we are presently committed, for example, changes we might commit to in future labor contracts. We estimate that we will be required to contribute approximately \$3 million in 2011 and approximately \$32 million in 2012.

We recognize the funded status of our pension and other postretirement benefit plans on our Consolidated Balance Sheet and recognize the actuarial and experience gains and losses and the prior service costs and credits as a component of Accumulated other comprehensive income (loss) in our Consolidated Statement of Stockholders' Equity for Boise Inc. or Consolidated Statements of Capital for BZ Intermediate. Actual results that differ from assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. While we believe that the assumptions used to measure our pension obligations are reasonable, differences in actual experience or changes in assumptions may materially affect our pension obligations and future expense.

A change of 0.25% in either direction to the discount rate or the expected rate of return on plan assets would have had the following effect on 2010 and 2011 pension expense (dollars in millions). These sensitivities are specific to 2010 and 2011. The sensitivities may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

|  | Base<br>Expense | Increase (Decrease)<br>in Pension Expense |                   |
|--|-----------------|---|-------------------|
|  |                 | 0.25<br>%<br>Increase                     | 0.25%<br>Decrease |
| <b>2010 Expense</b>                    |                 |   |                   |
| Discount rate                          | \$ 9.7          | \$ (0.6)                                  | \$ 0.6            |
| Expected rate of return on plan assets | 9.7             | (0.8)                                     | 0.8               |
| <b>2011 Expense</b>                    |                 |   |                   |
| Discount rate                          | \$ 12.6         | \$ (1.5)                                  | \$ 1.5            |
| Expected rate of return on plan assets | 12.6            | (0.8)                                     | 0.8               |

We believe that the accounting estimate related to pensions is a critical accounting estimate because it is highly susceptible to change from period to period. As discussed above, the future effects of pension plans on our financial position and results of operations will depend on economic conditions, employee demographics, mortality rates, retirement rates, investment performance, and funding decisions, among other factors. The following table presents selected assumptions used and expected to be used in the measurement of pension expense in the following periods (dollars in millions):

|  | Year<br>Ending<br>December 31,<br>2011 | Year Ended December 31 |        |
|--|--|------------------------|--------|
|  |  | 2010                   | 2009   |
| Pension expense                        | \$ 12.6                                | \$ 9.7                 | \$ 8.7 |
| Discount rate                          | 5.50%                                  | 6.10%                  | 6.20%  |
| Expected rate of return on plan assets | 7.25%                                  | 7.25%                  | 7.25%  |

The difference between our expected returns and our actual returns affects the amount of expense we recognize in future years. However, under pension accounting rules, this impact is recognized over time. In addition, we are required to adjust our equity in Accumulated other comprehensive income (loss) in our Consolidated Statement of Stockholders' Equity for Boise Inc. or Consolidated Statements of Capital for BZ Intermediate to record minimum pension liabilities under accounting rules. In 2010, we recorded a \$14.5 million pretax decrease in equity. The amount of expense and minimum pension liability we recognize depends on, among other things, actual returns on plan assets, changes in interest rates that affect our discount rate assumptions, and modifications to our plans.

Pension funding requirements depend in part on returns on plan assets. As of December 31, 2010, our pension assets had a market value of \$356 million, compared with \$302 million at December 31, 2009. The amount of required contributions will depend, among other things, on actual returns on plan assets, changes in our plan asset return assumptions, changes in interest rates that affect our discount rate assumptions, changes in pension funding requirement laws, and modifications to our plans. Our estimates may change materially depending upon the impact of these and other factors. Changes in the financial markets may require us to make larger than previously anticipated contributions to our pension plans.



### ***Income Taxes***

We account for income taxes and separately recognize deferred tax assets and deferred tax liabilities. Such deferred tax assets and deferred tax liabilities represent the tax effect of temporary differences between financial reporting and tax reporting measured at enacted tax rates in effect for the year in which the differences are expected to reverse. We also recognize only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority.

We make judgments and estimates in determining income tax expense for financial statement purposes. These judgments and estimates occur in the calculation of tax credits, benefits, and deductions and in the calculation of certain deferred tax assets and liabilities, which arise from differences in the timing of recognition of revenue and expense for tax and financial statement purposes, as well as the interest and penalties related to uncertain tax positions. Significant changes to these estimates may result in an increase or decrease in our tax provision in a subsequent period.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for uncertain tax positions. It is inherently difficult and subjective to estimate uncertain tax positions, because we have to determine the probability of various possible outcomes. We evaluate these uncertain tax positions on a quarterly basis. This evaluation is based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, effectively settled issues under audit, and new audit activity. Such a change in recognition or measurement would result in the recognition of a tax benefit or an additional charge to the tax provision.

Both Boise Inc. and BZ Intermediate recognize interest and penalties related to uncertain tax positions as income tax expense in their Consolidated Statements of Income (Loss).

### ***Long-Lived Asset Impairment***

An impairment of a long-lived asset exists when the carrying value of an asset is not recoverable through future undiscounted cash flows from operations and when the carrying value of the asset exceeds its fair value. We review the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

Long-lived asset impairment is a critical accounting estimate, as it is susceptible to change from period to period. To estimate whether the carrying value of an asset or asset group is impaired, we estimate the undiscounted cash flows that could be generated under a range of possible outcomes. To measure future cash flows, we are required to make assumptions about future production volumes, future product pricing, and future expenses to be incurred. In addition, estimates of future cash flows may change based on the availability of fiber, environmental requirements, capital spending, and other strategic management decisions. We estimate the fair value of an asset or asset group based on quoted market prices (the amount for which the asset(s) could be bought or sold in a current transaction with a third party) when available. When quoted market prices are not available, we use a discounted cash flow model to estimate fair value.

If the markets for our products deteriorate significantly or if we decide to invest capital differently and if other cash flow assumptions change, it is possible that we will be required to record noncash impairment charges that could have a material effect on our results of operations. Due to the numerous variables associated with our judgments and assumptions relating to the valuation of assets and the effects of changes on these valuations, both the precision and reliability of our estimates are subject to uncertainty. As additional information becomes known, we may change our estimates.

*New and Recently Adopted Accounting Standards*

For a listing of our new and recently adopted accounting standards, see 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 this Form 10-K.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Information concerning quantitative and qualitative disclosures about market risk can be found under the caption Disclosures of Financial Market Risks in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

See Liquidity and Capital Resources, Operating Activities in Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K for our disclosures about our sensitivities to changes in prices for our major products, production inputs, and interest rates.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA****Boise Inc. Consolidated Statements of Income (Loss)**

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

|  | Boise Inc.<br>Year Ended December 31 |                   |                    | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|--|--------------------------------------|-------------------|--------------------|---|
|  | 2010                                 | 2009              | 2008               |   |
| <b>Sales</b>                                       |                                      |                   |                    |   |
| Trade  | \$ 2,058,132                         | \$ 1,935,410      | \$ 1,990,207       | \$ 258,430  |
| Related parties                                    | 35,645                               | 42,782            | 80,425             | 101,490   |
|  | 2,093,777                            | 1,978,192         | 2,070,632          | 359,920   |
| <b>Costs and expenses</b>                          |                                      |                   |                    |   |
| Materials, labor, and other operating expenses     | 1,634,039                            | 1,596,214         | 1,756,826          | 313,931   |
| Fiber costs from related parties                   | 25,259                               | 36,858            | 54,628             | 7,662   |
| Depreciation, amortization, and depletion          | 129,926                              | 131,500           | 109,988            | 477   |
| Selling and distribution expenses                  | 58,107                               | 55,524            | 48,278             | 9,097   |
| General and administrative expenses                | 52,273                               | 50,250            | 34,258             | 6,606   |
| St. Helens mill restructuring                      | 180                                  | 5,805             | 29,780             |   |
| Alternative fuel mixture credits, net              |                                      | (207,607)         |                    |   |
| Other (income) expense, net                        | 33                                   | 4,005             | (2,980)            | (989)   |
|  | 1,899,817                            | 1,672,549         | 2,030,778          | 336,784   |
| <b>Income from operations</b>                      | <b>193,960</b>                       | <b>305,643</b>    | <b>39,854</b>      | <b>23,136</b>   |
| Foreign exchange gain (loss)                       | 890                                  | 2,639             | (4,696)            | 54  |
| Change in fair value of interest rate derivatives  | (43)                                 | 568               | (479)              |   |
| Loss on extinguishment of debt                     | (22,225)                             | (44,102)          |                    |   |
| Interest expense                                   | (64,782)                             | (83,263)          | (91,220)           | (2)   |
| Interest income                                    | 306                                  | 367               | 2,246              | 161   |
|  | (85,854)                             | (123,791)         | (94,149)           | 213   |
| <b>Income (loss) before income taxes</b>           | <b>108,106</b>                       | <b>181,852</b>    | <b>(54,295)</b>    | <b>23,349</b>   |
| Income tax (provision) benefit                     | (45,372)                             | (28,010)          | 8,772              | (563)   |
| <b>Net income (loss)</b>                           | <b>\$ 62,734</b>                     | <b>\$ 153,842</b> | <b>\$ (45,523)</b> | <b>\$ 22,786</b>  |
| <b>Weighted average common shares outstanding:</b> |                                      |                   |                    |   |
| Basic  | <b>80,461</b>                        | <b>78,355</b>     | <b>73,636</b>      |   |
| Diluted  | <b>84,131</b>                        | <b>83,081</b>     | <b>73,636</b>      |   |
| <b>Net income (loss) per common share:</b>         |                                      |                   |                    |   |
| Basic  | <b>\$ 0.78</b>                       | <b>\$ 1.96</b>    | <b>\$ (0.62)</b>   | <b>\$</b>   |
| Diluted  | <b>0.75</b>                          | <b>1.85</b>       | <b>(0.62)</b>      |   |

See accompanying notes to consolidated financial statements.



**Boise Inc. Consolidated Balance Sheets**

(dollars in thousands)

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2010</b>         | <b>2009</b>         |
| <b>ASSETS</b>                             |                     |                     |
| <b>Current</b>                            |                     |                     |
| Cash and cash equivalents                 | \$ 166,833          | \$ 69,393           |
| Short-term investments                    | 10,621              | 10,023              |
| Receivables                               |                     |                     |
| Trade, less allowances of \$603 and \$839 | 188,588             | 185,110             |
| Related parties                           | 1                   | 2,056               |
| Other                                     | 3,839               | 62,410              |
| Inventories                               | 261,471             | 252,173             |
| Deferred income taxes                     | 16,658              |                     |
| Prepaid and other                         | 5,214               | 4,819               |
|   | 653,225             | 585,984             |
| <b>Property</b>                           |                     |                     |
| Property and equipment, net               | 1,199,035           | 1,205,679           |
| Fiber farms and deposits                  | 18,285              | 17,094              |
|   | 1,217,320           | 1,222,773           |
| <b>Deferred financing costs</b>           | 30,396              | 47,369              |
| <b>Intangible assets, net</b>             | 29,605              | 32,358              |
| <b>Other assets</b>                       | 8,444               | 7,306               |
| <b>Total assets</b>                       | <b>\$ 1,938,990</b> | <b>\$ 1,895,790</b> |

See accompanying notes to consolidated financial statements.

**Boise Inc. Consolidated Balance Sheets (continued)**

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

|  | December 31         |                     |
|--|---------------------|---------------------|
|  | 2010                | 2009                |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                     |                     |
| <b>Current</b>   |                     |                     |
| Current portion of long-term debt  | \$ 43,750           | \$ 30,711           |
| Income taxes payable   | 82                  | 240                 |
| Accounts payable   |                     |                     |
| Trade  | 178,923             | 172,518             |
| Related parties  | 291                 | 2,598               |
| Accrued liabilities  |                     |                     |
| Compensation and benefits  | 54,574              | 67,948              |
| Interest payable   | 10,535              | 4,946               |
| Other  | 16,123              | 23,735              |
|  | 304,278             | 302,696             |
| <b>Debt</b>  |                     |                     |
| Long-term debt, less current portion   | 738,081             | 785,216             |
| <b>Other</b>   |                     |                     |
| Deferred income taxes  | 88,200              | 32,253              |
| Compensation and benefits  | 121,318             | 123,889             |
| Other long-term liabilities  | 40,278              | 30,801              |
|  | 249,796             | 186,943             |
| <b>Commitments and contingent liabilities</b>  |                     |                     |
| <b>Stockholders Equity</b>   |                     |                     |
| Preferred stock, \$.0001 par value per share:<br>1,000 shares authorized; none issued  |                     |                     |
| Common stock, \$.0001 par value per share:<br>250,000 shares authorized;<br>84,845 shares and 84,419 shares issued and outstanding | 8                   | 8                   |
| Additional paid-in capital   | 581,442             | 578,669             |
| Accumulated other comprehensive income (loss)  | (78,822)            | (71,553)            |
| Retained earnings  | 144,207             | 113,811             |
| <b>Total stockholders equity</b>   | <b>646,835</b>      | <b>620,935</b>      |
| <b>Total liabilities and stockholders equity</b>   | <b>\$ 1,938,990</b> | <b>\$ 1,895,790</b> |

See accompanying notes to consolidated financial statements.

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**Boise Inc. Consolidated Statements of Cash Flows**

(dollars in thousands)

|   | <b>Boise Inc.</b>             |               |               | <b>Predecessor<br/>January 1<br/>Through<br/>February 21,<br/>2008</b> |
|---|-------------------------------|---------------|---------------|--|
|   | <b>Year Ended December 31</b> |               |               |  |
|   | <b>2010</b>                   | <b>2009</b>   | <b>2008</b>   |  |
| <b>Cash provided by (used for) operations</b>                                   |                               |               |               |  |
| Net income (loss)   | \$ 62,734                     | \$ 153,842    | \$ (45,523)   | \$ 22,786  |
| Items in net income (loss) not using (providing) cash                           |                               |               |               |  |
| Depreciation, depletion, and amortization of deferred financing costs and other | 137,495                       | 144,079       | 119,933       | 477  |
| Share-based compensation expense  | 3,733                         | 3,518         | 3,096         |  |
| Related-party interest expense  |                               |               | 2,760         |  |
| Notes payable interest expense  |                               | 9,000         | 5,512         |  |
| Pension and other postretirement benefit expense                                | 9,537                         | 7,376         | 8,388         | 1,826  |
| Deferred income taxes   | 38,884                        | 27,709        | (9,363)       | 11   |
| Change in fair value of energy derivatives                                      | 609                           | (5,877)       | 7,445         | (37)   |
| Change in fair value of interest rate derivatives                               | 43                            | (568)         | 479           |  |
| St. Helens mill restructuring   |                               |               | 35,998        |  |
| (Gain) loss on sales of assets, net   | 312                           | 514           |               | (943)  |
| Other   | (869)                         | (2,639)       | 4,696         | (54)   |
| Loss on extinguishment of debt  | 22,225                        | 44,102        |               |  |
| Decrease (increase) in working capital, net of acquisitions                     |                               |               |               |  |
| Receivables   | 57,255                        | (18,579)      | 25,296        | (23,522)   |
| Inventories   | (17,120)                      | 83,037        | (28,950)      | 5,343  |
| Prepaid expenses  | 4,690                         | 1,470         | (1,044)       | 875  |
| Accounts payable and accrued liabilities  | (6,690)                       | 25,710        | (17,801)      | (10,718)   |
| Current and deferred income taxes   | 5,585                         | (372)         | (1,057)       | 335  |
| Pension and other postretirement benefit payments                               | (25,637)                      | (13,001)      | (636)         | (1,826)  |
| Other   | (3,005)                       | (609)         | (1,483)       | 2,326  |
| Cash provided by (used for) operations  | 289,781                       | 458,712       | 107,746       | (3,121)  |
| <b>Cash provided by (used for) investment</b>                                   |                               |               |               |  |
| Acquisition of businesses and facilities  |                               | (543)         | (1,216,459)   |  |
| Cash released from trust, net   |                               |               | 403,989       |  |
| Expenditures for property and equipment   | (111,619)                     | (77,145)      | (90,597)      | (10,168)   |
| Purchases of short-term investments   | (25,336)                      | (21,643)      |               |  |
| Maturities of short-term investments  | 24,744                        | 11,615        |               |  |
| Sales of assets   | 717                           | 1,031         | 394           | 17,662   |
| Other   | 2,224                         | 2,168         | (5,703)       | 863  |
| Cash provided by (used for) investment  | (109,270)                     | (84,517)      | (908,376)     | 8,357  |
| <b>Cash provided by (used for) financing</b>                                    |                               |               |               |  |
| Issuances of long-term debt   | 300,000                       | 310,000       | 1,125,700     |  |
| Payments of long-term debt  | (334,096)                     | (531,523)     | (88,250)      |  |
| Extinguishment of debt  |                               | (39,717)      |               |  |
| Payments of notes payable   |                               | (52,924)      |               |  |
| Payments to stockholders for exercise of conversion rights                      |                               |               | (120,170)     |  |
| Payments of deferred financing costs  | (12,003)                      | (13,156)      | (81,898)      |  |
| Payments of deferred underwriters fees  |                               |               | (12,420)      |  |
| Net equity transactions with related parties                                    |                               |               |               | (5,237)  |
| Exercises of warrants   | 638                           |               |               |  |
| Payments of special dividend  | (32,276)                      |               |               |  |
| Other   | (5,334)                       |               |               |  |
| Cash provided by (used for) financing   | (83,071)                      | (327,320)     | 822,962       | (5,237)  |
| <b>Increase (decrease) in cash and cash equivalents</b>                         | <b>97,440</b>                 | <b>46,875</b> | <b>22,332</b> | <b>(1)</b>   |

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|                                     |                   |                  |                  |             |
|-------------------------------------|-------------------|------------------|------------------|-------------|
| Balance at beginning of the period  | 69,393            | 22,518           | 186              | 8           |
| <b>Balance at end of the period</b> | <b>\$ 166,833</b> | <b>\$ 69,393</b> | <b>\$ 22,518</b> | <b>\$ 7</b> |

See accompanying notes to consolidated financial statements.



## Boise Inc.

## Consolidated Statements of Stockholders Equity

(dollars and shares in thousands, except share data)

| Common<br>Shares<br>Outstanding |  | Total<br>Stockholders<br>Equity | Preferred<br>Stock | Common<br>Stock | Additional<br>Paid-In<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Income<br>Accumulated<br>During<br>Development<br>Stage | Retained<br>Earnings<br>(accumulated<br>deficit) |
|---------------------------------|--|---------------------------------|--------------------|-----------------|----------------------------------|---|---|--|
| <b>51,750</b>                   | <b>Balance at December 31, 2007</b>  | <b>\$ 233,137</b>               | <b>\$</b>          | <b>\$ 5</b>     | <b>\$ 227,640</b>                | <b>\$</b>   | <b>\$ 5,492</b>   | <b>\$</b>  |
|                                 | Comprehensive loss:  |                                 |                    |                 |                                  |   |   |  |
|                                 | Net loss   | (45,523)                        |                    |                 |                                  |   |   | (45,523)   |
|                                 | Other comprehensive loss, net of tax   |                                 |                    |                 |                                  |   |   |  |
|                                 | Cash flow hedges   | (760)                           |                    |                 |                                  | (760)   |   |  |
|                                 | Unfunded accumulated benefit obligation  | (84,922)                        |                    |                 |                                  | (84,922)  |   |  |
|                                 | Other comprehensive loss   | (85,682)                        |                    |                 |                                  | (85,682)  |   |  |
|                                 | Comprehensive loss   | \$ (131,205)                    |                    |                 |                                  |   |   |  |
|                                 | Reclassification of income accumulated during development stage  |                                 |                    |                 |                                  |   | (5,492)   | 5,492  |
| 37,857                          | Issuance of common stock for acquisition at \$9.15 per share (net of a 12% discount for lack of marketability) | 304,828                         |                    | 4               | 304,824                          |   |   |  |
| 2,451                           | Restricted stock granted   | 3,096                           |                    |                 | 3,096                            |   |   |  |
| (25)                            | Restricted stock forfeited   |                                 |                    |                 |                                  |   |   |  |
| 30                              | Restricted stock vested  |                                 |                    |                 |                                  |   |   |  |
|                                 | Shares of common stock subject to possible conversion converted to permanent equity                            | 159,760                         |                    |                 | 159,760                          |   |   |  |
| (12,347)                        | Reclassify shares of common stock subject to possible conversion that were not redeemed to permanent equity    | (120,170)                       |                    | (1)             | (120,169)                        |   |   |  |
| <b>79,716</b>                   | <b>Balance at December 31, 2008</b>  | <b>\$ 449,446</b>               | <b>\$</b>          | <b>\$ 8</b>     | <b>\$ 575,151</b>                | <b>\$ (85,682)</b>  | <b>\$</b>   | <b>\$ (40,031)</b>                               |
|                                 | Comprehensive income:  |                                 |                    |                 |                                  |   |   |  |
|                                 | Net income   | 153,842                         |                    |                 |                                  |   |   | 153,842  |
|                                 | Other comprehensive income (loss), net of tax  |                                 |                    |                 |                                  |   |   |  |
|                                 | Cash flow hedges   | 207                             |                    |                 |                                  | 207   |   |  |
|                                 | Investment gains (losses)  | (5)                             |                    |                 |                                  | (5)   |   |  |
|                                 | Changes in unfunded accumulated benefit obligation (net of tax of \$8,600)                                     | 13,927                          |                    |                 |                                  | 13,927  |   |  |
|                                 | Other comprehensive income   | 14,129                          |                    |                 |                                  | 14,129  |   |  |
|                                 | Comprehensive income   | \$ 167,971                      |                    |                 |                                  |   |   |  |
| 4,602                           | Restricted stock granted   | 3,518                           |                    |                 | 3,518                            |   |   |  |
| (81)                            | Restricted stock forfeited   |                                 |                    |                 |                                  |   |   |  |
| 182                             | Restricted stock units vested, net   |                                 |                    |                 |                                  |   |   |  |
| <b>84,419</b>                   | <b>Balance at December 31, 2009</b>  | <b>\$ 620,935</b>               | <b>\$</b>          | <b>\$ 8</b>     | <b>\$ 578,669</b>                | <b>\$ (71,553)</b>  | <b>\$</b>   | <b>\$ 113,811</b>                                |
|                                 | Comprehensive income:  |                                 |                    |                 |                                  |   |   |  |
|                                 | Net income   | 62,734                          |                    |                 |                                  |   |   | 62,734   |

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|  |                   |                    |                   |
|--|-------------------|--------------------|-------------------|
| Other comprehensive income (loss), net of tax                              |                   |                    |                   |
| Cash flow hedges   | 553               |                    | 553               |
| Investment gains (losses)  | 6                 |                    | 6                 |
| Changes in unfunded accumulated benefit obligation (net of tax of \$4,945) | (7,828)           |                    | (7,828)           |
| Other comprehensive income   | (7,269)           |                    | (7,269)           |
| Comprehensive income   | \$ 55,465         |                    |                   |
|  |                   |                    |                   |
| Dividends declared   | (32,338)          |                    | (32,338)          |
| Restricted stock excess tax  | 31                | 31                 |                   |
| 85 Warrants exercised  | 638               | 638                |                   |
| 200 Restricted stock granted   | 3,733             | 3,733              |                   |
| (221) Restricted stock withheld for taxes                                  | (1,629)           | (1,629)            |                   |
| (42) Restricted stock forfeited  |                   |                    |                   |
| 404 Restricted stock units vested, net                                     |                   |                    |                   |
| <b>84,845 Balance at December 31, 2010</b>                                 | <b>\$ 646,835</b> | <b>\$ 8</b>        | <b>\$ 581,442</b> |
|  |                   | <b>\$ (78,822)</b> | <b>\$ 144,207</b> |

See accompanying notes to consolidated financial statements.

**BZ Intermediate Holdings LLC****Consolidated Statements of Income (Loss)**

(dollars in thousands)

|   | <b>BZ Intermediate Holdings LLC<br/>Year Ended December 31</b> |                   |                    | <b>Predecessor<br/>January 1<br/>Through<br/>February 21,<br/>2008</b> |
|---|--|-------------------|--------------------|--|
|   | <b>2010</b>  | <b>2009</b>       | <b>2008</b>        |  |
| <b>Sales</b>                                      |  |                   |                    |  |
| Trade   | \$ 2,058,132   | \$ 1,935,410      | \$ 1,990,207       | \$ 258,430   |
| Related parties                                   | 35,645   | 42,782            | 80,425             | 101,490  |
|   | 2,093,777  | 1,978,192         | 2,070,632          | 359,920  |
| <b>Costs and expenses</b>                         |  |                   |                    |  |
| Materials, labor, and other operating expenses    | 1,634,039  | 1,596,214         | 1,756,826          | 313,931  |
| Fiber costs from related parties                  | 25,259   | 36,858            | 54,628             | 7,662  |
| Depreciation, amortization, and depletion         | 129,926  | 131,500           | 109,988            | 477  |
| Selling and distribution expenses                 | 58,107   | 55,524            | 48,278             | 9,097  |
| General and administrative expenses               | 52,273   | 50,250            | 34,318             | 6,606  |
| St. Helens mill restructuring                     | 180  | 5,805             | 29,780             |  |
| Alternative fuel mixture credits, net             |  | (207,607)         |                    |  |
| Other (income) expense, net                       | 33   | 4,005             | (2,980)            | (989)  |
|   | 1,899,817  | 1,672,549         | 2,030,838          | 336,784  |
| <b>Income from operations</b>                     | <b>193,960</b>   | <b>305,643</b>    | <b>39,794</b>      | <b>23,136</b>  |
| Foreign exchange gain (loss)                      | 890  | 2,639             | (4,696)            | 54   |
| Change in fair value of interest rate derivatives | (43)   | 568               | (479)              |  |
| Loss on extinguishment of debt                    | (22,225)   | (66,784)          |                    |  |
| Interest expense                                  | (64,782)   | (74,263)          | (82,945)           | (2)  |
| Interest income                                   | 306  | 367               | 617                | 161  |
|   | (85,854)   | (137,473)         | (87,503)           | 213  |
| <b>Income (loss) before income taxes</b>          | <b>108,106</b>   | <b>168,170</b>    | <b>(47,709)</b>    | <b>23,349</b>  |
| Income tax (provision) benefit                    | (44,529)   | (20,356)          | 5,849              | (563)  |
| <b>Net income (loss)</b>                          | <b>\$ 63,577</b>   | <b>\$ 147,814</b> | <b>\$ (41,860)</b> | <b>\$ 22,786</b>   |

See accompanying notes to consolidated financial statements.

**BZ Intermediate Holdings LLC****Consolidated Balance Sheets**

(dollars in thousands)

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2010</b>         | <b>2009</b>         |
| <b>ASSETS</b>                             |                     |                     |
| <b>Current</b>                            |                     |                     |
| Cash and cash equivalents                 | \$ 166,833          | \$ 69,393           |
| Short-term investments                    | 10,621              | 10,023              |
| Receivables                               |                     |                     |
| Trade, less allowances of \$603 and \$839 | 188,588             | 185,110             |
| Related parties                           | 1                   | 2,056               |
| Other                                     | 3,839               | 62,410              |
| Inventories                               | 261,471             | 252,173             |
| Deferred income taxes                     | 16,658              |                     |
| Prepaid and other                         | 5,214               | 4,819               |
|   | 653,225             | 585,984             |
| <b>Property</b>                           |                     |                     |
| Property and equipment, net               | 1,199,035           | 1,205,679           |
| Fiber farms and deposits                  | 18,285              | 17,094              |
|   | 1,217,320           | 1,222,773           |
| <b>Deferred financing costs</b>           | 30,396              | 47,369              |
| <b>Intangible assets, net</b>             | 29,605              | 32,358              |
| <b>Other assets</b>                       | 8,444               | 7,306               |
| <b>Total assets</b>                       | <b>\$ 1,938,990</b> | <b>\$ 1,895,790</b> |

See accompanying notes to consolidated financial statements.

**BZ Intermediate Holdings LLC****Consolidated Balance Sheets (continued)**

(dollars in thousands)

|   | <b>December 31</b>  |                     |
|---|---------------------|---------------------|
|   | <b>2010</b>         | <b>2009</b>         |
| <b>LIABILITIES AND CAPITAL</b>                |                     |                     |
| <b>Current</b>                                |                     |                     |
| Current portion of long-term debt             | \$ 43,750           | \$ 30,711           |
| Income taxes payable                          | 82                  | 240                 |
| Accounts payable                              |                     |                     |
| Trade   | 178,923             | 172,518             |
| Related parties                               | 291                 | 2,598               |
| Accrued liabilities                           |                     |                     |
| Compensation and benefits                     | 54,574              | 67,948              |
| Interest payable                              | 10,535              | 4,946               |
| Other   | 16,123              | 23,735              |
|   | 304,278             | 302,696             |
| <b>Debt</b>                                   |                     |                     |
| Long-term debt, less current portion          | 738,081             | 785,216             |
| <b>Other</b>                                  |                     |                     |
| Deferred income taxes                         | 79,451              | 24,563              |
| Compensation and benefits                     | 121,318             | 123,889             |
| Other long-term liabilities                   | 40,530              | 30,836              |
|   | 241,299             | 179,288             |
| <b>Commitments and contingent liabilities</b> |                     |                     |
| <b>Capital</b>                                |                     |                     |
| Business unit equity                          | 655,332             | 628,590             |
| <b>Total liabilities and capital</b>          | <b>\$ 1,938,990</b> | <b>\$ 1,895,790</b> |

See accompanying notes to consolidated financial statements.

## BZ Intermediate Holdings LLC

## Consolidated Statements of Cash Flows

(dollars in thousands)

|   | BZ Intermediate Holdings LLC<br>Year Ended December 31 |               |             | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|---|--|---------------|-------------|---|
|   | 2010   | 2009          | 2008        |   |
| <b>Cash provided by (used for) operations</b>                                   |  |               |             |   |
| Net income (loss)   | \$ 63,577  | \$ 147,814    | \$ (41,860) | \$ 22,786   |
| Items in net income (loss) not using (providing) cash                           |  |               |             |   |
| Depreciation, depletion, and amortization of deferred financing costs and other | 137,495  | 144,079       | 119,933     | 477   |
| Share-based compensation expense  | 3,733  | 3,518         | 3,096       |   |
| Pension and other postretirement benefit expense                                | 9,537  | 7,376         | 8,388       | 1,826   |
| Deferred income taxes   | 37,882   | 20,020        | (6,439)     | 11  |
| Change in fair value of energy derivatives                                      | 609  | (5,877)       | 7,445       | (37)  |
| Change in fair value of interest rate derivatives                               | 43   | (568)         | 479         |   |
| St. Helens mill restructuring   |  |               | 35,998      |   |
| (Gain) loss on sales of assets, net   | 312  | 514           |             | (943)   |
| Other   | (869)  | (2,639)       | 4,696       | (54)  |
| Loss on extinguishment of debt  | 22,225   | 66,784        |             |   |
| Decrease (increase) in working capital, net of acquisitions                     |  |               |             |   |
| Receivables   | 57,255   | (21,503)      | 25,296      | (23,522)  |
| Inventories   | (17,120)   | 83,037        | (28,950)    | 5,343   |
| Prepaid expenses  | 4,690  | 1,470         | (1,103)     | 875   |
| Accounts payable and accrued liabilities  | (6,690)  | 25,710        | (16,785)    | (10,718)  |
| Current and deferred income taxes   | 5,744  | (422)         | 222         | 335   |
| Pension and other postretirement benefit payments                               | (25,637)   | (13,001)      | (636)       | (1,826)   |
| Other   | (3,005)  | (609)         | (1,848)     | 2,326   |
| Cash provided by (used for) operations  | 289,781  | 455,703       | 107,932     | (3,121)   |
| <b>Cash provided by (used for) investment</b>                                   |  |               |             |   |
| Acquisition of businesses and facilities  |  | (543)         | (1,216,459) |   |
| Expenditures for property and equipment   | (111,619)  | (77,145)      | (90,597)    | (10,168)  |
| Purchases of short-term investments   | (25,336)   | (21,643)      |             |   |
| Maturities of short-term investments  | 24,744   | 11,615        |             |   |
| Sales of assets   | 717  | 1,031         | 394         | 17,662  |
| Other   | 2,224  | 2,168         | (5,703)     | 863   |
| Cash provided by (used for) investment  | (109,270)  | (84,517)      | (1,312,365) | 8,357   |
| <b>Cash provided by (used for) financing</b>                                    |  |               |             |   |
| Issuances of long-term debt   | 300,000  | 310,000       | 1,125,700   |   |
| Payments of long-term debt  | (334,096)  | (531,523)     | (88,250)    |   |
| Extinguishment of debt  |  | (39,717)      |             |   |
| Payments (to) from Boise Inc., net  | (31,639)   | (49,915)      | 271,399     |   |
| Payments of deferred financing costs  | (12,003)   | (13,156)      | (81,898)    |   |
| Net equity transactions with related parties                                    |  |               |             | (5,237)   |
| Other   | (5,333)  |               |             |   |
| Cash provided by (used for) financing   | (83,071)   | (324,311)     | 1,226,951   | (5,237)   |
| Increase (decrease) in cash and cash equivalents                                | 97,440   | 46,875        | 22,518      | (1)   |
| <b>Balance at beginning of the period</b>                                       | <b>69,393</b>  | <b>22,518</b> |             | <b>8</b>  |

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|                                     |                   |                  |                  |             |
|-------------------------------------|-------------------|------------------|------------------|-------------|
| <b>Balance at end of the period</b> | <b>\$ 166,833</b> | <b>\$ 69,393</b> | <b>\$ 22,518</b> | <b>\$ 7</b> |
|-------------------------------------|-------------------|------------------|------------------|-------------|

See accompanying notes to consolidated financial statements.

## BZ Intermediate Holdings LLC

## Consolidated Statements of Capital

(dollars in thousands)

|  | Total Capital     | Business<br>Unit Equity | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|-------------------|-------------------------|--|
| <b>Balance at January 18, 2008 (Inception)</b>                             | \$                | \$                      | \$   |
| Issuance of 1,000 common units   | 638,761           | 638,761                 |  |
| Comprehensive loss:  |                   |                         |  |
| Net loss   | (41,860)          | (41,860)                |  |
| Other comprehensive income loss, net of tax                                |                   |                         |  |
| Cash flow hedges   | (760)             |                         | (760)  |
| Unfunded accumulated benefit obligations                                   | (84,922)          |                         | (84,922)   |
| Other comprehensive loss:  | (85,682)          |                         | (85,682)   |
| Comprehensive loss   | \$ (127,542)      |                         |  |
| Net equity transactions with Boise Inc.                                    | 1,825             | 1,825                   |  |
| <b>Balance at December 31, 2008</b>  | <b>\$ 513,044</b> | <b>\$ 598,726</b>       | <b>\$ (85,682)</b>                                     |
| Comprehensive income:  |                   |                         |  |
| Net income   | 147,814           | 147,814                 |  |
| Other comprehensive income (loss), net of tax                              |                   |                         |  |
| Cash flow hedges   | 207               |                         | 207  |
| Investment gains (losses)  | (5)               |                         | (5)  |
| Changes in unfunded accumulated benefit obligation (net of tax of \$8,600) | 13,927            |                         | 13,927   |
| Other comprehensive income   | 14,129            |                         | 14,129   |
| Comprehensive income   | \$ 161,943        |                         |  |
| Net equity transactions with Boise Inc.                                    | (46,397)          | (46,397)                |  |
| <b>Balance at December 31, 2009</b>  | <b>\$ 628,590</b> | <b>\$ 700,143</b>       | <b>\$ (71,553)</b>                                     |
| Comprehensive income:  |                   |                         |  |
| Net income   | 63,577            | 63,577                  |  |
| Other comprehensive income (loss), net of tax                              |                   |                         |  |
| Cash flow hedges   | 553               |                         | 553  |
| Investment gains (losses)  | 6                 |                         | 6  |
| Changes in unfunded accumulated benefit obligation (net of tax of \$4,945) | (7,828)           |                         | (7,828)  |
| Other comprehensive income   | (7,269)           |                         | (7,269)  |
| Comprehensive income   | \$ 56,308         |                         |  |
| Net equity transactions with Boise Inc.                                    | (29,566)          | (29,566)                |  |



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|                                     |                   |                   |                    |
|-------------------------------------|-------------------|-------------------|--------------------|
| <b>Balance at December 31, 2010</b> | <b>\$ 655,332</b> | <b>\$ 734,154</b> | <b>\$ (78,822)</b> |
|-------------------------------------|-------------------|-------------------|--------------------|

See accompanying notes to consolidated financial statements.

## *Notes to Consolidated Financial Statements*

### *1. Nature of Operations and Basis of Presentation*

In this filing, unless the context indicates otherwise, the terms the Company, we, us, our, or Boise refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate). Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products.

#### *Paper Products*

##### *Communication-Based Papers*

Imaging papers for the office and home, also known as cut-size office papers.

Printing and converting papers: papers used by commercial printers or converters to manufacture envelopes, forms, and other commercial paper products.

##### *Packaging-Demand-Driven Papers*

Label and release papers: These papers include label facestocks, as well as release liners, which our customers combine and convert to labels for use on consumer and commercial packaged products.

Flexible packaging papers: coated and uncoated papers sold to customers that create flexible packaging products for food and nonfood applications.

Corrugating medium: unbleached paperboard, which when corrugated and combined with linerboard, forms corrugated board the key raw material in the manufacture of corrugated sheets and containers. Corrugating medium is also part of a broader category of products called containerboard.

##### *Market Pulp*

Market pulp: pulp sold to customers in the open market for use in the manufacture of paper products.

##### *Packaging Products*

Linerboard: paperboard, which when combined with corrugating medium, forms corrugated board the key raw material in the manufacture of corrugated sheets and containers. Linerboard is also part of a broader category of products called containerboard.

Corrugated sheets: containerboard sheets that are sold primarily to converters that produce a variety of corrugated products.

Corrugated containers: corrugated sheets that have been fed through converting machines to create containers, which are used in the packaging of fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products.

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Newsprint: paper commonly used for printing newspapers, other publications, and advertising material.

We own paper mills in the following locations: Jackson, Alabama; International Falls, Minnesota; St. Helens, Oregon; and Wallula, Washington, all of which manufacture imaging, printing, and converting papers. These products are a subset of a larger product category called uncoated freesheet papers. We also classify label and release and flexible packaging products as uncoated freesheet papers. All of these mills, except St. Helens, also manufacture pulp, which is either sold on the market or used in our own operations to manufacture paper.

We also own a mill in DeRidder, Louisiana, which produces linerboard and newsprint. Additionally, we own seven plants that manufacture corrugated packaging products. Our plants in Burley, Idaho; Nampa, Idaho; Sparks, Nevada; Salem, Oregon; Salt Lake City, Utah; and Wallula, Washington, all manufacture corrugated containers. Our plant in Waco, Texas, manufactures corrugated sheets.

*Labor*

As of December 31, 2010, we had approximately 4,100 employees. Approximately 57% of these employees worked pursuant to collective bargaining agreements. As of December 31, 2010, approximately 50% of our employees were working pursuant to collective bargaining agreements that have expired or will expire within one year.

Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their paper and packaging assets to Aldabra 2 Acquisition Corp. (the Acquisition). As part of the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. In this Form 10-K, we use the term Predecessor to reference the periods before the Acquisition, including the period when our assets were operated by Boise Cascade. See Note 17, Acquisition of Boise Cascade's Paper and Packaging Operations, for more information related to the Acquisition.

The following sets forth our operating structure at December 31, 2010:

Boise Inc., headquartered in Boise, Idaho, operates and reports its business in three reportable segments: Paper, Packaging, and Corporate and Other (support services).

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 Consolidated Statement of Income (Loss) and Consolidated Statement of Cash Flows of the Predecessor for the period of January 1 through February 21, 2008, are presented for comparative purposes.

For the Predecessor period presented, the consolidated financial statements include accounts attributed specifically to the Paper Group and a portion of Boise Cascade's shared corporate general and administrative expenses. These shared services include, but are not limited to, finance, accounting, legal, information technology, and human resource functions. Some corporate costs related solely to the Predecessor and were allocated totally to these operations. Shared corporate general and administrative expenses not specifically identifiable to the Paper Group were allocated primarily based on average sales, assets, and labor costs. The Predecessor consolidated financial statements do not include an allocation of Boise Cascade's debt, interest, and deferred financing costs, because none of these items were specifically identified as corporate advances to, or borrowings by, the Predecessor. Boise Cascade used interest rate swaps to hedge variable interest rate risk. Because debt and interest costs are not allocated to the Predecessor, the effects of the interest rate swaps are not included in the consolidated financial statements. During the Predecessor period presented, income taxes, where applicable, were calculated as if the Predecessor were a separate taxable entity. For the period of January 1 through February 21, 2008, the majority of the businesses and assets of the Predecessor were held and operated by limited liability companies, which are not subject to entity-level federal or state income taxation. In addition to the businesses and assets held and operated by limited liability companies, the Predecessor had taxable corporations subject to federal, state, and local income taxes for which taxes were recorded. Information on the allocations and related-party transactions is included in Note 4, Transactions With Related Parties.

## **2. Summary of Significant Accounting Policies**

### *Consolidation and Use of Estimates*

The consolidated financial statements include the accounts of Boise Inc. and its subsidiaries after elimination of intercompany balances and transactions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include valuation of accounts receivable, inventories, intangible assets, and asset retirement obligations; assumptions used in retirement; the recognition, measurement, and valuation of income taxes; the determination and allocation of the fair values of assets acquired and liabilities assumed in an acquisition; and assessment of the recoverability of long-lived assets. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. Volatile credit, equity, foreign currency, and energy markets and declines in consumer spending have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

#### *Revenue Recognition*

We recognize revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed or determinable, and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated freight on board (FOB) shipping point. For sales transactions designated FOB destination, revenue is recorded when the product is delivered to the customer's delivery site. Fees for shipping and handling charged to customers for sales transactions are included in Sales. Costs related to shipping and handling are included in Materials, labor, and other operating expenses.

#### *Share-Based Compensation*

We accrue compensation expense for the restricted stock and restricted stock units (collectively restricted stock) granted under the Boise Inc. Incentive and Performance Plan (the Plan) based on the fair value on the date of the grant. Compensation expense is recognized ratably over the vesting period for the restricted stock grants that vest over time and ratably over the award period for the restricted stock grants that vest based on the closing price of Boise Inc. stock. During the years ended December 31, 2010, 2009, and 2008, we recognized \$3.7 million, \$3.5 million, and \$3.1 million, respectively, of compensation expense. Most of these costs were recorded in General and administrative expenses in our Consolidated Statements of Income (Loss). See Note 14, Stockholders' Equity and Capital, for a discussion of the Plan and the method we use to calculate compensation expense.

During the Predecessor period presented, equity compensation was granted to the Predecessor's employees under Boise Cascade's equity compensation plans. These equity compensation plans were accounted for in the same manner we account for our current plans. During the Predecessor period of January 1 through February 21, 2008, the Predecessor recognized \$0.2 million of compensation expense, most of which was recorded in General and administrative expenses in the Consolidated Statement of Income (Loss).

#### *Research and Development Costs*

We expense research and development costs as incurred, and they were immaterial for all periods presented. These expenses are generally recorded in Materials, labor, and other operating expenses in our Consolidated Statements of Income (Loss).

#### *Advertising Costs*

We expense advertising costs as incurred. For the years ended December 31, 2010, 2009, and 2008, advertising costs were \$3.0 million, \$2.7 million, and \$2.3 million, respectively. For the Predecessor period of January 1 through February 21, 2008, advertising costs were \$1.0 million. These expenses are generally recorded in Selling and distribution expenses in our Consolidated Statements of Income (Loss).

#### *Cash and Cash Equivalents*

We consider all highly liquid interest-earning investments, including time deposits and certificates of deposit, with a maturity of three months or less at the date of purchase to be cash equivalents unless designated as available for sale and classified as an investment. The fair value of these investments approximates their carrying value. Cash equivalents totaled \$156.5 million and \$65.1 million, respectively, at December 31, 2010 and 2009.

### *Short-Term Investments*

Investments with original maturities of greater than three months and remaining maturities of less than one year are classified as short-term investments. Our short-term investments are classified as available for sale and are recorded at market value. Changes in market value are reflected in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet. Unrealized losses determined to be other than temporary are recorded in our Consolidated Statement of Income (Loss). The cost of marketable securities sold is determined based on the specific identification method.

### *Trade Accounts Receivable and Allowance for Doubtful Accounts*

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We determine the allowance based on a combination of actual historical write-off experience and an analysis of specific customer accounts. We periodically review our allowance for doubtful accounts, and adjustments to the valuation allowance are charged to income. Trade accounts receivable balances that remain outstanding after we have used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. We may, at times, insure or arrange for guarantees on our receivables.

### *Financial Instruments*

Our financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, long-term debt, and energy hedges. The recorded values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate fair values based on their short-term nature. Our long-term debt is recorded at the face value of those obligations. Our energy hedges are recorded at fair value.

We are exposed to market risks, including changes in interest rates and energy prices. We employ a variety of practices to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. Derivative instruments are used only for risk management purposes and not for speculation or trading. Derivatives are such that a specific debt instrument, contract, or anticipated purchase determines the amount, maturity, and other specifics of the hedge. If a derivative contract is entered into, we either determine that it is an economic hedge or we designate the derivative as a cash flow or fair value hedge. We formally document all relationships between hedging instruments and the hedged items, as well as our risk management objectives and strategies for undertaking various hedged transactions. For those derivatives that are not designated as economic hedges, such as cash flow or fair value hedges, we formally assess, both at the derivatives inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the hedged items. The ineffective portion of hedging transactions is recognized in income (loss).

We record all derivative instruments as assets or liabilities on our Consolidated Balance Sheets at fair value. The fair value of these instruments is determined by third parties. Changes in the fair value of derivatives are recorded in either Net income (loss) or Other comprehensive income (loss) as appropriate. The gain or loss on derivatives designated as cash flow hedges is included in Other comprehensive income (loss) in the period in which changes in fair value occur and is reclassified to income (loss) in the period in which the hedged item affects income (loss), and any ineffectiveness is recognized currently in our Consolidated Statements of Income (Loss). The fair value of the hedged exposure is presumed to be the market value of the hedging instrument when

critical terms match. The gain or loss on derivatives designated as fair value hedges and the offsetting gain or loss on the hedged item attributable to the hedged risk are included in income (loss) in the period in which changes in fair value occur. The gain or loss on derivatives that have not been designated as hedging instruments is included in income (loss) in the period in which changes in fair value occur.

#### *Customer Rebates and Allowances*

We provide rebates to our customers based on the volume of their purchases. We provide the rebates to increase the sell-through of our products. The rebates are recorded as a decrease in Sales, Trade in our Consolidated Statements of Income (Loss). At December 31, 2010 and 2009, we had \$13.7 million and \$16.1 million, respectively, of rebates payable recorded on our Consolidated Balance Sheets.

#### *Inventory Valuation*

Inventories are valued at the lower of cost or market. Cost is based on the average cost method of inventory valuation. Manufactured inventories include costs for materials, labor, and factory overhead.

Inventories include the following (dollars in thousands):

|                                  | <b>December 31</b> |                   |
|----------------------------------|--------------------|-------------------|
|                                  | <b>2010</b>        | <b>2009</b>       |
| Finished goods                   | \$ 123,329         | \$ 120,817        |
| Work in process                  | 34,906             | 22,677            |
| Fiber                            | 36,166             | 34,557            |
| Other raw materials and supplies | 67,070             | 74,122            |
|                                  | <b>\$ 261,471</b>  | <b>\$ 252,173</b> |

#### *Property and Equipment*

Property and equipment acquired in the Acquisition were recorded at estimated fair value on the date of the Acquisition. Property and equipment acquired subsequent to the Acquisition are recorded at cost. Cost includes expenditures for major improvements and replacements and the amount of interest cost associated with significant capital additions. For the year ended December 31, 2010, we recognized an immaterial amount of capitalized interest, and for the year ended December 31, 2009, we did not recognize any capitalized interest. During the Predecessor period of January 1 through February 21, 2008, the Predecessor recognized \$0.1 million of capitalized interest. We expense all repair and maintenance costs as incurred. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in income (loss). In all periods presented, we used the straight-line method of depreciation.



Property and equipment consisted of the following asset classes and the following general range of estimated useful lives (dollars in thousands):

|                               | December 31         |                     | General Range of<br>Estimated<br>Useful<br>Lives in Years |
|-------------------------------|---------------------|---------------------|---|
|                               | 2010                | 2009                |   |
| Land                          | \$ 31,875           | \$ 31,875           | NA  |
| Buildings and improvements    | 219,345             | 199,086             | 9-40  |
| Machinery and equipment       | 1,260,265           | 1,176,494           | 3-20  |
| Construction in progress      | 27,667              | 18,992              | NA  |
|                               | 1,539,152           | 1,426,447           |   |
| Less accumulated depreciation | (340,117)           | (220,768)           | NA  |
|                               | <b>\$ 1,199,035</b> | <b>\$ 1,205,679</b> |   |

Depreciation expense for the years ended December 31, 2010, 2009, and 2008, was \$120.5 million, \$120.9 million, and \$102.0 million, respectively.

#### *Fiber Farms and Deposits*

Costs for activities related to the establishment of a new crop of trees, including planting, thinning, fertilization, pest control, herbicide application, irrigation, and land lease costs, are capitalized, while costs for administration, harvesting, insurance, and property taxes are expensed. The capitalized costs are accumulated by specifically identifiable farm or irrigation blocks. We charge capitalized costs, excluding land, to Depreciation, amortization, and depletion in the accompanying Consolidated Statements of Income (Loss) at the time the fiber is harvested based on actual accumulated costs associated with fiber cut.

We are a party to a number of long-term log and fiber supply agreements. At December 31, 2010 and 2009, our total obligation for log and fiber purchases under contracts with third parties was approximately \$81.2 million and \$76.4 million, respectively. Except for deposits required pursuant to wood supply contracts, these obligations are not recorded in our consolidated financial statements until contract payment terms take effect. Under most of the log and fiber supply agreements, we have the right to cancel or reduce our commitments in the event of a mill curtailment or shutdown. Future purchase prices under most of these agreements are set quarterly or semiannually based on regional market prices, and the estimate is based on contract terms or first quarter 2011 pricing. Our log and fiber obligations are subject to change based on, among other things, the effect of governmental laws and regulations, our manufacturing operations not operating in the normal course of business, log and fiber availability, and the status of environmental appeals.

#### *Long-Lived Asset Impairment*

An impairment of long-lived assets exists when the carrying value of an asset is not recoverable through future undiscounted cash flows from operations and when the carrying value of an asset exceeds its fair value. We review the carrying value of long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable.

#### *Intangible Assets*

Our policy is to assess intangible assets with indefinite lives for impairment in the fourth quarter of each year, and immediately if an indicator of possible impairment exists, using a fair-value-based

approach. We also evaluate the remaining useful lives of our purchased intangible assets to determine whether any adjustments to the useful lives are necessary.

#### *Deferred Software Costs*

We defer internal-use software costs that benefit future years. These costs are amortized using the straight-line method over the expected life of the software, typically three to five years. Other assets in the Consolidated Balance Sheets include \$5.3 million and \$4.1 million of deferred software costs at December 31, 2010 and 2009, respectively. We amortized \$0.8 million, \$1.4 million, and \$0.7 million, respectively, of deferred software costs for the years ended December 31, 2010, 2009, and 2008. For the Predecessor period of January 1 through February 21, 2008, amortization of deferred software costs totaled \$0.1 million.

#### *Pension Benefits*

Several estimates and assumptions are required to record pension costs and liabilities, including discount rate, return on assets, salary increases, and longevity and service lives of employees. We review and update these assumptions annually unless a plan curtailment or other event occurs requiring we update the estimates on an interim basis. While we believe that the assumptions used to measure our pension obligations are reasonable, differences in actual experience or changes in assumptions may materially affect our pension obligations and future expense.

#### *Taxes Collected*

We present taxes collected from customers and remitted to governmental authorities on a net basis in our Consolidated Statement of Income (Loss).

#### *New and Recently Adopted Accounting Standards*

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. This ASU amends FASB Accounting Standards Codification (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 are effective for fiscal years beginning after December 15, 2010. We do not expect the adoption of the Level 3 roll-forward disclosures to have a material impact on our financial position or results of operation.

In June 2009, the FASB issued ASU 2009-17 (Statement of Financial Accounting Standards No. 167), *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, which amends the consolidation guidance applicable to variable-interest entities (VIEs). This guidance requires that entities evaluate former qualified special-purpose entities for consolidation, changes the approach to determining a VIE's primary beneficiary from a quantitative assessment to a qualitative assessment, and increases the frequency of required reassessment to determine whether a company is the primary beneficiary of a VIE. It also requires additional year-end and interim disclosures. 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. During first quarter 2010, we reassessed our primary beneficiary assertion relating to Louisiana Timber Procurement, L.L.C., our only VIE, after Boise Cascade sold all of its remaining interest in us. This

analysis, or any since first quarter 2010, did not change our assertions or 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.

### 3. *Net Income (Loss) Per Common Share*

For the years ended December 31, 2010, 2009, and 2008, when we had publicly traded shares outstanding, net income (loss) per common share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Basic and diluted net income (loss) per share is calculated as follows (dollars and shares in thousands, except per-share data):

|  | Year Ended December 31 |                |                  |
|--|------------------------|----------------|------------------|
|  | 2010                   | 2009           | 2008             |
| Net income (loss)  | \$ 62,734              | \$ 153,842     | \$ (45,523)      |
| Weighted average number of common shares for basic net income (loss) per share | 80,461                 | 78,355         | 73,636           |
| Incremental effect of dilutive common stock equivalents:                       |                        |                |                  |
| Common stock warrants (a)  |                        |                |                  |
| Restricted stock and restricted stock units (b)                                | 3,670                  | 4,726          |                  |
| Weighted average number of shares for diluted net income (loss) per share      | 84,131                 | 83,081         | 73,636           |
| Net income (loss) per share  |                        |                |                  |
| Basic  | <b>\$ 0.78</b>         | <b>\$ 1.96</b> | <b>\$ (0.62)</b> |
| Diluted (a) (b)  | <b>\$ 0.75</b>         | <b>\$ 1.85</b> | <b>\$ (0.62)</b> |

(a) For the years ended December 31, 2010, 2009, and 2008, warrants to purchase 44.3 million, 44.4 million, and 44.4 million shares of common stock, respectively, were not included in the computation of diluted net income (loss) per share, because the exercise price exceeded the average market price of our common stock.

(b) Restricted stock and restricted stock units for the year ended December 31, 2008, were not included in the computation of diluted net loss per share, because inclusion of these amounts would be antidilutive.

Net income (loss) per common share is not applicable to BZ Intermediate, because it does not have common shares.

### 4. *Transactions With Related Parties*

From February 22, 2008, through early March 2010, Boise Cascade held a significant interest in us, and our transactions with Boise Cascade were 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.

The transportation and other outsourcing services revenues described below were earned during January and February 2010. After March 2010, no transactions between Boise Cascade and us are considered related-party transactions, except those concerning Louisiana Timber Procurement Company, L.L.C. (LTP) described below.

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*Related-Party Sales*

We provide transportation services to Boise Cascade. For the years ended December 31, 2010, 2009, and 2008, we recorded \$0.3 million, \$2.3 million, and \$3.4 million, respectively, of sales for transportation services in *Sales, Related parties* in the Consolidated Statements of Income (Loss). For the period of January 1 through February 21, 2008, the Predecessor recorded \$0.6 million of sales for transportation services to Boise Cascade.

We are party to 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. For the years ended December 31, 2010, 2009, and 2008, we recognized \$2.3 million, \$15.0 million, and \$12.1 million, respectively, in *Sales, Related parties* in the Consolidated Statements of Income (Loss) and the same amounts in *Costs and expenses* in our Consolidated Statements of Income (Loss) related to this agreement within our Corporate and Other segment.

LTP, a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade, sells wood to Boise Cascade and Boise Inc. at prices designed to approximate market prices. 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 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. We reassess this relationship quarterly to ensure that we remain the primary beneficiary of LTP. Although Boise Cascade is no longer a related party to our operations, Boise Cascade continues to be a related party to LTP; therefore, sales between Boise Cascade and LTP are related-party sales in our consolidated financial statements.

As of December 31, 2010, the carrying amounts of LTP's assets and liabilities on our Consolidated Balance Sheet were both \$2.1 million and related primarily to noninventory working capital. During the years ended December 31, 2010 and 2009, we recorded \$33.0 million and \$25.5 million, respectively, of LTP sales to Boise Cascade in *Sales, Related parties* in the Consolidated Statements of Income (Loss) and approximately the same amount of expenses in *Materials, labor, and other operating expenses*. During the year ended December 31, 2008, we recorded \$64.9 million of sales to Boise Cascade. The Predecessor sold \$10.8 million of wood to Boise Cascade's wood products business during the period of January 1 through February 21, 2008. These sales are included in *Sales, Related parties* in the Consolidated Statements of Income (Loss) in our Packaging segment.

During the Predecessor period of January 1 through February 21, 2008, the Predecessor sold paper and paper products to OfficeMax Incorporated (OfficeMax) at sales prices that were designed to approximate market prices. Subsequent to the Acquisition, OfficeMax is no longer a related party. For additional information concerning related-party sales to OfficeMax during the Predecessor period, see Note 8, *Concentrations of Risk*.

*Related-Party Costs and Expenses*

During the years ended December 31, 2010, 2009, and 2008, fiber purchases from related parties were \$25.3 million, \$36.9 million, and \$54.6 million, respectively. During the Predecessor period of January 1 through February 21, 2008, fiber purchases from related parties were \$7.7 million. Most of these purchases related to chip and log purchases from Boise Cascade's wood products business. All of the costs associated with these purchases were recorded as *Fiber costs from related parties* in the Consolidated Statements of Income (Loss). Beginning in March 2010,

Fiber costs from related parties represents only LTP's purchases from Boise Cascade. Fiber purchases from Boise Cascade by Boise Inc. subsequent to February 2010 are recorded as Materials, labor, and other operating expenses in the Consolidated Statements of Income (Loss).

During the Predecessor period, the Predecessor used services and administrative staff of Boise Cascade. These services included, but were not limited to, finance, accounting, legal, information technology, and human resource functions. The costs not specifically identifiable to the Predecessor were allocated based primarily on average sales, assets, and labor costs. These costs are included in General and administrative expenses in the Consolidated Statements of Income (Loss). The Predecessor believes the allocations are a reasonable reflection of its use of the services. However, had the Predecessor operated on a stand-alone basis, it estimates that its Corporate and Other segment would have reported approximately \$2.5 million of segment expenses before interest, taxes, depreciation, and amortization for the Predecessor period of January 1 through February 21, 2008.

During the Predecessor period, some of the Predecessor's employees participated in Boise Cascade's noncontributory defined benefit pension and contributory defined contribution savings plans. The Predecessor treated its participants in the pension plans as participants in multiemployer plans. The Predecessor recorded costs associated with the employees who participated in these plans in the Consolidated Statements of Income (Loss). For the Predecessor period of January 1 through February 21, 2008, the Statements of Income (Loss) included \$3.9 million of expenses attributable to its participation in Boise Cascade's defined benefit and defined contribution plans.

During the Predecessor period presented, the Predecessor's employees and former employees also participated in Boise Cascade's other postretirement healthcare benefit plans. All of the Predecessor's postretirement healthcare benefit plans were unfunded (see Note 13, Retirement and Benefit Plans). In addition, some of the Predecessor's employees participated in equity compensation programs.

During the year ended December 31, 2008, we recorded \$2.8 million of related-party interest expense in Interest expense in our Consolidated Statements of Income (Loss). This expense is related to the subordinated promissory note we issued to Boise Cascade in connection with the Acquisition. After the Acquisition, the note was transferred to parties unrelated to Boise Cascade or to us. Accordingly, we no longer record the note as a related-party note on our Consolidated Balance Sheet. This note was repaid as part of our October 2009 debt restructuring. For additional information on the debt restructuring, see Note 11, Debt.

#### 5. Other (Income) Expense

Other (income) expense, net includes miscellaneous income and expense items. The components of Other (income) expense, net in the Consolidated Statements of Income (Loss) are as follows (dollars in thousands):

|                                       | Boise Inc.<br>Year Ended December 31 |          |            | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|---------------------------------------|--------------------------------------|----------|------------|---|
|                                       | 2010                                 | 2009     | 2008       |   |
| Changes in supplemental pension plans | \$                                   | \$       | \$ (2,914) | \$  |
| Sales of assets, net                  | 312                                  | 514      |            | (941)   |
| Other, net (a)                        | (279)                                | 3,491    | (66)       | (48)  |
|                                       | \$ 33                                | \$ 4,005 | \$ (2,980) | \$ (989)  |

- (a) The year ended December 31, 2009, included \$3.5 million of expense related to the indefinite idling of the D2 newsprint machine at our mill in DeRidder, Louisiana, which was recorded in our Packaging segment.

**6. Income Taxes**

For the year ended December 31, 2010, Boise Inc.'s effective tax provision rate was 42.0%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes. For the year ended December 31, 2009, Boise Inc.'s effective tax provision rate was 15.4%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the release of valuation allowances and the effect of state income taxes. During fourth quarter 2009, Boise Inc. determined that it was more likely than not that its deferred tax assets would be realized due to current-year income from continuing operations and that it would be able to utilize deferred tax assets to offset deferred tax liabilities. Therefore, Boise Inc. recognized the reversal of its entire valuation allowance as an income tax benefit from continuing operations. For the year ended December 31, 2008, Boise Inc.'s effective tax benefit rate was 16.2%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the valuation allowance recorded during 2008.

For the year ended December 31, 2010, BZ Intermediate's effective tax provision rate was 41.2%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes. For the year ended December 31, 2009, BZ Intermediate's effective tax provision rate was 12.1%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the release of valuation allowances and the effect of state income taxes. During fourth quarter 2009, BZ Intermediate determined that it was more likely than not that its deferred tax assets would be realized due to current-year income from continuing operations and that it would be able to utilize deferred tax assets to offset deferred tax liabilities. Therefore, BZ Intermediate recognized the reversal of its entire valuation allowance as an income tax benefit from continuing operations. For the year ended December 31, 2008, BZ Intermediate's effective tax benefit rate was 12.3%. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the valuation allowance recorded during 2008.

During the Predecessor period of January 1 through February 21, 2008, the majority of the Predecessor businesses and assets were held and operated by limited liability companies, which were not subject to entity-level federal or state income taxation. For the separate Predecessor subsidiaries that were taxed as corporations, the effective tax rate was 37.6%. During this period, the primary reason for the difference in tax rates was the effect of state income taxes.

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A reconciliation of the statutory U.S. federal tax benefit (provision) and the reported tax benefit (provision) is as follows (dollars in thousands):

|  | <b>Boise Inc.</b>             |                    |                 |
|--|-------------------------------|--------------------|-----------------|
|  | <b>Year Ended December 31</b> |                    |                 |
|  | <b>2010</b>                   | <b>2009</b>        | <b>2008</b>     |
| Income (loss) before income taxes                                    | \$ 108,106                    | \$ 181,852         | \$ (54,295)     |
| Statutory U.S. income tax rate                                       | 35.0%                         | 35.0%              | 35.0%           |
| Statutory tax benefit (provision)                                    | \$ (37,837)                   | \$ (63,648)        | \$ 19,003       |
| State taxes  | (4,120)                       | (7,432)            | 1,845           |
| Nondeductible interest on applicable high-yield discount obligations |                               | (594)              | (1,167)         |
| Valuation allowance  | (307)                         | 44,063             | (10,884)        |
| Nondeductible costs  | (652)                         | (561)              | (423)           |
| Other  | (2,456)                       | 162                | 398             |
| <b>Reported tax benefit (provision)</b>                              | <b>\$ (45,372)</b>            | <b>\$ (28,010)</b> | <b>\$ 8,772</b> |
| Effective income tax benefit (provision) rate                        | <b>(42.0)%</b>                | <b>(15.4)%</b>     | <b>16.2%</b>    |

|   | <b>BZ Intermediate Holdings LLC</b> |                    |                 |
|---|-------------------------------------|--------------------|-----------------|
|   | <b>Year Ended December 31</b>       |                    |                 |
|   | <b>2010</b>                         | <b>2009</b>        | <b>2008</b>     |
| Income (loss) before income taxes             | \$ 108,106                          | \$ 168,170         | \$ (47,709)     |
| Statutory U.S. income tax rate                | 35.0%                               | 35.0%              | 35.0%           |
| Statutory tax benefit (provision)             | \$ (37,837)                         | \$ (58,859)        | \$ 16,698       |
| State taxes                                   | (4,120)                             | (6,858)            | 1,724           |
| Valuation allowance                           | (307)                               | 45,719             | (12,540)        |
| Nondeductible costs                           | (652)                               | (561)              | (423)           |
| Other   | (1,613)                             | 203                | 390             |
| <b>Reported tax benefit (provision)</b>       | <b>\$ (44,529)</b>                  | <b>\$ (20,356)</b> | <b>\$ 5,849</b> |
| Effective income tax benefit (provision) rate | <b>(41.2)%</b>                      | <b>(12.1)%</b>     | <b>12.3%</b>    |

The income tax (provision) benefit shown in the Consolidated Statements of Income (Loss) includes the following (dollars in thousands):

|   | <b>Boise Inc.</b>             |              |              |
|---|-------------------------------|--------------|--------------|
|   | <b>Year Ended December 31</b> |              |              |
|   | <b>2010</b>                   | <b>2009</b>  | <b>2008</b>  |
| Current income tax (provision) benefit  |                               |              |              |
| Federal                                 | \$ (4,253)                    | \$ 274       | \$ (578)     |
| State                                   | (2,236)                       | (563)        | 2            |
| Foreign                                 | 1                             | (12)         | (15)         |
| <b>Total current</b>                    | <b>(6,488)</b>                | <b>(301)</b> | <b>(591)</b> |
| Deferred income tax (provision) benefit |                               |              |              |
| Federal                                 | (34,061)                      | (21,282)     | 8,778        |
| State                                   | (4,831)                       | (6,427)      | 585          |
| Foreign                                 | 8                             |              |              |

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|  |                    |                    |                 |
|--|--------------------|--------------------|-----------------|
| Total deferred                             | (38,884)           | (27,709)           | 9,363           |
| Total (provision) benefit for income taxes | <b>\$ (45,372)</b> | <b>\$ (28,010)</b> | <b>\$ 8,772</b> |



|   | <b>BZ Intermediate Holdings LLC</b> |                    |                 |
|---|-------------------------------------|--------------------|-----------------|
|   | <b>Year Ended December 31</b>       |                    |                 |
|   | <b>2010</b>                         | <b>2009</b>        | <b>2008</b>     |
| <b>Current income tax (provision) benefit</b>     |                                     |                    |                 |
| Federal   | \$ (4,455)                          | \$ 274             | \$ (589)        |
| State   | (2,194)                             | (599)              | 13              |
| Foreign   | 1                                   | (12)               | (14)            |
| <b>Total current</b>                              | <b>(6,648)</b>                      | <b>(337)</b>       | <b>(590)</b>    |
| <b>Deferred income tax (provision) benefit</b>    |                                     |                    |                 |
| Federal   | (33,150)                            | (14,567)           | 5,854           |
| State   | (4,739)                             | (5,452)            | 585             |
| Foreign   | 8                                   |                    |                 |
| <b>Total deferred</b>                             | <b>(37,881)</b>                     | <b>(20,019)</b>    | <b>6,439</b>    |
| <b>Total (provision) benefit for income taxes</b> | <b>\$ (44,529)</b>                  | <b>\$ (20,356)</b> | <b>\$ 5,849</b> |

During the year ended December 31, 2010, Boise Inc.'s cash paid for taxes, net of refunds received, was \$0.7 million. During the year ended December 31, 2009, Boise Inc.'s cash received for taxes, net of payments made, was \$3.1 million. During the year ended December 31, 2008, Boise Inc.'s cash paid for taxes, net of refunds received, was \$1.4 million.

During the year ended December 31, 2010, BZ Intermediate's cash paid for taxes, net of refunds received, was \$0.7 million. During the year ended December 31, 2009, BZ Intermediate's cash received for taxes, net of payments made, was \$0.2 million. During the year ended December 31, 2008, BZ Intermediate's cash paid for taxes, net of refunds received, was \$32,000.

During the Predecessor period of January 1 through February 21, 2008, cash paid for taxes, net of refunds received, was immaterial.

At December 31, 2010, Boise Inc. had federal net operating losses of \$132.8 million, which expire in 2028 and 2029, with a tax value of \$46.5 million. At December 31, 2010, Boise Inc. had state net operating loss carryovers, which expire between 2013 and 2029, with a tax value of \$4.9 million. At December 31, 2010, Boise Inc. had capital losses of \$2.3 million, which will expire between 2013 and 2015, and \$4.6 million of alternative minimum tax credits that carry over indefinitely.

At December 31, 2010, BZ Intermediate had federal net operating losses of \$133.5 million, which expire in 2028 and 2029, with a tax value of \$46.7 million. At December 31, 2010, BZ Intermediate had state net operating loss carryovers, which expire between 2013 and 2029, with a tax value of \$4.3 million. At December 31, 2010, BZ Intermediate had capital losses of \$2.3 million, which will expire between 2013 and 2015, and \$4.8 million of alternative minimum tax credits that carry over indefinitely.

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 realizable before they expire in 2028 and 2029.

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The components of the net deferred tax liability/asset in the Consolidated Balance Sheets are as follows (dollars in thousands):

|                              | <b>Boise Inc.</b>  |                    |                   |                    |
|------------------------------|--------------------|--------------------|-------------------|--------------------|
|                              | <b>December 31</b> |                    |                   |                    |
|                              | <b>2010</b>        |                    | <b>2009</b>       |                    |
|                              | <b>Assets</b>      | <b>Liabilities</b> | <b>Assets</b>     | <b>Liabilities</b> |
| Employee benefits            | \$ 62,215          | \$ 517             | \$ 61,863         | \$ 477             |
| Property and equipment       |                    | 194,572            |                   | 132,413            |
| Deferred financing costs     | 1,682              | 140                | 1,906             | 2,989              |
| Intangible assets and other  | 321                | 12,957             | 224               | 13,522             |
| Net operating loss           | 57,157             |                    | 58,564            |                    |
| Alternative minimum tax      | 4,645              |                    |                   |                    |
| Reserves                     | 4,027              |                    | 4,011             |                    |
| Inventories                  | 10,488             |                    | 4,163             |                    |
| Deferred income              |                    | 8,779              |                   | 6,773              |
| Unearned income              |                    |                    |                   | 21,860             |
| State income tax adjustments | 3,265              | 213                | 2,344             | 213                |
| Valuation allowance          | (890)              |                    |                   |                    |
| Other                        | 4,521              | 1,795              | 3,168             | 1,788              |
|                              | <b>\$ 147,431</b>  | <b>\$ 218,973</b>  | <b>\$ 136,243</b> | <b>\$ 180,035</b>  |

|                              | <b>BZ Intermediate Holdings LLC</b> |                    |                   |                    |
|------------------------------|-------------------------------------|--------------------|-------------------|--------------------|
|                              | <b>December 31</b>                  |                    |                   |                    |
|                              | <b>2010</b>                         |                    | <b>2009</b>       |                    |
|                              | <b>Assets</b>                       | <b>Liabilities</b> | <b>Assets</b>     | <b>Liabilities</b> |
| Employee benefits            | \$ 62,215                           | \$ 517             | \$ 61,863         | \$ 477             |
| Property and equipment       |                                     | 194,572            |                   | 132,413            |
| Deferred financing costs     | 1,682                               | 140                | 1,906             | 2,989              |
| Intangible assets and other  | 321                                 | 12,957             | 224               | 13,522             |
| Net operating loss           | 56,897                              |                    | 59,456            |                    |
| Alternative minimum tax      | 4,847                               |                    |                   |                    |
| Reserves                     | 4,027                               |                    | 4,011             |                    |
| Inventories                  | 10,488                              |                    | 4,163             |                    |
| Unearned income              |                                     |                    |                   | 21,860             |
| State income tax adjustments | 3,265                               | 213                | 2,344             | 213                |
| Valuation allowance          | (890)                               |                    |                   |                    |
| Other                        | 4,521                               | 1,767              | 3,168             | 1,763              |
|                              | <b>\$ 147,373</b>                   | <b>\$ 210,166</b>  | <b>\$ 137,135</b> | <b>\$ 173,237</b>  |

At December 31, 2010 and 2009, we had the following deferred tax balances on the Consolidated Balance Sheets (dollars in thousands):

|  | <b>Boise Inc.</b>        |                    |
|--|--------------------------|--------------------|
|  | <b>As of December 31</b> |                    |
|  | <b>2010</b>              | <b>2009</b>        |
| Current deferred tax assets (liabilities), net | \$ 16,658                | \$ (11,539)        |
| Noncurrent deferred tax liabilities, net       | (88,200)                 | (32,253)           |
| <b>Total deferred tax liabilities, net</b>     | <b>\$ (71,542)</b>       | <b>\$ (43,792)</b> |



|  | <b>BZ Intermediate Holdings LLC</b> |                    |
|--|-------------------------------------|--------------------|
|  | <b>As of December 31</b>            |                    |
|  | <b>2010</b>                         | <b>2009</b>        |
| Current deferred tax assets (liabilities), net | \$ 16,658                           | \$ (11,539)        |
| Noncurrent deferred tax liabilities, net       | (79,451)                            | (24,563)           |
| <b>Total deferred tax liabilities, net</b>     | <b>\$ (62,793)</b>                  | <b>\$ (36,102)</b> |

Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. During the year ended December 31, 2010, Boise Inc. recorded a full valuation allowance on \$0.9 million of deferred tax assets related to capital losses, because we do not expect to generate capital gains before these losses expire. During the year ended December 31, 2009, Boise Inc. released \$44.1 million of valuation allowances recorded during the year ended December 31, 2008. During fourth quarter 2009, Boise Inc. determined that it was more likely than not that its deferred tax assets would be realized due to current-year income from continuing operations and that it would be able to utilize deferred tax assets to offset deferred tax liabilities. Therefore, Boise Inc. recognized the reversal of its entire valuation allowance as an income tax benefit from continuing operations. At December 31, 2008, Boise Inc. recorded \$10.9 million of valuation allowances against income from continuing operations and \$32.9 million and \$0.3 million to Accumulated other comprehensive income (loss) on its Consolidated Statement of Stockholders' Equity against its pension liability and cash flow hedges, respectively.

During the year ended December 31, 2010, BZ Intermediate recorded a full valuation allowance on \$0.9 million of deferred tax assets related to capital losses, because we do not expect to generate capital gains before these losses expire. During the year ended December 31, 2009, BZ Intermediate released \$45.7 million of valuation allowances recorded during the year ended December 31, 2008. During fourth quarter 2009, BZ Intermediate determined that it was more likely than not that its deferred tax assets would be realized due to current-year income from continuing operations and that it would be able to utilize deferred tax assets to offset deferred tax liabilities. Therefore, BZ Intermediate recognized the reversal of its entire valuation allowance as an income tax benefit from continuing operations. At December 31, 2008, BZ Intermediate recorded \$12.5 million of valuation allowance against income from continuing operations and \$32.9 million and \$0.3 million to accumulated other comprehensive income (loss), which was included in Business unit equity on its Consolidated Balance Sheets, against its pension liability and cash flow hedges, respectively.

Pretax income (loss) from domestic and foreign sources is as follows (dollars in thousands):

|                             | <b>Boise Inc.</b>             |                   |                    |
|-----------------------------|-------------------------------|-------------------|--------------------|
|                             | <b>Year Ended December 31</b> |                   |                    |
|                             | <b>2010</b>                   | <b>2009</b>       | <b>2008</b>        |
| Domestic                    | \$ 108,095                    | \$ 181,843        | \$ (54,306)        |
| Foreign                     | 11                            | 9                 | 11                 |
| <b>Pretax income (loss)</b> | <b>\$ 108,106</b>             | <b>\$ 181,852</b> | <b>\$ (54,295)</b> |

|                             | <b>BZ Intermediate Holdings LLC</b> |                   |                    |
|-----------------------------|-------------------------------------|-------------------|--------------------|
|                             | <b>Year Ended December 31</b>       |                   |                    |
|                             | <b>2010</b>                         | <b>2009</b>       | <b>2008</b>        |
| Domestic                    | \$ 108,095                          | \$ 168,161        | \$ (47,720)        |
| Foreign                     | 11                                  | 9                 | 11                 |
| <b>Pretax income (loss)</b> | <b>\$ 108,106</b>                   | <b>\$ 168,170</b> | <b>\$ (47,709)</b> |

At December 31, 2010 and 2009, our foreign subsidiaries had no undistributed earnings that had been indefinitely reinvested.

*Uncertain Income Tax Positions*

Both Boise Inc. and BZ Intermediate recognize tax liabilities and adjust these liabilities when their judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur.

For the year ended December 31, 2009, Boise Inc. and BZ Intermediate increased their unrecognized tax benefit by \$87.6 million, which was charged to income tax expense, by excluding the alternative fuel mixture credits from income for tax purposes. If subsequently recognized, this unrecognized tax benefit would reduce Boise Inc. and BZ Intermediate tax expense \$83.3 million and \$83.2 million, respectively, for the year ended December 31, 2009.

Exclusion of the alternative fuel mixture credits increased our deferred tax liabilities \$11.8 million for Boise Inc., or \$12.0 million for BZ Intermediate, for the year ended December 31, 2010, and related primarily to the timing of our recognition of the credit. Exclusion of the alternative fuel mixture credits generated a deferred tax benefit of \$82.9 million for Boise Inc., or \$82.8 million for BZ Intermediate, for the year ended December 31, 2009 (primarily a net operating loss carryforward).

A reconciliation of the unrecognized tax benefits is as follows (dollars in thousands):

|   | <b>Boise Inc.</b> |                  |
|---|-------------------|------------------|
|   | <b>2010</b>       | <b>2009</b>      |
| Unrecognized tax benefits, beginning of year            | \$ 87,838         | \$ 256           |
| Gross increases related to prior-period tax positions   | 169               | 11               |
| Gross decrease related to prior-period tax positions    | (529)             |                  |
| Gross increases related to current-period tax positions | 107               | 87,571           |
| Settlements   |                   |                  |
| Unrecognized tax benefits, end of year                  | <b>\$ 87,585</b>  | <b>\$ 87,838</b> |

  

|   | <b>BZ Intermediate Holdings LLC</b> |                  |
|---|-------------------------------------|------------------|
|   | <b>2010</b>                         | <b>2009</b>      |
| Unrecognized tax benefits, beginning of year            | \$ 87,820                           | \$ 256           |
| Gross increases related to prior-period tax positions   | 166                                 | 11               |
| Gross decrease related to prior-period tax positions    | (529)                               |                  |
| Gross increases related to current-period tax positions | 107                                 | 87,553           |
| Settlements   |                                     |                  |
| Unrecognized tax benefits, end of year                  | <b>\$ 87,564</b>                    | <b>\$ 87,820</b> |

The December 31, 2010, unrecognized tax benefit net of federal benefit for state taxes for Boise Inc. is \$83.5 million. Of this amount, \$71.2 million is recorded as a credit to long-term deferred taxes to eliminate the benefit associated with the uncertain tax position. The remaining \$12.3 million is recorded in Other long-term liabilities on our Consolidated Balance Sheet.

The December 31, 2010, unrecognized tax benefit net of federal benefit for state taxes for BZ Intermediate is \$83.4 million. Of this amount, \$70.8 million is recorded as a credit to long-term deferred taxes to eliminate the benefit associated with the uncertain tax position. The remaining \$12.6 million is recorded in Other long-term liabilities on our Consolidated Balance Sheet.

Additional guidance may be issued by the IRS in the next 12 months, which could cause us to change our unrecognized tax benefits from the amounts currently recorded. It is not reasonably possible to know to what extent the total amounts of unrecognized benefits will increase or decrease within the next 12 months.

Both Boise Inc. and BZ Intermediate recognize interest and penalties related to uncertain tax positions as income tax expense in their Consolidated Statements of Income (Loss). Interest expense related to uncertain tax positions was nominal for the years ended December 31, 2010, 2009, and 2008. We did not record any penalties associated with our uncertain tax positions during the years ended December 31, 2010, 2009, and 2008 for Boise Inc. and BZ Intermediate.

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.

## 7. Leases

We lease our distribution centers, as well as other property and equipment, under operating leases. During the Predecessor period presented, the Predecessor leased its distribution centers, as well as other property and equipment, under operating leases. 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 do not have any sublease rental income for 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):

|                | Boise Inc.<br>Year Ended December 31 |           |           | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|----------------|--------------------------------------|-----------|-----------|---|
|                | 2010                                 | 2009      | 2008      |   |
| Rental expense | \$ 15,267                            | \$ 16,357 | \$ 13,523 | \$ 2,044  |

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

|                 | 2011      | 2012      | 2013     | 2014     | 2015     | 2016 &<br>Thereafter |
|-----------------|-----------|-----------|----------|----------|----------|----------------------|
| Minimum payment | \$ 11,656 | \$ 10,860 | \$ 8,460 | \$ 6,992 | \$ 6,771 | \$ 12,813            |

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

## 8. Concentrations of Risk

Sales to OfficeMax represent a concentration in the volume of business transacted and in revenue generated from these transactions. Sales to OfficeMax were \$504.2 million, \$545.4 million, and \$494.6 million during the years ended December 31, 2010, 2009, and 2008, representing 24%,

28%, and 24% of total sales for those periods. For the period of January 1 through February 21, 2008, the Predecessor sales to OfficeMax were \$90.1 million and are included in Sales, Related parties in the Consolidated Statements of Income (Loss). During the Predecessor period, sales to OfficeMax represented 25% of sales. At December 31, 2010 and 2009, we had \$30.3 million and \$34.7 million, respectively, of accounts receivable due from OfficeMax. No other single customer accounted for 10% or more of consolidated trade sales or of total sales.

### 9. Intangible Assets

Intangible assets represent primarily the values assigned to trademarks and trade names, customer relationships, and technology. Customer relationships are amortized over approximately ten years, and technology is amortized over approximately five years. Trademarks and trade names are not amortized.

The gross carrying amount, accumulated amortization, and net carrying amount as of December 31, 2010 and 2009, were as follows (dollars in thousands):

|                            | Year Ended 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               |
|                            | <b>\$ 37,395</b>             | <b>\$ (7,790)</b>        | <b>\$ 29,605</b>    |

|                            | Year Ended December 31, 2009 |                          |                     |
|----------------------------|------------------------------|--------------------------|---------------------|
|                            | Gross Carrying Amount        | Accumulated Amortization | Net Carrying Amount |
| Trademarks and trade names | \$ 16,800                    | \$                       | \$ 16,800           |
| Customer relationships     | 13,700                       | (2,512)                  | 11,188              |
| Technology and other       | 6,895                        | (2,525)                  | 4,370               |
|                            | <b>\$ 37,395</b>             | <b>\$ (5,037)</b>        | <b>\$ 32,358</b>    |

The following table sets forth our intangible asset amortization for the years ended December 31, 2010, 2009, and 2008, and for the Predecessor period of January 1 through February 21, 2008 (dollars in thousands):

|                               | Boise Inc. |          |          | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|-------------------------------|------------|----------|----------|---|
|                               | 2010       | 2009     | 2008     |   |
| Intangible asset amortization | \$ 2,754   | \$ 2,752 | \$ 2,285 | \$  |

Our estimated future intangible asset amortization expense is as follows (dollars in thousands):

|                      | 2011     | 2012     | 2013     | 2014     | 2015     | 2016     |
|----------------------|----------|----------|----------|----------|----------|----------|
| Amortization expense | \$ 2,754 | \$ 2,744 | \$ 1,599 | \$ 1,370 | \$ 1,370 | \$ 1,370 |

We did not have any triggering events during 2010; therefore, we performed our annual impairment assessment for our indefinite-lived assets for all of our segments during fourth quarter 2010. Based on the results of our testing, we have concluded that our indefinite-lived intangible





assets were not impaired. We also performed an undiscounted cash flow analysis during fourth quarter 2010 and determined that the value of our long-lived assets was not impaired. We also evaluated the remaining useful lives of our customer relationships and technology and determined that no adjustments to the useful lives were necessary.

#### 10. Asset Retirement Obligations

We accrue for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. When we record the liability, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value, and the capitalized cost is depreciated over the useful life of the related asset. Occasionally, we become aware of events or circumstances that require us to revise our future estimated cash flows. When revisions become necessary, we recalculate our obligation and adjust our asset and liability accounts utilizing appropriate discount rates. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

At both December 31, 2010 and 2009, we had \$10.4 million of asset retirement obligations recorded primarily in Other long-term liabilities on the Consolidated Balance Sheets. These liabilities related primarily to landfill closure and closed-site monitoring costs. These liabilities are based on the best estimate of costs and are updated periodically to reflect current technology, laws and regulations, inflation, and other economic factors. During 2009, our estimated future cash flows for retirement obligations relating to items at two of our mills were reduced as a result of discussions with third-party organizations. These changes reduced our expected asset retirement obligations. No assets are legally restricted for purposes of settling asset retirement obligations. The table below describes changes to the asset retirement obligations for the years ended December 31, 2010 and 2009 (dollars in thousands):

|  | <b>December 31</b> |                  |
|--|--------------------|------------------|
|  | <b>2010</b>        | <b>2009</b>      |
| Asset retirement obligation at beginning of period | \$ 10,362          | \$ 14,283        |
| Liabilities incurred                               | 172                |                  |
| Accretion expense                                  | 754                | 1,165            |
| Payments   | (12)               | (122)            |
| Revisions in estimated cash flows                  | (873)              | (4,964)          |
| Asset retirement obligation at end of period       | <b>\$ 10,403</b>   | <b>\$ 10,362</b> |

We have additional asset retirement obligations with indeterminate settlement dates. The fair value of these asset retirement obligations cannot be estimated due to the lack of sufficient information to estimate the settlement dates of the obligations. These asset retirement obligations include, for example, (i) removal and disposal of potentially hazardous materials related to equipment and/or an operating facility if the equipment and/or facilities were to undergo major maintenance, renovation, or demolition; (ii) wastewater treatment ponds that may be required to be drained and/or cleaned if the related operating facility is closed; and (iii) storage sites or owned facilities for which removal and/or disposal of chemicals and other related materials are required if the operating facility is closed. We will recognize a liability in the period in which sufficient information becomes available to reasonably estimate the fair value of these obligations.

**11. Debt**

At December 31, 2010 and 2009, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

|                                      | December 31, 2010 |               | December 31, 2009 |               |
|--------------------------------------|-------------------|---------------|-------------------|---------------|
|                                      | Amount            | Interest Rate | Amount            | Interest Rate |
| Revolving credit facility, due 2013  | \$                | %             | \$                | %             |
| Tranche A term loan, due 2013        | 181,831           | 3.06          | 203,706           | 3.25          |
| Tranche B term loan, due 2014        |                   |               | 312,221           | 5.75          |
| 9% senior notes, due 2017            | 300,000           | 9.00          | 300,000           | 9.00          |
| 8% senior notes, due 2020            | 300,000           | 8.00          |                   |               |
| Current portion of long-term debt    | (43,750)          | 3.06          | (30,711)          | 3.97          |
| Long-term debt, less current portion | 738,081           | 7.48          | 785,216           | 6.41          |
| Current portion of long-term debt    | 43,750            | 3.06          | 30,711            | 3.97          |
|                                      | <b>\$ 781,831</b> | <b>7.24%</b>  | <b>\$ 815,927</b> | <b>6.32%</b>  |

As of December 31, 2010, Boise Inc. 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 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. At December 31, 2009, our LIBOR applicable margin was 300 basis points, and our calculated base rate applicable margin was 200 basis points.

*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%. The Credit Facilities are secured by a first-priority lien on all of the assets of our subsidiaries that guarantee or are borrowers, and in the event of default, the lenders could terminate their commitments, declare the Credit Facilities, including interest and fees, due and payable, or enforce liens and security interests to collect outstanding amounts due under the Credit Facilities. All borrowings under the Credit Facilities bear interest at a rate per annum equal to an applicable margin plus a calculated base rate or adjusted Eurodollar rate. The calculated base rate means, for any day, a rate per annum equal to the greater of (i) the Prime Rate in effect on such day and (ii) the Federal Funds Effective Rate in effect on such day plus 0.50%. The adjusted Eurodollar rate means LIBOR rounded to the nearest 1/16 of 1.0% and adjusted for any applicable reserve requirements. 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 times the daily average undrawn portion of the Revolving Credit Facility (reduced by the amount of letters of credit issued and outstanding), which fee is payable quarterly in arrears. 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.

At December 31, 2010, and December 31, 2009, we had no borrowings outstanding under the Revolving Credit Facility. For the years ended December 31, 2010 and 2009, the average interest rates for our borrowings under our Revolving Credit Facility were zero and 3.7%, respectively. The minimum and maximum borrowings under the Revolving Credit Facility were zero for the year ended December 31, 2010, and zero and \$60.0 million for the year ended December 31, 2009. The weighted average amount of borrowings outstanding under the Revolving Credit Facility during the years ended December 31, 2010 and 2009, were zero and \$8.5 million, respectively. At December 31, 2010, we had availability of \$245.4 million, which is net of outstanding letters of credit of \$4.6 million. At December 31, 2009, we had availability of \$227.8 million, which was net of outstanding letters of credit of \$22.2 million.

#### *Debt Refinancing Activities*

##### *2010*

On October 20, 2010, we entered into a Second Amendment to Credit and Guaranty Agreement, which amended various terms of our Credit Facilities. This amendment allows us to make various types of restricted payments, including the payment of dividends, the repurchase of our stock and warrants, and the repayment or repurchase of our senior notes. We paid a special dividend of \$0.40 per common share on December 3, 2010, to shareholders of record at the close of business on November 17, 2010. See Note 14, Stockholders' Equity and Capital, for further information. These restricted payments are limited to a permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions together with other amounts, all as described in the amendment. In addition, the amendment eliminates any ongoing requirement that we use our excess cash flow to repay debt.

On March 19, 2010, Boise Paper Holdings and Boise Co-Issuer Company (together, the 8% Senior Notes Issuers), two of our wholly owned indirect subsidiaries, issued a \$300 million aggregate principal amount of 8% senior notes due on April 1, 2020 (the 8% Senior Notes) through a private placement that was exempt from the registration requirements of the Securities Act of 1933, as amended.

In connection with the issuance of the 8% Senior Notes, the 8% Senior Notes Issuers and BZ Intermediate, a wholly owned consolidated entity of Boise Inc. and the parent company of Boise Paper Holdings and its restricted subsidiaries (together the 8% Senior Notes Guarantors) entered into the 8% Senior Notes Registration Rights Agreement, dated as of March 19, 2010. The 8% Senior Notes Registration Rights Agreement required us to register under the Securities Act the 8% Senior Notes due in 2020 (the 8% Exchange Notes) having substantially identical terms to the 8% Senior Notes and to complete an exchange of the privately placed 8% Senior Notes for the publicly registered 8% Exchange Notes. We completed the public registration of the 8% Exchange Notes in June 2010, and in July 2010, we completed an exchange of the privately placed 8% Senior Notes for the publicly registered 8% Exchange Notes having substantially identical terms.

Following the sale of the 8% Senior Notes in March 2010, we used the net proceeds of the sale, as well as cash on hand, to repay the Tranche B term loan facility plus accrued and unpaid interest at par. Upon the repayment of all of the indebtedness outstanding under the Tranche B term loan facility, such debt was canceled.

The issuance of the 8% Senior Notes and the repayment of our Tranche B term loan facility represented a substantial modification to our debt structure. Therefore, we wrote off \$22.2 million of previously unamortized deferred financing costs for the Tranche B term loan facility in Loss on extinguishment of debt in our Consolidated Statements of Income (Loss). We recorded \$12.0 million of new deferred financing costs related to the March 2010 debt refinancing.

The 8% Senior Notes are senior unsecured obligations and rank equally with all of the Issuers' present and future senior indebtedness, senior to all of their future subordinated indebtedness, and

effectively subordinated to all of our present and future senior secured indebtedness (including all borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness). The 8% Senior Notes pay interest semiannually in arrears on April 1 and October 1, commencing on October 1, 2010.

2009

On October 26, 2009, Boise Paper Holdings and Boise Finance Company (together, the 9% Senior Notes Issuers), two of our wholly owned indirect subsidiaries, issued a \$300 million aggregate principal amount of 9% senior notes due on November 1, 2017 (the 9% Senior Notes) through a private placement that was exempt from the registration requirements of the Securities Act of 1933, as amended.

In connection with the issuance of the 9% Senior Notes, the 9% Senior Notes Issuers and BZ Intermediate, a wholly owned consolidated entity of Boise Inc. and the parent company of Boise Paper Holdings and its restricted subsidiaries (together the 9% Senior Notes Guarantors) entered into the 9% Senior Notes Registration Rights Agreement, dated as of October 26, 2009. The 9% Senior Notes Registration Rights Agreement required us to register under the Securities Act the 9% Senior Notes due in 2017 (the 9% Exchange Notes) having substantially identical terms to the 9% Senior Notes and to complete an exchange of the privately placed 9% Senior Notes for the publicly registered 9% Exchange Notes. We completed the public registration of the 9% Exchange Notes in June 2010, and in July 2010, we completed an exchange of the privately placed 9% Senior Notes for the publicly registered 9% Exchange Notes having substantially identical terms.

Following the sale of the 9% Senior Notes, the 9% Senior Notes Issuers used the net proceeds of the sale, as well as cash on hand, to retire a portion of the existing term loan indebtedness under Boise Paper Holdings' Credit Facilities pursuant to the amendments of our Credit Facilities (Credit Agreement Amendments). The Credit Agreement Amendments became effective October 26, 2009, at which time Boise Paper Holdings repaid approximately \$75 million of outstanding secured debt under its first lien term loan. Boise Paper Holdings used proceeds of the issuance to repurchase, in its entirety, the indebtedness outstanding under its second lien term loan. In consideration of the repurchase of indebtedness under the second lien term loan, Boise Paper Holdings paid a premium of 113% to the lender parties, plus accrued and unpaid interest. Upon the repurchase of all of the indebtedness outstanding under the second lien term loan, such debt was canceled, and the second lien credit agreement was terminated.

On October 26, 2009, Boise Inc. also used cash on hand to repurchase, in its entirety, the outstanding 15.75% note payable due in 2015 that was held by it and not by BZ Intermediate. Boise Inc. purchased the note payable at a purchase price of 70% of the outstanding value of the note payable, plus accrued and unpaid interest. Following the purchase of the note payable, the note was canceled.

The issuance of the 9% Senior Notes and the repurchase of our second lien term loan represented a substantial modification to our debt structure. Therefore, we wrote off the unamortized deferred financing costs for the second lien and recognized various other costs and fees incurred in connection with these transactions in our Consolidated Statements of Income (Loss). We also recorded \$13.2 million of deferred financing costs related to the debt restructuring.

We recognized \$44.1 million for Boise Inc. and \$66.8 million for BZ Intermediate in Loss on extinguishment of debt, which consisted of a \$27.1 million write-off of second lien deferred financing costs, a \$33.9 million premium paid to second lien holders, \$5.8 million of other costs and fees, and for Boise Inc., a \$22.7 million gain on the repurchase of the notes payable.

The 9% Senior Notes are senior unsecured obligations and rank equally with all of the Issuers' present and future senior indebtedness, senior to all of their future subordinated indebtedness, and effectively subordinated to all of our present and future senior secured indebtedness (including all

borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness). The 9% Senior Notes pay interest semiannually in arrears on May 1 and November 1, commencing on May 1, 2010.

#### *Covenants*

The Credit Facilities require BZ Intermediate and its subsidiaries to maintain financial covenant ratios. We are required to have a total leverage ratio of less than 4.75:1.00, stepping down to 4.50:1.00 at September 30, 2011, and a secured leverage ratio of 3.25:1.00, stepping down to 3.00:1.00 at September 30, 2011, and we are required to maintain a minimum interest coverage ratio of 2.50:1.00. The total leverage ratio is defined in our loan agreement at the end of any fiscal quarter as the ratio of (i) consolidated total net debt as defined in our Credit Facilities debt agreement as of such day to (ii) consolidated adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) for the four-fiscal-quarter period ending on such date. The Credit Facilities secured leverage ratio is defined in our First Amendment to our loan agreement as of such day to (i) consolidated first lien secured total net debt as defined in our credit agreement amendments as of such day to (ii) consolidated adjusted EBITDA for the four-fiscal-quarter period ending on such date. The interest coverage ratio is defined in our loan agreement at the end of any fiscal quarter as the ratio of (i) consolidated adjusted EBITDA for the four-fiscal-quarter period then ended to (ii) consolidated interest expense payable in cash for such four-fiscal-quarter period. The Credit Facilities also limit the ability of BZ Intermediate and its subsidiaries to make capital expenditures, generally to \$150 million per year.

The 9% and 8% Senior Notes indenture agreements contain covenants which, subject to certain exceptions, limit the ability of the 9% and 8% Senior Notes Issuers and the 9% and 8% Senior Notes Guarantors to, among other things, incur additional indebtedness, engage in certain asset sales, make certain types of restricted payments, engage in transactions with affiliates, and create liens on assets of the 9% and 8% Senior Notes Issuers or 9% and 8% Senior Notes Guarantors. Upon a change of control, the 9% and 8% Senior Notes Issuers must offer to repurchase the 9% and 8% Senior Notes at 101% of the principal amount, plus accrued and unpaid interest. If the 9% and 8% Senior Notes Issuers sell certain assets and do not use the proceeds from such sales for specified purposes, they must offer to repurchase the 9% and 8% Senior Notes at 100% of the principal amount, plus accrued and unpaid interest.

#### *Guarantees*

Our obligations under our Credit Facilities are guaranteed by each of Boise Paper Holdings' existing and subsequently acquired domestic subsidiaries (collectively, the Credit Facility Guarantors). The Credit Facilities are secured by a first-priority security interest in substantially all of the real, personal, and mixed property of Boise Paper Holdings and the Credit Facility Guarantors, including 100% of the equity interests of Boise Paper Holdings and each domestic subsidiary of Boise Paper Holdings, 65% of the equity interests of each of Boise Paper Holdings' foreign subsidiaries (other than Boise Hong Kong Limited so long as Boise Hong Kong Limited does not account for more than \$2.5 million of consolidated EBITDA during any fiscal year of Boise Paper Holdings), and all intercompany debt.

The 9% and 8% Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each existing and future subsidiary of BZ Intermediate (other than their respective issuers). The 9% and 8% Senior Notes Guarantors do not include Louisiana Timber Procurement Company, L.L.C., or foreign subsidiaries.

#### *Prepayments*

We may redeem all or a portion of the 9% Senior Notes at any time on or after November 1, 2013, at a premium decreasing to zero by November 1, 2015, plus accrued and unpaid interest. In

addition, prior to November 1, 2012, the 9% Senior Notes Issuers may redeem up to 35% of the aggregate principal amount of the 9% Senior Notes at a redemption price of 109% of the principal amount thereof with the net proceeds of one or more qualified equity offerings.

We may redeem all or a portion of the 8% Senior Notes at any time on or after April 1, 2015, at a premium decreasing to zero by April 1, 2018, plus accrued and unpaid interest. In addition, prior to April 1, 2013, the 8% Senior Notes Issuers may redeem up to 35% of the aggregate principal amount of the 8% Senior Notes at a redemption price of 108% of the principal amount thereof with the net proceeds of one or more qualified equity offerings.

#### *Other Provisions*

Subject to specified exceptions, the Credit Facilities require that the proceeds from certain asset sales, casualty insurance, and certain debt issuances must be used to pay down outstanding borrowings. As of December 31, 2010, required debt principal repayments total as follows (dollars in thousands):

|                                    | 2011      | 2012       | 2013     | 2014 | 2015-2016 | Thereafter |
|------------------------------------|-----------|------------|----------|------|-----------|------------|
| Required debt principal repayments | \$ 43,750 | \$ 129,688 | \$ 8,393 | \$   | \$        | \$ 600,000 |
| <i>Other</i>                       |           |            |          |      |           |            |

At December 31, 2010 and 2009, we had \$30.4 million and \$47.4 million, respectively, of costs recorded in *Deferred financing costs* on our Consolidated Balance Sheet. As noted above, we repaid the Tranche B term loan facility with the proceeds from the March 2010 debt refinancing, and as a result, we expensed approximately \$22.2 million of previously unamortized deferred financing costs. We recorded this charge in *Loss on extinguishment of debt* in our Consolidated Statement of Income (Loss). In addition, \$12.0 million of new deferred financing costs related to the debt refinancing are included, net of amortization, 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. In *Interest expense* in our Consolidated Statements of Income (Loss), we recorded \$6.8 million and \$11.3 million of amortization expense for the years ended December 31, 2010 and 2009, respectively.

For the years ended December 31, 2010 and 2009, cash payments for interest were \$51.6 million and \$56.9 million, respectively.

## **12. Financial Instruments**

We are exposed to market risks, including changes in interest rates and energy prices.

#### *Interest Rate Risk Debt*

With the exception of the Credit Facilities, our debt is fixed-rate debt. At December 31, 2010, the estimated value of our fixed- and variable-rate debt was approximately \$63.6 million more than and \$1.9 million less than the amount recorded on our Consolidated Balance Sheet, respectively. The fair value of long-term debt is estimated based on quoted market prices for our debt and the discounted value of our expected future cash payments.

We use interest rate derivative instruments to hedge a portion of our interest rate risk. We have derivatives in place with a cap rate of 5% on a notional amount of \$300 million through the period ending March 31, 2011. Initially, some of our derivatives were designated and qualified as cash flow hedging instruments utilizing critical terms match. Effective December 31, 2008, we changed our interest rate election from utilizing LIBOR to utilizing the calculated base rate. As the interest rate on our debt no longer matched the rate on the interest rate derivatives used to hedge a portion of our

debt, we began accounting for the interest rate derivative instruments as economic hedges. The amounts recorded in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet at December 31, 2008, have been amortized to interest expense. Changes in the fair value of these derivatives have been recorded in Change in fair value of interest rate derivatives in our Consolidated Statements of Income (Loss). The table below summarizes the impact on the Consolidated Statements of Income (Loss) of the instruments for the years ended December 31, 2010, 2009, and 2008 (dollars in thousands):

|   | Year Ending December 31 |        |          |
|---|-------------------------|--------|----------|
|   | 2010                    | 2009   | 2008     |
| Change in fair value of interest rate derivatives (a)   | \$ (43)                 | \$ 568 | \$ (479) |
| Amortization of premiums paid pertaining to interest rate derivatives (b)   | 120                     | 746    | 617      |
| Amortization of amounts within accumulated other comprehensive income (loss) related to interest rate derivatives (b) | 422                     | 338    |          |

(a) Recorded in Change in fair value of interest rate derivatives in our Consolidated Statements of Income (Loss).

(b) Recorded as part of Interest expense in our Consolidated Statements of Income (Loss).  
At December 31, 2010 and 2009, the fair value of the interest rate derivatives was nominal.

#### Energy Risk

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At December 31, 2010, these derivatives included three-way collars, call spreads, and swaps. As of December 31, 2010, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

|                            | January 2011<br>Through<br>March 2011 | April 2011<br>Through<br>October 2011 | November 2011<br>Through<br>March 2012 | April 2012<br>Through<br>October 2012 | November 2012<br>Through<br>March 2013 |
|----------------------------|---------------------------------------|---------------------------------------|--|---------------------------------------|--|
| Approximate percent hedged | 82%                                   | 45%                                   | 26%                                    | 22%                                   | 5%                                     |

We have elected to account for these instruments as economic hedges. At December 31, 2010 and 2009, we recorded the fair value of the derivatives, or \$2.1 million and \$1.4 million, respectively, in Accrued liabilities, Other on our Consolidated Balance Sheet. During the years ended December 31, 2010, 2009, and 2008, we recorded the change in fair value of the instruments, or \$0.6 million of expense, \$5.9 million of income, and \$7.4 million of expense, in Materials, labor, and other operating expenses in our Consolidated Statements of Income (Loss).

#### Predecessor

During the Predecessor periods presented, Boise Cascade occasionally used interest rate swaps to hedge variable interest rate risk. Because debt and interest costs were not allocated to the Predecessor, the effects of the interest rate swaps were not included in the Predecessor consolidated financial statements.

#### Fair Value Measurements

We record certain of our financial assets and liabilities, which consist of short-term investments and derivative financial instruments that are used to hedge exposures to interest rate and energy risks, at fair value. The fair value hierarchy under U.S. generally accepted accounting principles (GAAP) 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, to the determination of fair value. No significant adjustments were made in any periods presented.

At December 31, 2010 and 2009, fair value for these financial instruments was determined based on applicable interest rates such as LIBOR, interest rate curves, and NYMEX price quotations under the terms of the contracts, using current market information as of the reporting date. Our certificates of deposit, interest rate derivatives, and energy derivatives are valued using third-party valuations based on quoted prices for similar assets and liabilities. The following table provides a summary of our assets and liabilities measured at fair value on a recurring basis and the inputs used to develop these estimated fair values under the fair value hierarchy discussed above (dollars in thousands):

|                               | <b>Fair Value Measurements at<br/>December 31, 2010, Using:</b> |   |  |  |
|-------------------------------|---|---|--|--|
|                               | <b>Total</b>  | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| <b>Assets:</b>                |   |   |  |  |
| Certificates of deposit (a)   | \$ 10,621   | \$  | \$ 10,621  | \$   |
| Interest rate derivatives (b) |   |   |  |  |
|                               | <b>\$ 10,621</b>  | <b>\$</b>   | <b>\$ 10,621</b>   | <b>\$</b>  |
| <b>Liabilities:</b>           |   |   |  |  |
| Energy derivatives (c)        | \$ 2,056  | \$  | \$ 2,056   | \$   |

|                               | <b>Fair Value Measurements at<br/>December 31, 2009, Using:</b> |   |  |  |
|-------------------------------|---|---|--|--|
|                               | <b>Total</b>  | <b>Quoted Prices<br/>in Active<br/>Markets<br/>for<br/>Identical<br/>Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> |
| <b>Assets:</b>                |   |   |  |  |
| Certificates of deposit (a)   | \$ 10,023   | \$  | \$ 10,023  | \$   |
| Interest rate derivatives (b) | 163   |   | 163  |  |
|                               | <b>\$ 10,186</b>  | <b>\$</b>   | <b>\$ 10,186</b>   | <b>\$</b>  |
| <b>Liabilities:</b>           |   |   |  |  |
| Energy derivatives (c)        | \$ 1,447  | \$  | \$ 1,447   | \$   |



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- (a) Recorded in Short-term investments on our Consolidated Balance Sheet.
- (b) Recorded in Other assets on our Consolidated Balance Sheet.
- (c) Recorded in Accrued liabilities, Other on our Consolidated Balance Sheet.

*Tabular Disclosure of the Fair Values of Derivative Instruments and the Effect of Those Instruments (dollars in thousands)*

|  | Fair Values of Derivative Instruments |            |                        |                 |
|--|---------------------------------------|------------|------------------------|-----------------|
|  | Asset Derivatives                     |            | Liability Derivatives  |                 |
|  | December 31, 2010                     |            |                        |                 |
|  | Balance Sheet Location                | Fair Value | Balance Sheet Location | Fair Value      |
| Derivatives designated as economic hedging instruments (a) |                                       |            |                        |                 |
| Natural gas contracts                                      | Other assets                          | \$         | Accrued liabilities    | \$ 2,056        |
| <b>Total derivatives</b>                                   |                                       | <b>\$</b>  |                        | <b>\$ 2,056</b> |

|  | Fair Values of Derivative Instruments |               |                        |                 |
|--|---------------------------------------|---------------|------------------------|-----------------|
|  | Asset Derivatives                     |               | Liability Derivatives  |                 |
|  | December 31, 2009                     |               |                        |                 |
|  | Balance Sheet Location                | Fair Value    | Balance Sheet Location | Fair Value      |
| Derivatives designated as economic hedging instruments (a) |                                       |               |                        |                 |
| Interest rate contracts                                    | Other assets                          | \$ 163        | Accrued liabilities    | \$              |
| Natural gas contracts                                      | Other assets                          |               | Accrued liabilities    | 1,447           |
| <b>Total derivatives</b>                                   |                                       | <b>\$ 163</b> |                        | <b>\$ 1,447</b> |

**The Effect of Derivative Instruments on the Consolidated Statement of Income (Loss) for the Year Ended**

|                         | December 31, 2010              |  |  |  |  |   |
|-------------------------|--------------------------------|--|--|--|--|---|
|                         | Derivatives Designated as Cash | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Derivatives Designated as Economic Hedging Instruments (a) | Location of Gain or (Loss) Recognized in Income on Derivative |
| Interest rate contracts | \$                             | Interest expense   | \$ (422)   | Interest rate contracts  | Change in fair value of interest rate derivatives          | \$ (43)   |
|                         |                                |  |  | Natural gas contracts  | Materials, labor, and other operating expenses             | (609)   |
|                         | <b>\$</b>                      |  | <b>\$ (422)</b>  |  |  | <b>\$ (652)</b>   |

## The Effect of Derivative Instruments on the Consolidated Statement of Income (Loss) for the Year Ended

| December 31, 2009              |  |  |  |  |   |   |
|--------------------------------|--|--|--|--|---|---|
| Derivatives Designated as Cash | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Derivatives Designated as Economic Hedging Instruments (a) | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |
| Interest rate contracts        | \$   | Interest expense   | \$ (338)   | Interest rate contracts                                    | Change in fair value of interest rate derivatives             | \$ 568  |
|                                |  |  |  | Natural gas contracts                                      | Materials, labor, and other operating expenses                | 5,877   |
|                                | \$   |  | \$ (338)   |  |   | \$ 6,445  |

## The Effect of Derivative Instruments on the Consolidated Statement of Income (Loss) for the Year Ended

| December 31, 2008              |  |  |  |  |   |   |
|--------------------------------|--|--|--|--|---|---|
| Derivatives Designated as Cash | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Location of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI Into Income (Effective Portion) | Derivatives Designated as Economic Hedging Instruments (a) | Location of Gain or (Loss) Recognized in Income on Derivative | Amount of Gain or (Loss) Recognized in Income on Derivative |
| Interest rate contracts        | \$ (760)   | Interest expense   | \$   | Interest rate contracts                                    | Change in fair value of interest rate derivatives             | \$ (479)  |
|                                |  |  |  | Natural gas contracts                                      | Materials, labor, and other operating expenses                | (7,445)   |
|                                | \$ (760)   |  | \$   |  |   | \$ (7,924)  |

(a) See discussion above for additional information on our purpose for entering into derivatives designated as economic hedges and our overall risk management strategies.

(b) As of January 1, 2009, we no longer have interest rate derivatives designated as cash flow hedges. The amounts recorded in Accumulated other comprehensive income (loss) on our Consolidated Balance Sheet have been amortized to interest expense. During the year ended December 31, 2010 and 2009, these derivatives were accounted for as economic hedges.

### 13. Retirement and Benefit Plans

Some of our employees participate in noncontributory defined benefit pension plans, contributory defined contribution savings plans, deferred compensation plans, and postretirement healthcare benefit plans.

#### Defined Benefit Plans

Some of our employees participate in noncontributory defined benefit pension plans that were either transferred to us or spun off from Boise Cascade. The salaried defined benefit pension plan is available only to employees who were formerly employed by OfficeMax (known at the time as Boise Cascade Corporation) before November 2003. The pension benefit for salaried employees is based primarily on the employees

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years of service and highest five-year average compensation. The benefit for hourly employees is based on a fixed amount per year of service.  
Expenses attributable to

participation in noncontributory defined benefit plans for the years ended December 31, 2010, 2009, and 2008, and the Predecessor period of January 1 through February 21, 2008, were \$9.7 million, \$8.7 million, \$8.3 million, and \$1.8 million, respectively.

In December 2008, we amended our defined benefit pension plan for salaried employees (the Salaried Plan). This amendment froze the accumulation of benefits and years of service for participants of the Salaried Plan effective April 15, 2009. This amendment also froze benefits in the Boise Inc. Supplemental Plan (SUPP) and the Boise Inc. Supplemental Early Retirement Plan for Executive Officers (SERP). Because the Salaried Plan had unrecognized losses, the curtailment gain associated with this amendment was applied to partially offset those losses. However, we recognized a \$2.9 million gain on our SUPP and SERP plans, because the curtailment gain exceeded our existing unrecognized losses. This gain was recognized in Other (income) expense, net in our Consolidated Statements of Income (Loss) for the year ended December 31, 2008.

#### *Defined Contribution Plans*

Some of our employees participate in contributory defined contribution savings plans, which cover most of our salaried and hourly employees. Expenses related to matching contributions attributable to participation in contributory defined contribution savings plans for the years ended December 31, 2010, 2009, and 2008, and the Predecessor period of January 1 through February 21, 2008, were \$12.0 million, \$10.0 million, \$8.4 million, and \$2.1 million, respectively. Salaried employees hired after October 31, 2003, who are otherwise eligible to participate in these plans are eligible for additional discretionary company matching contributions based on a percentage approved each plan year. Beginning April 16, 2009, the company contributions for eligible salaried employees consisted of a nondiscretionary, nonmatching base contribution of 3% of eligible compensation plus a matching contribution. In addition, the Company may make additional discretionary nonmatching contributions each year. The company contribution structure for hourly employees varies.

#### *Deferred Compensation Plans*

Some of our employees participate in deferred compensation plans, in which key managers and nonaffiliated directors may irrevocably elect to defer a portion of their base salary and bonus or director's fees until termination of employment or beyond. A participant's account is credited with imputed interest at a rate equal to 130% of Moody's composite average of yields on corporate bonds. In addition, participants other than directors may elect to receive their company contributions in the deferred compensation plan in lieu of any company contribution in the contributory defined contribution savings plan. The deferred compensation plans are unfunded; therefore, benefits are paid from general assets of the Company. At December 31, 2010 and 2009, we had \$1.8 million and \$0.9 million, respectively, of liabilities attributable to participation in our deferred compensation plan on our Consolidated Balance Sheet.

#### *Postretirement Benefit Plans*

Some of our and the Predecessor's employees participated in Boise Cascade's postretirement healthcare benefit plans. The type of retiree healthcare benefits and the extent of coverage vary based on employee classification, date of retirement, location, and other factors. All of the postretirement healthcare plans are unfunded. The postretirement benefit plans have a December 31 measurement date.

*Obligations and Funded Status of Postretirement Benefits and Pensions*

The following table, which includes only company-sponsored plans, reconciles the beginning and ending balances of our projected benefit obligations for our pension benefits and the accumulated postretirement benefit obligation for our other benefits. It also shows the fair value of plan assets and aggregate funded status of our plans. The funded status changes from year to year based on the investment return from plan assets, contributions, and benefit payments and the discount rate used to measure the liability (dollars in thousands):

|   | Pension Benefits |              | Other Benefits |          |
|---|------------------|--------------|----------------|----------|
|   | 2010             | 2009         | 2010           | 2009     |
| <b>Change in benefit obligation</b>                         |                  |              |                |          |
| Benefit obligation at beginning of year                     | \$ 423,962       | \$ 396,692   | \$ 772         | \$ 2,490 |
| Service cost  | 5,041            | 6,891        | 3              | 4        |
| Interest cost   | 25,272           | 24,314       | 32             | 47       |
| Amendments  |                  | 145          |                |          |
| Actuarial (gain) loss                                       | 34,636           | 9,138        | (69)           | (1,725)  |
| Closure and curtailment gain                                | 345              |              |                |          |
| Liabilities transferred                                     |                  |              | (63)           |          |
| Benefits paid   | (14,212)         | (13,218)     | (1)            | (44)     |
| Benefit obligation at end of year                           | \$ 475,044       | \$ 423,962   | \$ 674         | \$ 772   |
| <b>Change in plan assets</b>                                |                  |              |                |          |
| Fair value of plan assets at beginning of year              | \$ 301,522       | \$ 248,084   | \$             | \$       |
| Actual return on plan assets                                | 43,417           | 54,358       |                |          |
| Employer contributions                                      | 25,174           | 12,298       |                |          |
| Benefits paid   | (14,212)         | (13,218)     |                |          |
| Fair value of plan assets at end of year                    | \$ 355,901       | \$ 301,522   | \$             | \$       |
| Over (under) funded status                                  | \$ (119,143)     | \$ (122,440) | \$ (674)       | \$ (772) |
| <b>Amounts recognized on our Consolidated Balance Sheet</b> |                  |              |                |          |
| Current liabilities   | \$ (254)         | \$ (143)     | \$ (142)       | \$ (182) |
| Noncurrent liabilities                                      | (118,889)        | (122,297)    | (532)          | (590)    |
| Net amount recognized                                       | \$ (119,143)     | \$ (122,440) | \$ (674)       | \$ (772) |

Amounts recognized in Accumulated other comprehensive income (loss) (pretax) in Boise Inc.'s Consolidated Statement of Stockholders' Equity or BZ Intermediate's Consolidated Statement of Capital consist of the following (dollars in thousands):

|                       | Pension Benefits |           | Other Benefits |          |
|-----------------------|------------------|-----------|----------------|----------|
|                       | 2010             | 2009      | 2010           | 2009     |
| Net (gain) loss       | \$ 75,021        | \$ 62,334 | \$ (275)       | \$ (413) |
| Prior service cost    | 422              | 473       |                |          |
| Net amount recognized | \$ 75,443        | \$ 62,807 | \$ (275)       | \$ (413) |

The accumulated benefit obligation for all defined benefit pension plans was \$475.0 million and \$423.8 million as of December 31, 2010 and 2009. All of our defined benefit pension plans have accumulated benefit obligations in excess of plan assets.

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Components of Net Periodic Benefit Cost and Other Comprehensive (Income) Loss

The components of net periodic benefit cost and other comprehensive (income) loss (pretax) are as follows (dollars in thousands):

|  | Pension Benefits<br>Boise Inc. |                    |                  | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 | Other Benefits<br>Boise Inc. |                   |               | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|--|--------------------------------|--------------------|------------------|---|------------------------------|-------------------|---------------|---|
|  | 2010                           | 2009               | 2008             |   | Year Ended<br>December 31    | 2008              | 2008          |   |
| Service cost   | \$ 5,041                       | \$ 6,891           | \$ 9,226         | \$ 1,566  | \$ 3                         | \$ 4              | \$ 3          | \$  |
| Interest cost  | 25,272                         | 24,314             | 20,881           | 3,458   | 32                           | 47                | 98            | 18  |
| Expected return on plan assets   | (23,242)                       | (23,269)           | (20,398)         | (3,452)   |                              |                   |               |   |
| Amortization of actuarial (gain) loss  | 1,774                          | 315                |                  | (21)  | (150)                        | (1,344)           |               | (12)  |
| Amortization of prior service costs and other  | 51                             | 36                 |                  | 194   |                              |                   |               |   |
| Plan settlement curtailment (gain) loss  | 345                            |                    | (1,749)          |   |                              |                   |               |   |
| Company-sponsored plans  | 9,241                          | 8,287              | 7,960            | 1,745   | (115)                        | (1,293)           | 101           | 6   |
| Multiemployer plans  | 411                            | 382                | 327              | 75  |                              |                   |               |   |
| <b>Net periodic benefit costs</b>  | <b>\$ 9,652</b>                | <b>\$ 8,669</b>    | <b>\$ 8,287</b>  | <b>\$ 1,820</b>   | <b>\$ (115)</b>              | <b>\$ (1,293)</b> | <b>\$ 101</b> | <b>\$ 6</b>   |
| Changes in plan assets and benefit obligations recognized in other comprehensive (income) loss |                                |                    |                  |   |                              |                   |               |   |
| Net (gain) loss  | \$ 14,461                      | \$ (21,951)        | \$ 84,600        | \$  | \$ (12)                      | \$ (1,715)        | \$ (42)       | \$  |
| Prior service cost   |                                | 145                | 364              |   |                              |                   |               |   |
| Amortization of actuarial gain (loss)  | (1,774)                        | (315)              |                  |   |                              |                   |               |   |
| Amortization of prior service cost   | (51)                           | (36)               |                  |   | 150                          | 1,344             |               |   |
| <b>Total recognized in other comprehensive (income) loss</b>                                   | <b>12,636</b>                  | <b>(22,157)</b>    | <b>84,964</b>    |   | <b>138</b>                   | <b>(371)</b>      | <b>(42)</b>   |   |
| <b>Total recognized in net periodic benefit cost and other comprehensive (income) loss</b>     | <b>\$ 22,288</b>               | <b>\$ (13,488)</b> | <b>\$ 93,251</b> | <b>\$ 1,820</b>   | <b>\$ 23</b>                 | <b>\$ (1,664)</b> | <b>\$ 59</b>  | <b>\$ 6</b>   |

In 2011, we estimate net periodic pension expense will be \$12.6 million. The 2011 net periodic pension expense will include \$5.6 million of net loss and \$0.1 million of prior service cost that will be amortized from Accumulated other comprehensive income (loss) on Boise Inc.'s Consolidated Statement of Stockholders' Equity or BZ Intermediate's Consolidated Statement of Capital.

Assumptions

The assumptions used in accounting for the plans are estimates of factors that will determine, among other things, the amount and timing of future benefit payments. The following table presents the assumptions used in the measurement of our benefits obligation:

|                               | Pension Benefits |                     |       | February 22,<br>2008 | Other Benefits |                     |       | February 22,<br>2008 |
|-------------------------------|------------------|---------------------|-------|----------------------|----------------|---------------------|-------|----------------------|
|                               | 2010             | December 31<br>2009 | 2008  |                      | 2010           | December 31<br>2009 | 2008  |                      |
| Weighted average:             |                  |                     |       |                      |                |                     |       |                      |
| Discount rate                 | 5.50%            | 6.10%               | 6.20% | 6.50%                | 4.20%          | 4.60%               | 5.70% | 5.50%                |
| Rate of compensation increase | %                | %                   | 4.25% | 4.25%                | %              | %                   | %     | %                    |

The following table presents the assumptions used in the measurement of net periodic benefit cost:

|  | Pension Benefits<br>Boise Inc. | Predecessor | Other Benefits<br>Boise Inc. | Predecessor |
|--|--------------------------------|-------------|------------------------------|-------------|
|--|--------------------------------|-------------|------------------------------|-------------|

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|  | Year Ended<br>December 31 |       |       | January 1<br>Through<br>February 21,<br>2008 | Year Ended<br>December 31 |       |       | January 1<br>Through<br>February 21,<br>2008 |
|--|---------------------------|-------|-------|--|---------------------------|-------|-------|--|
|  | 2010                      | 2009  | 2008  | 2010   | 2009                      | 2008  | 2010  | 2009   |
| Weighted average assumptions as of the last day in the presented period: |                           |       |       |  |                           |       |       |  |
| Discount rate  | 6.10%                     | 6.20% | 6.50% | 6.40%  | 4.60%                     | 5.70% | 5.70% | 5.50%  |
| Expected long-term rate of return on plan assets                         | 7.25%                     | 7.25% | 7.25% | 7.25%  | %                         | %     | %     | %  |
| Rate of compensation increase  | %                         | %     | 4.25% | 4.25%  | %                         | %     | %     | %  |



**Discount Rate Assumption.** The discount rate reflects the current rate at which the pension obligations could be settled on the measurement date December 31. In all periods presented, the discount rate assumption was determined using a spot rate yield curve constructed to replicate Aa-graded corporate bonds. The Aa-graded bonds included in the yield curve reflect anticipated investments that would be made to match the expected monthly benefit payments over time and do not include all Aa-graded corporate bonds. The plan's projected cash flows were duration-matched to this yield curve to develop an appropriate discount rate.

**Asset Return Assumption.** The expected long-term rate of return on plan assets was based on a weighted average of the expected returns for the major investment asset classes. Expected returns for the asset classes are based on long-term historical returns, inflation expectations, forecasted gross domestic product, earnings growth, and other economic factors. The weights assigned to each asset class were based on the investment strategy. The weighted average expected return on plan assets we will use in our calculation of 2011 net periodic benefit cost is 7.25%. In 2010, plan assets performed well above the long-term return assumption.

**Rate of Compensation Increases.** Salaried pension benefits are frozen, so the compensation increase assumption is not applicable. Negotiated compensation increases are reflected in the projected benefit obligation for certain hourly employees with salary-related benefits. Historically, this assumption reflected long-term actual experience, the near-term outlook, and assumed inflation.

The following table presents our assumed healthcare cost trend rates at December 31, 2010 and 2009:

|   | 2010  | 2009  |
|---|-------|-------|
| <b>Weighted average assumptions:</b>  |       |       |
| Healthcare cost trend rate assumed for next year                                  | 8.10% | 8.50% |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 6.50% | 6.50% |
| Year that the rate reaches the ultimate trend rate                                | 2025  | 2025  |

Assumed healthcare cost trend rates affect the amounts reported for the healthcare plans. At December 31, 2010, a one-percentage-point change in our assumed healthcare cost trend rate would not significantly affect our total service or interest costs or our postretirement benefit obligation.

#### *Investment Policies and Strategies*

At December 31, 2010, 51% of our pension plan assets were invested in equity securities, 48% were invested in fixed-income securities, and 1% were invested in private equity, cash, and other. The general investment objective for all of our plan assets is to optimize growth of the pension plan trust assets, while minimizing the risk of significant losses in order to enable the plans to satisfy their benefit payment obligations over time. The objectives take into account the long-term nature of the benefit obligations, the liquidity needs of the plans, and the expected risk/return trade-offs of the asset classes in which the plans may choose to invest. The Retirement Funds Investment Committee is responsible for establishing and overseeing the implementation of our investment policy. Russell Investments (Russell) oversees the active management of our pension investments in order to achieve broad diversification in a cost-effective manner. At December 31, 2010, our investment policy governing our relationship with Russell allocated 48% to long-duration fixed-income securities, 33% to U.S. equity securities, 14% to international equity securities, and 5% to private equity securities. Our arrangement with Russell requires monthly rebalancing to the policy targets noted above.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk, all of which are subject to change. Due to the level of risk associated

with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the reported amounts.

*Fair Value Measurements of Plan Assets*

The defined benefit plans hold an interest in the Boise Paper Holdings, L.L.C., Master Pension Trust (Master Trust). The assets in the Master Trust are invested in a commingled trust whose funds are invested in U.S. equities, international equities, and fixed-income securities managed by Russell Trust Company. The Master Trust also invests in private equity securities managed by Pantheon Ventures Inc.

The following table sets forth, by level within the fair value hierarchy, the pension plan assets, by major asset category, at fair value at December 31, 2010 and 2009 (dollars in thousands):

|   | December 31, 2010   |   |  | Total      |
|---|---|---|--|------------|
|   | Quoted Prices<br>in<br>Active<br>Market<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) (a) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |
| Equity securities:                            |   |   |  |            |
| Large cap U.S. equity securities (b)          | \$  | \$ 112,602  | \$   | \$ 112,602 |
| Small- and mid-cap U.S. equity securities (c) |   | 21,021  |  | 21,021     |
| International equity securities (d)           |   | 49,172  |  | 49,172     |
| Fixed-income securities (e)                   |   | 169,992   |  | 169,992    |
| Private equity securities (f)                 |   |   | 2,225  | 2,225      |
| Total securities at fair value                |   | 352,787   | 2,225  | 355,012    |
| Receivables and accruals, net                 |   |   |  | 889        |
| Total fair value of plan assets               |   |   |  | \$ 355,901 |

|   | December 31, 2009  |   |  | Total     |
|---|--|---|--|-----------|
|   | Quoted Prices<br>in<br>Active<br>Market<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) (a) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |           |
| Equity securities:                            |  |   |  |           |
| Large cap U.S. equity securities (b)          | \$   | \$ 99,614   | \$   | \$ 99,614 |
| Small- and mid-cap U.S. equity securities (c) |  | 21,262  |  | 21,262    |
| International equity securities (d)           |  | 35,861  |  | 35,861    |
| Fixed-income securities (e)                   |  | 144,011   |  | 144,011   |
| Total securities at fair value                |  | 300,748   |  | 300,748   |

|                                 |                   |
|---------------------------------|-------------------|
| Receivables and accruals, net   | 774               |
| Total fair value of plan assets | <b>\$ 301,522</b> |

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- (a) Investments are mutual funds managed by Russell Trust Company. The funds are valued at the net asset value (NAV) provided by Russell Trust Company, the administrator of the funds. The NAV is based on the value of the assets owned by the fund, less liabilities at year-end. While the underlying assets are actively traded on an exchange, the funds are not.
- (b) Our investments in this category are invested in the Russell Equity I Fund. The fund seeks higher long-term returns that exceed the Russell 1000 Index by investing in common stocks that rank among the largest 1,000 companies in the U.S. stock market.
- (c) Our investments in this category are invested in the Russell Equity II Fund. The fund seeks high, long-term returns that exceed the Russell 2500 Index by investing in the smaller capitalization stocks of the U.S. stock market.
- (d) Our investments in this category are invested in the Russell International Fund with Active Currency at December 31, 2010, and were invested in the Russell International Fund in 2009. Both funds benchmark against the MSCI European, Australasia, and Far East (EAFE) Index and seek high, long-term returns comparable to the broad international stock market by investing in non-U.S. companies from the developed countries around the world. The funds participate primarily in the stock markets of Europe and the Pacific Rim. The Russell International Fund with Active Currency places additional emphasis on opportunistically adding value through active investment in foreign currencies.
- (e) Our investments in this category are invested in the Russell Long Duration Fixed Income Fund (Long Duration Fund) and Russell Long Credit Fixed Income Fund (Long Credit Fund). The Long Duration Fund seeks to achieve above-average consistency in performance relative to the Barclays Capital U.S. Long Government/Credit Bond Index by combining manager styles and strategies with different payoffs over various phases of an investment cycle. The Long Credit Fund seeks to achieve above-average consistency in performance relative to the Barclays Capital Long Credit Index and is used with other bond funds, such as the Long Duration Fund, to gain additional credit exposure to asset portfolios. Both funds are designed to provide maximum total return through diversified strategies, including sector rotation, modest interest rate timing, security selection, and tactical use of high-yield and emerging markets bonds.
- (f) Our investments in this category are invested in the Pantheon Global Secondary Fund IV, L.P. The fund specializes in investments in the private equity secondary market and occasionally directly in private companies to maximize capital growth. Fund investments are carried at fair value as determined quarterly using the market approach to estimate the fair value of private investments. The market approach utilizes prices and other relevant information generated by market transactions, type of security, size of the position, degree of liquidity, restrictions on the disposition, latest round of financing data, current financial position, and operating results, among other factors. In circumstances where fair values are not provided with respect to any of the company's fund investments, the investment advisor will seek to determine the fair value of such investments based on information provided by the general partners or managers of such funds or from other sources. Notwithstanding the above, the variety of valuation bases adopted and quality of management data of the ultimate underlying investee companies means that there are inherent difficulties in determining the value of the investments. Amounts realized on the sale of these investments may differ from the calculated values.

The following table sets forth a summary of changes in the fair value of the pension plan's Level 3 assets for the period ended December 31, 2010 (dollars in thousands):

|                            | <b>Year Ended<br/>December 31,<br/>2010</b> |
|----------------------------|---|
| Balance, beginning of year | \$  |
| Purchases                  | 2,205                                       |
| Unrealized gain            | 20  |
| <br>Balance, end of year   | <br>\$ 2,225                                |

### *Cash Flows*

As of December 31, 2010 and 2009, our pension assets had a market value of \$356 million and \$302 million, respectively. Assuming a rate of return on plan assets of 7.25% in 2011 and 2012, we estimate that we will be required to contribute approximately \$3 million in 2011 and approximately \$32 million in 2012. The amount of required contributions will depend, among other things, on actual returns on plan assets, changes in interest rates that affect our discount rate assumptions, changes in pension funding requirement laws, and modifications to our plans. Our estimates may change materially depending upon the impact of these and other factors. Changes in the financial markets



may require us to make larger than previously anticipated contributions to our pension plans. We may also elect to make additional voluntary contributions in any year, which could reduce the amount of required contributions in future years. For the year ended December 31, 2010, we made \$25.0 million of cash contributions to our qualified pension plans. Additionally, we made certain benefit payments to our nonqualified pension plans and other postretirement benefit plans totaling \$0.6 million.

The following benefit payments (dollars in thousands), which reflect expected future service as appropriate, are expected to be paid. Qualified pension benefit payments are paid from plan assets, while nonqualified pension and other benefit payments are paid by the Company.

|                 | <b>Pension Benefits</b> | <b>Other Benefits</b> |
|-----------------|-------------------------|-----------------------|
| 2011            | \$ 16,840               | \$ 125                |
| 2012            | 19,299                  | 88                    |
| 2013            | 21,554                  | 76                    |
| 2014            | 23,919                  | 71                    |
| 2015            | 26,012                  | 56                    |
| Years 2016-2020 | 158,784                 | 138                   |

#### **14. Stockholders Equity and Capital**

##### *Boise Inc.*

**Preferred Stock.** We are authorized to issue 1.0 million shares of preferred stock with such designations, voting, and other rights and preferences as may be determined from time to time by the board of directors. No shares were issued or outstanding at December 31, 2010 and 2009.

**Common Stock.** We are authorized to issue 250.0 million shares of common stock, of which 84.8 million shares were issued and outstanding at December 31, 2010. Of these shares outstanding, 4.2 million shares were restricted stock (discussed below). At December 31, 2009, we had 84.4 million shares of common stock issued and outstanding, of which 6.5 million shares were restricted stock. The common stock outstanding does not include restricted stock units.

On February 5, 2008, stockholders owning 12.5 million shares exercised their conversion rights and voted against the Acquisition. Such stockholders were entitled to receive their per-share interest in the proceeds from our initial public offering, which had been held in trust. Of these 12.5 million shares, 12.3 million shares were presented for conversion. The remaining shares not presented remain outstanding. In connection with the Acquisition, we paid \$120.2 million from our cash held in trust to these stockholders. The remaining cash held in trust was used to effect the Acquisition.

**Warrants.** In connection with our public offering in June 2007, we issued 41.4 million units (the Units). Each Unit consists of one share of our common stock and one Redeemable Common Stock Purchase Warrant (the Warrants). Each Warrant entitled the holder to purchase one share of common stock at an exercise price of \$7.50 and expires on June 18, 2011. We may redeem the Warrants, at a price of \$0.01 per Warrant, upon 30 days' notice while the Warrants are exercisable, only in the event that the last sale price of the common stock is at least \$14.25 per share for any 20 trading days within a 30-trading-day period ending on the third day prior to the date on which notice of redemption is given.

Simultaneously with the consummation of our public offering, our then chairman and our chief executive officer each privately purchased 1.5 million warrants for an aggregate total of 3.0 million warrants (the Insider Warrants) at \$1.00 per warrant (for an aggregate purchase price of \$3.0 million). The amount paid for the Insider Warrants approximated fair value on the date of issuance. All of the proceeds received from these purchases were placed in cash held in trust. The Insider

Warrants purchased were identical to the Warrants underlying the Units issued in the public offering, except that the Insider Warrants may not be called for redemption and may be exercisable on a cashless basis, at the holder's option, so long as such securities are held by such purchaser or his affiliates. At December 31, 2010 and 2009, 44.3 million and 44.4 million warrants were outstanding. At December 31, 2010, 2.3 million of the original Insider Warrants continued to be held by insiders. If all outstanding warrants were exercised at the \$7.50 exercise price, we would receive cash proceeds of approximately \$315 million.

*Restricted Stock and Restricted Stock Units.* We evaluate share-based compensation for awards granted under the Boise Inc. Incentive and Performance Plan (the Plan) on a quarterly basis based on our estimate of expected restricted stock forfeiture, review of recent forfeiture activity, and expected future turnover. We recognize the effect of adjusting the forfeiture rate for all expense amortization in the period that we change the forfeiture estimate. The effect of forfeiture adjustments during the years ended December 31, 2010, 2009, and 2008, was zero.

In April 2009, our stockholders approved a Plan Amendment that increased the number of shares available for issuance under the Plan from 5.2 million to 17.2 million.

*Service-Condition Vesting Awards.* In March 2010, pursuant to the Plan, we granted 0.2 million shares of restricted stock to our nonemployee directors. The shares will vest fully on March 15, 2011. Any shares not vested on or before March 15, 2011, will be forfeited.

In March 2009, pursuant to the Plan, we granted to directors and members of management 4.6 million shares of restricted stock and 1.2 million restricted stock units (collectively restricted stock). The 2.0 million shares of restricted stock granted to the directors vested on March 15, 2010. The grants to members of management vested or will vest as follows: one-fifth on March 15, 2010, one-fifth on March 15, 2011, and three-fifths on March 15, 2012. Any shares not vested on or before March 15, 2012, will be forfeited.

In May 2008, directors and members of management were granted awards of 0.4 million and 0.8 million shares, respectively, of restricted stock subject to service-condition vesting. The restricted stock granted to directors vested on March 2, 2009. Additionally, one-third of the management grants subject to service-condition vesting restrictions also vested on March 2, 2009. The remaining grants subject to service-condition vesting restrictions vested equally on February 28, 2010, and February 28, 2011. Any shares not vested on or before February 28, 2011, were forfeited.

*Market-Condition Vesting Awards.* In May 2008, members of management were granted restricted stock subject to market-based vesting restrictions tied to our stock price. These shares did not vest and were forfeited on March 1, 2011.

*Compensation Expense.* We recognize compensation expense for the restricted stock based on the fair value on the date of the grant, as described below. Compensation expense is recognized ratably over the vesting period for the restricted stock grants that vest over time and ratably over the award period for the restricted stock grants that vest based on the closing price of Boise Inc. stock, as discussed above. During the years ended December 31, 2010, 2009, and 2008, we recognized \$3.7 million, \$3.5 million, and \$3.1 million, respectively, of compensation expense. Most of these costs were recorded in General and administrative expenses in our Consolidated Statement of Income (Loss).

*Fair Value Measurement.* The fair value of service-condition restricted stock is determined based on the number of shares or units granted and the quoted price of our stock at the date of grant and is expensed on a straight-line basis over the vesting period. The fair value on the date of grant was \$5.46 per share for the 2010 restricted stock grant, \$0.43 per share for the 2009 restricted stock grant, and \$4.16 per share for the 2008 grant. Compensation expense is adjusted if the service condition is not met.

Market-based restrictions represent a more difficult threshold to meet before payout, with greater uncertainty that the market condition will be satisfied; these awards have a lower fair value than those that vest based primarily on the passage of time. However, compensation expense is required to be recognized for these awards regardless of when, if ever, the market condition is satisfied. We determined the fair value on the date of grant of the market-condition awards based on the stock price of Boise Inc. at \$10 per share and \$12.50 per share to be approximately \$2.03 per share and \$1.57 per share, respectively. The fair value of market-condition restricted stock or units was estimated at the grant date using a Monte Carlo simulation. We assumed a risk-free rate of 2.59%, an expected stock volatility of 58.60%, and a stock price for Boise Inc. s common shares of \$4.16 per share. The \$4.16-per-share value was based on Boise Inc. s closing stock price on the date of grant. Expense was recognized on a straight-line basis over the service period.

The following summarizes the activity of our outstanding service- and market-condition restricted stock and units awarded under the Plan as of December 31, 2010, 2009, and 2008, and changes during the years ended December 31, 2010, 2009, and 2008 (number of shares and aggregate fair value in thousands):

|   | Service-Condition Vesting Awards |  |                      | Market-Condition Vesting Awards |  |                      |
|---|----------------------------------|--|----------------------|---------------------------------|--|----------------------|
|   | Number of Shares                 | Weighted Average Grant-Date Fair Value | Aggregate Fair Value | Number of Shares                | Weighted Average Grant-Date Fair Value | Aggregate Fair Value |
| Outstanding at January 1, 2008                  |                                  | \$                                     | \$                   |                                 | \$                                     | \$                   |
| Granted   | 1,185                            | 4.16                                   | 4,927                | 1,929                           | 1.75                                   | 3,368                |
| Vested (a)                                      | (30)                             | 4.16                                   | (125)                |                                 |  |                      |
| Forfeited                                       | (12)                             | 4.16                                   | (48)                 | (13)                            | 1.75                                   | (23)                 |
| <b>Outstanding at December 31, 2008 (b)</b>     | <b>1,143</b>                     | <b>\$ 4.16</b>                         | <b>\$ 4,754</b>      | <b>1,916</b>                    | <b>\$ 1.75</b>                         | <b>\$ 3,345</b>      |
| Granted   | 5,841                            | 0.43                                   | 2,512                |                                 |  |                      |
| Vested (a)                                      | (604)                            | 4.16                                   | (2,511)              |                                 |  |                      |
| Forfeited                                       | (49)                             | 1.27                                   | (63)                 | (32)                            | 1.75                                   | (56)                 |
| <b>Outstanding at December 31, 2009 (b)</b>     | <b>6,331</b>                     | <b>\$ 0.74</b>                         | <b>\$ 4,692</b>      | <b>1,884</b>                    | <b>\$ 1.75</b>                         | <b>\$ 3,289</b>      |
| Granted   | 250                              | 5.81                                   | 1,450                |                                 |  |                      |
| Vested (a)                                      | (3,009)                          | 0.77                                   | (2,304)              | (4)                             | 1.75                                   | (7)                  |
| Forfeited                                       | (43)                             | 4.26                                   | (180)                | (2)                             | 1.75                                   | (3)                  |
| <b>Outstanding at December 31, 2010 (b) (c)</b> | <b>3,529</b>                     | <b>\$ 1.04</b>                         | <b>\$ 3,658</b>      | <b>1,878</b>                    | <b>\$ 1.75</b>                         | <b>\$ 3,279</b>      |

(a) We repurchase for cash any fractional shares as they vest. During the years ended December 31, 2010, 2009, and 2008, we repurchased 25.22 shares, 24.33 shares, and no shares, respectively.

(b) Outstanding awards included all nonvested and nonforfeited awards

(c) The weighted average remaining contractual term is approximately 1.3 years for the service-condition awards and 0.3 years for the market-condition awards as of December 31, 2010.



At December 31, 2010, we had approximately \$1.4 million and \$0.2 million of total unrecognized compensation expense related to the nonvested service- and market-condition restricted stock grants, respectively, under the Plan. The total compensation cost for the grants is expected to be recognized over a weighted average period of 2.7 years and 3.0 years for the service- and market-condition awards, respectively, based on the original grant date. Unrecognized compensation expense is calculated net of estimated forfeitures. The table below shows compensation expense recognized during the years ended December 31, 2010, 2009, and 2008, both in total and broken out between service- and market-condition awards (dollars in thousands):

|  | Year Ended December 31 |          |          |
|--|------------------------|----------|----------|
|  | 2010                   | 2009     | 2008     |
| Total compensation expense   | \$ 3,733               | \$ 3,517 | \$ 3,096 |
| Relates to grant-date fair value of service-condition awards vested through period end | 2,663                  | 2,440    | 2,198    |
| Relates to market-condition awards   | 1,070                  | 1,077    | 898      |

The net income tax benefit associated with restricted stock awards was \$0.8 million, \$0.3 million, and \$0.4 million for the years ended December 31, 2010, 2009, and 2008, respectively.

*Dividends.* Our ability to pay dividends continues to be restricted by our Credit Facilities, as amended, and by Delaware law and state regulatory authorities. Under Delaware law, our board of directors may not authorize payment of a dividend unless it is either paid out of our capital surplus, as calculated in accordance with the Delaware General Corporation Law, or if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Under our Credit Facilities, as amended, a dividend may now be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions together with other amounts as specified in the amended Credit Facilities. To the extent we do not have adequate surplus or net profits, we will be prohibited from paying dividends.

We paid a special cash dividend of \$0.40 per common share on December 3, 2010, to shareholders of record at the close of business on November 17, 2010. The total dividend payout was approximately \$32.3 million.

*Accumulated Other Comprehensive Income (Loss)*

Accumulated other comprehensive income (loss) includes the following (dollars in thousands):

|   | Investment<br>Gains<br>(Losses) | Cash<br>Flow<br>Hedges | Unfunded Accumulated<br>Benefit Obligation |                           | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|---|---------------------------------|------------------------|--|---------------------------|---|
|   |                                 |                        | Actuarial<br>Loss (a)                      | Prior Service<br>Cost (a) |   |
| Balance at December 31, 2007, net of taxes  | \$                              | \$                     | \$   | \$                        | \$  |
| Current-period changes, before taxes        |                                 | (760)                  | (84,558)                                   | (364)                     | (85,682)  |
| Reclassifications to earnings, before taxes |                                 |                        |  |                           |   |
| Income taxes                                |                                 |                        |  |                           |   |
| Balance at December 31, 2008, net of taxes  | \$                              | \$ (760)               | \$ (84,558)                                | \$ (364)                  | \$ (85,682)   |
| Current-period changes, before taxes        | (5)                             |                        | 23,665                                     | (145)                     | 23,515  |
| Reclassifications to earnings, before taxes |                                 | 338                    | (1,029)                                    | 36                        | (655)   |
| Income taxes                                |                                 | (131)                  | (8,656)                                    | 56                        | (8,731)   |
| Balance at December 31, 2009, net of taxes  | \$ (5)                          | \$ (553)               | \$ (70,578)                                | \$ (417)                  | \$ (71,553)   |
| Current-period changes, before taxes        | 6                               |                        | (14,449)                                   |                           | (14,443)  |
| Reclassifications to earnings, before taxes |                                 | 422                    | 1,625                                      | 51                        | 2,098   |
| Income taxes                                |                                 | 131                    | 4,964                                      | (19)                      | 5,076   |
| Balance at December 31, 2010, net of taxes  | \$ 1                            | \$                     | \$ (78,438)                                | \$ (385)                  | \$ (78,822)   |

(a) The 2011 net periodic pension expense will include \$5.6 million of net loss and \$0.1 million of prior service cost that will be amortized from Accumulated other comprehensive income (loss) on Boise Inc.'s Consolidated Statement of Stockholders' Equity or BZ Intermediate's Consolidated Statement of Capital. *BZ Intermediate Holdings LLC*

BZ Intermediate has authorized 1,000 voting common units issued outstanding at December 31, 2010, 2009, and 2008, with a par value of \$0.01. All of these units have been issued to Boise Inc. BZ Intermediate refers to its capital as Business unit equity on its Consolidated Balance Sheets, and this represents its equity transactions with Boise Inc., net income (loss) from the operations of its subsidiaries, the effect of changes in other comprehensive income, and restricted stock. 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 and are explained in more detail above.

*Predecessor*

During the Predecessor period presented, equity compensation was granted to the Predecessor's employees under Boise Cascade's equity compensation plans. During the Predecessor period of January 1 through February 21, 2008, the Predecessor recognized \$0.2 million of compensation expense, most of which was recorded in General and administrative expenses in the Consolidated Statements of Income (Loss).

**15. Alternative Fuel Mixture Credits, Net**

The U.S. Internal Revenue Code allowed an excise tax credit for taxpayers using alternative fuels in the taxpayer's trade or business. During the year ended December 31, 2009, we recorded \$207.6 million in Alternative fuel mixture credits, net in our Consolidated Statement of Income (Loss). As of December 31, 2009, we recorded a receivable of \$56.6 million in Receivables, Other



on our Consolidated Balance Sheet for alternative fuel mixture credits. We received this credit in March 2010 after we filed our 2009 federal income tax return. Eligibility for new credits expired on December 31, 2009.

In mid October 2010, the Internal Revenue Service Office of Chief Counsel released a memo providing further clarification on the cellulosic biofuel producer credit (CBPC). This guidance clarifies that companies may elect to apply for the \$1.01-per-gallon CBPC for any black liquor that was produced in 2009 and not claimed as alternative fuel mixture credits. We became eligible for the alternative fuel mixture credit at our mills at varying dates throughout first quarter 2009 and would be eligible to claim the CBPC credit for black liquor produced prior to becoming eligible for the alternative fuel mixture credits. However, this credit is taxable, may only be used to offset a portion of taxable income, and has a relatively short carry-forward period. We continue to evaluate the impact of filing for the CBPC on our specific tax situation.

#### ***16. St. Helens Mill Restructuring***

In November 2008, we announced the restructuring of our paper mill in St. Helens, Oregon. The restructuring was primarily the result of declining product demand coupled with continuing high costs.

For the years ended December 31, 2010, 2009, and 2008, we recorded a pretax charge of \$0.2 million, \$5.8 million, and \$29.8 million, respectively, associated with the restructuring in St. Helens mill restructuring in the Consolidated Statements of Income (Loss). Additionally in 2008, we recognized \$7.8 million related to the write-down of inventory, which was recorded in Materials, labor, and other operating expenses in the Consolidated Statements of Income (Loss). All of these costs are recorded in our Paper segment. In the future, net cash expenditures in decommissioning and other costs are not expected to be material. At December 31, 2010 and 2009, we had \$0.1 million and \$0.5 million of severance liabilities included in Accrued liabilities, Compensation and benefits on our Consolidated Balance Sheets.

#### ***17. Acquisition of Boise Cascade's Paper and Packaging Operations***

On February 22, 2008, Aldabra 2 Acquisition Corp. completed the Acquisition of 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 for cash and securities. Aldabra 2 Acquisition Corp. acquired four pulp and paper mills, one paper mill, five corrugated container plants, a corrugated sheet feeder plant, and two paper distribution facilities, all located in the U.S. Subsequent to the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc.

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The purchase price was paid with cash, the issuance of shares of our common stock, and a note payable. These costs, including direct transaction costs and purchase price adjustments, are summarized as follows (dollars in thousands):

|   | <b>February 22,<br/>2008</b> |
|---|------------------------------|
| Cash paid to Boise Cascade                              | \$ 1,252,281                 |
| Cash paid to Boise Cascade for financing and other fees | 24,915                       |
| Less: cash contributed by Boise Cascade                 | (38,000)                     |
| Net cash  | 1,239,196                    |
| Equity at \$9.15 average price per share                | 346,395                      |
| Lack of marketability discount                          | (41,567)                     |
| Total equity  | 304,828                      |
| Note payable to Boise Cascade at closing                | 41,000                       |
| Working capital adjustment                              | 17,334                       |
| Total note payable to Boise Cascade                     | 58,334                       |
| Fees and expenses                                       | 61,785                       |
| Total purchase price                                    | <b>\$ 1,664,143</b>          |

The following table summarizes the fair value allocation of the assets acquired and liabilities assumed in the Acquisition as adjusted (dollars in thousands):

|                            | <b>February 22,<br/>2008,<br/>Fair Value</b> |
|----------------------------|--|
| Current assets             | \$ 571,936                                   |
| Property and equipment     | 1,306,070                                    |
| Fiber farms and deposits   | 11,006                                       |
| Intangible assets:         |  |
| Trademarks and trade names | 16,800                                       |
| Customer list              | 13,700                                       |
| Technology                 | 6,860  |
| Deferred financing costs   | 81,898                                       |
| Other long-term assets     | 4,465  |
| Current liabilities        | (246,928)                                    |
| Long-term liabilities      | (101,664)                                    |
| Total purchase price       | <b>\$ 1,664,143</b>                          |

Upon completion of the transaction, Boise Cascade owned 37.9 million, or 49%, of our outstanding shares. In early March 2010, Boise Cascade sold all of its remaining interest in us.

**18. Segment Information**

Boise Inc., headquartered in Boise, Idaho, operates and reports its business in three reportable segments: Paper, Packaging, and Corporate and Other (support services). These segments represent distinct businesses that are managed separately because of differing products and services. Each of these businesses requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments.

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*Paper.* We manufacture and sell a range of papers, including communication-based papers, packaging-demand-driven papers, and market pulp. Many of these paper products are commodity products, while others have specialized features that make these products premium and specialty grades. Our premium grades include 100% recycled, high-bright, and colored cut-size office papers, and our specialty grades include custom-developed papers for such uses as label and release and flexible papers used for food wrap and other applications. We ship to customers both directly from our mills and through distribution centers. In 2010, approximately 38% of our uncoated freesheet paper sales volume, including approximately 61% of our office papers sales volume, was sold to OfficeMax.

*Packaging.* Our Packaging segment manufactures and sells corrugated packaging products, linerboard, and newsprint. Our containerboard and corrugated products are sold by our own sales personnel and by brokers. Our newsprint is sold by our own sales personnel primarily to newspaper publishers in the southern U.S.

*Corporate and Other.* Our Corporate and Other segment includes primarily corporate support services, related assets and liabilities, and foreign exchange gains and losses. This segment also includes transportation assets, such as rail cars and trucks, which we use to transport our products from our manufacturing sites. We provide transportation services not only to our own facilities but also, on a limited basis, to third parties when geographic proximity and logistics are favorable. Rail cars and trucks are generally leased. During the years ended December 31, 2010, 2009, and 2008, and the Predecessor period of January 1 through February 21, 2008, segment sales related primarily to our rail and truck business were \$65.4 million, \$63.8 million, \$67.7 million, and \$8.5 million, respectively.

The segments' profits and losses are measured on operating profits before change in fair value of interest rate derivatives, interest expense, and interest income. Specified expenses are allocated to the segments. For many of these allocated expenses, the related assets and liabilities remain in the Corporate and Other segment.

The segments follow the accounting principles described in Note 2, Summary of Significant Accounting Policies.

Export sales to foreign unaffiliated customers were \$212.2 million in 2010, \$180.3 million in 2009, \$212.8 million in 2008, and \$40.8 million during the Predecessor period of January 1 through February 21, 2008, respectively. In all periods presented, net sales were generated domestically, and long-lived assets were held by domestic operations.

Segment sales to external customers by product line are as follows (dollars in millions):

|                                  | Boise Inc.<br>Year Ended December 31 |                   |                   | Predecessor<br>January 1<br>Through<br>February 21,<br>2008 |
|----------------------------------|--------------------------------------|-------------------|-------------------|---|
|                                  | 2010                                 | 2009              | 2008              | 2008  |
| <b>Paper</b>                     |                                      |                   |                   |   |
| Uncoated freesheet               | \$ 1,309.8                           | \$ 1,289.8        | \$ 1,240.9        | \$ 224.2  |
| Containerboard (medium)          | 0.1                                  | 0.1               | 0.2               | 0.1   |
| Market pulp and other            | 84.7                                 | 73.5              | 101.9             | 20.1  |
|                                  | 1,394.6                              | 1,363.4           | 1,343.0           | 244.4   |
| <b>Packaging</b>                 |                                      |                   |                   |   |
| Containerboard (linerboard)      | 94.2                                 | 88.6              | 88.6              | 16.5  |
| Newsprint                        | 121.7                                | 98.4              | 203.2             | 29.8  |
| Corrugated containers and sheets | 388.0                                | 347.7             | 324.3             | 53.1  |
| Other                            | 65.3                                 | 51.2              | 84.3              | 13.7  |
|                                  | 669.2                                | 585.9             | 700.4             | 113.1   |
| <b>Corporate and Other</b>       |                                      |                   |                   |   |
|                                  | 30.0                                 | 28.9              | 27.2              | 2.4   |
|                                  | <b>\$ 2,093.8</b>                    | <b>\$ 1,978.2</b> | <b>\$ 2,070.6</b> | <b>\$ 359.9</b>   |





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

**Boise Inc.**

|  | Sales             |                    |                   | Total             | Income<br>(Loss)<br>Before<br>Taxes | Depre-<br>ciation,<br>Amorti-<br>zation,<br>and<br>Depletion | EBITDA (d)      | Capital<br>Expendi-<br>tures | Assets            |
|--|-------------------|--------------------|-------------------|-------------------|-------------------------------------|--|-----------------|------------------------------|-------------------|
|  | Trade             | Related<br>Parties | Inter-<br>segment |                   |                                     |  |                 |                              |                   |
| <b>Year Ended December 31,<br/>2010</b>              |                   |                    |                   |                   |                                     |  |                 |                              |                   |
| Paper  | \$ 1,394.6        | \$                 | \$ 63.7           | \$ 1,458.3        | \$ 151.5                            | \$ 87.4  | \$ 238.9        | \$ 67.8                      | \$ 1,187.9        |
| Packaging  | 636.2             | 33.0               | 2.7               | 671.9             | 65.0                                | 38.6   | 103.6           | 38.6                         | 505.6             |
| Corporate and Other                                  | 27.3              | 2.7                | 35.4              | 65.4              | (21.6)(a)                           | 3.9  | (17.7)(a)       | 5.2                          | 245.5             |
|  | 2,058.1           | 35.7               | 101.8             | 2,195.6           | 194.9                               | 129.9  | 324.8           | 111.6                        | 1,939.0           |
| Intersegment eliminations                            |                   |                    | (101.8)           | (101.8)           |                                     |  |                 |                              |                   |
| Change in fair value of interest<br>rate derivatives |                   |                    |                   |                   |                                     |  |                 |                              |                   |
| Loss on extinguishment of<br>debt                    |                   |                    |                   |                   | (22.2)(a)                           |  | (22.2)(a)       |                              |                   |
| Interest expense                                     |                   |                    |                   |                   | (64.8)                              |  |                 |                              |                   |
| Interest income                                      |                   |                    |                   |                   | 0.3                                 |  |                 |                              |                   |
|  | <b>\$ 2,058.1</b> | <b>\$ 35.7</b>     | <b>\$</b>         | <b>\$ 2,093.8</b> | <b>\$ 108.1</b>                     | <b>\$ 129.9</b>  | <b>\$ 302.6</b> | <b>\$ 111.6</b>              | <b>\$ 1,939.0</b> |

|  | Sales             |                    |                   | Total             | Income<br>(Loss)<br>Before<br>Taxes | Depre-<br>ciation,<br>Amorti-<br>zation,<br>and<br>Depletion | EBITDA (d)      | Capital<br>Expendi-<br>tures | Assets            |
|--|-------------------|--------------------|-------------------|-------------------|-------------------------------------|--|-----------------|------------------------------|-------------------|
|  | Trade             | Related<br>Parties | Inter-<br>segment |                   |                                     |  |                 |                              |                   |
| <b>Year Ended December 31,<br/>2009</b>              |                   |                    |                   |                   |                                     |  |                 |                              |                   |
| Paper  | \$ 1,363.4        | \$                 | \$ 56.6           | \$ 1,420.0        | \$ 262.7(b)                         | \$ 85.2  | \$ 347.8(b)     | \$ 51.0                      | \$ 1,249.8        |
| Packaging  | 560.4             | 25.5               | 2.5               | 588.4             | 67.1(b)                             | 42.2   | 109.3(b)        | 23.1                         | 497.9             |
| Corporate and Other                                  | 11.6              | 17.3               | 34.9              | 63.8              | (21.5)(b)                           | 4.1  | (17.3)(b)       | 3.0                          | 148.1             |
|  | 1,935.4           | 42.8               | 94.0              | 2,072.2           | 308.3                               | 131.5  | 439.8           | 77.1                         | 1,895.8           |
| Intersegment eliminations                            |                   |                    | (94.0)            | (94.0)            |                                     |  |                 |                              |                   |
| Change in fair value of interest<br>rate derivatives |                   |                    |                   |                   | 0.6                                 |  |                 |                              |                   |
| Loss on extinguishment of debt                       |                   |                    |                   |                   | (44.1)(b)                           |  | (44.1)(b)       |                              |                   |
| Interest expense                                     |                   |                    |                   |                   | (83.3)                              |  |                 |                              |                   |
| Interest income                                      |                   |                    |                   |                   | 0.4                                 |  |                 |                              |                   |
|  | <b>\$ 1,935.4</b> | <b>\$ 42.8</b>     | <b>\$</b>         | <b>\$ 1,978.2</b> | <b>\$ 181.9</b>                     | <b>\$ 131.5</b>  | <b>\$ 395.7</b> | <b>\$ 77.1</b>               | <b>\$ 1,895.8</b> |

**Year Ended December 31,  
2008**

|                     |            |      |         |            |            |         |             |         |            |
|---------------------|------------|------|---------|------------|------------|---------|-------------|---------|------------|
| Paper               | \$ 1,343.0 | \$   | \$ 60.7 | \$ 1,403.7 | \$ 32.7(c) | \$ 71.7 | \$ 104.3(c) | \$ 42.8 | \$ 1,310.4 |
| Packaging           | 635.5      | 64.9 | 3.3     | 703.7      | 21.1(c)    | 35.1    | 56.2(c)     | 43.5    | 558.3      |
| Corporate and Other | 11.7       | 15.5 | 40.5    | 67.7       | (18.6)(c)  | 3.2     | (15.4)(c)   | 4.3     | 119.6      |
|                     | 1,990.2    | 80.4 | 104.5   | 2,175.1    | 35.2       | 110.0   | 145.1       | 90.6    | 1,988.3    |

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|  |                   |                |           |                   |                  |                 |                 |                |                   |
|--|-------------------|----------------|-----------|-------------------|------------------|-----------------|-----------------|----------------|-------------------|
| Intersegment eliminations                            | (104.5)           | (104.5)        |           |                   |                  |                 |                 |                |                   |
| Change in fair value of interest<br>rate derivatives |                   |                |           | (0.5)             |                  |                 |                 |                |                   |
| Interest expense                                     |                   |                |           | (91.2)            |                  |                 |                 |                |                   |
| Interest income                                      |                   |                |           | 2.2               |                  |                 |                 |                |                   |
|  | <b>\$ 1,990.2</b> | <b>\$ 80.4</b> | <b>\$</b> | <b>\$ 2,070.6</b> | <b>\$ (54.3)</b> | <b>\$ 110.0</b> | <b>\$ 145.1</b> | <b>\$ 90.6</b> | <b>\$ 1,988.3</b> |

Predecessor

|  | Sales           |                    |                   |                 | Income<br>(Loss)<br>Before<br>Taxes | Depre-<br>ciation,<br>Amorti-<br>zation,<br>and<br>Depletion | EBITDA (d)     | Capital<br>Expendi-<br>tures |
|--|-----------------|--------------------|-------------------|-----------------|-------------------------------------|--|----------------|------------------------------|
|  | Trade           | Related<br>Parties | Inter-<br>segment | Total           |                                     |  |                |                              |
| <b>January 1 Through February 21,<br/>2008</b> |                 |                    |                   |                 |                                     |  |                |                              |
| Paper  | \$ 154.4        | \$ 90.0            | \$ 9.1            | \$ 253.5        | \$ 20.7                             | \$ 0.3   | \$ 21.1        | \$ 5.0                       |
| Packaging                                      | 102.2           | 10.9               | 0.4               | 113.5           | 5.7                                 | 0.1  | 5.7            | 5.2                          |
| Corporate and Other                            | 1.8             | 0.6                | 6.1               | 8.5             | (3.2)                               | 0.1  | (3.1)          |                              |
|  | 258.4           | 101.5              | 15.6              | 375.5           | 23.2                                | 0.5  | 23.7           | 10.2                         |
| Intersegment eliminations                      |                 |                    | (15.6)            | (15.6)          |                                     |  |                |                              |
| Interest income                                |                 |                    |                   |                 | 0.2                                 |  |                |                              |
|  | <b>\$ 258.4</b> | <b>\$ 101.5</b>    | <b>\$</b>         | <b>\$ 359.9</b> | <b>\$ 23.4</b>                      | <b>\$ 0.5</b>  | <b>\$ 23.7</b> | <b>\$ 10.2</b>               |

(a) Included \$22.2 million of expense recorded in the Corporate and Other segment associated with the refinancing of our debt.

(b) Included \$5.8 million of expense recorded in the Paper segment associated with the restructuring of the St. Helens, Oregon, mill.

Included \$5.9 million of income related to the impact of energy hedges, of which \$4.8 million was recorded in the Paper segment and \$1.1 million was recorded in the Packaging segment.

Included \$149.9 million of income recorded in the Paper segment, \$61.6 million of income recorded in the Packaging segment, and \$3.9 million of expenses recorded in the Corporate and Other segment relating to alternative fuel mixture credits. These amounts are net of fees and expenses and before taxes.

Included \$44.1 million of expense recorded in the Corporate and Other segment associated with the restructuring of our debt for Boise Inc. or \$66.8 million of expense recorded in the Corporate and Other segment associated with the restructuring of our debt for BZ Intermediate. The difference is due to the gain recognized by Boise Inc. related to the notes payable, which were held by Boise Inc.

(c) Included \$37.6 million of expense recorded in the Paper segment associated with the restructuring of the St. Helens, Oregon, mill.

Included \$7.4 million of expense related to the impact of energy hedges, of which \$6.1 million was recorded in the Paper segment and \$1.3 million was recorded in the Packaging segment.

Included \$5.5 million of expense recorded in the Packaging segment related to lost production and costs incurred as a result of Hurricanes Gustav and Ike.

Included \$10.2 million related to inventory purchase accounting adjustments, of which \$7.4 million was recorded in the Paper segment and \$2.8 million was recorded in the Packaging segment.

Included \$19.8 million of expense recorded in the Packaging segment related to the outage at the DeRidder, Louisiana, mill.

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Included a \$2.9 million gain on changes in supplemental pension plans recorded in the Corporate and Other segment.

- (d) EBITDA represents income (loss) before interest (interest expense, interest income, 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. 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 with substantial financial leverage. 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

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net income (loss), income (loss) 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 (loss) or segment income (loss) has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense, interest income, change in fair value of interest rate derivatives, 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 (loss) to EBITDA (dollars in millions):

|   | <b>Boise Inc.</b>             |                 |                 | <b>Predecessor<br/>January 1<br/>Through<br/>February 22,<br/>2008</b> |
|---|-------------------------------|-----------------|-----------------|--|
|   | <b>Year Ended December 31</b> |                 |                 |  |
|   | <b>2010</b>                   | <b>2009</b>     | <b>2008</b>     |  |
| Net income (loss)                                 | \$ 62.7                       | \$ 153.8        | \$ (45.5)       | \$ 22.8  |
| Change in fair value of interest rate derivatives |                               | (0.6)           | 0.5             |  |
| Interest expense                                  | 64.8                          | 83.3            | 91.2            |  |
| Interest income                                   | (0.3)                         | (0.4)           | (2.2)           | (0.2)  |
| Income tax provision (benefit)                    | 45.4                          | 28.0            | (8.8)           | 0.6  |
| Depreciation, amortization, and depletion         | 129.9                         | 131.5           | 110.0           | 0.5  |
| <b>EBITDA</b>                                     | <b>\$ 302.6</b>               | <b>\$ 395.7</b> | <b>\$ 145.1</b> | <b>\$ 23.7</b>   |

|   | <b>BZ Intermediate Holdings LLC</b> |                 |                 | <b>Predecessor<br/>January 1<br/>Through<br/>February 22,<br/>2008</b> |
|---|-------------------------------------|-----------------|-----------------|--|
|   | <b>Year Ended December 31</b>       |                 |                 |  |
|   | <b>2010</b>                         | <b>2009</b>     | <b>2008</b>     |  |
| Net income (loss)                                 | \$ 63.6                             | \$ 147.8        | \$ (41.9)       | \$ 22.8  |
| Change in fair value of interest rate derivatives |                                     | (0.6)           | 0.5             |  |
| Interest expense                                  | 64.8                                | 74.3            | 82.9            |  |
| Interest income                                   | (0.3)                               | (0.4)           | (0.6)           | (0.2)  |
| Income tax provision (benefit)                    | 44.5                                | 20.4            | (5.8)           | 0.6  |
| Depreciation, amortization, and depletion         | 129.9                               | 131.5           | 110.0           | 0.5  |
| <b>EBITDA</b>                                     | <b>\$ 302.6</b>                     | <b>\$ 373.0</b> | <b>\$ 145.1</b> | <b>\$ 23.7</b>   |

### **19. Commitments, Guarantees, and Legal Proceedings**

#### *Commitments*

We have financial commitments for lease payments and for the purchase of wood fiber and utilities. 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.

Our log and fiber agreements are discussed further in Note 2, Summary of Significant Accounting Policies, our lease commitments are discussed further in Note 7, Leases, and our long-term debt obligations are discussed further in Note 11, Debt.

We enter into utility contracts for the purchase of electricity and natural gas. We also purchase these services under utility tariffs. The contractual and tariff arrangements include multiple-year commitments and minimum annual purchase requirements. At December 31, 2010 and 2009, we had approximately \$27.2 million and \$36.8 million, respectively, of utility purchase commitments. These payment obligations were valued at prices in effect on December 31, 2010 or 2009, respectively, or determined pursuant to contractual terms, if available. Because we consume the energy in the manufacture of our products, these obligations represent the face value of the contracts, not resale value.



*Guarantees*

We provide guarantees, indemnifications, and assurances to others in the normal course of our business. See Note 11, Debt, 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.

**20. Quarterly Results of Operations (unaudited, dollars in millions, except per-share and stock price information)**

|                                     | <b>Boise Inc.<br/>2010</b>   |                           |                          |                           |
|-------------------------------------|------------------------------|---------------------------|--------------------------|---------------------------|
|                                     | <b>First<br/>Quarter (a)</b> | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
| Net sales                           | \$ 494.1                     | \$ 521.6                  | \$ 554.1                 | \$ 524.0                  |
| Income from operations              | 18.6                         | 38.2                      | 77.0                     | 60.2                      |
| Net income (loss)                   | (12.7)                       | 13.3                      | 35.9                     | 26.2                      |
| Net income (loss) per common share: |                              |                           |                          |                           |
| Basic                               | (0.16)                       | 0.17                      | 0.45                     | 0.32                      |
| Diluted                             | (0.16)                       | 0.16                      | 0.43                     | 0.31                      |
| Common stock dividends per share    |                              |                           |                          | 0.40                      |
| Common stock prices (f)             |                              |                           |                          |                           |
| High                                | 6.13                         | 7.40                      | 7.36                     | 8.10                      |
| Low                                 | 4.60                         | 4.91                      | 4.96                     | 6.40                      |

|                                     | <b>Boise Inc.<br/>2009</b>   |                               |                              |                               |
|-------------------------------------|------------------------------|-------------------------------|------------------------------|-------------------------------|
|                                     | <b>First<br/>Quarter (b)</b> | <b>Second<br/>Quarter (c)</b> | <b>Third<br/>Quarter (d)</b> | <b>Fourth<br/>Quarter (e)</b> |
| Net sales                           | \$ 500.3                     | \$ 479.4                      | \$ 508.3                     | \$ 490.3                      |
| Income from operations              | 21.4                         | 96.6                          | 93.5                         | 94.2                          |
| Net income (loss)                   | (0.9)                        | 50.9                          | 48.2                         | 55.7                          |
| Net income (loss) per common share: |                              |                               |                              |                               |
| Basic                               | (0.01)                       | 0.65                          | 0.61                         | 0.70                          |
| Diluted                             | (0.01)                       | 0.60                          | 0.57                         | 0.66                          |
| Common stock dividends per share    |                              |                               |                              |                               |
| Common stock prices (f)             |                              |                               |                              |                               |
| High                                | 0.75                         | 2.47                          | 5.40                         | 6.29                          |
| Low                                 | 0.24                         | 0.51                          | 1.41                         | 4.71                          |

|                        | <b>BZ Intermediate Holdings<br/>2010</b> |                           |                          |                           |
|------------------------|--|---------------------------|--------------------------|---------------------------|
|                        | <b>First<br/>Quarter (a)</b>             | <b>Second<br/>Quarter</b> | <b>Third<br/>Quarter</b> | <b>Fourth<br/>Quarter</b> |
| Net sales              | \$ 494.1                                 | \$ 521.6                  | \$ 554.1                 | \$ 524.0                  |
| Income from operations | 18.6                                     | 38.2                      | 77.0                     | 60.2                      |
| Net income (loss)      | (11.8)                                   | 13.3                      | 36.0                     | 26.1                      |

|                        | <b>BZ Intermediate Holdings<br/>2009</b> |                               |                              |                               |
|------------------------|--|-------------------------------|------------------------------|-------------------------------|
|                        | <b>First<br/>Quarter (b)</b>             | <b>Second<br/>Quarter (c)</b> | <b>Third<br/>Quarter (d)</b> | <b>Fourth<br/>Quarter (e)</b> |
| Net sales              | \$ 500.3                                 | \$ 479.4                      | \$ 508.3                     | \$ 490.3                      |
| Income from operations | 21.4                                     | 96.6                          | 93.5                         | 94.2                          |
| Net income             | 1.4                                      | 54.2                          | 50.2                         | 42.1                          |

- (a) First quarter 2010 included \$3.3 million of expense related to the impact of energy hedges, \$2.8 million of which was recorded in the Paper segment and \$0.5 million in the Packaging segment.

First quarter 2010 included \$22.2 million of expense recorded in the Corporate and Other segment associated with the refinancing of our debt.

- (b) First quarter 2009 included \$3.6 million of expense recorded in the Paper segment associated with the restructuring of the St. Helens, Oregon, mill.

First quarter 2009 included \$2.2 million of expense related to the impact of energy hedges, \$1.8 million of which was recorded in the Paper segment and \$0.4 million in the Packaging segment.

- (c) Second quarter 2009 included \$57.0 million of income recorded in the Paper segment, \$19.9 million of income recorded in the Packaging segment, and \$1.6 million of expenses recorded in the Corporate and Other segment relating to alternative fuel mixture credits. These amounts are net of fees and expenses and before taxes.

Second quarter 2009 included \$1.1 million of expense recorded in the Paper segment associated with the restructuring of the St. Helens, Oregon, mill.

Second quarter 2009 included \$3.5 million of income related to the impact of energy hedges, \$2.8 million of which was recorded in the Paper segment and \$0.7 million in the Packaging segment.

- (d) Third quarter 2009 included \$42.9 million of income recorded in the Paper segment, \$19.4 million of income recorded in the Packaging segment, and \$2.7 million of expenses recorded in the Corporate and Other segment relating to alternative fuel mixture credits. These amounts are net of fees and expenses and before taxes.

Third quarter 2009 included \$1.4 million of expense recorded in the Paper segment associated with the restructuring of the St. Helens, Oregon, mill.

Third quarter 2009 included \$3.6 million of income related to the impact of energy hedges, \$2.9 million of which was recorded in the Paper segment and \$0.7 million in the Packaging segment.

- (e) Fourth quarter 2009 included \$50.1 million of income recorded in the Paper segment, \$22.2 million of income recorded in the Packaging segment, and \$0.4 million of income recorded in the Corporate and Other segment relating to alternative fuel mixture credits. These amounts are net of fees and expenses



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and before taxes.

Fourth quarter 2009 included \$44.1 million of loss on extinguishment of debt for Boise Inc., or \$66.8 million of loss on extinguishment of debt for BZ Intermediate, as a result of the October 2009 debt restructuring. The difference is due to the gain recognized by Boise Inc. related to the notes payable, which were held by Boise Inc.

Fourth quarter 2009 included \$1.0 million of income related to the impact of energy hedges, \$0.9 million of which was recorded in the Paper segment and \$0.1 million in the Packaging segment.

- (f) Our common stock began trading on February 25, 2008, on the New York Stock Exchange (NYSE) under the symbol BZ. Common stock prices are based on daily closing prices.

**21. Subsequent Events**

On February 21, 2011, our wholly owned subsidiary, Boise Paper Holdings, L.L.C., entered into a Stock Purchase Agreement (the Agreement) to purchase all of the outstanding stock of Tharco Packaging, Inc. (Tharco) for \$200 million of cash consideration, subject to adjustments set forth in the Agreement. This acquisition, which closed on March 1, 2011, expands our presence in packaging markets; extends our geographical reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia; and increases our containerboard integration to over 85% from approximately 70%. We obtained appropriate consents from our lenders to enable the acquisition under our Credit Facilities.

For the fiscal year ended September 30, 2010, Tharco had total revenue of \$261 million and income from operations of \$18 million. The remaining disclosures required by GAAP for business combinations have not been made for the Tharco acquisition because the initial accounting for the acquisition has not been completed.

**22. 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.

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Income (Loss)****For the Year Ended December 31, 2010**

(dollars in thousands)

|  | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|--|--|-------------------|-----------------------------------|--------------------------------------|---------------------|---------------------|
| <b>Sales</b>   |  |                   |                                   |                                      |                     |                     |
| Trade  | \$   | \$ 11,994         | \$ 2,039,308                      | \$ 6,830                             | \$                  | \$ 2,058,132        |
| Intercompany   |  |                   |                                   | 110,619                              | (110,619)           |                     |
| Related parties  |  | 2,364             | 333                               | 32,948                               |                     | 35,645              |
|  |  | 14,358            | 2,039,641                         | 150,397                              | (110,619)           | 2,093,777           |
| <b>Costs and expenses</b>  |  |                   |                                   |                                      |                     |                     |
| Materials, labor, and other operating expenses   |  | 14,039            | 1,580,221                         | 150,398                              | (110,619)           | 1,634,039           |
| Fiber costs from related parties   |  |                   | 25,259                            |                                      |                     | 25,259              |
| Depreciation, amortization, and depletion  |  | 3,454             | 126,472                           |                                      |                     | 129,926             |
| Selling and distribution expenses  |  |                   | 57,873                            | 234                                  |                     | 58,107              |
| General and administrative expenses  |  | 21,949            | 30,324                            |                                      |                     | 52,273              |
| St. Helens mill restructuring  |  |                   | 180                               |                                      |                     | 180                 |
| Other (income) expense, net  |  | 225               | 69                                | (261)                                |                     | 33                  |
|  |  | 39,667            | 1,820,398                         | 150,371                              | (110,619)           | 1,899,817           |
| <b>Income (loss) from operations</b>   |  | (25,309)          | 219,243                           | 26                                   |                     | 193,960             |
| Foreign exchange gain (loss)   |  | 871               | 19                                |                                      |                     | 890                 |
| Change in fair value of interest rate derivatives  |  | (43)              |                                   |                                      |                     | (43)                |
| Loss on extinguishment of debt   |  | (22,225)          |                                   |                                      |                     | (22,225)            |
| Interest expense   |  | (64,782)          |                                   |                                      |                     | (64,782)            |
| Interest expense intercompany  |  | (212)             |                                   | (16)                                 | 228                 |                     |
| Interest income  |  | 299               | 7                                 |                                      |                     | 306                 |
| Interest income intercompany   |  | 16                | 212                               |                                      | (228)               |                     |
|  |  | (86,076)          | 238                               | (16)                                 |                     | (85,854)            |
| <b>Income (loss) before income taxes and equity<br/>in net income (loss) of affiliates</b> |  | (111,385)         | 219,481                           | 10                                   |                     | 108,106             |
| Income tax (provision) benefit   |  | (43,187)          | (1,350)                           | 8                                    |                     | (44,529)            |
| <b>Income (loss) before equity in net income<br/>(loss) of affiliates</b>                  |  | (154,572)         | 218,131                           | 18                                   |                     | 63,577              |
| Equity in net income (loss) of affiliates  | 63,577   | 218,149           |                                   |                                      | (281,726)           |                     |
| <b>Net income (loss)</b>   | \$   | \$ 63,577         | \$ 218,131                        | \$ 18                                | \$ (281,726)        | \$ 63,577           |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Income (Loss)****For the Year Ended December 31, 2009**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-------------------|-----------------------------------|--|---------------------|---------------------|
| <b>Sales</b>  |  |                   |                                   |  |                     |                     |
| Trade   | \$   | \$                | \$ 1,930,526                      | \$ 4,884                                   | \$                  | \$ 1,935,410        |
| Intercompany  |  |                   | 5                                 | 90,906                                     | (90,911)            |                     |
| Related parties   |  | 14,966            | 2,317                             | 25,499                                     |                     | 42,782              |
|   |  | 14,966            | 1,932,848                         | 121,289                                    | (90,911)            | 1,978,192           |
| <b>Costs and expenses</b>   |  |                   |                                   |  |                     |                     |
| Materials, labor, and other operating expenses                        |  | 14,080            | 1,551,756                         | 121,289                                    | (90,911)            | 1,596,214           |
| Fiber costs from related parties                                      |  |                   | 36,858                            |  |                     | 36,858              |
| Depreciation, amortization, and depletion                             |  | 3,583             | 127,917                           |  |                     | 131,500             |
| Selling and distribution expenses                                     |  |                   | 55,318                            | 206  |                     | 55,524              |
| General and administrative expenses                                   |  | 18,286            | 31,964                            |  |                     | 50,250              |
| St. Helens mill restructuring   |  |                   | 5,805                             |  |                     | 5,805               |
| Alternative fuel mixture credits, net                                 |  | 3,933             | (211,540)                         |  |                     | (207,607)           |
| Other (income) expense, net   |  | 695               | 3,540                             | (230)                                      |                     | 4,005               |
|   |  | 40,577            | 1,601,618                         | 121,265                                    | (90,911)            | 1,672,549           |
| <b>Income (loss) from operations</b>                                  |  | (25,611)          | 331,230                           | 24   |                     | 305,643             |
| Foreign exchange gain (loss)  |  | 1,529             | 1,110                             |  |                     | 2,639               |
| Change in fair value of interest rate derivatives                     |  | 568               |                                   |  |                     | 568                 |
| Loss on extinguishment of debt  |  | (66,784)          |                                   |  |                     | (66,784)            |
| Interest expense  |  | (74,263)          |                                   |  |                     | (74,263)            |
| Interest expense intercompany   |  | (171)             |                                   | (15)                                       | 186                 |                     |
| Interest income   |  | 364               | 3                                 |  |                     | 367                 |
| Interest income intercompany  |  | 15                | 171                               |  | (186)               |                     |
|   |  | (138,742)         | 1,284                             | (15)                                       |                     | (137,473)           |
| <b>Income (loss) before income taxes</b>                              |  | (164,353)         | 332,514                           | 9  |                     | 168,170             |
| Income tax (provision) benefit  |  | (19,546)          | (810)                             |  |                     | (20,356)            |
| <b>Income (loss) before equity in net income (loss) of affiliates</b> |  | (183,899)         | 331,704                           | 9  |                     | 147,814             |
| Equity in net income (loss) of affiliates                             | 147,814  | 331,713           |                                   |  | (479,527)           |                     |
| <b>Net income (loss)</b>  | <b>\$ 147,814</b>  | <b>\$ 147,814</b> | <b>\$ 331,704</b>                 | <b>\$ 9</b>                                | <b>\$ (479,527)</b> | <b>\$ 147,814</b>   |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Income (Loss)****For the Year Ended December 31, 2008**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b>  | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|--------------------|-----------------------------------|--|---------------------|---------------------|
| <b>Sales</b>  |  |                    |                                   |  |                     |                     |
| Trade   | \$   | \$                 | \$ 1,979,955                      | \$ 10,252                                  | \$                  | \$ 1,990,207        |
| Intercompany  |  |                    | 1                                 | 102,006                                    | (102,007)           |                     |
| Related parties   |  | 12,092             | 3,450                             | 64,883                                     |                     | 80,425              |
|   |  | 12,092             | 1,983,406                         | 177,141                                    | (102,007)           | 2,070,632           |
| <b>Costs and expenses</b>   |  |                    |                                   |  |                     |                     |
| Materials, labor, and other operating expenses                        |  | 11,166             | 1,670,526                         | 177,141                                    | (102,007)           | 1,756,826           |
| Fiber costs from related parties                                      |  |                    | 54,628                            |  |                     | 54,628              |
| Depreciation, amortization, and depletion                             |  | 2,707              | 107,281                           |  |                     | 109,988             |
| Selling and distribution expenses                                     |  |                    | 48,032                            | 246  |                     | 48,278              |
| General and administrative expenses                                   |  | 18,450             | 15,868                            |  |                     | 34,318              |
| St. Helens mill restructuring   |  |                    | 29,780                            |  |                     | 29,780              |
| Other (income) expense, net   |  | (2,666)            | (36)                              | (278)                                      |                     | (2,980)             |
|   |  | 29,657             | 1,926,079                         | 177,109                                    | (102,007)           | 2,030,838           |
| <b>Income (loss) from operations</b>                                  |  | (17,565)           | 57,327                            | 32   |                     | 39,794              |
| Foreign exchange gain (loss)  |  | (3,187)            | (1,509)                           |  |                     | (4,696)             |
| Change in fair value of interest rate derivatives                     |  | (479)              |                                   |  |                     | (479)               |
| Interest expense  |  | (82,945)           |                                   |  |                     | (82,945)            |
| Interest expense intercompany   |  | (136)              |                                   | (21)                                       | 157                 |                     |
| Interest income   |  | 611                | 6                                 |  |                     | 617                 |
| Interest income intercompany  |  | 21                 | 136                               |  | (157)               |                     |
|   |  | (86,115)           | (1,367)                           | (21)                                       |                     | (87,503)            |
| <b>Income (loss) before income taxes</b>                              |  | (103,680)          | 55,960                            | 11   |                     | (47,709)            |
| Income tax (provision) benefit  |  | 7,393              | (1,542)                           | (2)  |                     | 5,849               |
| <b>Income (loss) before equity in net income (loss) of affiliates</b> |  | (96,287)           | 54,418                            | 9  |                     | (41,860)            |
| Equity in net income (loss) of affiliates                             | (41,860)   | 54,427             |                                   |  | (12,567)            |                     |
| <b>Net income (loss)</b>  | <b>\$ (41,860)</b>                                       | <b>\$ (41,860)</b> | <b>\$ 54,418</b>                  | <b>\$ 9</b>                                | <b>\$ (12,567)</b>  | <b>\$ (41,860)</b>  |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Balance Sheets at December 31, 2010**

(dollars in thousands)

|                             | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|-----------------------------|--|---------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------|
| <b>ASSETS</b>               |  |                     |                                   |                                      |                       |                     |
| <b>Current</b>              |  |                     |                                   |                                      |                       |                     |
| Cash and cash equivalents   | \$   | \$ 166,410          | \$ 6                              | \$ 417                               | \$                    | \$ 166,833          |
| Short-term investments      |  | 10,621              |                                   |                                      |                       | 10,621              |
| Receivables                 |  |                     |                                   |                                      |                       |                     |
| Trade, less allowances      |  | 1,004               | 187,502                           | 82                                   |                       | 188,588             |
| Intercompany                |  |                     | 2                                 | 1,634                                | (1,636)               |                     |
| Related parties             |  |                     |                                   | 1                                    |                       | 1                   |
| Other                       |  | 331                 | 3,504                             | 4                                    |                       | 3,839               |
| Inventories                 |  | 15                  | 261,456                           |                                      |                       | 261,471             |
| Deferred income taxes       |  | 16,651              |                                   | 7                                    |                       | 16,658              |
| Prepaid and other           |  | 4,697               | 517                               |                                      |                       | 5,214               |
|                             |  | 199,729             | 452,987                           | 2,145                                | (1,636)               | 653,225             |
| <b>Property</b>             |  |                     |                                   |                                      |                       |                     |
| Property and equipment, net |  | 5,952               | 1,193,083                         |                                      |                       | 1,199,035           |
| Fiber farms and deposits    |  |                     | 18,285                            |                                      |                       | 18,285              |
|                             |  | 5,952               | 1,211,368                         |                                      |                       | 1,217,320           |
| Deferred financing costs    |  | 30,396              |                                   |                                      |                       | 30,396              |
| Intangible assets, net      |  |                     | 29,605                            |                                      |                       | 29,605              |
| Investments in affiliates   | 655,332  | 1,479,253           |                                   |                                      | (2,134,585)           |                     |
| Other assets                |  | 5,175               | 3,269                             |                                      |                       | 8,444               |
| <b>Total assets</b>         | <b>\$ 655,332</b>  | <b>\$ 1,720,505</b> | <b>\$ 1,697,229</b>               | <b>\$ 2,145</b>                      | <b>\$ (2,136,221)</b> | <b>\$ 1,938,990</b> |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Balance Sheets at December 31, 2010 (continued)**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|---|--|---------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------|
| <b>LIABILITIES AND CAPITAL</b>                |  |                     |                                   |                                      |                       |                     |
| <b>Current</b>                                |  |                     |                                   |                                      |                       |                     |
| Current portion of long-term debt             | \$   | \$ 43,750           | \$                                | \$                                   | \$                    | \$ 43,750           |
| Income taxes payable                          |  | (818)               | 898                               | 2                                    |                       | 82                  |
| Accounts payable                              |  |                     |                                   |                                      |                       |                     |
| Trade   |  | 13,513              | 163,710                           | 1,700                                |                       | 178,923             |
| Intercompany                                  |  | 2                   | 1,634                             |                                      | (1,636)               |                     |
| Related parties                               |  |                     |                                   | 291                                  |                       | 291                 |
| Accrued liabilities                           |  |                     |                                   |                                      |                       |                     |
| Compensation and benefits                     |  | 23,081              | 31,493                            |                                      |                       | 54,574              |
| Interest payable                              |  | 10,535              |                                   |                                      |                       | 10,535              |
| Other   |  | 5,336               | 10,645                            | 142                                  |                       | 16,123              |
|   |  | 95,399              | 208,380                           | 2,135                                | (1,636)               | 304,278             |
| <b>Debt</b>                                   |  |                     |                                   |                                      |                       |                     |
| Long-term debt, less current portion          |  | 738,081             |                                   |                                      |                       | 738,081             |
| <b>Other</b>                                  |  |                     |                                   |                                      |                       |                     |
| Deferred income taxes                         |  | 78,959              | 492                               |                                      |                       | 79,451              |
| Compensation and benefits                     |  | 121,318             |                                   |                                      |                       | 121,318             |
| Other long-term liabilities                   |  | 31,416              | 9,114                             |                                      |                       | 40,530              |
|   |  | 231,693             | 9,606                             |                                      |                       | 241,299             |
| <b>Commitments and contingent liabilities</b> |  |                     |                                   |                                      |                       |                     |
| <b>Capital</b>                                |  |                     |                                   |                                      |                       |                     |
| Business unit equity                          | 655,332  | 655,332             | 1,479,243                         | 10                                   | (2,134,585)           | 655,332             |
| <b>Total liabilities and capital</b>          | <b>\$ 655,332</b>  | <b>\$ 1,720,505</b> | <b>\$ 1,697,229</b>               | <b>\$ 2,145</b>                      | <b>\$ (2,136,221)</b> | <b>\$ 1,938,990</b> |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Balance Sheets at December 31, 2009**

(dollars in thousands)

|                                  | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|----------------------------------|--|---------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------|
| <b>ASSETS</b>                    |  |                     |                                   |                                      |                       |                     |
| <b>Current</b>                   |  |                     |                                   |                                      |                       |                     |
| Cash and cash equivalents        | \$   | \$ 69,071           | \$ 33                             | \$ 289                               | \$                    | \$ 69,393           |
| Short-term investments           |  | 10,023              |                                   |                                      |                       | 10,023              |
| <b>Receivables</b>               |  |                     |                                   |                                      |                       |                     |
| Trade, less allowances           |  |                     | 185,087                           | 23                                   |                       | 185,110             |
| Intercompany                     |  |                     |                                   | 1,254                                | (1,254)               |                     |
| Related parties                  |  | 1,626               |                                   | 430                                  |                       | 2,056               |
| Other                            |  | 828                 | 61,581                            | 1                                    |                       | 62,410              |
| Inventories                      |  | 18                  | 252,155                           |                                      |                       | 252,173             |
| Prepaid and other                |  | 4,049               | 770                               |                                      |                       | 4,819               |
|                                  |  | 85,615              | 499,626                           | 1,997                                | (1,254)               | 585,984             |
| <b>Property</b>                  |  |                     |                                   |                                      |                       |                     |
| Property and equipment, net      |  | 6,408               | 1,199,271                         |                                      |                       | 1,205,679           |
| Fiber farms and deposits         |  |                     | 17,094                            |                                      |                       | 17,094              |
|                                  |  | 6,408               | 1,216,365                         |                                      |                       | 1,222,773           |
| <b>Deferred financing costs</b>  |  | 47,369              |                                   |                                      |                       | 47,369              |
| <b>Intangible assets, net</b>    |  |                     | 32,358                            |                                      |                       | 32,358              |
| <b>Investments in affiliates</b> | 628,590  | 1,522,807           |                                   |                                      | (2,151,397)           |                     |
| <b>Other assets</b>              |  | 4,106               | 3,200                             |                                      |                       | 7,306               |
| <b>Total assets</b>              | <b>\$ 628,590</b>  | <b>\$ 1,666,305</b> | <b>\$ 1,751,549</b>               | <b>\$ 1,997</b>                      | <b>\$ (2,152,651)</b> | <b>\$ 1,895,790</b> |



**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Balance Sheets at December 31, 2009 (continued)**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b>   | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b>   | <b>Consolidated</b> |
|---|--|---------------------|-----------------------------------|--------------------------------------|-----------------------|---------------------|
| <b>LIABILITIES AND CAPITAL</b>                |  |                     |                                   |                                      |                       |                     |
| <b>Current</b>                                |  |                     |                                   |                                      |                       |                     |
| Current portion of long-term debt             | \$   | \$ 30,711           | \$                                | \$                                   | \$                    | \$ 30,711           |
| Income taxes payable                          |  | (2,058)             | 2,296                             | 2                                    |                       | 240                 |
| Accounts payable                              |  |                     |                                   |                                      |                       |                     |
| Trade   |  | 11,983              | 158,795                           | 1,740                                |                       | 172,518             |
| Intercompany                                  |  |                     | 1,254                             |                                      | (1,254)               |                     |
| Related parties                               |  | 17                  | 2,445                             | 136                                  |                       | 2,598               |
| Accrued liabilities                           |  |                     |                                   |                                      |                       |                     |
| Compensation and benefits                     |  | 23,789              | 44,159                            |                                      |                       | 67,948              |
| Interest payable                              |  | 4,946               |                                   |                                      |                       | 4,946               |
| Other   |  | 13,558              | 10,058                            | 119                                  |                       | 23,735              |
|   |  | 82,946              | 219,007                           | 1,997                                | (1,254)               | 302,696             |
| <b>Debt</b>                                   |  |                     |                                   |                                      |                       |                     |
| Long-term debt, less current portion          |  | 785,216             |                                   |                                      |                       | 785,216             |
| <b>Other</b>                                  |  |                     |                                   |                                      |                       |                     |
| Deferred income taxes                         |  | 24,283              | 280                               |                                      |                       | 24,563              |
| Compensation and benefits                     |  | 123,889             |                                   |                                      |                       | 123,889             |
| Other long-term liabilities                   |  | 21,381              | 9,455                             |                                      |                       | 30,836              |
|   |  | 169,553             | 9,735                             |                                      |                       | 179,288             |
| <b>Commitments and contingent liabilities</b> |  |                     |                                   |                                      |                       |                     |
| <b>Capital</b>                                |  |                     |                                   |                                      |                       |                     |
| Business unit equity                          | 628,590  | 628,590             | 1,522,807                         |                                      | (2,151,397)           | 628,590             |
| <b>Total liabilities and capital</b>          | <b>\$ 628,590</b>  | <b>\$ 1,666,305</b> | <b>\$ 1,751,549</b>               | <b>\$ 1,997</b>                      | <b>\$ (2,152,651)</b> | <b>\$ 1,895,790</b> |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Cash Flows****For the Year Ended December 31, 2010**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Nonguarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-------------------|-----------------------------------|--------------------------------------|---------------------|---------------------|
| <b>Cash provided by (used for) operations</b>                                   |  |                   |                                   |                                      |                     |                     |
| Net income (loss)   | \$ 63,577  | \$ 63,577         | \$ 218,131                        | \$ 18                                | \$ (281,726)        | \$ 63,577           |
| Items in net income (loss) not using (providing) cash                           |  |                   |                                   |                                      |                     |                     |
| Equity in net (income) loss of affiliates                                       | (63,577)   | (218,149)         |                                   |                                      | 281,726             |                     |
| Depreciation, depletion, and amortization of deferred financing costs and other |  | 11,023            | 126,472                           |                                      |                     | 137,495             |
| Share-based compensation expense  |  | 3,733             |                                   |                                      |                     | 3,733               |
| Pension and other postretirement benefit expense                                |  | 9,537             |                                   |                                      |                     | 9,537               |
| Deferred income taxes   |  | 37,677            | 213                               | (8)                                  |                     | 37,882              |
| Change in fair value of energy derivatives                                      |  |                   | 609                               |                                      |                     | 609                 |
| Change in fair value of interest rate derivatives                               |  | 43                |                                   |                                      |                     | 43                  |
| (Gain) loss on sales of assets, net   |  | 2                 | 310                               |                                      |                     | 312                 |
| Other   |  | (850)             | (19)                              |                                      |                     | (869)               |
| Loss on extinguishment of debt  |  | 22,225            |                                   |                                      |                     | 22,225              |
| Decrease (increase) in working capital  |  |                   |                                   |                                      |                     |                     |
| Receivables   |  | 1,225             | 55,662                            | (12)                                 | 380                 | 57,255              |
| Inventories   |  | 3                 | (17,123)                          |                                      |                     | (17,120)            |
| Prepaid expenses  |  | 4,437             | 253                               |                                      |                     | 4,690               |
| Accounts payable and accrued liabilities  |  | 6,760             | (13,208)                          | 138                                  | (380)               | (6,690)             |
| Current and deferred income taxes   |  | 7,142             | (1,398)                           |                                      |                     | 5,744               |
| Pension and other postretirement benefit payments                               |  | (25,637)          |                                   |                                      |                     | (25,637)            |
| Other   |  | (606)             | (2,399)                           |                                      |                     | (3,005)             |
| Cash provided by (used for) operations  |  | (77,858)          | 367,503                           | 136                                  |                     | 289,781             |
| <b>Cash provided by (used for) investment</b>                                   |  |                   |                                   |                                      |                     |                     |
| Expenditures for property and equipment   |  | (3,711)           | (107,908)                         |                                      |                     | (111,619)           |
| Purchases of short-term investments   |  | (25,336)          |                                   |                                      |                     | (25,336)            |
| Maturities of short-term investments  |  | 24,744            |                                   |                                      |                     | 24,744              |
| Sales of assets   |  |                   | 717                               |                                      |                     | 717                 |
| Other   |  | 868               | 1,356                             |                                      |                     | 2,224               |
| Cash provided by (used for) investment  |  | (3,435)           | (105,835)                         |                                      |                     | (109,270)           |
| <b>Cash provided by (used for) financing</b>                                    |  |                   |                                   |                                      |                     |                     |
| Issuances of long-term debt   |  | 300,000           |                                   |                                      |                     | 300,000             |
| Payments of long-term debt  |  | (334,096)         |                                   |                                      |                     | (334,096)           |
| Payments of deferred financing costs  |  | (12,003)          |                                   |                                      |                     | (12,003)            |
| Payments (to) from Boise Inc., net  | (31,639)   |                   |                                   |                                      |                     | (31,639)            |
| Due to (from) affiliates  | 31,639   | 230,064           | (261,695)                         | (8)                                  |                     |                     |
| Other   |  | (5,333)           |                                   |                                      |                     | (5,333)             |
| Cash provided by (used for) financing   |  | 178,632           | (261,695)                         | (8)                                  |                     | (83,071)            |

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|  |                   |             |               |                   |
|--|-------------------|-------------|---------------|-------------------|
| Increase (decrease) in cash and cash equivalents | 97,339            | (27)        | 128           | 97,440            |
| <b>Balance at beginning of the period</b>        | <b>69,071</b>     | <b>33</b>   | <b>289</b>    | <b>69,393</b>     |
| <b>Balance at end of the period</b>              | <b>\$ 166,410</b> | <b>\$ 6</b> | <b>\$ 417</b> | <b>\$ 166,833</b> |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Cash Flows****For the Year Ended December 31, 2009**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-------------------|-----------------------------------|--|---------------------|---------------------|
| <b>Cash provided by (used for) operations</b>                                   |  |                   |                                   |  |                     |                     |
| Net income (loss)   | \$ 147,814   | \$ 147,814        | \$ 331,704                        | \$ 9                                       | \$ (479,527)        | \$ 147,814          |
| Items in net income (loss) not using (providing) cash                           |  |                   |                                   |  |                     |                     |
| Equity in net (income) loss of affiliates                                       | (147,814)  | (331,713)         |                                   |  | 479,527             |                     |
| Depreciation, depletion, and amortization of deferred financing costs and other |  | 16,162            | 127,917                           |  |                     | 144,079             |
| Share-based compensation expense  |  | 3,518             |                                   |  |                     | 3,518               |
| Pension and other postretirement benefit expense                                |  | 7,376             |                                   |  |                     | 7,376               |
| Deferred income taxes   |  | 19,863            | 157                               |  |                     | 20,020              |
| Change in fair value of energy derivatives                                      |  |                   | (5,877)                           |  |                     | (5,877)             |
| Change in fair value of interest rate derivatives                               |  | (568)             |                                   |  |                     | (568)               |
| (Gain) loss on sales of assets, net   |  | 19                | 495                               |  |                     | 514                 |
| Other   |  | (1,529)           | (1,110)                           |  |                     | (2,639)             |
| Loss on extinguishment of debt  |  | 66,784            |                                   |  |                     | 66,784              |
| Decrease (increase) in working capital, net of acquisitions                     |  |                   |                                   |  |                     |                     |
| Receivables   |  | 1,800             | (24,744)                          | 978  | 463                 | (21,503)            |
| Inventories   |  | 4                 | 83,033                            |  |                     | 83,037              |
| Prepaid expenses  |  | (1,340)           | 2,040                             | 770  |                     | 1,470               |
| Accounts payable and accrued liabilities  |  | 13,723            | 13,435                            | (985)                                      | (463)               | 25,710              |
| Current and deferred income taxes   |  | (395)             | (27)                              |  |                     | (422)               |
| Pension and other postretirement benefit payments                               |  | (13,001)          |                                   |  |                     | (13,001)            |
| Other   |  | 754               | (1,363)                           |  |                     | (609)               |
| Cash provided by (used for) operations  |  | (70,729)          | 525,660                           | 772  |                     | 455,703             |
| <b>Cash provided by (used for) investment</b>                                   |  |                   |                                   |  |                     |                     |
| Acquisition of businesses and facilities  |  |                   | (543)                             |  |                     | (543)               |
| Expenditures for property and equipment   |  | (2,789)           | (74,356)                          |  |                     | (77,145)            |
| Purchases of short-term investments   |  | (21,643)          |                                   |  |                     | (21,643)            |
| Maturities of short-term investments  |  | 11,615            |                                   |  |                     | 11,615              |
| Sales of assets   |  | 1                 | 1,030                             |  |                     | 1,031               |
| Other   |  | 1,357             | 811                               |  |                     | 2,168               |
| Cash provided by (used for) investment  |  | (11,459)          | (73,058)                          |  |                     | (84,517)            |
| <b>Cash provided by (used for) financing</b>                                    |  |                   |                                   |  |                     |                     |
| Issuances of long-term debt   |  | 310,000           |                                   |  |                     | 310,000             |
| Payments of long-term debt  |  | (531,523)         |                                   |  |                     | (531,523)           |
| Extinguishment of debt  |  | (39,717)          |                                   |  |                     | (39,717)            |
| Payments (to) from Boise Inc., net  | (49,915)   |                   |                                   |  |                     | (49,915)            |
| Payments of deferred financing costs  |  | (13,156)          |                                   |  |                     | (13,156)            |
| Due to (from) affiliates  | 49,915   | 405,789           | (452,576)                         | (3,128)                                    |                     |                     |
| Cash provided by (used for) financing   |  | 131,393           | (452,576)                         | (3,128)                                    |                     | (324,311)           |

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|  |                  |              |               |                  |
|--|------------------|--------------|---------------|------------------|
| Increase (decrease) in cash and cash equivalents | 49,205           | 26           | (2,356)       | 46,875           |
| <b>Balance at beginning of the period</b>        | 19,866           | 7            | 2,645         | 22,518           |
| <b>Balance at end of the period</b>              | <b>\$ 69,071</b> | <b>\$ 33</b> | <b>\$ 289</b> | <b>\$ 69,393</b> |

**BZ Intermediate Holdings LLC and Subsidiaries****Consolidating Statements of Cash Flows****For the Year Ended December 31, 2008**

(dollars in thousands)

|   | <b>BZ<br/>Intermediate<br/>Holdings LLC<br/>(Parent)</b> | <b>Co-issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-<br/>guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
|---|--|-------------------|-----------------------------------|--|---------------------|---------------------|
| <b>Cash provided by (used for) operations</b>                                   |  |                   |                                   |  |                     |                     |
| Net income (loss)   | \$ (41,860)  | \$ (41,860)       | \$ 54,418                         | \$ 9                                       | \$ (12,567)         | \$ (41,860)         |
| Items in net income (loss) not using (providing) cash                           |  |                   |                                   |  |                     |                     |
| Equity in net (income) loss of affiliates                                       | 41,860   | (54,427)          |                                   |  | 12,567              |                     |
| Depreciation, depletion, and amortization of deferred financing costs and other |  | 12,652            | 107,281                           |  |                     | 119,933             |
| Share-based compensation expense  |  | 3,096             |                                   |  |                     | 3,096               |
| Pension and other postretirement benefit expense                                |  | 8,388             |                                   |  |                     | 8,388               |
| Deferred income taxes   |  | (6,289)           | (150)                             |  |                     | (6,439)             |
| Change in fair value of energy derivatives                                      |  |                   | 7,445                             |  |                     | 7,445               |
| Change in fair value of interest rate derivatives                               |  | 479               |                                   |  |                     | 479                 |
| St. Helens mill restructuring   |  |                   | 35,998                            |  |                     | 35,998              |
| Other   |  | 3,187             | 1,509                             |  |                     | 4,696               |
| Decrease (increase) in working capital, net of acquisitions                     |  |                   |                                   |  |                     |                     |
| Receivables   |  | 6,201             | 20,991                            | (2,686)                                    | 790                 | 25,296              |
| Inventories   |  | (2)               | (28,948)                          |  |                     | (28,950)            |
| Prepaid expenses  |  | 8                 | (346)                             | (765)                                      |                     | (1,103)             |
| Accounts payable and accrued liabilities  |  | 8,958             | (27,933)                          | 2,980                                      | (790)               | (16,785)            |
| Current and deferred income taxes   |  | (1,409)           | 1,629                             | 2  |                     | 222                 |
| Pension and other postretirement benefit payments                               |  | (636)             |                                   |  |                     | (636)               |
| Other   |  | (426)             | (1,422)                           |  |                     | (1,848)             |
| Cash provided by (used for) operations  |  | (62,080)          | 170,472                           | (460)                                      |                     | 107,932             |
| <b>Cash provided by (used for) investment</b>                                   |  |                   |                                   |  |                     |                     |
| Acquisition of businesses and facilities  |  | 100,152           | (1,316,606)                       | (5)  |                     | (1,216,459)         |
| Expenditures for property and equipment   |  | (4,200)           | (86,397)                          |  |                     | (90,597)            |
| Sales of assets   |  |                   | 394                               |  |                     | 394                 |
| Other   |  | (3,099)           | (2,604)                           |  |                     | (5,703)             |
| Cash provided by (used for) investment  |  | 92,853            | (1,405,213)                       | (5)  |                     | (1,312,365)         |
| <b>Cash provided by (used for) financing</b>                                    |  |                   |                                   |  |                     |                     |
| Issuances of long-term debt   |  | 1,125,700         |                                   |  |                     | 1,125,700           |
| Payments of long-term debt  |  | (88,250)          |                                   |  |                     | (88,250)            |
| Payments (to) from Boise Inc., net  | 271,399  |                   |                                   |  |                     | 271,399             |
| Payments of deferred financing costs  |  | (81,898)          |                                   |  |                     | (81,898)            |
| Due to (from) affiliates  | (271,399)  | (966,459)         | 1,234,748                         | 3,110                                      |                     |                     |
| Cash provided by (used for) financing   |  | (10,907)          | 1,234,748                         | 3,110                                      |                     | 1,226,951           |
| Increase (decrease) in cash and cash equivalents                                |  | 19,866            | 7                                 | 2,645                                      |                     | 22,518              |
| Balance at beginning of the period  |  |                   |                                   |  |                     |                     |
| <b>Balance at end of the period</b>   | <b>\$</b>  | <b>\$ 19,866</b>  | <b>\$ 7</b>                       | <b>\$ 2,645</b>                            | <b>\$</b>           | <b>\$ 22,518</b>    |



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***Report of Independent Registered Public Accounting Firm***

The Board of Directors and Stockholders

Boise Inc.:

We have audited the accompanying consolidated balance sheets of Boise Inc. and subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited Boise Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Boise Inc.'s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boise Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also in our opinion, Boise Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ KPMG LLP

Boise, Idaho

March 2, 2011

*Report of Independent Registered Public Accounting Firm*

The Board of Directors

of Boise Inc.:

We have audited the accompanying consolidated balance sheets of BZ Intermediate Holdings LLC and subsidiaries (formerly known as Aldabra Holding Sub LLC) as of December 31, 2010 and 2009, and the related consolidated statements of income (loss), capital, and cash flows for the years ended December 31, 2010 and December 31, 2009 and for the period from January 18, 2008 (inception) through December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BZ Intermediate Holdings LLC and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years ended December 31, 2010 and December 31, 2009 and for the period from January 18, 2008 (inception) through December 31, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boise, Idaho

March 2, 2011

*Independent Auditors Report*

The Board of Directors

of Boise Inc.:

We have audited the accompanying consolidated statements of income and cash flows for the period from January 1, 2008 through February 21, 2008, of Boise Paper Products and subsidiaries. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Boise Paper Products and subsidiaries operations and their cash flows for the period from January 1, 2008 through February 21, 2008, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boise, Idaho

February 23, 2009

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**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

We have had no disagreements with our independent accountants regarding accounting or financial disclosure matters.

**ITEM 9A. CONTROLS AND PROCEDURES**

We have attached the certifications of our chief executive officer and chief financial officer with this Form 10-K. Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended, require that we include these certifications with this report. This section includes information concerning the disclosure controls and procedures referred to in the certifications and our internal control over financial reporting. You should read this section in conjunction with the certifications for a more complete understanding of the topics presented.

*Introduction*

We maintain disclosure controls and procedures, as the Securities and Exchange Commission (SEC) defines such term. We have designed these controls and procedures to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-K, is recorded, processed, summarized, and reported within the periods specified in the SEC's rules and forms. We have also designed our disclosure controls to provide reasonable assurance that such information is accumulated and communicated to our senior management, including the chief executive officer (CEO) and chief financial officer (CFO), as appropriate, to allow them to make timely decisions regarding our required disclosures.

We also maintain internal control over financial reporting. The SEC defines such internal control as a process designed by, or under the supervision of, a public company's CEO and CFO, and effected by the company's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP. This control includes policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transaction and disposition of our assets, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

*Limitation on the Effectiveness of Controls and Procedures*

Our management, including the CEO and CFO, does not expect that our disclosure controls and/or internal controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in all control systems, no evaluation of controls can provide absolute assurance that we have detected all control issues and instances of fraud, if any, within our Company. Further, the design of any control system is based in part upon assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of this inherent limitation in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective disclosure controls and internal controls are in place.

*Evaluation of Disclosure Controls and Procedures*

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fiscal year covered by this Form 10-K. Based on that evaluation, the CEO and CFO have concluded that, as of such date, our disclosure controls and procedures were effective in meeting the objectives for which they were designed and were operating at a reasonable assurance level.

*Changes in Internal Control Over Financial Reporting*

We had no changes to our internal controls over financial reporting or other factors during the year and quarter ended December 31, 2010, that affected materially, or are reasonably likely to affect materially, our internal controls.

*Management's Report on Internal Control Over Financial Reporting*

Management's Report on Internal Control Over Financial Reporting is located on the following page of this Form 10-K, and KPMG LLP's Report of Independent Registered Public Accounting Firm on internal control over financial reporting is located in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

**Management's Report on Internal Control Over Financial Reporting**

The management of Boise Inc. is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management assessed our internal control over financial reporting as of December 31, 2010. Management based its assessment on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based upon this assessment, management has concluded that our internal control over financial reporting was effective as of December 31, 2010.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2010, has been audited by KPMG LLP, an independent registered public accounting firm, as stated in its report, which is included herein.

**ITEM 9B. OTHER INFORMATION**

None.

### PART III

#### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Information concerning our directors is incorporated into this Form 10-K by reference to the section of our definitive proxy statement entitled Proposals to Be Voted on, Proposal No. 1 Election of Directors. We will file our definitive proxy statement with the Securities and Exchange Commission (SEC) no later than 120 days after December 31, 2010.

Information concerning our executive officers is set forth in Part I, Item 1. Business of this Form 10-K under the caption Executive Officers of Registrant.

Information concerning family relationships between our directors or executive officers is incorporated into this Form 10-K by reference to the section of our definitive proxy statement entitled Transactions With Related Persons, Promoters, and Certain Control Persons. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

Information concerning compliance with Section 16(a) of the Securities and Exchange Act and our corporate governance is incorporated into this Form 10-K by reference to the sections of our definitive proxy statement entitled Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance Principles and Board Matters. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

Our board of directors adopted a Code of Ethics that applies not only to our directors but also to all of our employees, including our chief executive officer, chief financial officer, and principal accounting officer. A copy of our Code of Ethics is available, free of charge, by visiting our website at [www.boiseinc.com](http://www.boiseinc.com) and selecting *Investors*, *Corporate Governance*, and then *Code of Ethics*.

If we amend or grant a waiver of one or more of the provisions of our Code of Ethics, we intend to disclose the amendment or waiver by posting the required information on our website within four business days following such amendment or waiver. No waivers of our Code of Ethics have been granted to date.

Information concerning material changes to the procedures by which our securityholders may recommend nominees to our board of directors is incorporated into this Form 10-K by reference to the section of our definitive proxy statement entitled Solicitation of Proxies and Voting. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

Mr. Berger, our Audit Committee chair, is a financial expert as that term is defined in Regulation S-K, Item 407(d)(5). Further information concerning our Audit Committee is incorporated into this Form 10-K by reference to the sections of our definitive proxy statement entitled Corporate Governance Principles and Board Matters and Audit Committee Matters. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.



**ITEM 11. EXECUTIVE COMPENSATION**

Information concerning compensation of our executive officers and directors is incorporated into this Form 10-K by reference to the sections of our definitive proxy statement entitled Executive Compensation and Corporate Governance Principles and Board Matters. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

A description of the security ownership of certain beneficial owners and management and equity compensation plan information are incorporated into this Form 10-K by reference to the sections of our definitive proxy statement entitled Security Ownership and Executive Compensation. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

A description of certain relationships and related transactions is incorporated into this Form 10-K by reference to the section of our definitive proxy statement entitled Transactions With Related Persons, Promoters, and Certain Control Persons. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information with respect to fees paid to, and services rendered by, our principal accountant and our policies and procedures for preapproving those services is incorporated into this Form 10-K by reference to the section of our definitive proxy statement entitled Audit Committee Matters. We will file our definitive proxy statement with the SEC no later than 120 days after December 31, 2010.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as a part of this Form 10-K:

(1) Consolidated Financial Statements

The Consolidated Financial Statements, the Notes to Consolidated Financial Statements, and the Reports of Independent Registered Public Accounting Firms are presented in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

Boise Inc. Consolidated Balance Sheets as of December 31, 2010 and 2009.

Boise Inc. Consolidated Statements of Income (Loss) for the years ended December 31, 2010, 2009, and 2008, and the Predecessor Consolidated Statement of Income (Loss) for the period of January 1 through February 21, 2008.

Boise Inc. Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009, and 2008, and the Predecessor Consolidated Statement of Cash Flows for the period of January 1 through February 21, 2008.

Boise Inc. Consolidated Statements of Stockholders' Equity for the years ended December 31, 2010, 2009, and 2008.

BZ Intermediate Holdings LLC Consolidated Balance Sheets as of December 31, 2010 and 2009.

BZ Intermediate Holdings LLC Consolidated Statements of Income (Loss) for the years ended December 31, 2010, 2009, and 2008, and the Predecessor Consolidated Statement of Income (Loss) for the period of January 1 through February 21, 2008.

BZ Intermediate Holdings LLC Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009, and 2008, and the Predecessor Consolidated Statement of Cash Flows for the period of January 1 through February 21, 2008.

BZ Intermediate Holdings LLC Consolidated Statements of Capital for the years ended December 31, 2010, 2009, and 2008.

Notes to Consolidated Financial Statements.

Reports of Independent Registered Public Accounting Firm KPMG LLP.

Independent Auditors Report KPMG LLP.

Management s Report on Internal Control Over Financial Reporting.

(2) Financial Statement Schedules

All financial statement schedules have been omitted because they are inapplicable, not required, or shown in the consolidated financial statements and notes in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

(3) Exhibits

A list of the exhibits required to be filed as part of this report is set forth in the Index to Exhibits and is incorporated by reference.

(b) See Index to Exhibits.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

BOISE INC.

/s/ Samuel K. Cotterell  
Samuel K. Cotterell

Senior Vice President and  
Chief Financial Officer

(As Duly Authorized Officer and Chief  
Accounting Officer)  
Dated: March 2, 2011

BZ INTERMEDIATE HOLDINGS LLC

/s/ Samuel K. Cotterell  
Samuel K. Cotterell

Senior Vice President and  
Chief Financial Officer

(As Duly Authorized Officer and Chief Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 2, 2011, by the following persons on behalf of the registrants and in the capacities indicated.

|  | <b>Signature</b>                               | <b>Capacity</b>                                   |
|--|--|---|
| <b>(i) Principal Executive Officer:</b>    | /s/ Alexander Toeldte<br>Alexander Toeldte     | Chief Executive Officer                           |
| <b>(ii) Principal Financial Officer:</b>   | /s/ Samuel K. Cotterell<br>Samuel K. Cotterell | Senior Vice President and Chief Financial Officer |
| <b>(iii) Principal Accounting Officer:</b> | /s/ Samuel K. Cotterell<br>Samuel K. Cotterell | Senior Vice President and Chief Financial Officer |
| <b>(iv) Directors:</b>                     |  |   |
|  | /s/ Carl A. Albert<br>Carl A. Albert           | /s/ Heinrich R. Lenz<br>Heinrich R. Lenz          |
|  | /s/ Jonathan W. Berger<br>Jonathan W. Berger   | /s/ Alexander Toeldte<br>Alexander Toeldte        |
|  | /s/ Jack Goldman<br>Jack Goldman               | /s/ Jason G. Weiss<br>Jason G. Weiss              |
|  | /s/ Nathan D. Leight<br>Nathan D. Leight       |   |

## BOISE INC.

## INDEX TO EXHIBITS

Filed or Furnished With the Annual Report on Form 10-K for the Year Ended December 31, 2010.

| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 2.1            | Purchase and Sale Agreement dated September 7, 2007, between Boise Cascade, L.L.C., Boise Paper Holdings, L.L.C., Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp., Aldabra 2 Acquisition Corp., and Aldabra Sub LLC                    | DEFM14A                   |                | 1/23/08     |                |
| 2.2            | Amendment No. 1 to Purchase and Sale Agreement dated October 18, 2007, between Boise Cascade, L.L.C., Boise Paper Holdings, L.L.C., Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp., Aldabra 2 Acquisition Corp., and Aldabra Sub LLC  | DEFM14A                   |                | 1/23/08     |                |
| 2.3            | Amendment No. 2 to Purchase and Sale Agreement dated February 22, 2008, between Boise Cascade, L.L.C., Boise Paper Holdings, L.L.C., Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp., Aldabra 2 Acquisition Corp., and Aldabra Sub LLC | 8-K                       | 10.2           | 2/28/08     |                |
| 3.1            | Second Amended and Restated Certificate of Incorporation of Boise Inc.   | 8-K                       | 3.1            | 2/28/08     |                |
| 3.2            | Bylaws of Boise Inc., amended and restated effective as of July 11, 2008   | 8-K                       | 3.1            | 7/14/08     |                |
| 3.3            |  | S-4                       | 3.3            | 5/18/10     |                |
|                |  | (Reg. No.                 |                |             |                |
|                | Certificate of Formation of Aldabra Holding Sub LLC (now BZ Intermediate Holdings LLC) and amendment   | 333-166926)               |                |             |                |
| 3.4            |  | S-4                       | 3.4            | 5/18/10     |                |
|                |  | (Reg. No.                 |                |             |                |
|                | Limited Liability Company Agreement of Aldabra Holding Sub LLC (now BZ Intermediate Holdings LLC) effective as of February 12, 2008, and amendment   | 333-166926)               |                |             |                |
| 3.5            | Certificate of Formation of Boise Paper Holdings, L.L.C., and amendment  | S-4                       | 3.5            | 5/18/10     |                |
|                |  | (Reg. No.                 |                |             |                |
|                |  | 333-166926)               |                |             |                |
| 3.6            | Limited Liability Company Agreement of Boise Paper Holdings, L.L.C., effective February 22, 2008, and amendment  | S-4                       | 3.6            | 5/18/10     |                |
|                |  | (Reg. No.                 |                |             |                |
|                |  | 333-166926)               |                |             |                |
| 3.7            | Certificate of Incorporation of Boise Finance Company  | S-4                       | 3.7            | 5/18/10     |                |

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(Reg. No.

333-166926)

3.8 Bylaws of Boise Finance Company S-4 3.8 5/18/10

(Reg. No.

333-166926)

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| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 3.9            | Certificate of Incorporation of Boise Co-Issuer Company  | S-4                       | 3.9            | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.10           | Bylaws of Boise Co-Issuer Company  | S-4                       | 3.10           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.11           | Certificate of Formation of Boise Packaging & Newsprint, L.L.C., and amendment   | S-4                       | 3.11           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.12           | Operating Agreement of Boise Packaging & Newsprint, L.L.C., effective as of September 20, 2004, and amendment            | S-4                       | 3.12           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.13           | Certificate of Formation of Boise White Paper, L.L.C., and amendment   | S-4                       | 3.13           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.14           | Operating Agreement of Boise White Paper, L.L.C., effective as of September 20, 2004, and amendment                      | S-4                       | 3.14           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.15           | Certificate of Incorporation of Birch Creek Funding Corporation (now Boise White Paper Sales Corp.) and amendment        | S-4                       | 3.15           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.16           | Bylaws of Boise White Paper Sales Corp.  | S-4                       | 3.16           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.17           | Certificate of Incorporation of Boise Cascade Transportation, Inc. (now Boise White Paper Holdings Corp.) and amendments | S-4                       | 3.17           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.18           | Bylaws of Boise White Paper Holdings Corp.   | S-4                       | 3.18           | 5/18/10     |                |

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|      |  |             |      |         |
|------|--|-------------|------|---------|
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |
| 3.19 | Amended and Restated Certificate of Incorporation of International Falls Power Company and amendment | S-4         | 3.19 | 5/18/10 |
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |
| 3.20 | Amended and Restated Bylaws of International Falls Power Company                                     | S-4         | 3.20 | 5/18/10 |
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |
| 3.21 | Amended and Restated Articles of Incorporation of Minnesota, Dakota & Western Railway Company        | S-4         | 3.21 | 5/18/10 |
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |
| 3.22 | Amended and Restated Bylaws of Minnesota, Dakota & Western Railway Company                           | S-4         | 3.22 | 5/18/10 |
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |
| 3.23 | Certificate of Incorporation of Bemis Corporation  | S-4         | 3.23 | 5/18/10 |
|      |  | (Reg. No.   |      |         |
|      |  | 333-166926) |      |         |



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| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 3.24           | Bylaws of Bemis Corporation  | S-4                       | 3.24           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.25           | Amended and Restated Certificate of Incorporation of B C T, Inc., and amendment  | S-4                       | 3.25           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.26           | Amended and Restated Bylaws of B C T, Inc.   | S-4                       | 3.26           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.27           | Certificate of Incorporation of Boise Cascade Transportation Holdings Corp.  | S-4                       | 3.27           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 3.28           | Bylaws of Boise Cascade Transportation Holdings Corp.  | S-4                       | 3.28           | 5/18/10     |                |
|                |  | (Reg. No.<br>333-166926)  |                |             |                |
| 4.1            | Specimen Unit Certificate  | S-1                       | 4.1            | 3/19/07     |                |
| 4.2            | Specimen Common Stock Certificate  | S-1                       | 4.2            | 6/13/08     |                |
|                |  | POS AM<br>No. 1           |                |             |                |
| 4.3            | Specimen Warrant Certificate   | S-1                       | 4.3            | 6/13/08     |                |
|                |  | POS AM<br>No. 1           |                |             |                |
| 4.4            | Warrant Agreement dated June 19, 2007, between Aldabra 2 Acquisition Corp. (now Boise Inc.) and Continental Stock Transfer & Trust Company   | 10-Q                      | 4.1            | 5/4/10      |                |
| 4.5            | Investor Rights Agreement dated February 22, 2008, between Aldabra 2 Acquisition Corp. (now Boise Inc.), Boise Cascade, L.L.C., Boise Cascade Holdings, L.L.C., certain directors and officers of Aldabra 2 Acquisition Corp., the Aldabra Shareholders, and each other Person who becomes a party to this Agreement after February 22, 2008 | 8-K                       | 4.1            | 2/28/08     |                |
| 4.6            | Indenture dated October 26, 2009, between Boise Paper Holdings, L.L.C., Boise Finance Company, the Guarantors set forth therein, and Wells Fargo Bank, National  | 8-K                       | 4.1            | 10/28/09    |                |

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|     |   |     |     |          |
|-----|---|-----|-----|----------|
|     | Association, as Trustee   |     |     |          |
| 4.7 | Form of 9% Senior Note due 2017   | 8-K | 4.1 | 10/28/09 |
| 4.8 | Indenture dated March 19, 2010, between Boise Paper Holdings, L.L.C., Boise Co-Issuer Company, the Guarantors set forth therein, and Wells Fargo Bank, National Association, as Trustee | 8-K | 4.1 | 3/22/10  |
| 4.9 | Form of 8% Senior Note due 2020   | 8-K | 4.1 | 3/22/10  |
| 9   | None  |     |     |          |

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| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 10.1           | Form of Promissory (PIK) Note dated February 22, 2008, issued in connection with the Acquisition   | 8-K                       | 10.3           | 2/28/08     |                |
| 10.2           | Letter Agreement dated May 22, 2008, adjusting amount of Promissory (PIK) Note dated February 22, 2008   | 8-K                       | 99.1           | 5/29/08     |                |
| 10.3           | Securities Purchase Agreement dated August 4, 2009, between certain Affiliated Funds and Boise Inc.  |                           |                |             | X              |
| 10.4           | Form of Subscription Agreements between Aldabra 2 Acquisition Corp., Graubard Miller, and each of Nathan D. Leight and Jason G. Weiss  | S-1                       | 10.11          | 3/19/07     |                |
| 10.5 (a)       | Amended and Restated Paper Purchase Agreement dated April 28, 2004, between Boise White Paper, L.L.C., and Boise Cascade Corporation (now OfficeMax Incorporated), together with the Assignment Assumption and Consent Agreement dated October 29, 2004, between Boise Cascade Corporation (now OfficeMax Incorporated), Boise White Paper, L.L.C., OfficeMax Contract, Inc., and OfficeMax North America, Inc.  | 8-K                       | 10.1           | 2/28/08     |                |
| 10.6           | Registration Rights Agreement dated October 26, 2009, between Boise Paper Holdings, L.L.C., Boise Finance Company, the Guarantors set forth therein, and J.P. Morgan Securities Inc.   |                           |                |             | X              |
| 10.7           | Registration Rights Agreement dated March 19, 2010, between Boise Paper Holdings, L.L.C., Boise  | 8-K                       | 99.1           | 3/22/10     |                |
|                | Co-Issuer Company, the Guarantors set forth therein, and Banc of America Securities LLC  |                           |                |             |                |
| 10.8           | Credit and Guaranty Agreement dated February 22, 2008, between Aldabra Sub LLC (subsequently merged with and into Boise Paper Holdings, L.L.C.), Aldabra Holding Sub LLC, certain subsidiaries of Aldabra Sub LLC (as Guarantors), Various Lenders, Goldman Sachs Credit Partners L.P. (as Joint Lead Arranger, Joint Bookrunner, Administrative Agent, and Collateral Agent), Toronto Dominion (Texas) LLC (as Syndication Agent), Bank of America, N.A. and Cobank, ACB (as Co-Documentation Agents), and Lehman Brothers Inc. (as Joint Lead Arranger and Joint Bookrunner) \$975,000,000 Senior Secured First Priority Credit Facilities |                           |                |             | X              |
| 10.9           | First Amendment to Credit and Guaranty Agreement dated October 13, 2009, between the Company, the Guarantors set forth therein, Goldman Sachs Credit Partners L.P., as Administrative and Collateral Agent, and J.P. Morgan Securities Inc.  |                           |                |             | X              |

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| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 10.10          | Second Amendment to Credit and Guaranty Agreement dated October 20, 2010, between Boise Paper Holdings, L.L.C., Goldman Sachs Credit Partners L.P., as Administrative Agent, and the Guarantors listed on the signature pages thereto  | 8-K                       | 99.1           | 10/25/10    |                |
| 10.11          | Second Lien Credit and Guaranty Agreement dated February 22, 2008, between Aldabra Sub LLC (subsequently merged with and into Boise Paper Holdings, L.L.C.), Aldabra Holding Sub LLC, certain subsidiaries of Aldabra Sub LLC (as Guarantors), Various Lenders, Lehman Commercial Paper Inc. (as Administrative Agent and Collateral Agent), Goldman Sachs Credit Partners L.P. (as Joint Lead Arranger, Joint Bookrunner, and Syndication Agent), and Lehman Brothers Inc. (as Joint Lead Arranger, Joint Bookrunner, and Documentation Agent) \$260,700,000 Senior Secured Second Priority Credit Facility |                           |                |             | X              |
| 10.12          | First Amendment to Second Lien Credit and Guaranty Agreement dated October 13, 2009, between the Company, the Guarantors set forth therein, Lehman Commercial Paper Inc., as Administrative and Collateral Agent, Barclays Bank PLC, and J.P. Morgan Securities Inc.   |                           |                |             | X              |
| 10.13          | Pledge and Security Agreement (First Lien) dated February 22, 2008, between each of the Grantors party thereto and Goldman Sachs Credit Partners L.P. (as Collateral Agent)  | 8-K                       | 10.7           | 2/28/08     |                |
| 10.14          | Trademark Security Agreement (First Lien) dated February 22, 2008, between Aldabra Sub LLC (subsequently merged with and into Boise Paper Holdings, L.L.C.), Aldabra Holding Sub LLC, certain subsidiaries of Aldabra Sub LLC (as Guarantors), and Goldman Sachs Credit Partners L.P. (as Collateral Agent)  | 8-K                       | 10.9           | 2/28/08     |                |
| 10.15          | Patent Security Agreement (First Lien) dated February 22, 2008, between Aldabra Sub LLC (subsequently merged with and into Boise Paper Holdings, L.L.C.), Aldabra Holding Sub LLC, certain subsidiaries of Aldabra Sub LLC (as Guarantors), and Goldman Sachs Credit Partners L.P. (as Collateral Agent)   | 8-K                       | 10.11          | 2/28/08     |                |
| 10.16          | Tranche A Term Loan Note dated February 22, 2008, issued to The Bank of Nova Scotia in the amount of \$12,500,000  | 8-K                       | 10.13          | 2/28/08     |                |
| 10.17          | Tranche A Term Loan Note dated February 22, 2008, issued to RZB Finance LLC in the amount of \$2,500,000   | 8-K                       | 10.14          | 2/28/08     |                |

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| Exhibit Number | Exhibit Description  | Incorporated by Reference |                |             | Filed Herewith |
|----------------|--|---------------------------|----------------|-------------|----------------|
|                |  | Form                      | Exhibit Number | Filing Date |                |
| 10.18          | Revolving Loan Note dated February 22, 2008, issued to The Bank of Nova Scotia in the amount of \$12,500,000                     | 8-K                       | 10.15          | 2/28/08     |                |
| 10.19          | Revolving Loan Note dated February 22, 2008, issued to RZB Finance LLC in the amount of \$2,500,000                              | 8-K                       | 10.16          | 2/28/08     |                |
| 10.20          | Outsourcing Services Agreement dated February 22, 2008, between Boise Cascade, L.L.C., and Boise Paper Holdings, L.L.C.          |                           |                |             | X              |
| 10.21          | Intellectual Property License Agreement dated February 22, 2008, between Boise Cascade, L.L.C., and Boise Paper Holdings, L.L.C. | 8-K                       | 10.18          | 2/28/08     |                |
| 10.22          | Form of Indemnification Agreement between Boise Inc. and its Directors and Elected Officers                                      | 8-K                       | 99.1           | 11/2/10     |                |
| 10.23 *        | Severance Agreement dated December 9, 2010, between Boise Paper Holdings, L.L.C., and Alexander Toeldte                          | 8-K                       | 99.1           | 12/14/10    |                |
| 10.24 *        | Form of 2010 Officer Severance Agreement   |                           |                |             | X              |
| 10.25 *        | Boise Inc. Directors Deferred Compensation Plan effective April 4, 2008  | 10-Q                      | 10             | 5/5/08      |                |
| 10.26 *        | Boise Paper Holdings, L.L.C., Deferred Compensation Plan effective February 22, 2008, amended as of October 27, 2009             | 10-K                      | 10.26          | 2/25/10     |                |
| 10.27 *        | Boise Paper Holdings, L.L.C., Supplemental Life Plan effective February 22, 2008   | 10-K                      | 10.35          | 2/24/09     |                |
| 10.28 *        | Boise Paper Holdings, L.L.C., Financial Counseling Program effective February 22, 2008   | 10-K                      | 10.36          | 2/24/09     |                |
| 10.29 *        | Boise Paper Holdings, L.L.C., Supplemental Pension Plan (SUPP) effective February 22, 2008                                       | 10-K                      | 10.37          | 2/24/09     |                |
| 10.30 *        | Boise Paper Holdings, L.L.C., Supplemental Early Retirement Plan (SERP) for Certain Elected Officers effective February 22, 2008 | 10-K                      | 10.38          | 2/24/09     |                |
| 10.31 *        | Boise Inc. Incentive and Performance Plan effective February 22, 2008, amended as of April 29, 2010                              | 8-K                       | 99.1           | 5/3/10      |                |
| 10.32 *        | Form of 2008 Restricted Stock Award Agreement (Officers)   | 8-K                       | 99.1           | 5/6/08      |                |
| 10.33 *        | Form of 2008 Restricted Stock Unit Award Agreement (Officers)  | 8-K                       | 99.2           | 5/6/08      |                |
| 10.34 *        | Form of 2009 Restricted Stock Award Agreement (Officers)   | 8-K                       | 99.2           | 4/24/09     |                |
| 10.35 *        | Form of 2009 Restricted Stock Unit Award Agreement (Officers)  | 8-K                       | 99.3           | 4/24/09     |                |
| 10.36 *        | Form of 2009 Restricted Stock Award Agreement (Nonemployee Directors)  | 10-Q                      | 10.4           | 5/5/09      |                |

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| Exhibit Number | Exhibit Description   | Incorporated by Reference |                |             | Filed Herewith |
|----------------|---|---------------------------|----------------|-------------|----------------|
|                |   | Form                      | Exhibit Number | Filing Date |                |
| 10.37 *        | Form of 2009 Restricted Stock Unit Award Agreement (Nonemployee Directors)  | 10-Q                      | 10.5           | 5/5/09      |                |
| 10.38 *        | Form of 2010 Restricted Stock Award Agreement (Nonemployee Directors)   | 10-Q                      | 10.3           | 5/4/10      |                |
| 10.39 *        | Restricted Stock Unit Award Agreement dated November 1, 2010, with Robert A. Warren (Special award upon Mr. Warren's election as executive vice president and chief operating officer)          | 8-K                       | 99.2           | 11/2/10     |                |
| 10.40 *        | Restricted Stock Unit Award Agreement dated January 1, 2011, with Samuel K. Cotterell<br><br>(Special award upon Mr. Cotterell's election as senior vice president and chief financial officer) |                           |                |             | X              |
| 10.41 *        | Form of Restricted Stock Award Agreement dated March 15, 2011 (Officers)  | 8-K                       | 99.1           | 3/1/11      |                |
| 10.42 *        | Form of Restricted Stock Unit Award Agreement dated March 15, 2011 (Officers)   | 8-K                       | 99.2           | 3/1/11      |                |
| 11             | Presented in Footnote 3, Net Income (Loss) Per Common Share, to Consolidated Financial Statements   |                           |                |             |                |
| 12             | BZ Intermediate Holdings LLC Ratio of Earnings to Fixed Charges   |                           |                |             | X              |
| 13             | None  |                           |                |             |                |
| 14 (b)         | Boise Inc. Code of Ethics   |                           |                |             |                |
| 18             | None  |                           |                |             |                |
| 21             | List of Subsidiaries  |                           |                |             | X              |
| 22             | None  |                           |                |             |                |
| 23.1           | Consent of Independent Registered Public Accounting Firm KPMG LLP   |                           |                |             | X              |
| 23.2           | Consent of Independent Registered Public Accounting Firm KPMG LLP   |                           |                |             | X              |
| 23.3           | Consent of Independent Auditor KPMG LLP   |                           |                |             | X              |
| 24             | Inapplicable  |                           |                |             |                |
| 31.1           | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                           |                |             | X              |
| 31.2           | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002   |                           |                |             | X              |
| 32             | Section 906 Certifications of Chief Executive Officer and Chief Financial Officer of Boise Inc. and BZ Intermediate Holdings LLC  |                           |                |             | X              |

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| Exhibit Number | Exhibit Description | Incorporated by Reference |                |             | Filed Herewith |
|----------------|---------------------|---------------------------|----------------|-------------|----------------|
|                |                     | Form                      | Exhibit Number | Filing Date |                |
| 33             | Inapplicable        |                           |                |             |                |
| 34             | Inapplicable        |                           |                |             |                |
| 35             | Inapplicable        |                           |                |             |                |
| 100            | None                |                           |                |             |                |

\* Indicates exhibits that constitute management contracts or compensatory plans or arrangements.

(a) Confidential information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 406 of the Securities Act of 1933, as amended.

(b) Our Code of Ethics can be found on our website at [www.boiseinc.com](http://www.boiseinc.com) by selecting *Investors*, *Corporate Governance*, and then *Code of Ethics*.