BOISE INC.
Form 10-K
March 02, 2011

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, 2010

OR

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

1111 West Jefferson Street, Suite 200

Boise, Idaho 83702-5388

(Address of principal executive offices) (Zip code)

(208) 384-7000

(Registrants telephone number, including area code)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As of June 30, 2010, which was the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of Boise Inc. s Common Stock, par value $.0001 per share, held by non-affiliates was approximately $432,546,329 based upon the closing price of $5.49 per share as quoted on the New York Stock Exchange on that date.

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

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

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 2011 Annual Shareholders Meeting, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of Boise Inc. s year-end.

Table of Contents

PART I

PART II

PART III

PART IV

PART I

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

ITEM 1. BUSINESS

Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products. The products we manufacture include papers used for communication, such as office papers, commercial printing papers, envelopes, forms, and newsprint, as well as papers that are associated with packaging, including label and release and flexible papers used for food wrap and other applications. We also manufacture linerboard and corrugating medium, which are combined to make containerboard, the base raw material in our corrugated sheets and containers.

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

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

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

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

Corporate Structure

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

Paper

Products

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

Communication-Based Papers

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

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

Packaging-Demand-Driven Papers

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

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

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

Market Pulp

Market pulp: pulp sold to customers in the open market for use in the manufacture of paper products.
We are the third-largest manufacturer of uncoated freesheet papers in North America. Cut-size office papers, printing and converting papers, label and release, and flexible packaging products are a subset of a larger product category called uncoated freesheet papers. Our cut-size office papers account for approximately 57% of segment sales. Total Paper segment capacity, including corrugating medium and market pulp, was approximately 1.5 million short tons (a short ton is equal to 2,000 pounds) at December 31, 2010.

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

We focus our product mix on cut-size office papers and packaging-demand-driven papers to better align ourselves with changing end markets. Many traditional communication paper markets have declined as electronic document transmission and storage alternatives have developed. These declines have varied by specific products. For example, the use of business forms has declined significantly, while cut-size office paper consumption has declined more modestly over the past several years as increased printer placements in home and manufacturing environments have offset reductions in office consumption. Some paper markets, such as label and release papers and flexible packaging papers, are not as sensitive to electronic substitution. Sales volumes of label and release, flexible packaging, and premium office papers grew 13%, during the year ended December 31, 2010, compared with the year ended December 31, 2009.

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

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

(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.

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

	Boise Inc. Year Ended December 31			Predecessor		
				January 1 Through February 21,	Year Ended December 31	
	2010	2009	2008	2008	2007	2006
Sales	$ 1,458.3	$ 1,420.0	$ 1,403.7	$ 253.5	$ 1,596.2	$ 1,494.7
Segment income before interest and taxes	$ 151.5	$ 262.7	$ 32.7	$ 20.7	$ 133.5	$ 63.3
Depreciation, amortization, and depletion	87.4	85.2	71.7	0.3	45.0	62.3
EBITDA (a) (b)	**$ 238.9**	**$ 347.8**	**$ 104.3**	**$ 21.1**	**$ 178.5**	**$ 125.6**

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

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

Facilities

We have four paper mills in the Paper segment, all located in the United States. These mills had an annual capacity of 1.3 million short tons of uncoated freesheet papers as of December 31, 2010. These mills are supported by converting machines that, on a net basis, can produce approximately 0.8 million short tons of cut-size office papers annually.

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

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

(a) Capacity assumes production 24 hours per day, 365 days per year, less days allotted for planned maintenance and capital improvements. Accordingly, production can exceed calculated capacity under some operating conditions.

Raw Materials and Input Costs

Fiber is our principal raw material in this segment. During the year ended December 31, 2010, fiber costs accounted for approximately 31% of materials, labor, and other operating expenses in this segment. The primary sources of fiber are timber and byproducts of timber. Most of our manufacturing facilities are located in close proximity to active wood markets. Because of the decline in the housing and construction markets, a significant number of building products manufacturers have curtailed or closed their facilities. These curtailments and closures affect the availability and price of wood chips, wood shavings, and other timber byproducts, particularly in the Pacific Northwest. As a result, we have increased our ability to manufacture wood chips from whole logs, which we purchase from third parties. At our mill in Jackson, Alabama, we also utilize recycled fiber to produce our line of recycled office papers.

All of our paper mills, except St. Helens, have on-site pulp production facilities. Some of our paper mills also purchase pulp from third parties pursuant to contractual arrangements. We negotiate these arrangements periodically, and terms can fluctuate based on prevailing pulp market conditions, including pricing and supply dynamics. As we are currently configured and under normal operating conditions, we are a net consumer of pulp, purchasing approximately 80,000 to 110,000 short tons annually.

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

Our Paper segment consumes substantial amounts of energy, such as electricity, natural gas, and a modest amount of fuel oil. During the year ended December 31, 2010, energy costs accounted for approximately 13% of materials, labor, and other operating expenses in this segment. We purchase substantial portions of our natural gas and electricity under supply contracts. Under most of these contracts, the providers are contractually bound to provide us with all of our needs for a particular type of energy at a specific facility. Most of these contracts have pricing mechanisms that adjust or set prices based on current market prices. We also use derivative instruments such as three-way collars, caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk for our energy requirements. For more information about our derivative instruments, see Disclosures of Financial Market Risks in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

We consume a significant amount of chemicals in the production of paper. Important chemicals we use include starch, caustic, sodium chlorate, precipitated calcium carbonate, dyestuffs, and optical brighteners. During the year ended December 31, 2010, chemical costs accounted for approximately 15% of materials, labor, and other operating expenses in this segment. Many of our chemicals are purchased under contracts, which provide more stability than open-market purchases. These contracts are negotiated periodically at prevailing rates.

Sales, Marketing, and Distribution

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

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

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

Customers

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

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

Packaging

Products

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

Packaging

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

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

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

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

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

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

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

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

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

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

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

	Boise Inc. Year Ended December 31				Predecessor Year Ended December 31	
	2010	**2009**	**2008**	**January 1 Through February 21, 2008**	**2007**	**2006**
Sales	$ 671.9	$ 588.4	$ 703.7	$ 113.5	$ 783.1	$ 766.5

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

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

(b) The year ended December 31, 2009, includes approximately $61.6 million of income from alternative fuel mixture credits.

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

Facilities

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

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

	Number of Machines	Capacity (a)	Production
PULP AND PAPER MILL			
DeRidder, Louisiana			
Containerboard (linerboard)	1	610	602
Newsprint	1	225	229
	2	**835**	**831**

(a) Capacity assumes production 24 hours per day, 365 days per year, less days allotted for planned maintenance and capital improvements. Accordingly, production can exceed calculated capacity under some operating conditions.

Raw Materials and Input Costs

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

Our Packaging segment consumes substantial amounts of energy, such as electricity and natural gas. During the year ended December 31, 2010, energy costs accounted for approximately 12% of materials, labor, and other operating expenses in this segment. We purchase substantial portions of our natural gas and electricity under supply contracts. Under most of these contracts, the providers are contractually bound to supply us with all of our needs for a particular type of energy at a specific facility. Our natural gas contracts have pricing mechanisms based primarily on current market prices, and our electricity contracts have pricing mechanisms based primarily on published tariffs. We also use derivative instruments such as three-way collars, caps, call spreads, and swaps, or a combination of these instruments, to mitigate price risk for our energy requirements. For more information about our derivative instruments, see Disclosures of Financial Market Risks in Part II, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-K.

We consume chemicals in the manufacturing of our Packaging segment products. Important chemicals we use include pulping and bleaching chemicals such as caustic, starch, sulfuric acid, and other sulfur-based chemicals. During the year ended December 31, 2010, chemical costs accounted for approximately 6% of materials, labor, and other operating expenses in this segment. Many of our chemicals are purchased under contracts, which provide more stability than open-market purchases. These contracts are negotiated periodically at prevailing rates.

Sales, Marketing, and Distribution

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

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

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

Customers

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

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

Corporate and Other

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

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

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

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

North American uncoated freesheet paper producers shipped 10.9 million short tons in 2010, and four major manufacturers account for approximately 66% of capacity, according to Resource Information Systems Inc. (RISI) and our estimates. As of December 31, 2010, we believe that we are the third-largest producer of uncoated freesheet paper in North America. Our largest competitors include Domtar Corporation (the largest producer), International Paper Company, and Georgia-Pacific LLC. Although price is the primary basis for competition in most of our paper grades, quality and service are important competitive determinants, especially in premium and specialty grades. Our uncoated freesheet papers compete with electronic data transmission, document storage alternatives, and paper grades we do not produce. Increasing shifts to these alternatives and increasing use of the Internet have had, and are likely to continue to have, an adverse effect on traditional print media and paper usage. These secular trends are in addition to the current demand decline driven by a weak economy and reduced white-collar employment.

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

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

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

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

Environmental Issues

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

Capital Investment

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

Seasonality

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

Working Capital

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

Acquisitions and Divestitures

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

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

Employees

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

Executive Officers of Registrant

The following individuals are deemed our executive officers pursuant to Section 16 of the Securities Exchange Act of 1934. Our executive officers are elected by our board of directors and hold office until their successors are elected and qualified or until their earlier resignation or removal. There are no arrangements or understandings between any of our executive officers and any other persons pursuant to which they were selected as officers. No family relationships exist among any of our executive officers.

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

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

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

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

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

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

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

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

ITEM 1A. RISK FACTORS

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

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

Risks Related to Industry Conditions

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

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

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

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

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

Risks Related to Our Operations

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

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

- Maintenance outages.
- Prolonged power failures.
- Equipment failure.
- Disruption in the supply of raw materials, such as wood fiber, energy, or chemicals.
- A chemical spill or release.
- Closure because of environmental-related concerns.
- Explosion of a boiler.
- The effect of a drought or reduced rainfall on our water supply.
- Disruptions in the transportation infrastructure, including roads, bridges, railroad tracks, and tunnels.
- Fires, floods, earthquakes, hurricanes, or other catastrophes.
- Terrorism or threats of terrorism.
- Labor difficulties.
- Other operational problems.

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

Labor disruptions or increased labor costs could materially adversely affect our business. While we believe we have good labor relations, we could experience a material labor disruption, strike, or significantly increased labor costs at one or more of our facilities, either in the course of negotiations of a labor agreement or otherwise. Either of these situations could prevent us from meeting customer demands or result in increased costs, thereby reducing our sales and profitability. As of January 31, 2011, we had approximately 4,100 employees. Approximately 57% of these employees worked pursuant to collective bargaining agreements. As of January 31, 2011, approximately 50% of our employees were working pursuant to collective bargaining agreements that have expired or will expire within one year, including agreements at the following facility locations: Wallula, Washington; Nampa, Idaho; DeRidder, Louisiana; Jackson, Alabama; and International Falls, Minnesota. The labor contract at our paper mill in Wallula, Washington (332 employees represented by the Association of Western Pulp & Paper Workers, or AWPPW) expired in March 2009 and was terminated by the AWPPW in October 2009. In February 2010, the union employees at Wallula rejected a new collective bargaining agreement that union leadership had recommended unanimously, and we declared an impasse in the bargaining process and implemented the terms of the last contract offer. We are currently negotiating the labor contract at our corrugated container plant in Nampa, Idaho (108 employees represented by the AWPPW), which expired on December 31, 2010. In February 2011, union employees represented by the United

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

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

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

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

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

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

We recently acquired Tharco Packaging, Inc., and may engage in future acquisitions, which in each case could materially affect our business, operating results, and financial condition. In addition to our recent acquisition, we may continue seeking to acquire other businesses, products, or assets. However, we may not be able to find other suitable acquisition candidates, and we may not be able to complete such acquisitions on favorable terms, if at all. Our recent acquisition and, assuming we complete them, additional acquisitions may not strengthen our competitive position or achieve our goals. Our recent acquisition and any future acquisitions may disrupt our ongoing operations, divert management from day-to-day responsibilities, increase our expenses, and adversely affect our business, operating results, and financial condition. Our recent acquisition and future acquisitions may reduce our cash available for operations and other uses. There can be no assurance that we will be able to effectively manage the integration of our recently acquired business, or businesses we may acquire in the future, or be able to retain and motivate key personnel from those businesses. Any difficulties we encounter in the integration process could increase our expenses and have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Economic and Financial Factors

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

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

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

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

Various risks, uncertainties, and events beyond our control could affect our ability to comply with these covenants. Failure to comply with these covenants (or similar covenants contained in future financing agreements) could result in a default under the credit facilities, the indenture governing the 9% and 8% senior notes, and other agreements containing cross-default provisions, which, if not cured or waived, could have a material adverse effect on our business, financial condition, and results of operations. A default would permit lenders or holders to accelerate the maturity of the debt under these agreements, to foreclose upon any collateral securing the debt, and to terminate any commitments to lend. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including the obligations of Boise Paper Holdings, L.L.C., Boise Finance Company, and Boise Co-Issuer Company under the 9% and 8% senior notes. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved comments.

ITEM 2. PROPERTIES

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

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

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

ITEM 3. LEGAL PROCEEDINGS

We are a party to routine proceedings that arise in the course of our business. We are not currently a party to any legal proceedings or environmental claims that we believe would have a material adverse effect on our financial position, results of operations, or liquidity, either individually or in the aggregate.

ITEM 4. (REMOVED AND RESERVED)

PART II

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

Market Information

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

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

Holders

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

Dividends

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

Securities Authorized for Issuance Under Our Equity Compensation Plan

Plan Category	Number of Securities to 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)	5,407,537	$ N/A	8,203,972
Equity compensation plans not approved by securityholders	N/A	N/A	N/A
Total	**5,407,537**	**$** N/A	**8,203,972**

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

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

Issuer Purchases of Equity Securities

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

Performance Graph

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

ITEM 6. SELECTED FINANCIAL DATA

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

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

Included in the selected financial data above are the activities of Aldabra 2 Acquisition Corp. prior to the Acquisition and the operations of the acquired businesses from February 22, 2008, through December 31, 2008. The Predecessor financial data is presented for the periods prior to the Acquisition. The period of February 1 (Inception) through December 31, 2007, represents the activities of Aldabra 2 Acquisition Corp.

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

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

Included $5.9 million of income related to energy hedges.

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

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

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

Included $7.4 million of expense related to energy hedges.

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

Included $10.2 million related to inventory purchase accounting adjustments.

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

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

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

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

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

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

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

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

Included $2.8 million of expense for special project costs.

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

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

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

EBITDA	**$ 303**	**$ 396**	**$ 145**	**$**	**$ 24**	**$ 246**	**$ 210**

EBITDA represents income (loss) before interest (interest expense, interest income, and change in fair value of interest rate derivatives), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision makers to evaluate segment operating performance and to decide how to allocate resources to segments. We believe EBITDA is useful to investors because it provides a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that are used by our internal decision makers and because it is frequently used by investors and other interested parties in the evaluation of companies with substantial financial leverage. We believe EBITDA is a meaningful measure because it presents a transparent view of our recurring operating performance and allows management to readily view operating trends, perform analytical comparisons, and identify strategies to improve operating performance. For example, we believe that the inclusion of items such as taxes, interest expense, and interest income distorts management s ability to assess and view the core operating trends in our segments. EBITDA, however, is not a measure of our liquidity or financial performance under generally accepted accounting principles (GAAP) and should not be considered as an alternative to net income (loss), income (loss) from operations, or any other performance measure derived in accordance with GAAP or as an alternative to cash flow from operating activities as a measure of our liquidity. The use of EBITDA instead of net income (loss) or segment income (loss) has limitations as an analytical tool, including the inability to determine profitability; the exclusion of interest expense, interest income, change in fair value of interest rate derivatives, and associated significant cash requirements; and the exclusion of depreciation, amortization, and depletion, which represent significant and unavoidable operating costs, given the level of our indebtedness and the capital expenditures needed to maintain our businesses. Management compensates for these limitations by relying on our GAAP results. Our measures of EBITDA are not necessarily comparable to other similarly titled captions of other companies due to potential inconsistencies in the methods of calculation.

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

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

Background

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

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

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

Since the Acquisition, we have operated and reported our results in three reportable segments: Paper, Packaging, and Corporate and Other (support services). See Note 18, Segment Information, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K for more information related to our segments.

Executive Summary

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

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

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

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

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

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

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

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

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

Net income excluding special items, net income excluding special items per diluted share, EBITDA, and EBITDA excluding special items are not measures under U.S. generally accepted accounting principles (GAAP). EBITDA represents income (loss) before interest (changes in fair value of interest rate derivatives, interest expense, and interest income), income taxes, and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision makers to evaluate segment operating performance and to decide how to allocate resources to segments. We believe EBITDA is useful to investors because it provides a means to evaluate the operating performance of our segments and our company on an ongoing basis using criteria that are used by our internal decision makers and because it is frequently used by investors and other interested parties in the evaluation of companies with substantial financial leverage. EBITDA excluding special items and net income (loss) excluding special items represent EBITDA and net income (loss) adjusted by eliminating items that we believe are not consistent with our ongoing operations. The Company uses these measures to focus on ongoing operations and believes they are useful to investors because these measures enable meaningful comparisons of past and present operating results.

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

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

EBITDA excluding special items	$ (17.7)	$ (13.4)	$ (18.3)	$ (3.1)	$ (21.4)
EBITDA	**$ 302.6**	**$ 395.7**	**$ 145.1**	**$ 23.7**	**$ 168.8**
EBITDA excluding special items	**$ 325.6**	**$ 232.1**	**$ 222.8**	**$ 24.4**	**$ 247.1**

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

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

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

Factors That Affect Our Operating Results

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

- Labor and personnel relations.
- General economic conditions, including but not limited to durable and nondurable goods production, white-collar employment, electronic substitution, and relative currency values.
- Legislative or regulatory environments, requirements, or changes affecting the businesses in which we are engaged.
- Competing technologies that affect the demand for our products.
- The commodity nature of our products and their price movements, which are driven largely by supply and demand.
- Availability and affordability of raw materials, fiber, energy, and chemicals.
- The ability of our lenders, customers, and suppliers to continue to conduct their businesses.

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

Pension funding requirements.

Credit or currency risks affecting our revenue and profitability.

Major equipment failure.

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

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

Demand

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

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

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

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

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

Supply

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

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

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

Operating Costs

The major costs of production are fiber, energy, chemicals, and labor. The relative size of these costs varies by segment. Given the significance of raw material and energy costs to total operating expenses and the limited ability to control these costs, compared with other operating costs, volatility in these costs can materially affect operating margins. In addition, the timing and degree of price cycles of raw materials and energy differ with respect to each type of raw material and energy used.

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

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

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

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

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

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

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

Other Raw Materials and Energy Purchasing and Pricing. We purchase other raw materials and energy used to manufacture our products in both the open market and through long-term contracts. These contracts are generally with regional suppliers who agree to supply all of our needs for a certain raw material or energy at a single facility. These contracts frequently contain minimum purchase requirements and are for terms of various lengths. They also contain price adjustment mechanisms that take into account changes in market prices. Therefore, although our long-term contracts provide us with supplies of raw materials and energy that are more stable than open-market purchases, they may not, in many cases, alleviate fluctuations in market prices.

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

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

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

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

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

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

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

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

Our Operating Results

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

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

Sales Volumes and Prices

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

	Boise Inc. Year Ended December 31			Predecessor January 1 Through February 21,	Combined Year Ended December 31,
	2010	2009	2008	2008	2008
Paper					
Uncoated freesheet	1,233	1,251	1,200(a)	236	1,436(a)
Containerboard (medium)	127	127	118	19	137
Market pulp	81	58	102(a)	20	122(a)
	1,441	1,436	1,420	275	1,695
Packaging					
Containerboard (linerboard)	225	253	194	36	230
Newsprint	231	199	326	56	382
Corrugated containers and sheets (mmsf)	6,735	5,963	5,337	914	6,251
Paper					
Uncoated freesheet	$ 977	$ 954	$ 942	$ 868	$ 930
Containerboard (medium)	467	418	481	454	477
Market pulp	549	429	512	535	516
Packaging					
Containerboard (linerboard)	$ 365	$ 301	$ 396	$ 399	$ 397
Newsprint	493	459	584	494	571
Corrugated containers and sheets ($/msf)	57	58	58	55	57

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

Operating Results

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

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

Sales

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

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

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

Costs and Expenses

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

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

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

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

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

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

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

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

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

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

Income From Operations

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

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

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

Other

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

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

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

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

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

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

Sales

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

Paper. Sales decreased $237.2 million, or 14%, to $1,420.0 million for the year ended December 31, 2009, from $1,657.2 million for the combined year ended December 31, 2008. This decrease was driven primarily by a 13% decline in uncoated freesheet paper sales volumes, due primarily to lower production capacity as a result of the St. Helens mill restructuring and to market downtime as a result of declining demand. Sales volumes for uncoated freesheet paper commodity grades declined 10%, and premium and specialty grades declined 19%, compared with 2008, driven primarily by sharp reductions in printing and converting sales volumes. Sales volumes in our label and release, flexible packaging, and premium office grades grew 4%, compared with 2008, as we continued to convert commodity production to label and release at our Wallula, Washington, mill. Reduced volumes were offset partially by higher prices. Overall uncoated freesheet paper net sales prices increased 3%, compared with 2008, as both commodity and premium and specialty uncoated freesheet paper net sales prices increased.

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

Costs and Expenses

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

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

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

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

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

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

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

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

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

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

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

Income from operations. Income from operations for the year ended December 31, 2009, increased $242.6 million to $305.6 million, compared with $63.0 million for the combined year ended December 31, 2008. This increase was driven primarily by reduced input and fixed costs, alternative fuel mixture credits for our use of renewable biomass fuels, and the restructuring of our St. 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 $10.2 million due to inventory purchase price adjustments.

Paper. Segment income increased $209.3 million, or 392%, to $262.7 million in 2009 from $53.4 million in the combined year ended December 31, 2008. The impact of the alternative fuel mixture credits was $149.9 million. The remainder of this increase was due primarily to reduced input and fixed costs and the restructuring of our St. Helen s mill in late 2008, offset partially by lower sales volumes and reduced depreciation due to the suspension of depreciation for the assets being held for sale as a result of the Acquisition. The combined year ended December 31, 2008, included $7.4 million of expense from inventory purchase accounting adjustments.

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

Other

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

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

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

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

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

For the year ended December 31, 2009, BZ Intermediate recorded $20.4 million of income tax expense and had an effective tax rate of 12.1%. BZ Intermediate increased its income tax expense in 2009 as a result of its uncertain tax position regarding alternative fuel mixture credits. This increase was offset by a $45.7 million tax benefit from the release of valuation allowances. For the year ended December 31, 2008, BZ Intermediate recorded $5.8 million of income tax benefits related to losses incurred during the year and had an effective tax benefit rate of 12.3%.

Liquidity and Capital Resources

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

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

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

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

Sources and Uses of Cash

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

Operating Activities

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

2010 Compared With 2009

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

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

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

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

2009 Compared With 2008

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

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

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

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

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

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

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

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

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

Sources and uses of cash flows from operating activities

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

In 2010, we sold the following:

1.2 million short tons of uncoated freesheet paper.

225,000 short tons of linerboard to third parties.

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

231,000 short tons of newsprint.

81,000 short tons of market pulp.

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

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

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

Sensitivity Analysis

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

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

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

Investment Activities

2010

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

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

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

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

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

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

2009

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

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

2008

On February 22, 2008, Aldabra 2 Acquisition Corp. completed the Acquisition of the Paper Group and other assets and liabilities related to the operation of the paper, packaging and newsprint, and transportation businesses of the Paper Group and part of the headquarters operations of Boise Cascade for a total purchase price of $1.7 billion, which included $1.3 billion of net cash and fees. Subsequent to the Acquisition, Aldabra 2 Acquisition Corp. changed its name to Boise Inc. Boise Inc. obtained $1.1 billion of financing in conjunction with the Acquisition, which is discussed below in Financing Activities.

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

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

Financing Activities

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

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

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

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

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

Contractual Obligations

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

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

(a) The table assumes our long-term debt is held to maturity and includes the current portion of long-term debt. For more information, see Note 11, Debt, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplemental Data of this Form 10-K.

(b) Amounts represent estimated interest payments as of December 31, 2010, and assume our long-term debt is held to maturity.

(c) We enter into operating leases in the normal course of business. We lease our distribution centers as well as other property and equipment under operating leases. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our operating lease obligations would change if we exercised these renewal options and/or if we entered into additional operating lease agreements. For more information, see Note 7, Leases, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K.

(d) Included among our raw materials purchase obligations are contracts to purchase approximately $81 million of wood fiber. Under most of these log and fiber supply agreements, we have the right to cancel or reduce our commitments in the event of a mill curtailment or shutdown. Future purchase prices under most of these agreements are set quarterly or semiannually based on regional market prices, and the estimate is based on contract terms or first quarter 2011 pricing. Our log and fiber obligations are subject to change based on, among other things, the effect of governmental laws and regulations, our manufacturing operations not operating in the normal course of business, log and fiber availability, and the status of environmental appeals. Except for deposits required pursuant to wood supply contracts, these obligations are not recorded in our consolidated financial statements until contract payment terms take effect.

(e) We enter into utility contracts for the purchase of electricity and natural gas. We also purchase these services under utility tariffs. The contractual and tariff arrangements include multiple-year commitments and minimum annual purchase requirements. Our payment obligations were based upon prices in effect on December 31, 2010, or upon contract language, if available. Because we consume the energy in the manufacture of our products, these obligations represent the face value of the contracts, not resale value.

(f) Long-term deferred income taxes of $88.2 million are excluded from this table because the timing of their future cash outflows are uncertain.

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

(h) Includes current liabilities of $3.5 million primarily related to the current portion of workers compensation liability.

Off-Balance-Sheet Activities

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

Guarantees

Note 11, Debt, and Note 19, Commitments, Guarantees, and Legal Proceedings, of the Notes to Consolidated Financial Statements in Part II, Item 8. Financial Statements and Supplementary Data of this Form 10-K describe the nature of our guarantees, including the approximate terms of the guarantees, how the guarantees arose, the events or circumstances that would require us to perform under the guarantees, and the maximum potential undiscounted amounts of future payments we could be required to make.

Inflationary and Seasonal Influences

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

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

Disclosures of Financial Market Risks

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

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

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

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

(a) Includes current portion.

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

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

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

Environmental

Our businesses are subject to a wide range of general and industry-specific environmental laws and regulations. In particular, we are affected by laws and regulations covering air emissions, wastewater discharges, solid and hazardous waste management, and site remediation. Compliance with these laws and regulations is a significant factor in the operation of our businesses. We believe that we have created a corporate culture of strong compliance by taking a conservative approach to environmental issues in order to assure that we are operating well within the bounds of regulatory requirements. However, we cannot assure you that we will at all times be in full compliance with environmental requirements, and we cannot assure you that we will not incur fines and penalties in the future. In all periods presented, environmental spending for fines and penalties across all of our segments was immaterial.

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

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

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

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

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

Climate change legislative and regulatory activities that affect our operations generally focus on reducing GHG emissions through some combination of GHG limitations (such as cap and trade or emission standards) and a renewable electricity standard (RES). Three of the five states in which our primary GHG emitting facilities operate (Minnesota, Oregon, and Washington) have a