

BOISE INC.
Form 10-Q
August 01, 2013

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

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from to

1111 West Jefferson Street, Suite 200
Boise, Idaho 83702-5388
(Address of principal executive offices) (Zip Code)
(208) 384-7000

(Registrants' telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Boise Inc.	Large accelerated filer	x	Accelerated filer	..
	Non-accelerated filer	..	Smaller reporting company	..

(Do not check if smaller reporting company)

Edgar Filing: BOISE INC. - Form 10-Q

BZ Intermediate Holdings LLC	Large accelerated filer	..	Accelerated filer	..
	Non-accelerated filer (Do not check if smaller reporting company)	x	Smaller reporting company	..

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

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

There were 100,882,326 common shares, \$0.0001 per share par value, of Boise Inc. outstanding as of July 24, 2013.

This Form 10-Q is a combined quarterly report being filed separately by two registrants: Boise Inc. and BZ Intermediate Holdings LLC. BZ Intermediate Holdings LLC meets the conditions set forth in general instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format. Unless the context indicates otherwise, any reference in this report to the "Company," "we," "us," "our," or "Boise" refers to Boise Inc. together with BZ Intermediate Holdings LLC and its consolidated subsidiaries.

Table of Contents

PART I — FINANCIAL INFORMATION

Item 1.	<u>Financial Statements</u>	<u>1</u>
	<u>Boise Inc. and Subsidiaries Consolidated Financial Statements</u>	<u>1</u>
	<u>BZ Intermediate Holdings LLC Consolidated Financial Statements</u>	<u>6</u>
	<u>Condensed Notes to Unaudited Quarterly Consolidated Financial Statements</u>	<u>11</u>
	1. <u>Nature of Operations and Basis of Presentation</u>	<u>11</u>
	2. <u>Restructuring Costs</u>	<u>12</u>
	3. <u>Net Income (Loss) Per Common Share</u>	<u>13</u>
	4. <u>Income Taxes</u>	<u>13</u>
	5. <u>Goodwill and Intangible Assets</u>	<u>14</u>
	6. <u>Debt</u>	<u>14</u>
	7. <u>Financial Instruments</u>	<u>15</u>
	8. <u>Retirement and Benefit Plans</u>	<u>17</u>
	9. <u>Share-Based Compensation</u>	<u>17</u>
	10. <u>Stockholders' Equity</u>	<u>20</u>
	11. <u>Inventories</u>	<u>21</u>
	12. <u>Property and Equipment</u>	<u>22</u>
	13. <u>Leases</u>	<u>22</u>
	14. <u>Concentrations of Risk</u>	<u>22</u>
	15. <u>Transactions With Related Party</u>	<u>23</u>
	16. <u>Segment Information</u>	<u>23</u>
	17. <u>New and Recently Adopted Accounting Standards</u>	<u>25</u>
	18. <u>Commitments, Guarantees, Indemnifications, and Legal Proceedings</u>	<u>26</u>
	19. <u>Consolidating Guarantor and Nonguarantor Financial Information</u>	<u>26</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>40</u>
	<u>Background</u>	<u>40</u>
	<u>Executive Summary and Outlook</u>	<u>40</u>
	<u>Non-GAAP Measures</u>	<u>42</u>
	<u>Segment Highlights</u>	<u>44</u>
	<u>Factors That Affect Our Operating Results</u>	<u>45</u>
	<u>Our Operating Results</u>	<u>46</u>
	<u>Liquidity and Capital Resources</u>	<u>50</u>
	<u>Contractual Obligations</u>	<u>52</u>
	<u>Off-Balance-Sheet Activities</u>	<u>52</u>
	<u>Guarantees</u>	<u>52</u>
	<u>Environmental</u>	<u>52</u>
	<u>Critical Accounting Estimates</u>	<u>52</u>
	<u>New and Recently Adopted Accounting Standards</u>	<u>52</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>52</u>
Item 4.	<u>Controls and Procedures</u>	<u>52</u>

	PART II — OTHER INFORMATION	
Item 1.	<u>Legal Proceedings</u>	<u>54</u>
Item 1A.	<u>Risk Factors</u>	<u>54</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>54</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>54</u>
Item 5.	<u>Other Information</u>	<u>54</u>
Item 6.	<u>Exhibits</u>	<u>54</u>

All reports we file with the Securities and Exchange Commission (SEC) are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC website at www.sec.gov. We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our website at www.boiseinc.com as soon as reasonably practicable after filing such material with the SEC.

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Boise Inc.

Consolidated Statements of Operations

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

	Three Months Ended		Six Months Ended June 30	
	June 30 2013	2012	2013	2012
Sales				
Trade	\$604,821	\$618,585	\$1,196,142	\$1,252,113
Related party	16,843	19,255	32,540	30,573
	621,664	637,840	1,228,682	1,282,686
Costs and expenses				
Materials, labor, and other operating expenses (excluding depreciation)	495,689	507,343	991,958	1,009,642
Fiber costs from related party	5,319	4,466	11,465	9,412
Depreciation, amortization, and depletion	43,891	37,303	87,319	74,859
Selling and distribution expenses	33,764	30,568	62,613	61,210
General and administrative expenses	19,693	20,035	38,616	40,043
Restructuring costs	9,011	—	9,474	—
Other (income) expense, net	1,930	381	1,798	81
	609,297	600,096	1,203,243	1,195,247
Income from operations	12,367	37,744	25,439	87,439
Foreign exchange gain (loss)	(415)	102	(756)	259
Interest expense	(15,456)	(15,433)	(30,875)	(30,798)
Interest income	7	54	34	98
	(15,864)	(15,277)	(31,597)	(30,441)
Income (loss) before income taxes	(3,497)	22,467	(6,158)	56,998
Income tax (provision) benefit	1,289	(8,805)	2,725	(21,998)
Net income (loss)	\$(2,208)	\$13,662	\$(3,433)	\$35,000
Weighted average common shares outstanding:				
Basic	100,531	100,116	100,387	99,584
Diluted	100,531	101,008	100,387	101,182
Net income (loss) per common share:				
Basic	\$(0.02)	\$0.14	\$(0.03)	\$0.35
Diluted	\$(0.02)	\$0.14	\$(0.03)	\$0.35

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Net income (loss)	\$(2,208)	\$13,662	\$(3,433)	\$35,000
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of tax of \$69, \$0, \$29, and \$0, respectively	(195)	(2,307)	(423)	(1,452)
Cash flow hedges:				
Change in fair value, net of tax of (\$671), \$913, \$367, and (\$475), respectively	(1,069)	1,459	587	(756)
(Gain) loss included in net income, net of tax of \$64, \$380, \$2, and \$891, respectively	101	604	3	1,421
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of \$845, \$993, \$1,670, and \$2,012, respectively	1,349	1,585	2,665	3,210
Other, net of tax of (\$14), (\$2), (\$29), and (\$6), respectively	(24)	(5)	(48)	(10)
	162	1,336	2,784	2,413
Comprehensive income (loss)	\$(2,046)	\$14,998	\$(649)	\$37,413

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	\$61,086	\$49,707
Receivables		
Trade, less allowances of \$1,349 and \$1,382	254,348	240,459
Other	9,861	8,267
Inventories	288,707	294,484
Deferred income taxes	10,068	17,955
Prepaid and other	14,139	8,828
	638,209	619,700
Property		
Property and equipment, net	1,212,663	1,223,001
Fiber farms	25,113	24,311
	1,237,776	1,247,312
Deferred financing costs	24,380	26,677
Goodwill	160,132	160,130
Intangible assets, net	142,018	147,564
Other assets	6,629	7,029
Total assets	\$2,209,144	\$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Boise Inc.

Consolidated Balance Sheets (continued)

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

	June 30, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Current portion of long-term debt	\$ 15,000	\$ 10,000
Accounts payable	203,202	185,078
Accrued liabilities		
Compensation and benefits	65,386	70,950
Interest payable	10,529	10,516
Other	25,158	20,528
	319,275	297,072
Debt		
Long-term debt, less current portion	760,000	770,000
Other		
Deferred income taxes	189,918	198,370
Compensation and benefits	116,153	121,682
Other long-term liabilities	73,990	73,102
	380,061	393,154
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, \$0.0001 par value per share: 1,000 shares authorized; none issued	—	—
Common stock, \$0.0001 par value per share: 250,000 shares authorized; 100,884 and 100,503 shares issued and outstanding	12	12
Treasury stock, 21,151 shares held	(121,423	) (121,423)
Additional paid-in capital	871,065	868,840
Accumulated other comprehensive income (loss)	(98,520	) (101,304)
Retained earnings	98,674	102,061
Total stockholders' equity	749,808	748,186
Total liabilities and stockholders' equity	\$ 2,209,144	\$ 2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Six Months Ended June 30		
	2013	2012	
Cash provided by (used for) operations			
Net income (loss)	\$(3,433	) \$35,000
Items in net income (loss) not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	89,793	77,190	
Share-based compensation expense	3,076	2,729	
Pension expense	3,020	5,474	
Deferred income taxes	(2,624	) 12,610
Restructuring costs	9,992	—	
Other	1,400	(43)
Decrease (increase) in working capital			
Receivables	(15,731) (12,050)
Inventories	2,566	(20,224)
Prepaid expenses	(2,127) (4,869)
Accounts payable and accrued liabilities	1,040	(14,061)
Current and deferred income taxes	(689	) 7,452
Pension payments	(5,091) (18,191)
Other	404	2,110	
Cash provided by operations	81,596	73,127	
Cash provided by (used for) investment			
Expenditures for property and equipment	(64,595) (52,457)
Other	690	586	
Cash used for investment	(63,905) (51,871)
Cash provided by (used for) financing			
Payments of long-term debt	(5,000) (5,000)
Payments of special dividend	—	(47,483)
Other	(1,312) (6,267)
Cash used for financing	(6,312) (58,750)
Increase (decrease) in cash and cash equivalents	11,379	(37,494)
Balance at beginning of the period	49,707	96,996	
Balance at end of the period	\$61,086	\$59,502	

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended		Six Months Ended June 30	
	June 30 2013	2012	2013	2012
Sales				
Trade	\$604,821	\$618,585	\$1,196,142	\$1,252,113
Related party	16,843	19,255	32,540	30,573
	621,664	637,840	1,228,682	1,282,686
Costs and expenses				
Materials, labor, and other operating expenses (excluding depreciation)	495,689	507,343	991,958	1,009,642
Fiber costs from related party	5,319	4,466	11,465	9,412
Depreciation, amortization, and depletion	43,891	37,303	87,319	74,859
Selling and distribution expenses	33,764	30,568	62,613	61,210
General and administrative expenses	19,693	20,035	38,616	40,043
Restructuring costs	9,011	—	9,474	—
Other (income) expense, net	1,930	381	1,798	81
	609,297	600,096	1,203,243	1,195,247
Income from operations	12,367	37,744	25,439	87,439
Foreign exchange gain (loss)	(415)	102	(756)	259
Interest expense	(15,456)	(15,433)	(30,875)	(30,798)
Interest income	7	54	34	98
	(15,864)	(15,277)	(31,597)	(30,441)
Income (loss) before income taxes	(3,497)	22,467	(6,158)	56,998
Income tax (provision) benefit	1,289	(8,805)	2,725	(21,998)
Net income (loss)	\$(2,208)	\$13,662	\$(3,433)	\$35,000

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Net income (loss)	\$(2,208)	\$13,662	\$(3,433)	\$35,000
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of tax of \$69, \$0, \$29, and \$0, respectively	(195)	(2,307)	(423)	(1,452)
Cash flow hedges:				
Change in fair value, net of tax of (\$671), \$913, \$367, and (\$475), respectively	(1,069)	1,459	587	(756)
(Gain) loss included in net income, net of tax of \$64, \$380, \$2, and \$891, respectively	101	604	3	1,421
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of \$845, \$993, \$1,670, and \$2,012, respectively	1,349	1,585	2,665	3,210
Other, net of tax of (\$14), (\$2), (\$29), and (\$6), respectively	(24)	(5)	(48)	(10)
	162	1,336	2,784	2,413
Comprehensive income (loss)	\$(2,046)	\$14,998	\$(649)	\$37,413

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	\$61,086	\$49,707
Receivables		
Trade, less allowances of \$1,349 and \$1,382	254,348	240,459
Other	9,861	8,267
Inventories	288,707	294,484
Deferred income taxes	11,997	17,955
Prepaid and other	14,139	8,828
	640,138	619,700
Property		
Property and equipment, net	1,212,663	1,223,001
Fiber farms	25,113	24,311
	1,237,776	1,247,312
Deferred financing costs	24,380	26,677
Goodwill	160,132	160,130
Intangible assets, net	142,018	147,564
Other assets	6,629	7,029
Total assets	\$2,211,073	\$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	\$ 15,000	\$ 10,000
Accounts payable	203,202	185,078
Accrued liabilities		
Compensation and benefits	65,386	70,950
Interest payable	10,529	10,516
Other	25,158	20,528
	319,275	297,072
Debt		
Long-term debt, less current portion	760,000	770,000
Other		
Deferred income taxes	183,300	189,823
Compensation and benefits	116,153	121,682
Other long-term liabilities	74,040	73,152
	373,493	384,657
Commitments and contingent liabilities		
Capital		
Business unit equity	856,825	857,987
Accumulated other comprehensive income (loss)	(98,520	) (101,304
	758,305	756,683
Total liabilities and capital	\$ 2,211,073	\$ 2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Six Months Ended		
	June 30		
	2013	2012	
Cash provided by (used for) operations			
Net income (loss)	\$(3,433	) \$35,000
Items in net income (loss) not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	89,793	77,190	
Share-based compensation expense	3,076	2,729	
Pension expense	3,020	5,474	
Deferred income taxes	(2,624	) 12,610
Restructuring costs	9,992	—	
Other	1,400	(43)
Decrease (increase) in working capital			
Receivables	(15,731) (12,050)
Inventories	2,566	(20,224)
Prepaid expenses	(2,127) (4,869)
Accounts payable and accrued liabilities	1,040	(14,061)
Current and deferred income taxes	(689	) 7,452
Pension payments	(5,091) (18,191)
Other	404	2,110	
Cash provided by operations	81,596	73,127	
Cash provided by (used for) investment			
Expenditures for property and equipment	(64,595) (52,457)
Other	690	586	
Cash used for investment	(63,905) (51,871)
Cash provided by (used for) financing			
Payments of long-term debt	(5,000) (5,000)
Payments (to) from Boise Inc., net	(1,100) (52,440)
Other	(212) (1,310)
Cash used for financing	(6,312) (58,750)
Increase (decrease) in cash and cash equivalents	11,379	(37,494)
Balance at beginning of the period	49,707	96,996	
Balance at end of the period	\$61,086	\$59,502	

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Boise Inc. is a large, diverse manufacturer and seller of packaging and paper products. Our operations began in February 2008. We are headquartered in Boise, Idaho, and we operate largely in the United States but also have operations in Europe, Mexico, and Canada. We manufacture and sell corrugated containers and sheets, protective packaging products and papers associated with packaging, such as label and release papers, and newsprint. We manufacture linerboard, which when combined with corrugating medium is used in the manufacture of corrugated sheets and containers. The term containerboard is used to describe linerboard, corrugating medium, or a combination of the two. We also manufacture communication papers such as office papers, commercial printing papers, envelopes, and forms.

Our organizational structure is noted below:

Boise Inc.

BZ Intermediate Holdings LLC

Boise Paper Holdings, L.L.C.

Packaging Segment

Paper Segment

Corporate and Other
Segment

See Note 16, Segment Information, for additional information about our three reportable segments, Packaging, Paper, and Corporate and Other (support services).

The unaudited quarterly consolidated financial statements included herein are those of the following:

Boise Inc. and its wholly owned subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate).

BZ Intermediate and its wholly owned subsidiaries, including Boise Paper Holdings, L.L.C. (Boise Paper Holdings).

In these unaudited quarterly consolidated financial statements, unless the context indicates otherwise, the terms "the Company," "we," "us," "our," or "Boise" refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate. There are no significant differences between the results of operations, financial condition, and cash flows of Boise Inc. and those of BZ Intermediate other than income taxes and common stock activity. Some amounts in prior periods' consolidated financial statements have been reclassified to conform with the current period's presentation, none of which were considered material.

The quarterly consolidated financial statements presented have not been audited by an independent registered public accounting firm but, in the opinion of management, include all adjustments, consisting of normal, recurring adjustments, necessary to present fairly the results for the periods presented. The preparation of the consolidated financial statements involves the use of estimates and accruals. Actual results may vary from those estimates. Quarterly results are not necessarily indicative of results that may be expected for the full year. These condensed notes to unaudited quarterly consolidated financial statements should be read in conjunction with our 2012 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and the other reports we file with the Securities and Exchange Commission (SEC).

2. Restructuring Costs

2013 Restructuring Costs

In May 2013, we announced our decision to shut down two paper machines and an off-machine coater at our mill in International Falls, Minnesota. These closures, which we expect to occur in early fourth quarter 2013, will reduce our annual uncoated freesheet capacity by approximately 115,000 tons, or 9%. This decision will result in the loss of approximately 300 jobs. During the three months ended June 30, 2013, we recorded \$13.3 million of pretax restructuring costs, of which \$12.3 million was recorded in our Paper segment and related primarily to this decision. We recorded \$1.0 million of costs in our Packaging segment related to restructuring activities in connection with our recently announced project to convert a machine at our DeRidder, Louisiana, mill to produce lightweight linerboard and corrugating medium. In addition to the amounts recorded in "Restructuring costs" on our Consolidated Statements of Operations, we recorded \$4.0 million of other restructuring costs that related primarily to inventory write-downs in "Materials, labor, and other operating expenses (excluding depreciation)", during the three and six months ended June 30, 2013.

During the three and six months ended June 30, 2013, we recognized \$5.5 million and \$10.8 million, respectively, of incremental depreciation expense related to shortening the useful lives of some of our assets, primarily at International Falls, Minnesota.

An analysis of the restructuring costs for the three and six months ended June 30, 2013, is as follows (in thousands):

	Noncash	Cash (a)	Total Costs
Employee-related and other costs	\$—	\$7,023	\$7,023
Inventory write-down	3,960	—	3,960
Asset write-down	2,016	—	2,016
Pension curtailment loss	271	—	271
	\$6,247	\$7,023	\$13,270

These costs were recorded in "Accrued liabilities, Compensation and benefits" on our Consolidated Balance Sheet. We expect to pay most of these costs in the second half of 2013 and the remainder in the first half of 2014. In addition to the restructuring costs, above, we expect to incur approximately \$0.9 million of additional employee-related and other costs in 2013 and 2014 that will be recognized as a period expense when incurred.

2012 Restructuring Costs

In December 2012, we ceased paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill. This reduced our annual uncoated freesheet capacity by almost 60,000 tons and resulted in the loss of approximately 100 jobs, primarily at the mill. During the three and six months ended June 30, 2012, St. Helens sales were \$17.5 million and \$35.6 million, respectively. The St. Helens operations had an insignificant impact on income during those periods. Accrued severance costs at January 1, 2013, were approximately \$5.1 million, and we have paid all but an insignificant amount as of June 30, 2013. For more information, see Note 3, St. Helens Charges, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

3. Net Income (Loss) Per Common Share

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. Net income (loss) per common share is not applicable to BZ Intermediate because it does not have common shares. Boise Inc.'s basic and diluted net income (loss) per share is calculated as follows (dollars and shares in thousands, except per-share data):

	Three Months Ended		Six Months Ended	
	June 30		June 30	
	2013	2012	2013	2012
Net income (loss)	\$(2,208)	\$13,662	\$(3,433)	\$35,000
Weighted average number of common shares for basic net income (loss) per common share	100,531	100,116	100,387	99,584
Incremental effect of dilutive common stock equivalents (a):				
Restricted stock and restricted stock units	—	680	—	1,362
RONOA performance awards	—	211	—	235
Total Stockholder Return (TSR) market-condition awards	—	—	—	—
Stock options	—	1	—	1
Weighted average number of common shares for diluted net income (loss) per common share	100,531	101,008	100,387	101,182
Net income (loss) per common share:				
Basic	\$(0.02)	\$0.14	\$(0.03)	\$0.35
Diluted	\$(0.02)	\$0.14	\$(0.03)	\$0.35

During the three and six months ended June 30, 2013, we excluded a weighted average 0.8 million and 1.0 million potentially dilutive shares, respectively, from the diluted net income (loss) per share calculation as they would have (a) been antidilutive or were out-of-the-money. During the three and six months ended June 30, 2012, we excluded 0.8 million and 0.3 million potentially dilutive shares, respectively, as they would have been antidilutive or were out-of-the-money.

4. Income Taxes

For the three and six months ended June 30, 2013, we recorded \$1.3 million and \$2.7 million of income tax benefit and had an effective tax rate of 36.9% and 44.3%, respectively. During the three and six months ended June 30, 2013, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of lower income from operations, discrete items, and the effect of state taxes.

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

Uncertain Income Tax Positions

We recognize tax liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur. We recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Operations. Interest expense and penalties relating to uncertain tax positions were nominal for all periods presented. During the three and six months ended June 30, 2013, there were no significant changes to our uncertain tax positions. For more information, see Note 6, Income Taxes, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and

Supplementary Data" in our 2012 Form 10-K.

As of June 30, 2013, we had not recognized U.S. deferred income taxes on our cumulative total of undistributed earnings for non-U.S. subsidiaries. Determining the unrecognized deferred tax liability related to

13

investments in these non-U.S. subsidiaries that are indefinitely reinvested is not practicable. We currently intend to indefinitely reinvest those earnings in operations outside the United States.

During the six months ended June 30, 2013, cash paid for taxes, net of refunds received, was \$0.2 million. Refunds received, net of cash paid for taxes, were \$0.7 million during the six months ended June 30, 2012.

5. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. All of our goodwill is recorded in our Packaging segment. At both June 30, 2013, and December 31, 2012, the carrying amount of goodwill was \$160.1 million. Goodwill is affected by foreign currency translation.

Intangible Assets

Intangible assets consist of customer relationships, trademarks and trade names, technology, and noncompete agreements. We had \$142.0 million and \$147.6 million of intangible assets at June 30, 2013, and December 31, 2012, net of \$30.8 million and \$26.3 million of accumulated amortization, respectively. During the three months ended June 30, 2013 and 2012, we recorded intangible asset amortization of \$2.5 million and \$3.0 million, respectively. During the six months ended June 30, 2013 and 2012, we recorded intangible asset amortization of \$5.3 million and \$6.3 million, respectively. Foreign intangible assets are affected by foreign currency translation.

6. Debt

At June 30, 2013, and December 31, 2012, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

	June 30, 2013		December 31, 2012		
	Amount	Interest Rate	Amount	Interest Rate	
Revolving credit facility, due 2016	\$—	—	% \$5,000	2.21	%
Tranche A term loan, due 2016	175,000	2.20	175,000	2.22	
9% senior notes, due 2017	300,000	9.00	300,000	9.00	
8% senior notes, due 2020	300,000	8.00	300,000	8.00	
Long-term debt	775,000	7.08	780,000	7.05	
Current portion of long-term debt	(15,000)	) 2.20	(10,000)	) 2.22	
Long-term debt, less current portion	\$760,000	7.17	% \$770,000	7.11	%

As of June 30, 2013, our debt consisted of the following:

The Revolving Credit Facility: A five-year nonamortizing \$500 million senior secured revolving credit facility with variable annual interest. In addition to paying interest, we pay an annual commitment fee for undrawn amounts at a rate of either 0.35% or 0.50% depending on our total leverage ratio.

The Tranche A Term Loan Facility (Term Loan Facility): A five-year amortizing \$200 million senior secured loan facility with variable annual interest.

The 9% Senior Notes: An eight-year nonamortizing \$300 million senior unsecured debt obligation with fixed annual interest of 9%.

The 8% Senior Notes: A ten-year nonamortizing \$300 million senior unsecured debt obligation with fixed annual interest of 8%.

Under our Credit Facilities (the Revolving Credit Facility together with the Term Loan Facility) we elect whether interest on our Term Loan and, separately, interest under any Revolving Credit Facility is based on an alternative base rate or the London Interbank Offered Rate (LIBOR), plus an applicable spread based on our total leverage ratio. Our total leverage ratio is essentially our total net debt divided by our trailing four quarters of Adjusted Consolidated EBITDA (as defined in the Credit Agreement). Based on our current one-month LIBOR

election, at June 30, 2013, the interest rate on our Credit Facilities was LIBOR plus 200 basis points, and we pay interest on the Credit Facilities monthly in arrears.

At June 30, 2013, we had no borrowings outstanding under our Revolving Credit Facility and had availability of \$493.0 million, which is net of outstanding letters of credit of \$7.0 million. The maximum borrowings under our Revolving Credit Facility for the six months ended June 30, 2013, was \$5.0 million, and the weighted average was \$0.7 million. For the six months ended June 30, 2013, the average interest rate for our outstanding borrowings under our Revolving Credit Facility was 2.21%.

The Credit Facilities and Senior Note indentures contain certain restrictions relating to dividend payments, capital expenditures, financial ratios, guarantees, and the incurrence of additional indebtedness, which are discussed in Note 8, Debt, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K. Under our Credit Facilities and the indentures governing our Senior Notes, a dividend may 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 Credit Facilities and indentures. At June 30, 2013, the available restricted payment amount under our 8% Senior Notes indenture, which is more restrictive than our Credit Agreement and our 9% Senior Notes indenture, was approximately \$108.3 million. To the extent we do not have adequate surplus or net profits, or available restricted payment amounts, we will be prohibited from paying dividends.

The Credit Facilities require the proceeds from asset sales, subject to specified exceptions and casualty insurance, be used to pay down outstanding borrowings.

As of June 30, 2013, required debt principal repayments were as follows (dollars in thousands):

	Remaining 2013	2014	2015	2016	2017	Thereafter
Required debt principal repayments	\$5,000	\$20,000	\$30,000	\$120,000	\$300,000	\$300,000

For the six months ended June 30, 2013 and 2012, cash payments for interest were \$28.4 million and \$28.7 million, respectively.

With the exception of the Credit Facilities, our debt is fixed-rate debt. At June 30, 2013, the book value of our fixed-rate debt was \$600.0 million, and the fair value was estimated to be \$637.9 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value of our fixed-rate debt using quoted market prices (Level 1 inputs), discussed further in Note 7, Financial Instruments.

7. Financial Instruments

Our primary objective in holding derivative financial instruments is to manage cash flow risk. We do not use derivative instruments for speculative purposes.

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At June 30, 2013, these derivatives included caps and call spreads, which we account for as economic hedges, and swaps, which are designated and accounted for as cash flow hedges. As of June 30, 2013, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

July 2013 Through	November 2013 Through	April 2014 Through	November 2014 Through	April 2015 Through	November 2015 Through	April 2016 Through
----------------------	--------------------------	-----------------------	--------------------------	-----------------------	--------------------------	-----------------------

Edgar Filing: BOISE INC. - Form 10-Q

	October 2013	March 2014	October 2014	March 2015	October 2015	March 2016	October 2016	
Approximate percent hedged	79	% 58	% 50	% 43	% 37	% 15	% 21	%

15

Economic Hedges

For derivative instruments that are not designated as cash flow hedges for accounting purposes, the gain or loss on the derivatives is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in the Consolidated Statements of Operations. During the three and six months ended June 30, 2013 and 2012, we recognized an insignificant amount of expense and/or income related to natural gas contracts we account for as economic hedges.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets and is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in our Consolidated Statements of Operations in the period in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the instruments is reclassified out of accumulated other comprehensive income (loss) to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable. At June 30, 2013, and December 31, 2012, we had \$0.6 million and \$1.2 million of losses, respectively, net of tax, recorded in "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets related to our natural gas contracts.

The effects of our cash flow hedging instruments on our Consolidated Balance Sheets and Consolidated Statements of Operations were as follows (dollars in thousands):

	(Gain) Loss Recognized in Accumulated Other Comprehensive Income				Loss Reclassified From Accumulated Other Comprehensive Income Into Earnings			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30	June 30	June 30	June 30	June 30	June 30	June 30	June 30
	2013 (a)	2012	2013	2012	2013	2012	2013	2012
Natural gas contracts	\$1,740	\$(2,372)	\$(954)	\$1,231	\$165	\$984	\$5	\$2,312

(a) Based on June 30, 2013, pricing, the estimated income, net of tax, to be recognized in earnings during the next 12 months is \$0.6 million.

Fair Value Measurements

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy, which prioritizes the inputs of valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). 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). Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. We monitor credit ratings of counterparties to the agreements, which are large financial institutions, to consider the impact, if any, on the determination of fair value. No significant adjustments were made in any periods presented.

Fair Values of Derivative Instruments

At June 30, 2013, and December 31, 2012, the fair value of our financial instruments was determined based on New York Mercantile Exchange (NYMEX) price quotations under the terms of the contracts, using current market information as of the reporting date. The derivatives were valued by us using third-party valuations based on quoted prices for similar assets and liabilities. Accordingly, all of our fair value measurements use Level 2 inputs.

We offset asset and liability balances, by counterparty, where legal right of offset exists. Our derivative contracts provide for netting of like transactions in the event a counterparty defaults or upon termination. No collateral was received or pledged in connection with these agreements. The following table presents the fair value of these instruments at June 30, 2013, and December 31, 2012 (dollars in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets
June 30, 2013			
Instruments in a net liability position, by counterparty			
(a)			
Cash flow hedges	\$(1,510	) \$103	\$(1,407)
Economic hedges	(2,457	) 352	(2,105)
Total	\$(3,967	) \$455	\$(3,512)
December 31, 2012			
Instruments in a net liability position, by counterparty			
(a)			
Cash flow hedges	\$(2,568	) \$203	\$(2,365)
Economic hedges	(2,582	) 385	(2,197)
Total	\$(5,150	) \$588	\$(4,562)

(a) At June 30, 2013, \$1.9 million was recorded in "Accrued liabilities, Other" and \$1.6 million was recorded in "Other long-term liabilities." At December 31, 2012, amounts were \$4.1 million and \$0.5 million, respectively.

8. Retirement and Benefit Plans

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

	Three Months Ended		Six Months Ended June	
	June 30		30	
	2013	2012	2013	2012
Service cost	\$558	\$705	\$1,131	\$1,440
Interest cost	5,957	6,157	11,936	12,325
Expected return on plan assets	(7,308	) (6,803	) (14,653	) (13,579
Amortization of actuarial loss	2,194	2,576	4,335	5,217
Amortization of prior service costs and other	—	2	—	5
Curtailment loss	271	66	271	66
Net periodic benefit cost	\$1,672	\$2,703	\$3,020	\$5,474

Our funding practice for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that we determine to be appropriate considering the funded status of the plans, tax deductibility, our cash flows from operations, and other factors.

9. Share-Based Compensation

Our shareholders have approved the Boise Inc. Incentive and Performance Plan (the Plan), which authorizes awards of share-based compensation, such as restricted stock, restricted stock units, performance units payable in stock, and stock options. These awards are at the discretion of the Compensation Committee of our board of directors, and they vest and expire in accordance with terms established at the time of grant. Most awards under the Plan are eligible to

participate in dividend or dividend equivalent payments, if any, which we accrue to be paid when the awards vest.

Shares issued pursuant to awards under the Plan are from our authorized but unissued shares or from treasury shares. The maximum number of shares approved for grant under the Plan is 17.2 million shares. As of June 30, 2013, 7.8 million shares remained available for future issuance under the Plan. Share-based compensation costs in BZ Intermediate's financial statements represent expenses for restricted stock, restricted

stock units, stock options, and performance units of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes. Additional information regarding the Plan and awards can be found in Note 11, Share-Based Compensation, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

Restricted Stock and Performance Units

Members of management and our directors have been granted restricted stock and restricted stock units (collectively restricted stock), the majority of which are subject to an EBITDA (earnings before interest, taxes, and depreciation, amortization, and depletion) goal and all of which are subject to service-based vesting restrictions. These awards generally vest over a three-year period. The fair values of our restricted stock awards were based on the closing market price of our common stock on the date of grant, and compensation expense is recorded over the awards' vesting period.

Members of management have been granted performance units, with some measured based on our return on net operating assets (RONOA) and others based on our comparative total stockholder return (TSR awards). The number of RONOAs performance units awarded is subject to adjustment based on the two-year average RONOAs. Because the RONOAs component contains a performance condition, we record compensation expense, net of estimated forfeitures, over the requisite service period based on the most probable number of awards expected to vest. Any shares not vested are forfeited. The fair values of the RONOAs performance units were based on the closing market price of our common stock on the date of grant, and compensation expense is recorded over the awards' vesting period.

Market-condition awards, or TSR awards, have been granted to members of management. Each TSR award reflects a target number of shares that may be issued to the award recipient. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on total stockholder return relative to a set of comparator companies. Market-condition awards represent a more difficult threshold to meet before payout, with greater uncertainty that the market condition will be satisfied; therefore, these awards have a lower fair value than those that vest based primarily on the passage of time. Compensation expense is required to be recognized for these awards regardless of when, if ever, the market condition is satisfied. Compensation expense is recorded over the awards' vesting period.

The following table presents the range of assumptions used to calculate, using a Monte Carlo simulation, the fair value of the TSR awards granted during the six months ended June 30, 2013:

Expected volatility	43.79% - 44.62%
Stock price on grant date	\$8.63 - \$8.87
Risk-free interest rate	0.37 % - 0.39 %
Expected term (years)	2.5 - 2.8
Expected dividend yield	—% - —%

Edgar Filing: BOISE INC. - Form 10-Q

The following table presents restricted stock, RONO performance award, and TSR award activity for the six months ended June 30, 2013 (shares in thousands):

	Restricted Stock		RONOA Performance Awards		TSR Market-Condition Awards	
	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012 (a)	636	\$ 6.66	489	\$ 7.90	—	\$ —
Granted	422	8.61	264	8.69	236	8.54
Vested	(231)	8.52	(93)	8.53	—	—
Forfeited	(8)	8.48	(4)	8.50	—	—
Outstanding at June 30, 2013 (a)	819	\$ 7.12	656	\$ 8.13	236	\$ 8.54

(a) Outstanding awards include all nonvested and nonforfeited awards.

Stock Options

In 2012 and 2011, we granted nonqualified stock options to members of management. The stock options generally vest and become exercisable over three years. Our stock options generally have a contractual term of ten years, meaning the option must be exercised by the holder before the tenth anniversary of the grant date. No options were granted during the six months ended June 30, 2013.

The following is a summary of our stock option activity (number of options and aggregate intrinsic value in thousands):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	841	\$8.34		
Exercised	—	—		
Forfeited	—	—		
Outstanding at June 30, 2013	841	\$8.34	8.3	\$ 169
Exercisable at June 30, 2013	335	\$8.37	8.2	\$ 57
Vested and expected to vest at June 30, 2013	825	\$8.34	8.3	\$ 165

Compensation Expense

Most of our share-based compensation expense was recorded in "General and administrative expenses" in our Consolidated Statements of Operations. Total recognized share-based compensation expense, net of estimated forfeitures, is as follows (dollars in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Restricted stock	\$828	\$771	\$1,277	\$1,604
RONOA performance awards	500	462	972	705
TSR market-condition awards	153	—	180	—
Stock options	271	262	647	420
Total share-based compensation expense	\$1,752	\$1,495	\$3,076	\$2,729

The unrecognized compensation expense for all share-based awards at June 30, 2013, is as follows (dollars in thousands):

	Unrecognized Compensation Expense	Remaining Weighted Average Recognition Period (in years)
Restricted stock	\$4,306	2.0
RONOA performance awards	3,140	1.8
TSR market-condition awards	1,685	2.7
Stock options	1,394	1.5
Total unrecognized share-based compensation expense	\$10,525	2.0

10. Stockholders' Equity

The following tables detail the changes in accumulated other comprehensive income (loss), net of tax, for the three and six months ended June 30, 2013 and 2012, respectively.

	Changes in Accumulated Other Comprehensive Income (Loss)				
	Three Months Ended June 30, 2013				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	\$ (530)	) \$ 328	) \$ (98,792)	) \$ 312	) \$ (98,682)
Other comprehensive income (loss) before reclassification, net of tax	(195)	) (1,069)	) —	—	) (1,264)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	101	1,349	(24)	) 1,426
Ending balance	\$ (725)	) \$ (640)	) \$ (97,443)))