BOISE INC.
Form 10-K
February 25, 2010
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2009**

**OR**

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

**For the transition period from ____________ to ____________**

**Commission File Number: 001-33541**

# Boise Inc.

(Exact name of registrant as specified in its charter)

| **Delaware** | **20-8356960** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

**1111 West Jefferson Street, Suite 200**

**Boise, Idaho 83702-5388**

(Address of principal executive offices) (Zip Code)

**(208) 384-7000**

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Large accelerated filer ¨ Accelerated filer x Nonaccelerated filer ¨ Smaller reporting company ¨

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

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

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

**DOCUMENTS INCORPORATED BY REFERENCE**

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

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## PART I



## PART II

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## PART III



## PART IV

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# PART I

All of our filings with the Securities and Exchange Commission (SEC), which include this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Registration Statements, Current Reports on Form 8-K, and all related amendments are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC Web site at www.sec.gov. We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our Web site at www.boiseinc.com as soon as reasonably practicable after we file with or furnish such reports to the SEC. Attached as exhibits to this Form 10-K are certifications of our Chief Executive Officer and Chief Financial Officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. In this filing, we use the terms the Company, we, us, or our to refer to Boise Inc., the registrant.

## *ITEM 1. BUSINESS*

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

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

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

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

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### *Corporate Structure*

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

### *Paper*

*Products*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

*Facilities*

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

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

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

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

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*Raw Materials and Input Costs*

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

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

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

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

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

*Sales, Marketing, and Distribution*

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

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

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

*Customers*

Our largest customer in this segment is OfficeMax. During the year ended December 31, 2009, sales to OfficeMax accounted for $545.4 million of Paper segment sales. Sales to OfficeMax constitute 41% of total uncoated freesheet sales volume and 63% of our office papers sales volume. Pursuant to a long-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 approximately 60 days.

In addition to OfficeMax, we have approximately 800 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 other customers. No single customer, other than OfficeMax, exceeds 6% of segment sales.

## *Packaging*

*Products*

We manufacture and sell corrugated containers and sheets as well as linerboard and newsprint. Containerboard is used in the production of corrugated containers and sheets. Our corrugated containers are used in the packaging of fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products. Corrugated sheets are sold primarily to converting operations, which finish the sheets into corrugated container products. During the year ended December 31, 2009, our Packaging segment produced approximately 544,000 short tons of linerboard, and our Paper segment produced approximately 126,000 short tons of corrugating medium, both of which are used in the production of corrugated containers. During the year ended December 31, 2009, our corrugated container and sheet feeder plants consumed approximately 451,000 short tons of containerboard (including both linerboard and corrugating medium) or the equivalent of 67% of our containerboard production.

We operate our Packaging segment to maximize profitability through integration between 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 and leverage our

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corrugated box position in the agricultural and food markets. We are a low-volume producer of newsprint, and we believe that our newsprint production has a low delivered cost to the southern U.S. markets. In April 2009, we announced that we had indefinitely idled the #2 newsprint machine (D-2) at our mill in DeRidder, Louisiana. The idled machine has an annual capacity of 186,000 short tons of newsprint. We continue to operate the #3 newsprint machine (D-3).

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

| | Boise Inc. | | | Predecessor | | |
|---|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31 2007 | 2006 | 2005 |
| **Capacity (a)** | | | | | | |
| Containerboard (linerboard) | 610 | 600 | | 575 | 559 | 554 |
| Newsprint | 225 | 410 | | 425 | 426 | 434 |
| | **835** | **1,010** | | **1,000** | **985** | **988** |
| **Production (b)** | | | | | | |
| Containerboard (linerboard) | 544 | 446 | 83 | 573 | 554 | 533 |
| Newsprint | 188 | 331 | 59 | 409 | 415 | 411 |
| | **732** | **777** | **142** | **982** | **969** | **944** |

(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.

(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 (loss) before interest and taxes; depreciation, amortization, and depletion; and EBITDA for the periods indicated (dollars, in millions):

| | Boise Inc. | | | Predecessor | | |
|---|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31 2007 | 2006 | 2005 |
| Sales | $ 588.4 | $ 703.7 | $ 113.5 | $ 783.1 | $ 766.5 | $ 731.6 |
| Segment income (loss) before interest and taxes | $ 67.1 | $ 21.1 | $ 5.7 | $ 40.1 | $ 45.3 | $ 23.8 |
| Depreciation, amortization, and depletion | 42.2 | 35.1 | 0.1 | 37.7 | 50.8 | 37.2 |
| EBITDA (a) (b) | **$ 109.3** | **$ 56.2** | **$ 5.7** | **$ 77.8** | **$ 96.1** | **$ 61.0** |

(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 $61.6 million of income from alternative fuel mixture credits.

We manufactured approximately 188,000 short tons of newsprint during the year ended December 31, 2009, for use primarily in printing daily newspapers and other publications in North America. Demand for newsprint has declined dramatically in the last several years and may continue to decline as newspapers are replaced with electronic media. By idling the D-2 machine, we reduced operating and capital costs during this period of declining newsprint demand, while preserving the asset for potential future use. We may pursue future opportunities to convert the machine for packaging production. Should the need arise, we can restart the D-2 machine within a short period of time.

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*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, 2009. We also manufacture corrugated containers and sheets at five plants in the Northwest, a sheet plant in Nevada, and a sheet feeder plant in Texas, with an aggregate annual capacity of approximately 7.3 billion 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, 2009, and production for the year then ended (in thousands of short tons):

| | Number of Machines | Capacity (a) | Production |
|---|---|---|---|
| **PULP AND PAPER MILL** | | | |
| DeRidder, Louisiana | | | |
| Containerboard (linerboard) | 1 | 610 | 544 |
| Newsprint | 1 | 225 | 188 |
| | **2** | **835** | **732** |

(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, 2009, wood fiber costs accounted for approximately 17% of material, labor, and other operating expenses in this segment. We generally purchase raw materials through market-based contracts or on the open market with suppliers located in close proximity to DeRidder. We obtain some of our wood residuals from Boise Cascade s wood products plants in Louisiana, and the remainder of the wood residuals are purchased from outside sources.

Our Packaging segment consumes substantial amounts of energy, such as electricity and natural gas. During the year ended December 31, 2009, energy costs accounted for approximately 10% of materials, labor, and other operating expenses in this segment. We purchase substantial portions of our natural gas and electricity under supply contracts. Under most of these contracts, the providers are bound to supply us with all of our needs for a particular type of energy at a specific facility. Our 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, natural gas caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk. 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 sodium chlorate. During the year ended December 31, 2009, chemical costs accounted for approximately 7% of materials, labor, and other operating expenses in this segment. Many of our chemicals are purchased under long-term contracts, which provide more stability than open-market purchases. However, many of these contracts are negotiated at the end of each year at prevailing rates. Higher prevailing rates may result in increases to overall chemical costs.

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*Sales, Marketing, and Distribution*

Our containerboard (linerboard) and corrugated containers and sheets are sold by our own sales personnel or brokers. Abitibi Consolidated Sales Corporation (ACSC) purchased all of our newsprint production until late February 2009, when we terminated the arrangement with ACSC. Since that time, we have sold newsprint through our own sales personnel.

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. | | Predecessor | | | |
|---|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31 2007 | 2006 | 2005 |
| Containerboard (linerboard) | 253 | 194 | 36 | 239 | 266 | 452 |
| Newsprint | 199 | 326 | 56 | 415 | 411 | 408 |
| Corrugated containers and sheets | 5,963 | 5,337 | 914 | 6,609 | 6,599 | 4,770 |

*Customers*

During the year ended December 31, 2009, approximately 47% of our linerboard volume was sold in the open market, both domestically and internationally. The remaining volume was used in our operations. We sell our finished corrugated containers to over 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 boxes. We service these less cyclical end markets with our five strategically located corrugated container plants, one sheet feeder plant, and one sheet plant. 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 contributed to increases in our profitability and has made us more resistant to economic downturns. We sell to newspaper publishers located in regional markets near our DeRidder, Louisiana, manufacturing facility and to export markets primarily in South America.

## *Corporate and Other*

Our Corporate and Other segment includes primarily corporate support services, related assets and liabilities, and foreign exchange gains and losses. During the Predecessor periods presented, the Corporate and Other segment included primarily an allocation of Boise Cascade corporate support services and related assets and liabilities. These support services included, but were not limited to, finance, accounting, legal, information technology, and human resource functions. This segment also includes transportation assets, such as rail cars and trucks, which we use to transport our products from our manufacturing sites. Rail cars and trucks are generally leased. 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. During the year ended December 31, 2009, segment sales related primarily to our rail and truck business were $63.8 million. During the year ended December 31, 2008, and the Predecessor period of January 1 through February 21, 2008, and for the year ended December 31, 2007, these sales were $67.7 million, $8.5 million, and $58.9 million, respectively.

In connection with the Acquisition, we entered into a services agreement under which we provide a number of corporate staff services to Boise Cascade at our cost. These services include

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information technology, accounting, and human resource services. The initial term of the agreement is for three years and will expire on February 22, 2011. 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 applicable term. For the year ended December 31, 2009 and 2008, we recorded $15.0 million and $12.1 million, respectively, in Sales, Related parties.

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

| | Boise Inc. | | | Predecessor Year Ended December 31 | | |
|---|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | 2007 | 2006 | 2005 |
| Sales | $ 63.8 | $ 67.7 | $ 8.5 | $ 58.9 | $ 61.4 | $ 66.5 |
| Segment income (loss) before interest and taxes | $ (21.5) | $ (18.6) | $ (3.2) | $ (11.9) | $ (14.9) | $ (7.7) |
| Loss on extinguishment of debt | (44.1) | | | | | |
| Depreciation, amortization, and depletion | 4.1 | 3.2 | 0.1 | 1.9 | 3.3 | 3.0 |
| **EBITDA (a) (b)** | **$ (61.5)** | **$ (15.4)** | **$ (3.1)** | **$ (10.0)** | **$ (11.6)** | **$ (4.6)** |

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

(b) The year ended December 31, 2009, includes approximately $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 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 largely 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.

The North American uncoated freesheet producers shipped 10.9 million short tons in 2009 and has four major manufacturers that account for approximately 74% of capacity, according to Resource Information Systems Inc. (RISI) and our estimates. As of December 31, 2009, we believe

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that we are the third-largest producer of uncoated freesheet paper in North America. Our competitors include Domtar Corporation (the largest producer), International Paper, 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 producers, including Boise Inc., have responded to declining demand by closing or significantly curtailing capacity to match lower demand. In December 2008, we permanently restructured our mill in St. Helens, Oregon, by permanently closing the pulp mill and two of our three paper machines at that facility. During 2009, we elected to take economic downtime and slowed production on selected machines to balance production with demand. We may continue to take additional downtime or slow production if market conditions warrant.

*Packaging.* The North American containerboard (corrugating medium and linerboard) manufacturers produced 33 million short tons in 2009, and five major manufacturers account for approximately 72% 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. Containerboard (corrugating medium and linerboard) and newsprint are globally traded commodities with numerous worldwide manufacturers. These products compete primarily on the basis of price. 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.

The North American newsprint producers shipped 7.2 million metric tonnes (a metric tonne is equal to 2,205 pounds) in 2009 and has three major manufacturers that account for approximately 74% of capacity, according to RISI and our estimates. Our largest competitors include AbitibiBowater Inc., White Birch Paper, and Kruger. In April 2009, AbitibiBowater Inc., North America s largest maker of newsprint, sought bankruptcy protection in the U.S. and Canada.

Demand for newsprint has declined dramatically in the last several years and may continue to decline as electronic media replaces newspapers. Major producers have closed capacity and taken downtime, including AbitibiBowater, which announced in December 2008 a total of approximately 1,070,000 metric tonnes of permanent and temporary curtailments for 2009. In April 2009, we announced that we had indefinitely idled the D-2 newsprint machine at our mill in DeRidder, Louisiana. Depending on demand and our ability to sell newsprint through our own sales personnel, we may be required to take economic downtime or slow production on our newsprint machine to balance production with demand, as market conditions warrant.

## *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.

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### *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, 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. For more information about our acquisitions and divestitures, see Acquisition of Boise Cascade s Paper and Packaging Operations and St. Helens Mill Restructuring and DeRidder Machine Idling, in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

### *Employees*

As of January 31, 2010, we had approximately 4,100 employees. Approximately 60% of these employees work pursuant to collective bargaining agreements. As of January 31, 2010, approximately 33% of our employees 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; DeRidder, Louisiana; Jackson, Alabama; St. Helens, Oregon; and Nampa, Idaho. 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 on October 31, 2009. In early February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously. On February 22, 2010, the company declared an impasse in the bargaining process and implemented the terms of the last contract offer. Our potential inability to reach a mutually acceptable labor contract at Wallula, or at any of our other facilities, could result in, among other things, strikes or other work stoppages or slowdowns by the affected employees.

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### *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, 50, President and Chief Executive Officer, Director** Mr. Toeldte has served as our president and chief executive officer and a director since the Acquisition on February 22, 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; and Mr. Toeldte also served as a partner at McKinsey & Company in Toronto, Brussels, Montreal, and Stockholm. Mr. Toeldte studied economics at the Albert-Ludwigs-Universitat in Freiburg, Germany, and received an M.B.A. from McGill University in Montreal, Canada.

**Jeffrey P. Lane, 54, Senior Vice President and General Manager, Packaging** Mr. Lane joined the Company and was elected senior vice president and general manager of our packaging operations on April 30, 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. (Biology) from Georgia Institute of Technology and an M.B.A. from Kellogg Graduate School of Management, Northwestern University.

**Robert M. McNutt, 49, Senior Vice President and Chief Financial Officer** Mr. McNutt has served as our senior vice president and chief financial officer since the Acquisition on February 22, 2008. Prior to the Acquisition, and since June 2005, Mr. McNutt served as Boise Cascade s vice president, Investor Relations and Public Policy. From October 2004 to May 2005, Mr. McNutt served as Boise Cascade s financial manager, Building Products, where he was the senior financial manager overseeing Boise Cascade s Wood Products and Building Materials Distribution segments with responsibility for strategy, information systems, accounting, and credit functions. Mr. McNutt received a B.A. (Accounting and Finance) and an M.B.A. (Accounting) from Washington State University.

**Robert E. Strenge, 55, Senior Vice President, Manufacturing** Mr. Strenge was elected senior vice president of our paper manufacturing operations on April 30, 2008. Since the Acquisition, Mr. Strenge had served as vice president of the Company s Newsprint segment, a position that he also held with Boise Cascade from October 29, 2004, to the date of the Acquisition. Mr. Strenge was Boise Cascade Corporation s vice president, DeRidder Operations, from 2003 to 2004. From 1997 to

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2003, Mr. Strenge served as mill manager of Boise Cascade Corporation s St. Helens, Oregon, paper mill. Mr. Strenge received a B.S. (Pulp and Paper Technology) from Syracuse University.

**Robert A. Warren, 57, Senior Vice President and General Manager, Paper and Supply Chain** Mr. Warren was elected senior vice president and general manager of our paper operations and supply chain management function on April 30, 2008. Since the Acquisition, Mr. Warren had served as general manager of the Company s supply chain function, a position that he also held with Boise Cascade since 2006. From 2004 to 2005, Mr. Warren was the business leader for Boise Cascade s printing papers business, and from 2003 to 2004, he 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. (General Engineering) from Oregon State University and an M.B.A. from Kellogg Graduate School of Management, Northwestern University.

**Samuel K. Cotterell, 58, Vice President and Controller** Mr. Cotterell has served as our vice president and controller since the Acquisition on February 22, 2008. Prior to the Acquisition, and since October 2004, Mr. Cotterell served as Boise Cascade s vice president and controller. From 1999 to October 2004, Mr. Cotterell served as director of financial reporting of Boise Cascade Corporation. Mr. Cotterell received a B.A. (Spanish) from the University of Idaho, a B.S. (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.

**Judith M. Lassa, 51, Vice President, Packaging** Ms. Lassa has served as vice president of our Packaging segment since the Acquisition on February 22, 2008. Prior to the Acquisition, and since October 2004, Ms. Lassa served as Boise Cascade s vice president, Packaging. From 2000 to October 2004, Ms. Lassa served as vice president, Packaging, of Boise Cascade Corporation. From 1997 to 2000, Ms. Lassa served as Packaging business leader of Boise Cascade Corporation. Ms. Lassa received a B.S. (Paper Science and Engineering) from the University of Wisconsin-Stevens Point.

## *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 cyclicality; 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

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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 27% and 17%, 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, 2009. 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 12% and 10%, 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, 2009. Energy prices, particularly for electricity, natural gas, and fuel oil, 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, and dyes. Purchases of chemicals accounted for approximately 15% and 7%, 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, 2009. 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 28% of our total sales for the year ended December 31, 2009. 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. 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, 2010, we had approximately 4,100 employees. Approximately 60% of these employees work pursuant to collective bargaining agreements. As of January 31, 2010, approximately 33% of our employees 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; DeRidder, Louisiana; Jackson, Alabama; St. Helens, Oregon; and Nampa, Idaho. The labor contract at our paper mill in Wallula, Washington (332 employees represented by the AWPPW) expired in March 2009 and was terminated by the AWPPW on October 31, 2009. In early February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously. On February 22, 2010, the company declared an impasse in the bargaining process and implemented the terms of the last contract offer.

Our potential inability to reach a mutually acceptable labor contract at Wallula, or at any of our other 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, we may be affected if laws concerning

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climate change are enacted 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.

During the year ended December 31, 2009, capital expenditures for environmental compliance were $2.2 million. We expect to spend approximately $1.4 million on environmental items in 2010. 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 may engage in future acquisitions that could materially affect our business, operating results, and financial condition.*** We may seek to acquire other businesses, products, or assets. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all. If we do complete acquisitions, we may not strengthen our competitive position or achieve our goals. 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. Future acquisitions may reduce our cash available for operations and other uses. There can be no assurance that we will be able to manage the integration of acquired businesses effectively 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, 2009, our total indebtedness was $815.9 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, 2009, our total capital expenditures, excluding acquisitions, were $77.1 million. We expect to spend approximately $100 million on capital expenditures for 2010. We currently expect our capital expenditures, excluding acquisitions, to be between $90 million and $120 million annually over the next five years.

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.

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***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, an interest coverage ratio test, a first lien secured leverage ratio test, and a total leverage ratio test. In addition, our credit facilities restrict, and the indenture governing the 9% 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% 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., and Boise Finance Company under the 9% 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, 2009, our pension assets had a market value of $302 million, compared with $248 million at December 31, 2008. Assuming a return on plan assets of 7.25% in 2010 and 2011, we estimate we will be required to contribute approximately $2 million in 2010 and approximately $22 million in 2011. 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.

***Boise Cascade holds 21.7% of our common stock as of January 29, 2010, and may influence our affairs.*** As a result of its ownership, Boise Cascade has representation on our board of directors and may significantly influence our policies, business, and affairs. As long as the holders of Boise Registrable Securities (as such term is defined in the Investor Rights Agreement dated February 22, 2008, entered into by and among us, Boise Cascade, and other stockholders named therein (the Investor Rights Agreement) in connection with the Acquisition) control 33% or more of our common stock that was issued to Boise Cascade at the closing of the Acquisition, we will be subject to restrictions on our business activities pursuant to the terms of the Investor Rights Agreement. More specifically, for so long as the 33% ownership threshold is met or exceeded, the Investor Rights Agreement will restrict us from conducting specified activities or taking specified

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actions without the affirmative written consent of the holders of a majority of the Boise Registrable Securities then outstanding. The restricted activities include, without limitation, making distributions on our equity securities; redemptions, purchases, or acquisitions of our equity securities; issuances or sales of equity securities or securities exchangeable for, or convertible to, equity securities; issuing debt or convertible/exchangeable debt securities; making loans, advances, or guarantees; mergers and acquisitions; asset sales; liquidations; recapitalizations; nonordinary business activities; making changes to our organizational documents; making changes to arrangements with our officers, directors, employees, and other related persons; incurrence of indebtedness for borrowed money or capital leases above specified thresholds; and consummating the sale of the Company. Additionally, pursuant to affirmative covenants under the Investor Rights Agreement (and subject to the same 33% ownership threshold), unless the holders of a majority of the Boise Registrable Securities then outstanding have otherwise consented in writing, we are required to perform specified activities, including, without limitation, preservation of our corporate existence and material licenses, authorizations and permits necessary to the conduct of our business, maintenance of our material properties, discharge of certain statutory liens, performance under material contracts, compliance with applicable laws and regulations, preservation of adequate insurance coverage, and maintenance of proper books of record and account.

***If Boise Cascade disposes of a significant number of shares of our common stock, it could adversely affect the market price of our common stock or our ability to raise future capital.*** We have filed a registration statement with the SEC pursuant to which Boise Cascade may publicly sell all or a portion of the shares of our common stock that it holds. In November 2009, we completed a secondary offering of Boise Cascade s common stock holding, thus reducing their ownership from 42.5% to 21.7%. Boise Cascade will continue to review its investment in Boise Inc. in light of current market conditions, its long-term investment objectives, and its financing needs and, based on its review of such factors, may determine to sell additional shares of our common stock owned by it through market or privately negotiated transactions. Such sales could be for a significant number of shares and could adversely affect the market price of our common stock or our ability to raise future capital. On December 15, 2009, Boise Cascade announced its intention to further reduce its holdings by an additional 8 million shares by entering into a trading plan under SEC rules. Sales under this trading plan commenced February 16, 2010.

## *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 12, 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 list of our facilities by segment as of January 31, 2010. We lease a portion of the corporate headquarters building in Boise, Idaho.

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### *Paper*

The following table summarizes our paper facilities:

| Facility Type | Number of Facilities | Locations |
|---|---|---|
| Pulp and paper mills | 3 | Alabama, Minnesota, and Washington |
| Paper mill | 1 | Oregon |
| Distribution centers | 2 | California and Illinois |

### *Packaging*

The following table summarizes our packaging facilities:

| Facility Type | Number of Facilities | Locations |
|---|---|---|
| Pulp and paper mill | 1 | Louisiana |
| Corrugated container, sheet feeder, and sheet plants | 7 | Idaho (2), Nevada, Oregon, Texas, Utah, and Washington |

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 legal proceedings that arise in the ordinary 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 business, financial position, or results of operations.

## *ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITYHOLDERS*

No matters were submitted to a vote of our securityholders during the fourth quarter of the year ended December 31, 2009.

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# 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, prior to the Acquisition, the American Stock Exchange and the cash dividends declared per common share for the periods indicated:

| | Market Price | | Dividends |
|---|---|---|---|
| **Quarter** | **High** | **Low** | **Declared** |
| **2009** | | | |
| Fourth | $ 6.29 | $ 4.71 | $ |
| Third | 5.40 | 1.41 | |
| Second | 2.47 | 0.51 | |
| First | 0.75 | 0.24 | |
| Total | | | $ |
| **2008** | | | |
| Fourth | $ 1.45 | $ 0.29 | $ |
| Third | 4.20 | 1.56 | |
| Second | 6.73 | 3.58 | |
| First (February 22 through March 31, 2008) | 8.50 | 6.19 | |
| First (January 1 through February 21, 2008) | 9.70 | 8.39 | |
| Total | | | $ |

*Holders*

On January 29, 2010, there were approximately 15 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 did not declare or pay any cash or stock dividends during 2009. Our ability to pay dividends is restricted by our senior secured credit facilities as well as 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. To the extent we do not have adequate surplus or net profits, we will be prohibited from paying dividends.

*Common Stock Price Declined*

Shares of our common stock are currently listed on the NYSE. The market price of our common stock has declined since the Acquisition. On the date of the Acquisition, February 22, 2008, the closing price of our common stock was $8.50 per share. As of January 29, 2010, the closing price of our common stock price was $5.16 per share, and our market capitalization was approximately $435.6 million.

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The NYSE s quantitative listing standards require NYSE-listed companies to have an average market capitalization of at least $75.0 million over any consecutive 30-trading-day period. In addition, the average closing price of any listed security must not fall below $1.00 per share for any consecutive 30-trading-day period. On November 5, 2008, we received written notice from the NYSE that we did not comply with these two continued listing standards.

As required by the NYSE, we submitted a business plan to demonstrate our ability to achieve compliance with the market capitalization requirement within 18 months from the receipt of the notice, and the NYSE accepted our plan.

On May 29, 2009, the NYSE notified us that our 30-day average share price was above $1.00, which meant that we had regained compliance with the minimum share price requirement for NYSE standards.

On October 2, 2009, the NYSE notified us that we had regained compliance with the NYSE s quantitative continued listing standards. The notice stated that the decision resulted from our consistent, positive performance with respect to our original business plan submission, the achievement of compliance with the NYSE s minimum share price requirement, and the achievement of compliance with the NYSE s minimum market capitalization requirement.

*Securities Authorized for Issuance Under Our Equity Compensation Plan*

| **Plan Category** | **Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a)** | **Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights (b) (2)** | **Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)** |
|---|---|---|---|
| Equity compensation plans approved by securityholders (1) | 8,214,843 | $ N/A | 8,326,464 |
| Equity compensation plans not approved by securityholders | N/A | N/A | N/A |
| **Total** | **8,214,843** | **$ N/A** | **8,326,464** |

(1) Our shareholders approved the Boise Inc. Incentive and Performance Plan (BIPP) at a special shareholders meeting held on February 5, 2008. We have 17,175,000 shares of the Company s common stock reserved for issuance under the BIPP. Since the Acquisition, 13 officers, 51 other employees, and 6 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, 2009.

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*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 of the volatility of our stock over the last 12 months, we are also providing the following table for informational purposes for the one-year period of December 31, 2008, through December 31, 2009:

| | PERCENTAGE INCREASE |
|---|---|
| **Boise Inc.** | 1135% |
| **Peer Group** | 65% |
| **S&P 500 Index** | 26% |

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## *ITEM 6. SELECTED FINANCIAL DATA*

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 (in millions, except per-share data):

| | Boise Inc. | | | | Predecessor Year Ended December 31 | | |
|---|---|---|---|---|---|---|---|
| | **Year Ended December 31, 2009 (a)** | **Year Ended December 31, 2008 (b)** | **February 1 (Inception) Through December 31, 2007** | **January 1 Through February 21, 2008** | **2007 (c)** | **2006 (d)** | **2005 (e)** |
| **Statement of Income (loss) data** | | | | | | | |
| Net sales | $ 1,978 | $ 2,071 | $ | $ 360 | $ 2,333 | $ 2,222 | $ 2,129 |
| Income (loss) from operations | 306 | 40 | | 23 | 160 | 94 | 74 |
| Net income (loss) | 154 | (46) | 5 | 23 | 160 | 93 | 72 |
| Net Income (loss) per common share: | | | | | | | |
| Basic | 1.96 | (0.62) | 0.16 | | | | |
| Diluted | 1.85 | (0.62) | 0.16 | | | | |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) (f) | 396 | 145 | | 24 | 246 | 210 | 169 |
| Cash dividends declared per common share | | | | | | | |
| **Balance sheet data (at end of year)** | | | | | | | |
| Current assets | $ 586 | $ 596 | $ 404 | | $ 560 | $ 572 | $ 509 |
| Property and equipment, net | 1,223 | 1,277 | | | 1,210 | 1,144 | 1,142 |
| Total assets | 1,896 | 1,988 | 408 | | 1,846 | 1,759 | 1,678 |
| Current liabilities | 303 | 269 | 15 | | 250 | 241 | 217 |
| Long-term debt, less current portion | 785 | 1,012 | | | | | |
| Notes payable | | 67 | | | | | |
| Stockholders equity | 621 | 449 | 233 | | 1,560 | 1,481 | 1,425 |

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 on February 21, 2008. The period of February 1 (Inception) through December 31, 2007, represents the activities of Aldabra 2 Acquisition Corp.

(a) 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 as a result of the October 26, 2009, debt restructuring.

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

(b) Included $37.6 million of expense associated with the restructuring of the St. Helens, Oregon, mill.
Included a $2.9 million gain for changes in supplemental pension plans.

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.

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(c) 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.

(d) 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.

(e) Included a $5.2 million gain for changes in retiree healthcare programs.

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

| | Boise Inc. | | | Predecessor | | | |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | February 1 (Inception) Through December 31, 2007 | January 1 Through February 21, 2008 | Year Ended December 31 2007 | 2006 | 2005 |
| Net income (loss) | $ 154 | $ (46) | $ 5 | $ 23 | $ 160 | $ 93 | $ 72 |
| Change in fair value of interest rate derivatives | (1) | | | | | | |
| Interest expense | 83 | 91 | | | | | |
| Interest income | | (2) | (10) | | (1) | (1) | |
| Income tax provision (benefit) | 28 | (9) | 5 | 1 | 3 | 1 | 2 |
| Depreciation, amortization, and depletion | 132 | 110 | | | 85 | 116 | 95 |
| **EBITDA** | **$ 396** | **$ 145** | **$** | **$ 24** | **$ 246** | **$ 210** | **$ 169** |

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*

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

On February 22, 2008, Aldabra 2 Acquisition Corp. completed the acquisition (the Acquisition) of Boise White Paper, L.L.C., Boise Packaging & Newsprint, L.L.C., Boise Cascade Transportation Holdings Corp. (collectively, the Paper Group), and other assets and liabilities related to the operation of the paper, packaging and newsprint, and transportation businesses of the Paper Group and part of the headquarters operations of Boise Cascade, L.L.C. (Boise Cascade). Subsequent to the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. The acquired business is referred to in this Form 10-K as the Predecessor. See Note 16, Acquisition of Boise Cascade s Paper and Packaging Operations, 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 the Acquisition.

The accompanying Consolidated Statements of Income (Loss) and Consolidated Statements of Cash Flows for the year ended December 31, 2009, include the activities of Aldabra 2 Acquisition Corp. prior to the Acquisition and the operations of the acquired businesses from February 22, 2008, through December 31, 2008. The Predecessor Consolidated Statements of Income (Loss) and Consolidated Statements of Cash Flows for the period of January 1 through February 21, 2008, and for the year ended December 31, 2007, are presented for comparative purposes. The period of February 1 (Inception) through December 31, 2007, represents the activities of Aldabra 2 Acquisition Corp.

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 each 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.

We report our results in three 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.

### *Debt Issuance and Restructuring*

On October 26, 2009, Boise Paper Holdings, L.L.C. (Boise Paper Holdings) and Boise Finance Company, 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 is exempt from the registration requirements of the Securities Act of 1933, as amended. The 9% Senior Notes pay interest semiannually in arrears on May 1 and November 1, commencing on May 1, 2010.

In connection with the issuance we also entered into amendments to our senior secured credit facilities. These amendments permitted us to incur $300.0 million of new senior unsecured notes, repurchase all of the second lien term loans, repurchase and retire notes payable, and modify certain of our financial covenants. The financial covenant modifications limit our total leverage ratio to 4.75:1:00, stepping down to 4.50:1.00 at September 30, 2011. We also have a new first lien secured leverage ratio of 3.25:1:00, stepping down to 3.00:1.00 at September 30, 2011.

The results of this debt issuance and restructuring, including the changes to our financial covenants, increase our financial flexibility, extend our debt maturity profile, simplify our capital structure, and reduce our total indebtedness.

### *Alternative Fuel Mixture Credits*

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 Statements 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. The credits expired on December 31, 2009. We are reasonably assured that the credit for the alternative fuel mixture used by us through December 31, 2009, has been earned and will be collected from the U.S. government.

### *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.

Upon completion of the transaction, Boise Cascade owned 37.9 million, or 49%, of our outstanding shares. Boise Cascade continues to hold a significant interest in us. At December 31, 2009, Boise Cascade owned 21.7% of our common stock. See Note 16, Acquisition of Boise Cascade s Paper and Packaging Operations of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

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### *St. Helens Mill Restructuring and DeRidder Machine Idling*

In November 2008, we announced the restructuring of our paper mill in St. Helens, Oregon, permanently halting pulp production at the plant and reducing annual paper production capacity by approximately 200,000 short tons and market pulp capacity at the St. Helens and Wallula, Washington, mills. The restructuring was primarily the result of declining product demand coupled with continuing high costs. The restructuring was substantially complete in January 2009. We have permanently ceased paper production on machines #1 and #4 at the mill. Paper machine #2 at St. Helens continues to operate, manufacturing primarily printing papers and flexible packaging papers. The #3 machine, which is owned by Cascades Tissue Group, also continues to operate. The permanent capacity reductions resulted in the loss of approximately 330 jobs at the St. Helens mill and 36 jobs in related sales, marketing, and logistics functions elsewhere in the Company. Eligible salaried employees were offered severance packages and outplacement assistance. We will employ approximately 140 employees at the mill after restructuring. At December 31, 2009, we had terminated approximately 360 employees. For additional information related to the St. Helens Mill Restructuring, see Note 17, St. Helens Mill Restructuring, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

In April 2009, we announced that we had indefinitely idled the #2 newsprint machine (D-2) at our mill in DeRidder, Louisiana. The D-2 machine had been idled since February 9, 2009, due to lack of orders. We will continue to operate the #3 newsprint machine (D-3) and the #1 linerboard machine (D-1) at the DeRidder mill. The idled machine has an annual capacity of 186,000 short tons of newsprint. By idling the machine, we reduced operating and capital costs during this period of declining newsprint demand, while preserving the asset for potential future use. Should the need arise, we can restart the D-2 machine within a short period of time. We may also pursue options to convert the machine for packaging production at a later date. For additional information related to the D-2 newsprint machine indefinite idling, see Note 6, Other (Income) Expense, Net, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

### *Recent Trends and Operational Outlook*

The U.S. economy began to improve in 2009, and real GDP in the U.S. grew in the second half of the year. However, U.S. unemployment remains high, at 9.7% in January 2010, and real incomes have not shown signs of significant growth to date. Economic downturns characterized by higher unemployment, 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, ability to meet our debt service obligations, and financial position.

U.S. industry demand for uncoated freesheet stabilized in fourth quarter 2009 and showed signs of improvement in December after declining throughout the previous months. According to the American Forest & Paper Association (AF&PA), December 2009 U.S. industry shipments improved 1.9%, compared with December 2008; overall U.S. shipments declined 11% during 2009, compared with 2008. Demand for commodity communication papers has been negatively affected by weak macroeconomic conditions and by the longer-term secular shift to electronic media for communications. Demand for printing and converting products has also been negatively affected by these factors and by the decline in direct-mail advertising. Despite soft demand, compared with prior years, U.S. uncoated freesheet inventories remained low at approximately 940,000 short tons in fourth quarter 2009. We curtailed shifts and slowed production on our uncoated freesheet machines to balance production with demand during 2009. During fourth quarter, we performed a scheduled maintenance outage at our Jackson, Alabama, pulp and paper mill.

Despite softening demand and price erosion as a result of both secular and cyclical trends, sales prices for our uncoated freesheet papers improved in 2009, compared with 2008. The price improvement was led by cut-size office paper grades, which represented 65% of our 2009 uncoated freesheet sales volumes, and by packaging-demand-driven products (including label and release and flexible packaging grades). Net sales prices for our printing and converting grades, which include commercial printing, form bond, and envelope papers declined, compared with the prior year.

In fourth quarter 2009, we implemented a $40-per-short-ton price increase for our uncoated freesheet, offset, and envelope grades and for some premium colored office papers. In early 2010, we announced a $40-per-short-ton price increase across most of our cut-size office papers, offset, and midweight opaque grades effective in February 2010. There is no assurance the announced price increase will be fully realized. Since a large portion of our cut-size office paper is sold to OfficeMax under a contract whereby the price OfficeMax pays is determined by a published index, changes in price for this product sold to OfficeMax tend to lag behind the general market by approximately 60 days.

Recent linerboard pricing trends have shown improvement after price erosion throughout 2009. Linerboard net sales prices to third parties increased sequentially from third quarter 2009 as export demand and pricing improved in fourth quarter. In January 2010, we announced a $50-per-short-ton and $70-per-short-ton price increase for domestic linerboard sales in the eastern and western U.S., respectively. These increases are currently being implemented; however, there is no assurance the announced price increase will be fully realized. On an annual basis, compared with 2008, corrugated product pricing improved in 2009, but declined sequentially from third quarter 2009 due to seasonal box mix fluctuations in our agricultural end markets and containerboard price declines earlier in the year. Packaging demand in agriculture, food, and beverage markets, which has historically been less correlated to broad economic activity, remained relatively stable throughout 2009. These markets constitute just over half of our corrugated products end-use markets. Demand in our industrial markets and containerboard export markets, which is more closely aligned with general economic activity, was weak throughout 2009, although export markets showed improvement in late third and fourth quarters, compared with earlier in 2009.

Despite weak overall containerboard industry demand throughout 2009, total U.S. containerboard inventories declined to 2.1 million short tons in November 2009 from 2.5 million short tons in December 2008, according to AF&PA. During the first half of 2009, we took production downtime to balance production with demand. In first quarter 2010, we will have a scheduled maintenance outage at our DeRidder, Louisiana, paper mill.

Prices for manufacturing inputs, including fiber, energy, and chemicals, have declined in 2009, compared with 2008, driven by reduced demand as a result of the weak U.S. economy. Overall input costs were higher in fourth quarter 2009, compared with third quarter 2009, primarily as a result of modestly higher prices and a seasonal increase in consumption of some inputs, such as energy, driven by colder winter weather. In 2010, we will begin experiencing higher fiber costs at our Jackson, Alabama, mill as a result of extremely wet weather conditions in the region, which increases the costs to procure and deliver fiber. Higher prevailing pulp prices are also expected to increase contracted pulp rates in the region.

### *Factors That Affect Our Operating Results*

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

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

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

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- Competing technologies that affect the demand for our products.
- Labor and personnel relations.
- The commodity nature of our products and their price movements, which are driven largely by supply and demand.
- Availability and affordability of raw materials, wood fiber, energy, and chemicals.
- Legislative or regulatory environments, requirements, or changes affecting the businesses in which we are engaged.
- 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.
- Our customer concentration and the ability of our customers to pay.
- 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, electronic media substitution, manufacturing activity, employment, 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. The global financial and credit crisis led to a severe recession in the U.S. economy during 2009. 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 correlated positively with general economic activity. However, demand for communication paper grades, such as uncoated freesheet, imaging, and printing and forms paper, 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. In addition, inventory stocking or liquidation of these goods has an impact, as do currency exchange rates that affect the cost-competitiveness of foreign manufacturers.

*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.

Over the last five years, North American uncoated freesheet, containerboard, and newsprint capacities declined approximately 22%, 1%, and 32%, respectively, according to Resource Information Systems Inc. (RISI). In fourth quarter 2008 and into 2009, temporary and permanent curtailments accelerated and significantly reduced capacity across many grades. Further capacity closures have been announced for 2010. 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 and by overseas production capacity, which has grown over the past decade. According to RISI, North American uncoated freesheet imports were flat in 2009, compared with 2008.

*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, accounting for 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. | | Predecessor | Combined | Predecessor |
|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
| Paper | 27% | 29% | 26% | 29% | 29% |
| Packaging | 17% | 15% | 17% | 15% | 17% |

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.

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 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 fiber supply, driven primarily by changes in public policy and government regulation, have been severe enough to cause the closure of numerous facilities in some of the regions in which we operate. 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 declined in 2009, compared with 2008. Declining diesel costs reduce the cost to harvest and transport wood to the mills, favorably affecting fiber costs in all of our regions.

In Minnesota, our overall fiber costs decreased in 2009, compared with 2008, driven by lower prices for wood and purchased pulp and reduced consumption of purchased pulp as a result of reduced production and sales volumes. Wood fiber prices in the region declined, compared with 2008, primarily as a result of continued curtailment of oriented strand board production in the region.

In the Pacific Northwest, our fiber costs decreased in 2009, compared with 2008, due to reduced consumption as a result of the St. Helens mill downsizing and lower fiber prices. Residual fiber prices declined, compared with the prior year, as a result of reduced overall fiber demand in the region.

In the South, during 2009, fiber costs at our DeRidder mill decreased overall, compared with 2008, due to declining wood fiber prices and reduced fiber consumption as a result of the idling of our D-2 newsprint machine. In Alabama, fiber costs decreased in 2009, compared with 2008, driven by reduced prices for purchased pulp and recycled fiber, offset partially by higher consumption of purchased pulp.

*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 2009, energy costs were lower, compared with 2008, due mainly to significantly lower prices and less consumption of electricity and natural gas. Consumption was reduced as a result of the restructuring of the St. Helens mill and the indefinite idling of our D-2 newsprint machine in DeRidder. Under normal operations, and assuming that D-2 is not operating, 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, for Boise Inc. and the Predecessor in each of the periods listed below:

| | Boise Inc. | | Predecessor | Combined | Predecessor |
|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
| Paper | 12% | 16% | 15% | 16% | 15% |
| Packaging | 10% | 15% | 14% | 15% | 14% |

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We enter into transactions to hedge the variable cash flow risk of natural gas purchases. As of December 31, 2009, we had entered into derivative instruments related to approximately 50% of our forecasted natural gas purchases for January 2010 through October 2010, approximately 16% of our forecasted natural gas purchases for November 2010 through March 2011, and approximately 6% of our forecasted natural gas purchases for April 2011 through October 2011. At December 31, 2009, these derivatives included three-way collars and call spreads.

We have elected to account for these instruments as economic hedges. At December 31, 2009, we recorded the fair value of the derivatives, or $1.4 million, in Accrued liabilities, Other on our Consolidated Balance Sheet. During the years ended December 31, 2009 and 2008, we recorded the change in fair value of the instruments, or $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).

*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. | | Predecessor | Combined | Predecessor |
|---|---|---|---|---|---|
| | **Year Ended December 31, 2009** | **Year Ended December 31, 2008** | **January 1 Through February 21, 2008** | **Year Ended December 31, 2008** | **Year Ended December 31, 2007** |
| Paper | 15% | 15% | 13% | 15% | 14% |
| Packaging | 7% | 6% | 6% | 6% | 5% |

Total chemical costs in 2009 were lower, compared with 2008, as a result of lower prices and reduced consumption due to the restructuring of the St. Helens mill. Many of our chemicals are purchased under long-term contracts, which provide more stability than open-market purchases. Many of these contracts are renegotiated annually.

*Labor.* Labor costs tend to increase steadily due to inflation in healthcare and wage costs. As of January 31, 2010, we had approximately 4,100 employees. Approximately 60% of these employees work pursuant to collective bargaining agreements. As of January 31, 2010, approximately 33% of our employees 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; DeRidder, Louisiana; Jackson, Alabama; St. Helens, Oregon; and Nampa, Idaho. The labor contract at our paper mill in Wallula, Washington (332 employees represented by the AWPPW) expired in March 2009 and was terminated by the AWPPW on October 31, 2009. In early February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously. On February 22, 2010, the company declared an impasse in the bargaining process and implemented the terms of the last contract offer. Our potential inability to reach a mutually acceptable labor contract at Wallula, or at any of our other facilities, could result in, among other things, strikes or other work stoppages or slowdowns by the affected employees.

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### *Our Operating Results*

The following table sets forth operating results in dollars and as a percentage of sales for the years ended December 31, 2009 and 2008, the Predecessor periods of January 1 through February 21, 2008, and the year ended December 31, 2007 (in millions, except percent-of-sales data):

| | **Boise Inc. (a)** | | **Predecessor** | |
|---|---|---|---|---|
| | **Year Ended December 31, 2009** | **Year Ended December 31, 2008** | **January 1 Through February 21, 2008** | **Year Ended December 31, 2007** |
| **Sales** | | | | |
| Trade | $ 1,935.4 | $ 1,990.2 | $ 258.4 | $ 1,636.6 |
| Related parties | 42.8 | 80.4 | 101.5 | 696.0 |
| | 1,978.2 | 2,070.6 | 359.9 | 2,332.6 |
| **Costs and expenses** | | | | |
| Materials, labor, and other operating expenses | 1,596.2 | 1,756.8 | 313.9 | 1,948.2 |
| Fiber costs from related parties | 36.9 | 54.6 | 7.7 | 39.4 |
| Depreciation, amortization, and depletion | 131.5 | 110.0 | 0.5 | 84.6 |
| Selling and distribution expenses | 55.5 | 48.3 | 9.1 | 59.5 |
| General and administrative expenses | 50.3 | 34.2 | 6.6 | 44.5 |
| St. Helens mill restructuring (b) | 5.8 | 29.8 | | |
| Alternative fuel mixture credits, net | (207.6) | | | |
| Other (income) expense, net | 4.0 | (3.0) | (1.0) | (4.1) |
| | 1,672.6 | 2,030.7 | 336.8 | 2,172.1 |
| **Income from operations** | **$ 305.6** | **$ 39.9** | **$ 23.1** | **$ 160.5** |
| **Sales** | | | | |
| Trade | 97.8% | 96.1% | 71.8% | 70.2% |
| Related parties | 2.2 | 3.9 | 28.2 | 29.8 |
| | 100.0% | 100.0% | 100.0% | 100.0% |
| **Costs and expenses** | | | | |
| Materials, labor, and other operating expenses | 80.7% | 84.9% | 87.2% | 83.5% |
| Fiber costs from related parties | 1.9 | 2.6 | 2.2 | 1.7 |
| Depreciation, amortization, and depletion | 6.6 | 5.3 | 0.1 | 3.6 |
| Selling and distribution expenses | 2.8 | 2.3 | 2.5 | 2.6 |
| General and administrative expenses | 2.5 | 1.7 | 1.9 | 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) | (0.2) |
| | 84.5% | 98.1% | 93.6% | 93.1% |

| | | | | |
|---|---|---|---|---|
| **Income from operations** | **15.5%** | **1.9%** | **6.4%** | **6.9%** |

(a) We have not included information related to the period of February 1 (Inception) through December 31, 2007, which represents the activities of Aldabra 2 Acquisition Corp., as the operating results related to this period are insignificant.

(b) In November 2008, we announced the restructuring of our St. Helens, Oregon, paper mill. Of the $37.6 million restructuring charge recorded in 2008, $29.8 million is included in St. Helens mill restructuring and $7.8 million related to inventory write-downs is included in Materials, labor, and other operating expenses.

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*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, 2009 and 2008, the Predecessor period of January 1 through February 21, 2008, the combined year ended December 31, 2008, and the Predecessor year ended December 31, 2007 (in thousands of short tons and dollars per short ton, except corrugated containers and sheets):

| | Boise Inc. | | Predecessor | Combined | Predecessor |
|---|---|---|---|---|---|
| | Year Ended December 31, 2009 | Year Ended December 31, 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2008 | Year Ended December 31, 2007 |
| **Paper** | | | | | |
| Uncoated freesheet | 1,251 | 1,200(a) | 236 | 1,436(a) | 1,475 |
| Containerboard (medium) | 127 | 118 | 19 | 137 | 134 |
| Market pulp | 58 | 102(a) | 20 | 122(a) | 145 |
| | 1,436 | 1,420 | 275 | 1,695 | 1,754 |
| **Packaging** | | | | | |
| Containerboard (linerboard) | 253 | 194 | 36 | 230 | 239 |
| Newsprint | 199 | 326 | 56 | 382 | 415 |
| Corrugated containers and sheets (mmsf) | 5,963 | 5,337 | 914 | 6,251 | 6,609 |
| **Paper** | | | | | |
| Uncoated freesheet | $ 954 | $ 942 | $ 868 | $ 930 | $ 864 |
| Containerboard (medium) | 418 | 481 | 454 | 477 | 435 |
| Market pulp | 429 | 512 | 535 | 516 | 538 |
| **Packaging** | | | | | |
| Containerboard (linerboard) | $ 301 | $ 396 | $ 399 | $ 397 | $ 389 |
| Newsprint | 459 | 584 | 494 | 571 | 489 |
| Corrugated containers and sheets ($/msf) | 58 | 58 | 55 | 57 | 53 |

(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 and 24,000 and 29,000 short tons, respectively, of market pulp from machines at the St. Helens paper mill that have been shut down.

*Operating Results*

The following presents a discussion of sales and costs for the year ended December 31, 2009, compared with the combined year ended December 31, 2008, and for the combined year ended December 31, 2008, compared with the year ended December 31, 2007. 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 and Acquisition of Boise Cascade s Paper and Packaging Operations in this Management s Discussion and Analysis of Financial Condition and Results of Operations for more information related to the Acquisition.

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

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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.

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

*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 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 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 net sales prices increased 3%, compared with 2008, as both commodity and premium and specialty uncoated freesheet 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 D-2 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 D-2 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 paper mill. During 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. For more information, see St. Helens Mill Restructuring and DeRidder Machine Idling in this Management s Discussion and Analysis of Financial Condition and Results of Operations.

*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 D-2 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. Helen s 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 by $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, loss on extinguishment of debt was $44.1 million as a result of the October 2009 debt restructuring. For additional information, refer to our discussion under Debt Issuance and Restructuring and 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 fees. 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 fees. For additional information, refer to our discussion of debt under Liquidity and Capital Resources in this Management s Discussion and Analysis of Financial Condition and Results of Operations. The debt of Boise Cascade was not allocated to the Predecessor in the financial statements included in this Form 10-K.

*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, we recorded $28.0 million of income tax expense and had an effective tax rate of 15.4%. We increased our income tax expense in 2009 as a result of our uncertain tax position regarding alternative fuel mixture credits. This increase was offset by a $44.0 million tax benefit from the release of valuation allowances. For the year ended December 31, 2008, we recorded $8.8 million of income tax benefits related to losses incurred during the year. We did not recognize an additional $10.9 million of tax benefits from those losses because the realization of those benefits was not considered more likely than not.

***Combined Year Ended December 31, 2008, Compared With the Year Ended December 31, 2007***

*Sales*

For the combined year ended December 31, 2008, total sales increased $98.0 million, or 4%, to $2,430.6 million from $2,332.6 million for the year ended December 31, 2007. The increase was driven by a 4% increase in both Paper and Packaging segment sales, due primarily by higher sales prices for uncoated freesheet, offset partially by lower sales volumes.

*Paper.* Sales increased $61.0 million, or 4%, to $1,657.2 million for the combined year ended December 31, 2008, from $1,596.2 million for the year ended December 31, 2007. This increase was driven by improved pricing for uncoated freesheet and medium in 2008, offset partially by lower pulp pricing. Commodity uncoated freesheet sales prices increased 8%, compared with 2007, while premium and specialty prices increased 6%. Commodity uncoated freesheet volumes were down 6% from 2007 due primarily to declining demand across most grades, particularly more mature printing and converting grades, including envelope and offset grades. To balance production with demand, we took market downtime in the second half of 2008. Premium and specialty sales volumes were up 5%, compared with the prior year, driven by a 14% increase in sales of premium office papers and label and release and flexible packaging grades.

*Packaging.* Sales increased $34.1 million, or 4%, to $817.2 million for the combined year ended December 31, 2008, from $783.1 million for the year ended December 31, 2007. The increase was due primarily to higher prices for linerboard, corrugated containers and sheets, and newsprint, offset partially by lower sales volumes. Linerboard pricing to third parties was 2% higher in 2008, corrugated container and sheet pricing improved 8%, and newsprint pricing improved 17%. Overall sales volumes for linerboard to third parties and newsprint decreased 4% and 8%, respectively, primarily as a result of the planned DeRidder outage in first quarter 2008, downtime related to Hurricanes Gustav and Ike in the third quarter 2008, market-related downtime taken in the fourth quarter, and production of lower basis weight newsprint grades. Corrugated container and sheet volumes decreased 5% in 2008, compared with 2007, driven mainly by lower sales volumes from our sheet feeder plant in Texas as a result of slowing industrial markets and market disruption caused by Hurricane Ike.

*Costs and Expenses*

Materials, labor, and other operating expenses, including the cost of fiber from related parties, increased $145.4 million, or 7%, to $2,133.0 million for the combined year ended December 31, 2008, from $1,987.6 million for the year ended December 31, 2007. The increase was driven primarily by higher input costs and higher fixed costs, mainly maintenance, associated with the planned DeRidder outage.

Fiber, energy, and chemical costs were $530.0 million, $340.2 million, and $262.6 million, respectively, for the combined year ended December 31, 2008, and $505.3 million, $294.5 million, and $228.1 million, respectively, for the year ended December 31, 2007. Combined, this represented a cost increase of $104.9 million in 2008, compared with 2007. This increase was driven primarily by a sharp rise in these costs brought on by higher fossil fuel prices and a reduction in supply of residual chips in 2008.

Fiber costs increased $30.4 million in our Paper segment, due primarily to higher prices for wood, purchased pulp, and secondary fiber. In Packaging, fiber costs decreased $5.6 million, due primarily to reduced consumption during the planned DeRidder outage in the first quarter, offset partially by increased recycled fiber prices.

Compared with the year ended December 31, 2007, energy costs increased $36.8 million in our Paper segment, driven by higher fuel and electricity prices, and $8.9 million in our Packaging segment, driven by increased electricity and natural gas prices.

Chemical costs increased $24.7 million in our Paper segment and $9.8 million in our Packaging segment, driven by substantially higher prices for commodity chemical inputs.

Under purchase accounting rules, in connection with the Acquisition, we revalued our inventory to estimated selling prices less costs of disposal and a reasonable profit allowance for the selling effort. As a result of these purchase accounting adjustments, our materials, labor, and other operating expenses increased $10.2 million for the year ended December 31, 2008.

Depreciation, amortization, and depletion for the year ended December 31, 2008, was $110.0 million. 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. For the Predecessor year ended December 31, 2007, depreciation, amortization, and depletion was $84.6 million.

Selling and distribution expenses decreased $2.1 million, or 4%, to $57.4 million for the combined year ended December 31, 2008, from $59.5 million for the year ended December 31, 2007. As a percentage of sales, selling and distribution expenses were reduced to 2.4% for the combined year ended December 31, 2008, compared with 2.6% in the prior year.

General and administrative expenses decreased $3.6 million, or 8%, to $40.9 million for the combined year ended December 31, 2008, from $44.5 million for the year ended December 31, 2007. The decrease was due primarily to the elimination of annual incentive compensation payouts for 2008. As a percentage of sales, general and administrative expenses were reduced to 1.7% for the combined year ended December 31, 2008, compared with 1.9% in the prior year.

*St. Helens Mill Restructuring*. The year ended December 31, 2008, included $37.6 million in costs associated with the restructuring of our St. Helens paper mill; $28.8 million of these costs related to noncash expenses. These costs are recorded in our Paper segment. Of the $37.6 million, $7.8 million related to the write-down of inventory and was recorded in Materials, labor, and other operating expenses in the Consolidated Statement of Income (Loss). We recorded the remaining

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$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. For more information, see St. Helens Mill Restructuring and DeRidder Machine Idling 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 combined year ended December 31, 2008, we had $4.0 million of other income, compared with $4.1 million in the prior year. 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. For the year ended December 31, 2007, the $4.1 million of income consisted primarily of a $4.4 million gain on changes in retiree healthcare programs.

*Income (Loss) From Operations.* Income from operations for the combined year ended December 31, 2008, decreased $97.5 million to $63.0 million, compared with $160.5 million for the year ended December 31, 2007.

*Paper*. Segment income decreased $80.1 million, or 60%, to $53.4 million in 2008 from $133.5 million in 2007. Overall, our operating results for the year ended December 31, 2008, were affected by approximately $92.1 million in increased input costs (including fiber, chemical, and energy costs), $37.6 million due to the St. Helens mill restructuring, $7.4 million from inventory purchase accounting adjustments, and $6.1 million from noncash mark-to-market energy hedge expenses. The Predecessor suspended depreciation from September 2007 through February 2008 for the assets being held for sale as a result of the Acquisition, which reduced depreciation and amortization during 2007 by approximately $21.7 million, compared with 2008.

*Packaging*. Segment income decreased $13.3 million, or 33%, to $26.8 million in 2008 from $40.1 million in 2007. Overall, our operating results for the year ended December 31, 2008, were affected by $13.2 million in increased input costs (including fiber, chemical, and energy costs), $20.5 million from the planned DeRidder outage in the first quarter, $2.8 million from inventory purchase accounting adjustments, $1.3 million from noncash mark-to-market energy hedge expenses, and approximately $5.5 million from lost production and costs as a result of Hurricanes Gustav and Ike. The Predecessor suspended depreciation from September 2007 through February 2008 for the assets being held for sale as a result of the Acquisition, which reduced depreciation and amortization during 2007 by approximately $19.1 million, compared with 2008.

*Other*

*Foreign Exchange Gain (Loss).* For the combined year ended December 31, 2008, foreign exchange loss was $4.6 million, compared with a $1.2 million gain for the same period in 2007. This loss was driven primarily by a strengthening of the U.S. dollar against the Canadian dollar, which reduced the amount we collected on our Canadian-denominated accounts receivable.

*Interest Expense.* 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 fees. For additional information, refer to our discussion of debt under Liquidity and Capital Resources in this Management s Discussion and Analysis of Financial Condition and Results of Operations. The debt of Boise Cascade was not allocated to the Predecessor in the financial statements included in this Form 10-K.

*Interest Income.* For the combined year ended December 31, 2008, interest income was $2.4 million, compared with $11.1 million for the year ended December 31, 2007. Interest income for the period prior to February 22, 2008, was attributable to income from interest earned on trust assets held by Aldabra 2 Acquisition Corp.

*Income Taxes*. For the year ended December 31, 2008, we recorded $8.8 million of income tax benefits related to losses incurred during the year. We did not recognize an additional $10.9 million of tax benefits from these losses, because the realization of these benefits was not considered more likely than not. The tax benefit we recognized was primarily the result of the ability to carry back some of our federal net operating loss to 2007 and to offset some of the net operating loss against the deferred tax liabilities recorded from our purchase price allocation. As a result of completing our purchase price allocation during the year ended December 31, 2008, we recorded $12.4 million of deferred tax liabilities and assumed $0.6 million of deferred tax liabilities from Boise Cascade. At December 31, 2008, our deferred tax liability, net of deferred tax assets, was $3.6 million.

Because of its pass-through tax structure, the Predecessor recorded tax expense related only to small subsidiaries that are taxed as corporations.

## Liquidity and Capital Resources

During 2009, our liquidity position strengthened as we restructured our balance sheet in October and reduced our total debt by $288.1 million during the year. The debt restructuring resulted in changes to our financial covenants, increased our financial flexibility, extended our debt maturity profile, simplified our capital structure, and reduced our total indebtedness.

We believe that our cash flow from operations as well as our available borrowing capacity under our $250.0 million revolving credit facility, should be adequate to provide cash as required to support our ongoing operations, capital expenditures, and our debt service obligations for the next 12 months.

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 at December 31, 2009, and the largest single commitment under the revolving credit facility was $100.0 million. At December 31, 2009, we did not have any borrowings outstanding under the revolving credit facility. Thus, at December 31, 2009, our aggregate liquidity from unused borrowing capacity under the revolving credit facility totaled $227.8 million, net of outstanding letters of credit of $22.2 million. We cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available for use under our revolving credit facility in an amount sufficient to enable us to pay our indebtedness according to its terms or to fund our other liquidity needs.

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.

### *Sources and Uses of Cash*

We generate cash from sales of our products and from short-term and long-term borrowings, as well as from cash proceeds from the sale of nonstrategic assets. In 2009, we generated 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. In addition to paying for ongoing operating costs, we use cash to invest in our business, repay debt, 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 compensation, fiber, energy, and interest. In 2009, our operating activities provided $458.7 million of cash, compared with $104.6 million in 2008. As discussed under Our Operating Results above, income for the year ended December 31, 2009, reflects $207.6 million of alternative fuel mixture credits, including fees and expenses and before taxes. In October 2009, we began filing for alternative fuel mixture credits as a refundable credit on our income tax return instead of as a refundable excise tax credit. This filing change will not affect the total amount we expect to ultimately receive but does delay receipt of fuel mixture credit payments until after we file our federal income tax return in first quarter 2010. At December 31, 2009, we had a $56.6 million receivable for alternative fuel mixture credits.

In 2009, favorable changes in working capital provided $91.6 million of cash from operations, while unfavorable changes in working capital used $50.5 million of cash in 2008. 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. Relative to 2008, cash provided by operations was positively affected by higher net income for the year ended December 31, 2009, and favorable working capital changes.

In 2009, the $91.6 million of cash generated from favorable changes in working capital items is attributable primarily to a decrease in inventories and an increase in 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 Jackson, 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.

In 2008, the $50.5 million of cash used from operations related to unfavorable changes in working capital items attributable primarily to increases in inventory and decreases in accounts payable and accrued liabilities. Increases in inventory levels in both the Paper and the Packaging segments used $23.6 million of cash from operations, which included the $7.8 million of noncash inventory write-down as a part of the St. Helens mill restructuring. The increase in Paper segment inventory levels was attributable to increases in finished goods inventory as well as fiber inventories. The increase in finished goods inventory levels was due partly to the sharper than expected slowdown in demand during fourth quarter 2008. The increase in fiber inventories in the Pacific Northwest was driven primarily by increased log inventories to support our whole-log chipping operations and increased market pulp inventory. The increase in Packaging segment inventory levels was driven primarily by higher levels of containerboard roll stock inventories at our corrugated product and sheet feeder plants as demand for these products weakened in late 2008. Lower levels of accounts payable and accrued liabilities used $28.5 million of cash from operations, which was attributable primarily to decreased levels of trade payables in the Paper segment as a result of lower raw material purchases near the end of 2008, compared with the same period in 2007. This decrease in purchases was primarily the result of lower production volumes due to slowed production and market downtime in fourth quarter 2008. To a lesser extent, decreased levels of accrued compensation and benefits, due primarily to the elimination of incentive bonuses, contributed to the unfavorable change in this working capital item. Partially offsetting these increases in working capital were higher levels of trade payables in our Packaging and Corporate and Other segments.

In 2007, operating activities provided $245.3 million. Working capital and other items used $2.3 million in 2007. The $2.3 million unfavorable change in 2007 consisted primarily of $13.3 million of payments for pension and other postretirement benefit programs, offset partially by a decrease in working capital that provided $9.0 million. The decrease in working capital was attributable primarily to higher accounts payable and accrued liabilities in the Paper segment due largely to the timing of payments. As discussed under Our Operating Results above, the 2007 increase in income was primarily the result of higher income in the Paper segment due to higher product sales prices.

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

*Sources 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, 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. The sensitivities described below are based on our 2009 operations and reflect the restructuring of our St. Helens mill and the indefinite idling of our D-2 newsprint machine.

In 2009, we sold 1.3 million short tons of uncoated freesheet, 253,000 short tons of linerboard to third parties, 6.0 billion square feet of corrugated products, 199,000 short tons of newsprint, and 58,000 short tons of market pulp. A $10-per-short-ton price change in uncoated freesheet would have affected our revenue by approximately $13 million annually. A $10-per-short-ton price change in linerboard sold to third parties would have affected revenue by approximately $3 million annually, and a $10-per-short-ton price change in newsprint would have affected our revenue by approximately $2 million. For corrugated sheets and containers, a $1-per-thousand-square-feet change in pricing affects sales revenue by approximately $6 million.

Selling prices for uncoated freesheet and corrugated containers and sheets improved, while selling prices for linerboard and newsprint declined in 2009, compared with 2008. Sales volumes for all product lines except linerboard decreased due to declines in product demand and market curtailments and capacity reductions across the industry. Average net selling prices for uncoated freesheet papers improved $24 per short ton, or 3%, to $954 per short ton in 2009, compared with $930 per short ton in 2008. During 2009, we took approximately 42,000 short tons of market-related downtime in uncoated freesheet production, compared with approximately 39,000 short tons of market-related downtime in 2008. Corrugated container and sheet prices improved $1 per msf, or 2%, to $58 per msf in 2009, compared with $57 per msf during 2008. Linerboard net selling prices to third parties declined $96 per short ton, or 24%, to $301 per short ton in 2009, compared with $397 per short ton in 2008, due primarily to weak market conditions. Newsprint prices decreased $112 per short ton, or 20%, to $459 per short ton during 2009, compared with 2008, due to lower demand. In 2009, we took approximately 44,000 short tons of market-related downtime in linerboard production and approximately 225,000 short tons of market-related downtime in newsprint production, compared with 5,000 short tons market-related downtime in linerboard production and approximately 16,500 short tons of market-related downtime in newsprint during the same period in 2008. The market-related downtime in newsprint in 2009 included the idled short tons related to the April 2009 D-2 machine idling. The idled machine has an annual capacity of 186,000 short tons.

*Uses of cash flows for operating activities*

Our primary uses of cash are for expenses related to the manufacture of packaging and paper products, including fiber, energy, chemicals, and labor. Other significant uses of cash are for interest expenses, pension contributions, taxes, and increases in working capital, including increases in receivables from sales of our products, increases in inventory, increases in prepaid expenses, and reductions in accounts payable and other accrued liabilities.

Fiber costs in 2009 were $401.1 million, a decrease of $128.9 million, or 24%, compared with costs of $530.0 million for 2008, due primarily to lower prices for wood and recycled fiber and reduced overall consumption as a result of lower production volumes. A 1% change in fiber costs affects our financial results by approximately $4 million annually.

Energy costs in 2009 were $188.9 million, a decrease of $151.3 million, or 44%, compared with costs of $340.2 million in 2008, due primarily to lower fuel and electricity prices and reduced consumption as a result of lower production volumes. Natural gas is a significant component of our energy costs. We consume approximately 12 million mmBtu annually. A $1-per-mmBtu change in our natural gas prices affects our financial results by approximately $12 million annually.

Chemical costs in 2009 were $210.3 million, a decrease of $52.3 million, or 20%, compared with costs of $262.6 million in 2008, due primarily to lower consumption of and lower prices for chemical inputs. A 1% change in chemical prices affects our financial results by approximately $2 million annually.

Labor costs related to the production of our products, recorded in Materials, labor, and other operating expenses, were $273.5 million in 2009, a decrease of $26.7 million, or 9%, from costs of $300.2 million in 2008. The change was due primarily to a reduction in the number of people employed at our mills, mainly at St. Helens and DeRidder, offset partially by increases in healthcare and wage costs. Labor costs are not as volatile as energy and wood fiber costs; however, they make up a significant component of our operating costs and tend to increase over time. While we believe we have good labor relations and have established staggered labor contracts for each of our five paper mills to minimize potential disruptions in the event of a labor dispute, we could experience a material labor disruption or significantly increased labor costs at one or more of our facilities, either in the course of negotiations of a labor agreement or otherwise.

The weak macroeconomic conditions, significant decline in global equity markets, and turmoil in credit markets caused our pension investment portfolio to suffer significant losses through the end of first quarter 2009. A rebound occurred in the financial markets during the remainder of the year, and as of December 31, 2009, our pension assets had increased to a market value of $302 million, compared with $248 million at December 31, 2008. While the Worker, Retiree, and Employee Recovery Act (WRERA) of 2008 provides some relief as to the timing of our required future cash contributions, we may make material contributions to our pension plans in future years. On April 15, 2009, we made a $5.5 million contribution, and on October 15, 2009, we made an additional contribution of $5.5 million to our qualified pension plans. Assuming a rate of return on plan assets of

7.25% in 2009 and 2010, and including the $11.0 million contributions made in 2009 and WRERA relief provisions, we estimate that we will be required to contribute approximately $2 million in 2010 and approximately $22 million in 2011. 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 on the effect 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.

***Investment Activities***

*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, compared with $900.0 million in 2008 and $554.5 million in 2007.

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 net $10.0 million for purchases 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, 2009, are included in the table below (dollars, in millions):

| | Year Ended December 31, 2009 | | | |
|---|---|---|---|---|
| | **Acquisition/ Expansion** | **Quality/ Efficiency (a)** | **Replacement, Environmental, and Other** | **Total** |
| Paper | $ | $ 13.9 | $ 37.1 | $ 51.0 |
| Packaging | 0.1 | 2.5 | 20.5 | 23.1 |
| Corporate and Other | | 0.4 | 2.6 | 3.0 |
| | **$ 0.1** | **$ 16.8** | **$ 60.2** | **$ 77.1** |

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

We expect capital investments in 2010 to total approximately $100 million, excluding acquisitions. This level of capital expenditures could increase or decrease as a result of a number of factors, including our financial results and future economic conditions. Our capital spending in 2010 will be for cost savings, business improvement, quality/efficiency projects, replacement projects, and ongoing environmental compliance. Our efficiency projects are focused on opportunities to improve our energy efficiency. During 2009, we spent $2.2 million for environmental compliance projects. We expect to spend approximately $1.4 million in 2010 for this purpose.

*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.

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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 fees, 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.

Details of cash capital expenditures for property, plant, and equipment by segment for the combined year ended December 31, 2008, are included in the table below (dollars, in millions):

| | Year Ended December 31, 2008 | | | |
|---|---|---|---|---|
| | **Acquisition/ Expansion (a)** | **Quality/ Efficiency (b)** | **Replacement, Environmental, and Other** | **Total** |
| Paper | $ 0.7 | $ 7.0 | $ 40.1 | $ 47.8 |
| Packaging (c) | 11.1 | 4.2 | 33.4 | 48.7 |
| Corporate and Other | 1.2 | 0.6 | 2.5 | 4.3 |
| | **$ 13.0** | **$ 11.8** | **$ 76.0** | **$ 100.8** |

(a) Acquisition and expansion does not include $1.2 billion of cash paid for acquisition of businesses and facilities as recorded on our Consolidated Statement of Cash Flows.

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

(c) Includes $10.4 million of spending related to the installation of a shoe press in our DeRidder, Louisiana, mill to reduce our use of energy in producing linerboard, which is included under Acquisition/Expansion in the table above. Total capital spending for this project was $22.4 million, part of which was spent in 2007.

*2007*

Investing activities for the year ended December 31, 2007, included $393.6 million of net cash held in trust related primarily to the net proceeds of the initial public offering. The $393.6 million of net cash held in trust included $399.5 million of cash deposited from the initial public offering net of $5.9 million of cash used from the trust to pay initial business, legal, and accounting due diligence expenses on prospective business combinations, general and administrative expenses, and corporate income and franchise taxes. For the year ended December 31, 2007, investing activities also included $2.6 million of cash paid for acquisition costs.

Investing activities in 2007 of the Predecessor also included $141.8 million of capital expenditures for property, plant, and equipment, while the remaining amount was used for environmental compliance and to improve energy efficiency. Approximately $45 million of the expenditures for property and equipment related to the reconfiguration of the paper machine at our pulp and paper mill in Wallula to produce both pressure sensitive and label and release paper in

addition to commodity uncoated freesheet paper. As of December 31, 2007, total spending on this project was approximately $80 million. Also included in this amount is $10 million of spending related to the installation of a shoe press in our DeRidder, Louisiana, mill to reduce our use of energy in producing linerboard. Investing activities also included $14.2 million of proceeds from the sale of assets. Of this $14.2 million, approximately $5.2 million (net of cash costs paid to buyer) was from the sale of the paper converting facility in Salem, Oregon, and approximately $3.7 million and $3.2 million of proceeds from the sale of a portion of the Wallula, Washington, fiber farm and Jackson, Alabama, sawmill, respectively.

Investing activities in 2007 used $32.5 million of cash to pay amounts owed to OfficeMax under the Additional Consideration Agreement. As part of the Forest Products Acquisition, the Predecessor entered into an Additional Consideration Agreement with OfficeMax, pursuant to which it agreed to adjust the purchase price based on changes in paper prices over the six-year period following the Forest Products Acquisition. This agreement terminated as a result of the Acquisition, and consequently, we neither received payments from, nor made subsequent payments to, OfficeMax under this agreement.

***Financing Activities***

Cash used for financing activities was $327.3 million for the year ended December 31, 2009, compared with $817.7 million of cash provided by financing activities for the same period in 2008. 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 plus costs to accomplish the restructuring.

Our expected debt service obligation, assuming debt and interest rates stay at December 31, 2009, levels, is estimated to be approximately $83.0 million for 2010 and $100.3 million for 2011, 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 $5 million per year (based on debt levels and interest rates as of December 31, 2009).

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 section of 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. Under our $250 million revolving credit facility, $163.6 million was available at December 31, 2008. Prior to the Acquisition, financing activities have historically consisted primarily of intercompany loans obtained by the Predecessor.

For the year ended December 31, 2007, cash financing activities included $414.0 million of gross proceeds from the initial public offering on June 22, 2007, as well as $3.0 million related to the sale of insider warrants. In conjunction with the offering, we paid $16.6 million in underwriting discounts and commissions and incurred approximately $0.6 million in other costs related to the offering. As discussed above in Investing Activities, the net amount from the offering, or $399.5 million, was deposited in a trust account. These funds were released from the trust as a result of the Acquisition. Also included in this amount is $90.4 million of intercompany loans obtained by the Predecessor.

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The following discussion describes our debt structure in more detail.

At December 31, 2009 and 2008, our long-term debt and the interest rates on that debt were as follows (dollars, in millions):

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Amount | Interest Rate | Amount | Interest Rate |
| Revolving credit facility, due 2013 | $ | % | $ 60.0 | 4.33% |
| Tranche A term loan, due 2013 | 203.7 | 3.25% | 245.3 | 4.75% |
| Tranche B term loan, due 2014 | 312.2 | 5.75% | 471.4 | 5.75% |
| Second lien term loan, due 2015 | | % | 260.7 | 9.25% |
| 9% Senior Notes, due 2017 | 300.0 | 9.00% | | % |
| Current portion of long-term debt | (30.7) | 3.97% | (25.8) | 5.33% |
| Long-term debt, less current portion | 785.2 | 6.41% | 1,011.6 | 6.34% |
| Current portion of long-term debt | 30.7 | 3.97% | 25.8 | 5.33% |
| | 815.9 | 6.32% | 1,037.5 | 6.31% |
| 15.75% notes payable, due 2015 | | % | 66.6 | 15.75% |
| | **$ 815.9** | | **$ 1,104.1** | |

As of December 31, 2009, our 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 300 basis points, or a calculated base rate plus an applicable margin, which is currently 200 basis points (collectively with the Tranche A term loan facility and the Tranche B term loan facility, the Credit Facilities).

The Tranche A Term Loan Facility: A five-year amortizing loan facility with interest at LIBOR plus an applicable margin, which is currently 300 basis points, or a calculated base rate plus an applicable margin, which is currently 200 basis points. The Tranche A term loan facility was originally issued at $250.0 million.

The Tranche B Term Loan Facility: A six-year amortizing loan facility with interest at LIBOR (subject to a floor of 4%) plus 350 basis points or a calculated base rate plus 250 basis points. The Tranche B term loan facility was originally issued at $475.0 million.

The 9% Senior Notes: An eight-year nonamortizing $300.0 million senior unsecured debt obligation with annual interest at 9%.

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 generally would be entitled to seize the collateral. 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, the Company pays a commitment fee to the lenders under the revolving credit facility at a rate of 0.50% per annum (which shall be reduced to 0.375% when the leverage ratio is less than 2.25:1.00) times the daily average undrawn portion of the revolving credit facility (reduced by the amount of letters of credit issued and outstanding), which fee is payable quarterly in arrears. The Company also pays letter of credit fees of 300 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 in arrears.

At December 31, 2009 and 2008, we had zero and $60.0 million, respectively, of borrowings outstanding under the revolving credit facility. For the year ended December 31, 2009 and 2008, the average interest rates for our borrowings under our revolving credit facility were 3.7% and 6.0%, respectively. The minimum and maximum borrowings under the revolving credit facility were zero and $60.0 million for the year ended December 31, 2009. The minimum and maximum borrowings under the revolving credit facility were zero and $80.0 million for the year ended December 31, 2008. The weighted average amount of borrowings outstanding under the revolving credit facility during the year ended December 31, 2009, was $8.5 million. The weighted average amount of borrowings outstanding under the revolving credit facility during the year ended December 31, 2008, was $57.6 million. At December 31, 2009, we had availability of $227.8 million, which is net of outstanding letters of credit of $22.2 million.

*Debt Restructuring*

On October 26, 2009, Boise Paper Holdings, L.L.C. (Boise Paper Holdings) and Boise Finance Company (together, the 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 is exempt from the registration requirements of the Securities Act of 1933, as amended. The 9% Senior Notes pay interest semiannually in arrears on May 1 and November 1, commencing on May 1, 2010.

Following the sale of the 9% Senior Notes, the 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. In addition, pursuant to the Credit Agreement Amendments, 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, we also used cash on hand to repurchase, in its entirety, our outstanding 15.75% note payable due in 2015. Boise Inc. purchased the note payable at a 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.

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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 fees 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. In addition, in December 2009, we made a voluntary prepayment of $100 million on our Tranche B term loan at 101%. We recognized $44.1 million in Loss on extinguishment of debt, which consisted of the following (dollars, in millions):

| | |
|---|---|
| Write-off of second lien deferred financing fees | $ 27.1 |
| Premium paid to second lien holders | 33.9 |
| Gain on repurchase of notes payable | (22.7) |
| Other costs and fees | 5.8 |
| | **$ 44.1** |

In connection with the issuance of the 9% Senior Notes, the Issuers and BZ Intermediate Holdings LLC, (Holdings), 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 Registration Rights Agreement, dated as of October 26, 2009 (the Registration Rights Agreement). The Registration Rights Agreement requires the Company to register under the Securities Act the 9% Senior Notes due in 2017 (the 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 Exchange Notes or, in certain circumstances, to file and keep effective a shelf registration statement for resale of the privately placed 9% Senior Notes. If the Issuers fail to satisfy these obligations by October 26, 2010, the Issuers will pay additional interest up to 1% per annum to holders of the 9% Senior Notes.

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 present and future senior secured indebtedness of the Issuers (including all borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness).

*Covenants*

The Credit Facilities require Holdings and its subsidiaries to maintain financial covenant ratios. In connection with the October 2009 debt restructuring, we also entered into the Credit Agreement Amendments that modified our financial covenants under the Credit Facilities. The financial covenant modifications limit our total leverage ratio to 4.75:1.00, stepping down to 4.50:1.00 at September 30, 2011. We have a new secured leverage ratio of 3.25:1.00, stepping down to 3.00:1.00 at September 30, 2011. The total leverage ratio is defined in our loan agreements 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 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 the ratio as of the last day of any fiscal quarter of (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 Credit Facilities also limit the ability of Holdings and its subsidiaries to make capital expenditures, generally to $150 million per year.

The 9% Senior Notes indenture contains covenants which, subject to certain exceptions, limit the ability of the Issuers and the 9% 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 Issuers or 9% Senior Notes Guarantors. Upon a change of control, the Issuers must offer to repurchase the 9% Senior Notes at 101% of the principal amount, plus accrued and unpaid interest. If the Issuers sell certain assets and the Issuers do not use the proceeds from such sale for specified purposes, they must offer to repurchase the 9% Senior Notes at 100% of the principal amount, plus accrued and unpaid interest.

Historical differences between our financial statements and Holdings financial statements are related primarily to notes payable held by Boise Inc. and the related interest expense on those notes, interest income, income taxes, and other miscellaneous expenses. With the cancellation of the notes payable, we expect our financial statements and Holdings financial statements to be substantially the same.

*Guarantees*

The Company s obligations under its 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 earnings before interest, taxes, depreciation, and amortization (EBITDA) during any fiscal year of Boise Paper Holdings), and all intercompany debt.

The 9% Senior Notes are jointly and severally guaranteed on a senior unsecured basis by Holdings and each existing and future subsidiary of Holdings (other than the Issuers). The 9% 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 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.

*Other Provisions*

Subject to specified exceptions, the Credit Facilities require that the proceeds from certain asset sales, casualty insurance, certain debt issuances, and 75% (subject to step-downs based on certain leverage ratios) of the excess cash flow for each fiscal year must be used to pay down outstanding borrowings. As of December 31, 2009, required debt principal repayments under the Credit Facilities, including those from excess cash flows, total $30.7 million in 2010. Of this amount, $16.1 million is from our scheduled repayments, and $14.6 million relates to excess cash flows. Our debt principal repayment requirements are $48.3 million in 2011, $134.3 million in 2012, $13.0 million in 2013, $289.6 million in 2014, and $300.0 million thereafter.

*Other*

At December 31, 2009 and 2008, we had $47.4 million and $72.6 million, respectively, of costs recorded in Deferred financing costs on our Consolidated Balance Sheet. As noted above, we canceled the second lien with the proceeds from the debt restructuring, and as a result, we expensed approximately $27.1 million of deferred financing costs. We recorded this charge in Loss on extinguishment of debt in our Consolidated Statement of Income (Loss). In addition, the

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$13.2 million of financing costs related to the debt restructuring is 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. We recorded $11.3 million and $9.3 million of amortization expense for the years ended December 31, 2009 and 2008, in Interest expense in our Consolidated Statements of Income (Loss).

In April 2008, we entered into interest rate derivative instruments to hedge a portion of our interest rate risk as required under the terms of the first and second lien facilities. At December 31, 2009, we had $515.9 million of variable-rate debt outstanding, all of which was hedged using interest rate derivatives. At December 31, 2009, our average effective interest rate was not affected by our interest rate derivatives, as the effective cap rates were above the interest rates on the hedged debt. For additional information on our interest rate derivatives, see Note 13, Financial Instruments, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

For the years ended December 31, 2009 and 2008, cash payments for interest, net of interest capitalized, were $56.9 million and $72.8 million,