BOISE INC.
Form 10-K
February 28, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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, 2011

or

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

1111 West Jefferson Street, Suite 200
Boise, Idaho 83702-5388
(Address of principal executive offices) (Zip Code)
(208) 384-7000
(Registrants' telephone number, including area code)

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

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

| Title of Each Class | Name of Each Exchange On Which Registered |
|---|---|
| Common Stock, $0.0001 par value | New York Stock Exchange |

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

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

| | | |
|---|---|---|
| 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 x | No ¨ |
| BZ Intermediate Holdings LLC | Yes x | 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 amendment 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 | x | Accelerated filer | ¨ |
| | Non-accelerated filer<br>(Do not check if smaller reporting company) | ¨ | Smaller reporting company | ¨ |
| BZ Intermediate Holdings LLC | Large accelerated filer | ¨ | Accelerated filer | ¨ |
| | Non-accelerated filer<br>(Do not check if smaller reporting company) | x | Smaller reporting company | ¨ |

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

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

As of June 30, 2011, 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 $0.0001 per share, held by non-affiliates was approximately $919,795,385 based upon the closing price of $7.79 per share as quoted on the New York Stock Exchange on that date.

There were 100,358,071 common shares, $0.0001 per share par value, of Boise Inc. outstanding as of January 31, 2012.

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

DOCUMENTS INCORPORATED BY REFERENCE

Some 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 2012 Annual Shareholders' Meeting, which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, within 120 days of Boise Inc.'s year-end.

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PART I

All of our filings with the Securities and Exchange Commission (SEC), which include this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Registration Statements, Current Reports on Form 8-K, and all related amendments are available free of charge via the Electronic Data Gathering Analysis and Retrieval (EDGAR) System on the SEC website at www.sec.gov. We also provide copies of our SEC filings at no charge upon request and make electronic copies of our reports available through our website at www.boiseinc.com as soon as reasonably practicable after filing such material with the SEC. 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.

ITEM 1. BUSINESS

Boise Inc. is a large, diverse manufacturer and seller of packaging and paper products. We are headquartered in Boise, Idaho, and have approximately 5,400 employees. We operate largely in the United States, and recently expanded our operations into Europe, Mexico, and Canada. We manufacture and sell corrugated containers and sheets, protective packaging products and papers associated with packaging, including labeling papers, flexible papers used for food wrap, and newsprint. Additionally, we manufacture linerboard and corrugating medium, which are combined to make containerboard, the base raw material in corrugated sheets and containers. We are also the third-largest North American manufacturer of communication papers, such as office papers, commercial printing papers, envelopes, and forms.

On March 1 and December 1, 2011, we acquired Tharco Packaging (Tharco) for $200 million and Hexacomb for $125 million, subject to post-closing adjustments. These acquisitions diversify our presence in packaging markets, expand our presence globally, and increase our containerboard integration to approximately 90%.

Below is a map of our locations:

| | |
|---|---|
| Corporate Headquarters | Packaging |
| Paper | Packaging (Tharco) |
| | Packaging (Hexacomb) |

Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their packaging and paper 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.

Corporate Structure and Reporting Segments

The following sets forth our structure at December 31, 2011:

Boise Inc.

BZ Intermediate Holdings LLC

Boise Paper Holdings, L.L.C.

| Packaging Segment | Paper Segment | Corporate Segment |
|---|---|---|

We operate and report our business in three reportable segments: Packaging, Paper, and Corporate and Other (support services). We present information about each of our segments and the geographic areas in which they operate in Note 6, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

Packaging

In our Packaging segment, we manufacture and sell linerboard, corrugated containers and sheets, protective packaging products, and newsprint. During 2011, we acquired two packaging companies, Tharco and Hexacomb. We continue to look for opportunities to grow our packaging business and expand our current product lines.

Packaging Products

- Linerboard: paperboard, which when combined with corrugating medium, forms corrugated board — the key raw material in the manufacture of corrugated sheets and containers. Linerboard is also part of a broader category of products called containerboard.
- Corrugated sheets: containerboard sheets that are sold primarily to converters that produce a variety of corrugated products.
- Corrugated containers: corrugated sheets that have been fed through converting machines to create containers, which are used in the packaging of fresh fruit and vegetables, processed food, beverages, and other industrial and consumer products.
- Protective packaging products: these products include multi-material customized packaging solutions, which may utilize kraft paper-based honeycomb corrugated packaging, foamed plastics, and air pocket packing materials.
- Newsprint: paper commonly used for printing newspapers, other publications, and advertising material.

During the year ended December 31, 2011, our Packaging segment produced approximately 607,000 short tons (a short ton is equal to 2,000 pounds) of linerboard, and our Paper segment produced approximately 135,000 short tons of corrugating medium, both of which are used in the production of containerboard.

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. During 2011, we increased our integration levels and expanded our corrugated container position through the acquisition of Tharco. Our recent acquisition of Hexacomb will provide additional opportunities for vertical integration in 2012. In 2011, our corrugated container and sheet feeder plants consumed approximately 529,000 short tons of containerboard (including both linerboard and corrugating medium), or the equivalent of 71% of our containerboard production.

We are a low-volume manufacturer of newsprint. Demand for newsprint in North America has declined dramatically in the last several years. We expect this decline to continue, as electronic media displaces newsprint. Despite this decline, our low-cost newsprint machine has enabled our newsprint operations to be profitable in the southern United States.

The following table shows financial results for the Packaging segment for the periods indicated (dollars in millions):

| | Boise Inc. Year Ended December 31 | | | | Predecessor | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Sales | $949.7 | $671.9 | $588.4 | $703.7 | $113.5 | $783.1 |
| Segment income before interest and taxes | 105.0 | 65.0 | 67.1 | 21.1 | 5.7 | 40.1 |
| Depreciation, amortization, and depletion | 50.5 | 38.6 | 42.2 | 35.1 | 0.1 | 37.7 |
| EBITDA (a) (b) | $155.5 | $103.6 | $109.3 | $56.2 | $5.7 | $77.8 |

(a) Segment earnings before interest, taxes, depreciation, and amortization (EBITDA) is calculated as segment income before interest (interest income and interest expense), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision maker 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.

Facilities

We manufacture containerboard (linerboard) and newsprint on two machines at our mill in DeRidder, Louisiana. We also manufacture corrugated containers and sheets and protective packaging products globally at 26 plants located in North America and Europe.

The following table sets forth capacity and production at our mill in DeRidder, Louisiana, by product for the periods indicated (in thousands of short tons):

| | Boise Inc. Year Ended December 31 | | | | Predecessor | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Capacity (a) | | | | | | |
| Containerboard (linerboard) | 605 | 610 | 610 | 600 | | 575 |
| Newsprint | 230 | 225 | 225 | 410 | | 425 |
| | 835 | 835 | 835 | 1,010 | | 1,000 |
| Production (b) | | | | | | |
| Containerboard (linerboard) | 607 | 602 | 544 | 446 | 83 | 573 |
| Newsprint | 229 | 229 | 188 | 331 | 59 | 409 |
| | 836 | 831 | 732 | 777 | 142 | 982 |

(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.

Our corrugated products are generally manufactured to meet specific customer needs, and as a result, production can vary between years. See sales volumes for our corrugated containers and sheets in the "Sales, Marketing, and Distribution" section below.

Raw Materials and Input Costs

Wood fiber, including purchased rollstock consumed in our corrugated operations, 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, 2011, wood fiber costs accounted for approximately 22% of materials, labor, and other operating expenses in this segment. We generally purchase raw materials through market-based contracts and on the open market from suppliers located in close proximity to DeRidder, Louisiana.

Our Packaging segment consumes substantial amounts of energy, such as electricity and natural gas. During the year ended December 31, 2011, energy costs accounted for approximately 9% 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 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 Note 8, Financial Instruments, in the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" 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 and sulfuric acid, and starch. During the year ended December 31, 2011, chemical costs accounted for approximately 5% of materials, labor, and other operating expenses in this segment. Most of our chemicals are purchased under contracts, which contain price adjustment mechanisms designed to provide greater pricing stability than open-market purchases. These contracts are negotiated periodically at prevailing rates.

Sales, Marketing, and Distribution

The products manufactured in our Packaging segment 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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Containerboard (linerboard) (a) | 230 | 225 | 253 | 194 | 36 | 239 |
| Newsprint | 231 | 231 | 199 | 326 | 56 | 415 |
| Corrugated containers and sheets (b) | 8,720 | 6,735 | 5,963 | 5,337 | 914 | 6,609 |

(a) Excludes intercompany sales.

(b) Includes corrugated container and sheet volumes for Tharco and Hexacomb since their acquisitions on March 1, and December 1, 2011, respectively.

Customers

In 2011, we used approximately 71% of our corrugated board (a combination of linerboard and corrugating medium) in our operations, and sold the rest in the open market, both domestically and internationally. We consume virtually all of the corrugating medium we produce. A significant portion of our finished corrugated containers are sold to large agricultural producers and food and beverage processors from our plants in the Pacific Northwest. We are able to serve customers' needs from our multiple regional plants, schedule operating runs to maximize productivity, and optimize shipping distances to our customers. We believe our position in agricultural and food markets makes us more resistant to economic downturns. Plants in other regions, including the newly acquired Tharco and Hexacomb plants, have a diverse customer base that primarily serves industrial markets, including electronics and medical device manufacturers. We also sell corrugated sheets to converters that use the sheets to manufacture corrugated containers for a variety of customers. 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. We have over five thousand customers in this segment, and no single customer of this segment exceeds 10% of segment sales.

Paper

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

- Cut-size office papers: imaging papers for the office and home.
- 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. 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 our label and release, flexible packaging, and premium office papers grew 4% during the year ended December 31, 2011, compared with the year ended December 31, 2010.

The following table shows financial results for the Paper segment for the periods indicated (dollars in millions):

| | Boise Inc. Year Ended December 31 | | | | Predecessor | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Sales | $1,496.5 | $1,458.3 | $1,420.0 | $1,403.7 | $253.5 | $1,596.2 |
| Segment income before interest and taxes | 112.1 | 151.5 | 262.7 | 32.7 | 20.7 | 133.5 |
| Depreciation, amortization, and depletion | 89.5 | 87.4 | 85.1 | 71.7 | 0.3 | 45.0 |
| EBITDA (a) (b) | $201.5 | $238.9 | $347.8 | $104.3 | $21.1 | $178.5 |

(a) Segment EBITDA is calculated as segment income before interest (interest income and interest expense), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision maker 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 manufacture our Paper segment products at four mills, all located in the United States. 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.

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The following table sets forth the annual capacities as of and the production for the year ended December 31, 2011 (in thousands of short tons):

| Location | Number of Machines | Capacity (a) | Production |
|---|---|---|---|
| Jackson, Alabama | | | |
| Uncoated freesheet | 2 | 491 | 469 |
| International Falls, Minnesota | | | |
| Uncoated freesheet | 4 | 528 | 519 |
| St. Helens, Oregon | | | |
| Uncoated freesheet | 1 | 58 | 54 |
| Wallula, Washington | | | |
| Uncoated freesheet (b) | 1 | 192 | 179 |
| Containerboard (medium) | 1 | 138 | 135 |
| Market pulp | 1 | 160 | 152 |
| | 10 | 1,567 | 1,508 |

(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.

(b) During 2011, production of label and release accounted for approximately 76% of Wallula uncoated freesheet production, with office papers accounting for the remaining 24%.

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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Capacity (a) | | | | | | |
| Uncoated freesheet | 1,269 | 1,263 | 1,265 | 1,300 | | 1,484 |
| Containerboard (medium) | 138 | 136 | 135 | 136 | | 138 |
| Market pulp | 160 | 142 | 145 | 136 | | 229 |
| | 1,567 | 1,541 | 1,545 | 1,572 | | 1,851 |
| Production (b) | | | | | | |
| Uncoated freesheet | 1,221 | 1,229 | 1,198 | 1,204 | 208 | 1,458 |
| Containerboard (medium) | 135 | 127 | 126 | 118 | 19 | 134 |
| Market pulp | 152 | 142 | 114 | 187 | 31 | 221 |
| | 1,508 | 1,498 | 1,438 | 1,509 | 258 | 1,813 |

(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.

Raw Materials and Input Costs

Fiber is our principal raw material in this segment. During the year ended December 31, 2011, fiber costs accounted for approximately 30% 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 continued suppression of 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 60,000 to 80,000 short tons more than we produce annually, subject to changes in product mix.

We purchase raw materials through contracts and 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, 2011, 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 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 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 Note 8, Financial Instruments, in the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" 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, 2011, chemical costs accounted for approximately 16% of materials, labor, and other operating expenses in this segment. Most of our chemicals are purchased under contracts, which contain price adjustment mechanisms designed to provide greater pricing 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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Commodity | 771 | 784 | 844 | 768 | 164 | 995 |
| Premium and specialty | 459 | 449 | 407 | 432 | 72 | 480 |
| Uncoated freesheet | 1,230 | 1,233 | 1,251 | 1,200 | 236 | 1,475 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Containerboard (medium) | 135 | 127 | 127 | 118 | 19 | 134 |
| Market pulp | 90 | 81 | 58 | 102 | 20 | 145 |
| | 1,455 | 1,441 | 1,436 | 1,420 | 275 | 1,754 |

Customers

We have approximately 700 uncoated freesheet paper customers including 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. We have established long-term relationships with many of our customers, including our largest customer, OfficeMax Incorporated (OfficeMax). In June 2011, OfficeMax agreed to buy and we agreed to supply virtually all of OfficeMax's North American requirements for office papers through 2012. After 2012, the agreement requires OfficeMax to buy and us to supply at least 80% of OfficeMax's requirements for office papers through December 2017; however, there are circumstances that could cause the agreement to terminate as early as December 31, 2012. If this were to occur, OfficeMax's purchase obligations under the agreement will phase out over four years. If the agreement terminates in 2013 or later, OfficeMax's purchase obligations under the agreement will phase out over two years. The 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. 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. Sales to OfficeMax accounted for $496.0 million of Paper segment sales and were 38% of total uncoated freesheet paper sales volume and 62% of our office papers sales volume. No single customer, other than OfficeMax, exceeds 10% of segment sales.

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 typically leased. During the years ended December 31, 2011, 2010, and 2009, segment sales related primarily to our rail and truck business were $68.3 million, $65.4 million, and $63.9 million, respectively.

The following table sets forth segment sales; segment 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 | |
|---|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Sales | $68.3 | $65.4 | $63.9 | $67.7 | $8.6 | $58.9 |
| Segment loss before interest and taxes | (25.9) | (21.7) | (21.5) | (18.6) | (3.2) | (12.0) |
| Loss on extinguishment of debt | (2.3) | (22.2) | (44.1) | — | — | — |
| Depreciation, amortization, and depletion | 3.7 | 4.0 | 4.1 | 3.3 | 0.1 | 2.0 |
| EBITDA (a) (b) | $(24.4) | $(39.9) | $(61.4) | $(15.4) | $(3.1) | $(10.0) |

(a) Segment EBITDA is calculated as segment loss before interest (interest income and interest expense), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision maker 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

All of 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 internationally. 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.

Within our operating segments, some of our competitors 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.

Packaging. North American containerboard manufacturers produced 36.2 million short tons in 2011, and five major manufacturers account for approximately 73% of capacity, according to Resource Information Systems Inc. (RISI) and our own estimates. Our largest competitors include International Paper Company, Rock-Tenn Company, Georgia-Pacific LLC, Temple-Inland Inc., and Packaging Corporation of America. Containerboard is a globally traded commodity 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 this industry fluctuates based on demand and supply levels as well as prevailing foreign currency exchange rates. Some of our competitors have lower operating costs and/or enjoy greater integration between their containerboard production and corrugated container production than we do.

Competition in our corrugated container operations tends to be regional, although we also face competition from large competitors with significant national account presence. Our corrugated container operations in the Pacific Northwest have a leading regional market position and supply standard shipping and point-of-purchase containers to a variety of producers manufacturing agricultural, processed food, and industrial products. Our plant in Waco, Texas, known as Central Texas Corrugated, or CTC, produces corrugated sheets that are sold to sheet plants in the Southwest, for converting into corrugated containers for a variety of customers.

Our Tharco operations specialize in stock boxes that can be delivered with short lead times, custom corrugated containers sold to small and medium sized accounts, and combined packaging solutions utilizing foam and other interior packaging to ship high-value products requiring special handling. Our recently acquired Hexacomb operations provide manufacturers and packaging suppliers with custom manufactured honeycomb used for internal packaging requirements, blocking, and bracing in transport applications, advertising solutions, including Falconboard™. Falconboard is a graphic display board constructed from kraft paper-based honeycomb material, which has many end uses, such as a point-of-purchase displays and interior signage.

North American newsprint producers shipped 7.5 million metric tonnes (a metric tonne is equal to 2,205 pounds) in 2011, and three major manufacturers account for approximately 74% of capacity, according to RISI and our own estimates. Our largest competitors in our operating region include Resolute Forest Products (formerly AbitibiBowater Inc.), SP Newsprint Co., and Catalyst Paper Corporation. Demand for newsprint has declined dramatically in the last several years, and we expect this decline to continue as electronic media competes with newspaper readership. Major producers have closed or significantly curtailed capacity as demand has fallen. Nevertheless, our low-cost newsprint machine has enabled our newsprint operations to be profitable in the southern United States. During 2011, our newsprint capacity and production were reduced only for scheduled maintenance.

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 10.4 million short tons in 2011, and four major manufacturers account for approximately 72% of capacity, according to RISI and our own estimates. As of December 31, 2011, we believe we are the third-largest producer of uncoated freesheet paper in North America. Our largest competitors include Domtar Corporation, 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, e-readers, electronic 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. 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 have closed or significantly curtailed capacity in response to lower demand in recent years. During 2011, we took approximately 8,000 short tons of market-related downtime for uncoated freesheet, compared with approximately 17,000 short tons taken during 2010. We may choose to take additional downtime or slow production in the future if market conditions warrant.

Environmental Issues

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

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 modest 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. In our Packaging segment, agricultural demand influences working capital, as finished good inventory levels are increased in preparation for the harvest season in the third and fourth quarters. In our Paper segment, we typically build working capital at the end of the fourth quarter as both a hedge against winter weather disruptions within our supply chain and in anticipation of 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. Changes in sales volumes can affect accounts receivable levels in both our Packaging and Paper 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

During 2011, we acquired two packaging companies, Tharco and Hexacomb. Tharco is an industry leader in the stock box business and produces custom corrugated and combined packaging solutions for customers in the industrial markets. Hexacomb is a leader in kraft paper-based honeycomb protective packaging products. These acquisitions diversify our presence in packaging markets, expand our presence globally, and increase our containerboard

integration to approximately 90%. See Note 3, Acquisitions, in the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K for further information.

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.

Employees

As of January 31, 2012, we had approximately 5,400 employees, and approximately 50% of these employees worked pursuant to collective bargaining agreements. In January 2012, employees at one of our locations approved a new collective bargaining agreement. Following the approval of this agreement, approximately 9% of our employees work pursuant to collective bargaining agreements that will expire within one year.

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, 52, 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; and Mr. Toeldte served as a partner at McKinsey & Company in Toronto, Brussels, Montreal, and Stockholm. Mr. Toeldte is the 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, 59, 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, 60, 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, 53, 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. Prior to 2004, Ms. Gowland served in a number of capacities with Boise Cascade Corporation, including vice president, corporate secretary, associate general counsel, and counsel. Ms. Gowland received a B.S. in Accounting and a J.D. from the University of Idaho.

Judith M. Lassa, 53, Senior Vice President, Paper and Specialty Products — Ms. Lassa has served as senior vice president 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. Prior to 2004, Ms. Lassa served in a number of capacities with Boise Cascade Corporation, including vice president, Packaging, and packaging business leader. Ms. Lassa received a B.S. in Paper Science and Engineering from the University of Wisconsin-Stevens Point.

Robert E. Strenge, 57, 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. Prior to 2004, Mr. Strenge served in a number of capacities with Boise Cascade Corporation, including vice president of Boise Cascade Corporation's DeRidder operations, and paper mill manager. Mr. Strenge received a B.S. in Pulp and Paper Technology from Syracuse University.

Bernadette M. Madarieta, 36, 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 Securities and Exchange Commission (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.

Risks Related to Industry Conditions

Some of our products are vulnerable to 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 may shift from one grade to another or be eliminated altogether. We may not be able to grow our packaging business quickly enough to offset declines in uncoated freesheet papers and newsprint.

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, including purchased rollstock consumed in our corrugated operations, is our principal raw material, accounting for approximately $534.0 million of the aggregate amount of materials, labor, and other operating expenses, including fiber costs from related parties, for the year ended December 31, 2011. 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 accounted for approximately $209.1 million of the aggregate amount of materials, labor, and other operating expenses, including fiber costs from related parties, for the year ended December 31, 2011. Energy prices, particularly for electricity and natural gas, can be volatile, which affect our manufacturing costs and 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 $235.7 million of the aggregate amount of materials, labor, and other operating expenses, including fiber costs from related parties, for the year ended December 31, 2011. The costs of these chemicals have been volatile historically and are influenced by capacity utilization, energy prices, and other factors beyond our control.

The paper industry experiences cyclicality; changes in the prices of our products could materially affect our financial condition, results of operations, and liquidity. 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 liquidity.

We face strong competition in our markets. The packaging, paper, and newsprint industries are highly competitive. We face competition from numerous competitors, domestic as well as foreign. Some of our competitors are large, vertically integrated companies that have greater financial and other resources, greater manufacturing economies of scale, greater energy self-sufficiency, or lower operating costs, compared with our company. We may be unable to compete with other companies in the market during the various stages of the business cycle and particularly during any downturns. Some of the factors that may adversely affect our ability to compete in the markets in which we participate include the entry of new competitors (including foreign producers) into the markets we serve, our competitors' pricing strategies, our failure to anticipate and respond to changing customer preferences, and our inability to maintain the cost-efficiency of our facilities.

Risks Related to Our Operations

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, in December 2011, the U. S. Environmental Protection Agency (EPA) released their most recent proposed National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters (Boiler MACT rules). The proposed 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 current estimates, based on the December 2011 Boiler MACT rule reproposal, indicate we will incur additional capital spending of up to $50 million for compliance at our paper mills. Compliance with final Boiler MACT rules may also affect operating costs for the paper mills, as some mills may be required to narrow the list of fuels used for energy recovery in their boilers. Final impacts on fuel use and fuel costs cannot be precisely determined at this time due to ambiguities in the proposed rule revisions and the likelihood that additional guidance and rule revisions will be forthcoming from EPA.

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 2011 and expect to spend about $9 million in 2012 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.

During 2011 we entered into two acquisitions and may engage in future acquisitions, which in each case could materially affect our business, operating results, liquidity, and financial condition. In addition to our recent acquisitions, 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 and future acquisitions, assuming we complete them, may not strengthen our competitive position or achieve our goals. Our recent acquisitions 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, liquidity, and financial condition. Our recent and any 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 businesses, or businesses we may acquire in the future, or be able to retain and motivate key personnel from those businesses. Difficulties encountered in the integration process could increase our expenses and have a material adverse effect on our business, financial condition, liquidity, and results of operations.

OfficeMax represents a significant portion of our business. Our largest customer, OfficeMax, accounted for approximately 21% and 24% of our total sales for the years ended December 31, 2011 and 2010, respectively. In June 2011, OfficeMax agreed to continue to buy and we agreed to continue to supply virtually all of OfficeMax's North American requirements for office papers through 2012. After 2012, the agreement requires OfficeMax to buy and us to supply at least 80% of OfficeMax's requirements for office papers through December 2017. As discussed in "Part I, Item 1. Business" of this Form 10-K, OfficeMax's purchase obligations may terminate earlier under some circumstances and phase out over two to four years. Significant reductions in paper purchases from OfficeMax would cause us to expand our customer base and could potentially decrease our profitability if new customer sales required either a decrease in our pricing and/or an increase in our cost of sales. Any significant deterioration in the financial condition of OfficeMax affecting its ability to pay or causing a significant change in its willingness to continue to purchase our products could have a material adverse effect on our business, financial condition, results of operations, and liquidity.

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.
- Labor difficulties.
- Other operational problems.
- 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.

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, 2012, we had approximately 5,400 employees, and

approximately 50% of those employees work pursuant to collective bargaining agreements. In January 2012, employees at one of our locations approved a new collective bargaining agreement. Following the approval of this agreement, approximately 9% of our total employees are working pursuant to collective bargaining agreements that will expire within one year.

When negotiating our collective bargaining agreements in the future, 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 may be unable to attract and retain key management and other key employees. Our employees, particularly our key management, are vital to our success and difficult to replace. We may be unable to retain them or to attract other highly qualified employees, particularly if we do not offer employment terms competitive with the rest of the market. Additionally, some of our senior managers are approaching typical retirement age. Failure to attract and retain highly qualified employees, or failure to develop and implement a viable succession plan, could result in inadequate depth of institutional knowledge or skill sets, adversely affecting our business.

Risks Related to Economic and Financial Factors

Adverse business and global economic conditions may have a material adverse effect on our business, results of operations, liquidity, and financial position. General global 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, liquidity, and financial position.

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, 2011, our total capital expenditures, excluding acquisitions, were $128.8 million. We expect capital investments in 2012 to be between $140 million and $145 million, excluding acquisitions.

If we require funds for operating needs and capital expenditures beyond those generated from operations and we are unable to access our revolving credit facility, we may not be able to obtain them on favorable terms or at all. In addition, our debt service obligations will reduce our available liquidity. 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 ability to repay our debt is dependent on our ability to generate cash from operations. As of December 31, 2011, our total indebtedness was $800.0 million. Our ability to repay our indebtedness and to fund planned capital expenditures depends on our ability to generate cash from future operations. To some extent, this 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 or to obtain additional debt would have a material adverse effect on our business, financial condition, liquidity, and results of operations.

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 (BZ Intermediate) and its subsidiaries to maintain specified financial ratios and to satisfy specified financial tests. These tests include, in the case of our credit facilities, an interest expense coverage ratio, a senior secured leverage ratio, and a total leverage ratio. In addition, our credit facilities restrict, and the indentures governing the 8% and 9% senior notes restrict, among other things, the ability of BZ Intermediate and its



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subsidiaries to make some types of restricted payments, acquisitions, and capital expenditures. 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 indentures governing the 8% and 9% senior notes, and other agreements containing cross-default provisions, which, if not cured or waived, could have a material adverse effect on our business, financial condition, liquidity, 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 8% and 9% senior notes. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing.

We anticipate significant future funding obligations for pension benefits. Most of our pension benefits plans are frozen; however, we will continue to have significant obligations for pension benefits. As of December 31, 2011, our pension assets had a market value of $390 million, compared with $356 million at December 31, 2010. Assuming a return on plan assets of 7.00% in 2012 and 2013, we will contribute at least the required minimum contributions of approximately $20 million in 2012 and approximately $24 million in 2013. 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 liquidity, financial condition, and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS

We have no unresolved staff comments.

Item 2. PROPERTIES

We own substantially all of our operating facilities and equipment at those facilities. We lease our corporate headquarters in Boise, Idaho, and the majority of the facilities used in our recently acquired Tharco and Hexacomb locations.

Following is a list of our facilities by segment as of January 31, 2012.

Packaging
Corrugated Containers
Burley, ID
Denver, CO (a)
Nampa, ID
Salem, OR
Salt Lake City, UT
San Lorenzo, CA (a)
Santa Fe Springs, CA (a)
Wallula, WA
Corrugated Sheet Feeder
Waco, TX
Corrugated Sheet Plant
Atlanta, GA (a)
Austin, TX (a)
Seattle, WA (a)
Sparks, NV
Distribution
Dallas, TX (a)
Phoenix, AZ (a)
Portland, OR (a)
Salt Lake City, UT (a)

Packaging (cont.)
Foam Fabrication
Fairfield, California (a)
Honeycomb Manufacturing
Amboise, France (b)
Aoiz, Spain (b)
Arlington, TX (b)
Auburn, WA (b)
Ermelo, Netherlands (b)
Farmville, NC (b)
Kalamazoo, MI (b)
Monterrey, Mexico (b)
North Haven, CT (b)
Santa Fe Springs, CA (b)
Tillsonburg, ON, Canada (b)
Trenton, IL (b)
Linerboard and Newsprint
DeRidder, LA

Paper
Manufacturing
International Falls, MN
Jackson, AL
St. Helens, OR
Wallula, WA
Distribution
Bensenville, IL
Pico Rivera, CA

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(a) Tharco facilities acquired in March 2011.
(b) Hexacomb facilities acquired in December 2011.

Information concerning capacity and utilization of our manufacturing and converting facilities is presented in "Part I, Item 1. Business" of this Form 10-K. We assess the condition and capacity of 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. Information concerning encumbrances attached to our properties is presented in Note 7, Debt, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

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. MINE SAFETY DISCLOSURE

None.

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 |
| 2011 | | | |
| Fourth | $7.12 | $4.71 | $— |
| Third | 8.12 | 4.42 | — |
| Second | 9.82 | 6.75 | 0.40 |
| First | 9.55 | 8.10 | — |
| Total | | | $0.40 |
| 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 |

Holders

On January 31, 2012, there were approximately 32 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 May 13, 2011, and December 3, 2010, to shareholders of record at the close of business on May 4, 2011, and November 17, 2010, respectively. The total dividend payouts were approximately $47.9 million and $32.3 million, respectively. Our ability to pay dividends continues to be restricted by our credit facilities 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. To the extent we do not have adequate surplus or net profits, we are prohibited from paying dividends.

Securities Authorized for Issuance Under Our Equity Compensation Plan

| Plan Category | Column A<br>Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants, and Rights (a) | B<br>Weighted Average Exercise Price of Outstanding Options, Warrants, and Rights | C<br>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column A) (b) |
|---|---|---|---|
| Equity compensation plans approved by securityholders | 2,857,058 | $8.53 | 9,772,192 |
| Equity compensation plans not approved by securityholders | N/A | N/A | N/A |
| Total | 2,857,058 | $8.53 | 9,772,192 |

(a) The reported amount includes the following outstanding awards that have been granted under the Boise Inc. Incentive and Performance Plan but not yet earned as of December 31, 2011:
2,336,123 shares issuable upon the vesting of service-condition vesting restricted stock and restricted stock units.
332,534 shares issuable upon the vesting and exercise of nonqualified stock options.
188,401 shares issuable upon the vesting of performance units (at target). The number of shares to be issued will be based on our return on net operating assets (RONOA) over a two-year performance period from January 1, 2011, to December 31, 2012. The actual number of shares issued may be adjusted from 0% to 200% of the performance units awarded, based on our actual RONOA performance during the performance period.
(b) The reported amount assumes the performance units are adjusted to the maximum value (200% of target).

Issuer Purchases of Equity Securities

During 2011, we announced our intent to repurchase up to $150 million of our common stock through a variety of methods, including in the open market, privately negotiated transactions, or through structured share repurchases. During the year ended December 31, 2011, we repurchased 21,150,692 common shares for an average price of $5.74 per common share. For further information on our share repurchase programs, see Note 10, Stockholders' Equity and Capital, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

The following table presents information related to our repurchases of common stock made under our plan announced on September 14, 2011, during the three months ended December 31, 2011:
Issuer Purchases of Equity Securities

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1-31, 2011 | 1,626,700 | $5.13 | 1,626,700 | |
| November 1-30, 2011 | 1,214,900 | 6.03 | 1,214,900 | |
| December 1-31, 2011 | 4,938,237 | 5.94 | 4,938,237 | |

| Total | 7,779,837 | $5.79 | (a) 7,779,837 | $28,578,241 |
|---|---|---|---|---|

(a) Excludes brokerage commissions paid by the company. If commissions were included, the average purchase price would be $5.80 per common share.

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 NYSE 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 Domtar Corp., Glatfelter, Greif, Inc., International Paper Company, KapStone Paper & Packaging, MeadWestvaco Corp., Neenah Paper Inc., Packaging Corp. of America, Rock-Tenn Company, Sappi Ltd., Stora Enso Corp., Temple-Inland Inc., UPM-Kymmene Corp., Verso Paper Corp., and Wausau Paper Corp.

We added Greif, Inc. and Rock-Tenn Company to, and omitted Smurfit-Stone Container Corporation and AbitibiBowater Inc. from our peer group this year because: Rock-Tenn Company acquired Smurfit-Stone Container Corp.; AbitibiBowater Inc. went through bankruptcy and, with our minor newsprint position, was no longer a relevant comparison. With our acquisitions of Tharco and Hexacomb shifting our product mix to more packaging, we deemed Greif, Inc., a packaging company, a more relevant comparison.

The following table reflects each investment's value at December 31, 2008, 2009, 2010, and 2011.

| | December 31 | | | |
|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 |
| Boise Inc. | $5 | $62 | $98 | $93 |
| S&P 500 Index | $67 | $85 | $98 | $100 |
| Peer Group | $53 | $88 | $104 | $96 |

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 and common stock activity. 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 | | | | | Predecessor | |
|---|---|---|---|---|---|---|---|
| | 2011 (a) | 2010 (b) | 2009 (c) | 2008 (d) | February 1 (Inception) Through December 31, 2007 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 (e) |
| Statement of income (loss) data | | | | | | | |
| Net sales | $2,404 | $2,094 | $1,978 | $2,071 | $ — | $360 | $ 2,333 |
| Income from operations | 191 | 194 | 306 | 40 | — | 23 | 160 |
| Net income (loss) | 75 | 63 | 154 | (46) | 5 | 23 | 160 |
| Net Income (loss) per common share: | | | | | | | |
| Basic | 0.74 | 0.78 | 1.96 | (0.62) | 0.16 | — | — |
| Diluted | 0.70 | 0.75 | 1.85 | (0.62) | 0.16 | — | — |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) (f) | 333 | 303 | 396 | 145 | — | 24 | 246 |
| Cash dividends declared per common share | 0.40 | 0.40 | — | — | | | |
| Balance sheet data (at end of year) | | | | | | | |
| Current assets | $668 | $653 | $586 | $596 | $ 404 | | $ 560 |
| Property | 1,256 | 1,217 | 1,223 | 1,277 | — | | 1,210 |
| Total assets | 2,286 | 1,939 | 1,896 | 1,988 | 408 | | 1,846 |
| Current liabilities | 311 | 304 | 303 | 269 | 15 | | 250 |
| Long-term debt, less current portion | 790 | 738 | 785 | 1,012 | — | | — |
| Notes payable | — | — | — | 67 | — | | — |
| Total liabilities | 1,491 | 1,292 | 1,275 | 1,539 | 175 | | 286 |
| Stockholders' equity | 795 | 647 | 621 | 449 | 233 | | 1,560 |

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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 $2.2 million of expense related to the inventory purchase price adjustments that were recognized in March 2011 as part of our acquisition of Tharco.

Included a $2.3 million loss on extinguishment of debt recorded in the Corporate and Other segment.
Included $3.1 million of transaction-related costs, of which $1.6 million was recorded in our Packaging segment and $1.5 million was recorded in our Corporate and Other segment. Transaction-related expenses include expenses associated with transactions, whether consummated or not, and do not include integration costs.
(b) Included a $22.2 million of loss on extinguishment of debt recorded in the Corporate and Other segment.
(c) 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.

(d) 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 of expense 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.
(e) Included approximately $19.1 million, $21.7 million, and $1.0 million of lower depreciation and amortization expense in the Packaging, Paper, 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.
(f) The following table reconciles net income (loss) to EBITDA for the periods indicated (dollars in millions):

| | Boise Inc. | | | | | Predecessor | |
|---|---|---|---|---|---|---|---|
| | Year Ended December 31 | | | | | | |
| | 2011 | 2010 | 2009 | 2008 | February 1 (Inception) Through December 31, 2007 | January 1 Through February 21, 2008 | Year Ended December 31, 2007 |
| Net income (loss) | $75 | $63 | $154 | $(46) | $ 5 | $23 | $ 160 |
| Interest expense | 64 | 65 | 83 | 91 | — | — | — |
| Interest income | — | — | — | (2) | (10) | — | (1) |
| Income tax provision (benefit) | 50 | 45 | 28 | (9) | 5 | 1 | 3 |
| Depreciation, amortization, and depletion | 144 | 130 | 132 | 110 | — | — | 85 |
| EBITDA | $333 | $303 | $396 | $145 | $ — | $24 | $ 246 |

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EBITDA represents income (loss) before interest (interest expense and interest income), income tax provision (benefit), and depreciation, amortization, and depletion. EBITDA is the primary measure used by our chief operating decision maker 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. 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, 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). Except where otherwise indicated, this Management's Discussion and Analysis of Financial Condition and Results of Operations 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 and common stock activity. We do not assume an obligation to update any forward-looking statement. Our actual results may differ materially from those contained in or implied by any of the forward-looking statements in this Form 10-K.

## Background

Boise Inc. is a large, diverse manufacturer and seller of packaging and paper products. Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their packaging and paper assets to Aldabra 2 Acquisition Corp. (the Acquisition). In these consolidated financial statements, unless the context indicates otherwise, the terms "the Company," "we," "us," "our," or "Boise" refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate. We are headquartered in Boise, Idaho, and have approximately 5,400 employees. We operate largely in the United States but have recently expanded our operations into Europe, Mexico, and Canada.

We operate and report our results in three reportable segments: Packaging, Paper, and Corporate and Other (support services). See Note 6, 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

This past year was our most successful year as a public company since our inception. In 2011, we reported $75.2 million of net income, compared with $62.7 million in 2010. We reported $332.6 million of EBITDA, or a record $340.2 million, excluding the special items in the table below. The increases were due primarily to increased sales and operating income in our Packaging segment, driven by improved linerboard and newsprint pricing and the acquisitions of Tharco Packaging (Tharco) and Hexacomb on March 1, and December 1, 2011, respectively. In 2011, we generated $121.4 million of operating cash flow, less capital expenditures, and returned $169.3 million of capital back to our shareholders through share repurchases and dividends. During 2011, we successfully negotiated eight new labor agreements covering approximately 2,000 employees. The agreements have expiration dates ranging from 2014 to 2017. Our financial position remains strong, and we improved our financial flexibility by entering into a new credit agreement in November, extending maturities and lowering interest rates.

## Demand for Our Products

U.S. industry containerboard demand increased modestly during 2011. Absolute industry box shipments in the U.S. increased 0.4% through December 2011, and box shipments on an average-week basis were up 0.5%, compared with the prior year. Year-to-date industry operating rates through December 2011, measured as total production in the U.S. as a percentage of total capacity, were at 96%, according to the American Forest & Paper Association (AF&PA). Total U.S. containerboard inventories were 2.4 million short tons in December 2011, compared with 2.3 million short tons in December 2010.

Packaging demand in our agriculture, food, and beverage markets has historically been correlated to weather and crop harvests in the Pacific Northwest. Demand in these markets was affected by 2011's inclement spring weather, causing later than normal plantings and subsequent fall harvest delays, when compared with the prior year. Demand in our containerboard export markets and industrial corrugated markets are more closely aligned with general economic activity. These markets remained stable through 2011, compared with 2010. In late 2011, export market demand softened as a result of global macroeconomic events, including the sovereign debt crisis in Europe.

U.S. industry demand for uncoated freesheet paper declined during 2011, compared with 2010. According to AF&PA, U.S. industry shipments were down 3.0% in 2011, compared with the prior year. Year-to-date industry operating rates for December 2011, measured as total uncoated freesheet paper shipments in the U.S. as a percentage of total capacity, were at 87%. Demand for commodity communication papers has declined due to soft macroeconomic conditions and elevated unemployment and continues to be negatively affected by the secular shift to electronic media for communications. The 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 recent years, and that trend continued during 2011. Compared with prior years, U.S. uncoated freesheet paper inventories remained low, at approximately 941,000 short tons in December 2011, compared with 966,000 short tons in December 2010.

Our total uncoated freesheet volumes were flat in 2011, despite overall demand decline, as increased premium and specialty sales volumes offset declines in commodity sales volumes. Net selling prices were slightly

improved, compared with 2010, driven by improved pricing across our premium and specialty papers. Our average uncoated freesheet net sales prices finished at $990 per ton in 2011, an increase of 1% versus the prior year.

Net Selling Prices and Input Costs

During 2011, our linerboard net selling prices and sales volumes to third parties increased 16% and 2%, respectively, compared with 2010, due to stronger demand in export markets and improved production of linerboard at our DeRidder, Louisiana, mill. The sales volume increase was achieved despite increased consumption of linerboard through our own operations and higher corrugated product sales volumes as a result of the acquisition of Tharco.

During fourth quarter 2011, net selling prices for uncoated freesheet began to decline as a result of softer demand through the quarter. Compared with fourth quarter 2010, prices for commodity chemicals and wood fiber in the Pacific Northwest increased. Diesel prices, which affect freight costs on both inbound raw materials and outbound finished goods, also increased. Prices for natural gas declined, compared with fourth quarter 2010. Labor costs are not as volatile as energy and wood fiber costs; however, they make up a significant component of our operating costs and tend to increase over time.

Operational Outlook

In the year ahead, we will focus on integrating the Tharco and Hexacomb operations, and we will pursue growth opportunities in our Packaging segment that combine industrial and competitive logic with a reasonable price. We expect continued growth in our premium office, label and release, and flexible packaging papers, helping to offset declining demand in commodity paper markets. In 2011, input costs continued to increase, including chemicals and diesel across both of our businesses and the cost of fiber in our Paper segment. As we look forward, our focus will be to continue to manage input cost inflation.

In December 2011, the United States Environmental Protection Agency (EPA) published their most recent proposed National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters (Boiler MACT rules). Comments submitted by the paper and forest products industry through individual companies and trade associations will be reviewed by the EPA and a final rule incorporating revisions is expected in May or June 2012, with a potential compliance deadline of May or June 2014. We continue to monitor regulatory and competitive developments across the industry, including the Boiler MACT legislation, to determine potential impacts on our businesses.

Financial Results and Special Items

The following table sets forth our financial results for the years ended December 31, 2011, 2010, and 2009 (dollars in millions, except per-share data):

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Sales | $2,404.1 | $2,093.8 | $1,978.2 |
| Net income | 75.2 | 62.7 | 153.8 |
| Net income per diluted share | 0.70 | 0.75 | 1.85 |
| Net income excluding special items | 79.9 | 76.8 | 20.4 |
| Net income excluding special items per diluted share | 0.75 | 0.91 | 0.25 |
| EBITDA | 332.6 | 302.6 | 395.7 |
| EBITDA excluding special items | 340.2 | 325.6 | 232.1 |

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 excluding special items and net income excluding special items represent EBITDA and net income 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 to EBITDA and EBITDA to EBITDA excluding special items for the years ended December 31, 2011, 2010, and 2009 (dollars in millions):

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Net income | $75.2 | $62.7 | $153.8 |
| Interest expense | 63.8 | 64.8 | 82.7 |
| Interest income | (0.3) | (0.3) | (0.4) |
| Income tax provision | 50.1 | 45.4 | 28.0 |
| Depreciation, amortization, and depletion | 143.8 | 129.9 | 131.5 |
| EBITDA | $332.6 | $302.6 | $395.7 |
| | | | |
| Inventory purchase accounting expense | $2.2 | $— | $— |
| Loss on extinguishment of debt | 2.3 | 22.2 | 44.1 |
| Transaction-related costs | 3.1 | — | — |
| Change in fair value of energy hedges | — | 0.6 | (5.9) |
| St. Helens mill restructuring | — | 0.2 | 5.8 |
| Alternative fuel mixture credits | — | — | (207.6) |
| EBITDA excluding special items | $340.2 | $325.6 | $232.1 |

The following table reconciles net income to net income excluding special items and presents net income excluding special items per diluted share for the years ended December 31, 2011, 2010, and 2009 (dollars and shares in millions, except per-share data):

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Net income | $75.2 | $62.7 | $153.8 |
| Inventory purchase accounting expense | 2.2 | — | — |
| Loss on extinguishment of debt | 2.3 | 22.2 | 44.1 |
| Transaction-related costs | 3.1 | — | — |
| Change in fair value of energy hedges | — | 0.6 | (5.9) |
| St. Helens mill restructuring | — | 0.2 | 5.8 |
| Alternative fuel mixture credits | — | — | (207.6) |
| Tax (provision) benefit for special items (a) | (2.9) | (8.9) | 63.3 |
| Reversal of income tax valuation allowances | — | — | (33.2) |
| Net income excluding special items | $79.9 | $76.8 | $20.4 |
| Weighted average common shares outstanding: diluted | 106.7 | 84.1 | 83.1 |
| Net income excluding special items per diluted share | $0.75 | $0.91 | $0.25 |

(a) Special items are tax effected in the aggregate at an assumed combined federal and state statutory rate in effect for the period.

Factors That Affect Our Operating Results

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

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

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- 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, including wood fiber, energy, and chemicals.
- Legislative or regulatory environments, requirements, or changes affecting the businesses in which we are engaged.
- Our customer concentration and the ability of our customers to pay.
- Integration of our acquisitions.
- Labor and personnel relations.
- The ability of our lenders, customers, and suppliers to continue to conduct their businesses.
- Pension funding requirements.
- Credit or currency risks affecting our revenue and profitability.
- Major equipment failure or significant operational setbacks.
- 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.

Our Operating Results

The following table sets forth our operating results in dollars and as a percentage of sales for the years ended December 31, 2011, 2010, and 2009 (dollars in millions, except percent-of-sales data):

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Sales | | | |
| Trade | $2,364.0 | $2,058.1 | $1,935.4 |
| Related parties | 40.1 | 35.6 | 42.8 |
| | 2,404.1 | 2,093.8 | 1,978.2 |
| Costs and expenses | | | |
| Materials, labor, and other operating expenses | 1,880.3 | 1,634.0 | 1,596.2 |
| Fiber costs from related parties | 18.8 | 25.3 | 36.9 |
| Depreciation, amortization, and depletion | 143.8 | 129.9 | 131.5 |
| Selling and distribution expenses | 107.7 | 58.1 | 55.5 |
| General and administrative expenses | 60.6 | 52.3 | 50.3 |
| Alternative fuel mixture credits, net | — | — | (207.6) |
| Other (income) expense, net | 2.0 | 0.2 | 9.8 |
| | 2,213.0 | 1,899.8 | 1,672.5 |
| Income from operations | $191.1 | $194.0 | $305.6 |
| Sales | | | |
| Trade | 98.3 % | 98.3 % | 97.8 % |
| Related parties | 1.7 | 1.7 | 2.2 |
| | 100.0 % | 100.0 % | 100.0 % |
| Costs and expenses | | | |
| Materials, labor, and other operating expenses | 78.2 % | 78.0 % | 80.7 % |
| Fiber costs from related parties | 0.8 | 1.2 | 1.9 |
| Depreciation, amortization, and depletion | 6.0 | 6.2 | 6.6 |
| Selling and distribution expenses | 4.5 | 2.8 | 2.8 |
| General and administrative expenses | 2.5 | 2.5 | 2.5 |
| Alternative fuel mixture credits, net | — | — | (10.5) |
| Other (income) expense, net | 0.1 | — | 0.5 |
| | 92.1 % | 90.7 % | 84.5 % |
| Income from operations | 7.9 % | 9.3 % | 15.5 % |

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, 2011, 2010, and 2009 (in thousands of short tons and dollars per short ton, except corrugated containers and sheets):

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Sales Volumes | | | |
| Packaging | | | |
| Containerboard (linerboard) | 230 | 225 | 253 |
| Newsprint | 231 | 231 | 199 |
| Corrugated containers and sheets (mmsf) (a) | 8,720 | 6,735 | 5,963 |
| Paper | | | |
| Uncoated freesheet | 1,230 | 1,233 | 1,251 |
| Containerboard (medium) | 135 | 127 | 127 |
| Market pulp | 90 | 81 | 58 |
| | 1,455 | 1,441 | 1,436 |
| Sales Prices (b) | | | |
| Packaging | | | |
| Containerboard (linerboard) | $422 | $365 | $301 |
| Newsprint | 541 | 493 | 459 |
| Corrugated containers and sheets ($/msf) | 67 | 57 | 58 |
| Paper | | | |
| Uncoated freesheet | $990 | $977 | $954 |
| Containerboard (medium) | 481 | 467 | 418 |
| Market pulp | 565 | 549 | 429 |

(a) Included corrugated container and sheet volumes for Tharco and Hexacomb since their acquisitions on March 1, and December 1, 2011, respectively.

(b) Average net selling prices for our principal products represent sales less freight costs, discounts, and allowances. As reported in Note 6, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K, segment revenues include fees for shipping and handling charged to customers for sales transactions.

Operating Results

2011 Compared With 2010

Sales

In 2011, total sales increased $310.3 million, or 15%, to $2,404.1 million, compared with $2,093.8 million in 2010. The increase was a result of increased sales from our acquisition of Tharco in first quarter 2011, which increased sales in our Packaging segment, as well as higher net selling prices for the products we manufacture.

Packaging. Sales increased $277.8 million, or 41%, to $949.7 million from $671.9 million for the year ended December 31, 2011. The increase related primarily to our acquisition of Tharco, which drove higher sales volumes and prices for corrugated products and accounted for approximately 81% of the $277.8 million increase. Other drivers

included a 16% increase in segment linerboard net selling prices and a 10% increase in newsprint net selling prices.

Paper. Sales increased $38.2 million, or 3%, to $1,496.5 million from $1,458.3 million for the year ended December 31, 2011. The increase was due to a 1% increase in overall uncoated freesheet net sales prices, as commodity uncoated freesheet net sales prices decreased 1% and premium and specialty net sales prices increased 4%, compared with the prior-year period. Overall uncoated freesheet sales volumes were flat, compared with the prior-year period, as a 2% decline in commodity sales volumes was offset by a 4% increase in premium and specialty sales volumes. Sales volumes of premium office, label and release, and flexible packaging papers represent 33% of our total uncoated freesheet sales volumes for 2011.

Costs and Expenses

Materials, labor, and other operating expenses, including the cost of fiber from related parties, increased $239.7 million to $1,899.0 million for the year ended December 31, 2011, compared with $1,659.3 million for the year ended December 31, 2010. The increase related primarily to operating costs associated with Tharco, as well as higher overall input costs in our Paper segment.

Set forth below is a breakout of our most significant input costs, fiber (including rollstock consumed in our corrugated operations), energy, and chemical costs for the years ended December 31, 2011 and 2010 (dollars in millions):

| | Year Ended December 31 | |
|---|---|---|
| | 2011 | 2010 |
| Fiber | $534.0 | $461.8 |
| Energy | 209.1 | 211.7 |
| Chemicals | 235.7 | 204.9 |
| | $978.8 | $878.4 |

Compared with 2010, total fiber, energy, and chemical costs increased $100.4 million in 2011. The increase was driven primarily by fiber costs associated with Tharco, as well as higher chemical and fiber costs in our Paper segment.

Fiber. Costs for fiber, including purchased rollstock consumed in our corrugated operations, increased $59.4 million in our Packaging segment and $12.7 million in our Paper segment, compared with the year ended December 31, 2010. Delivered-fiber costs in all of our operating regions include the cost of diesel, which increased in 2011. 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 due to increased prices and consumption of purchased pulp as a result of increased production of paper. This was offset partially by reduced consumption of wood and recycled fiber.

In the Pacific Northwest, our fiber costs increased in 2011 as a result of higher prices for wood fiber, a greater mix of whole logs, and higher prices for purchased pulp at our St. Helens, Oregon, mill.

Compared with 2010, total fiber costs at our DeRidder, Louisiana, mill decreased due to lower prices and consumption of wood fiber, offset partially by increased consumption of recycled fiber. In Alabama, fiber costs decreased in 2011, driven by reduced consumption of purchased pulp and recycled fiber due to lower production tons at our Jackson mill and lower prices for wood fiber. Fiber costs in the region were negatively affected by wet weather in 2010.

Energy. Energy costs decreased $0.6 million in our Packaging segment and $2.0 million in our Paper segment. In our Packaging segment, the decrease was due to lower fuel consumption coupled with lower electricity and natural gas prices. These decreases were offset partially by higher electricity consumption. In our Paper segment, this decrease

was due to lower natural gas prices, offset in part by higher electricity prices.

Chemicals. Chemical costs increased $6.5 million in our Packaging segment and $24.3 million in our Paper segment. The increased costs were primarily a result of increased prices for commodity chemicals, including caustic soda and starch.



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Labor. Labor costs related to the production of our products recorded in "Materials, labor, and other operating expenses" were $317.5 million in 2011, an increase of $45.0 million, or 17%, compared with the same period in 2010. Included in 2011 are additional labor costs from our first-quarter acquisition of Tharco.

Selling and distribution expenses. In 2011, the increase in selling and distribution expenses related primarily to the acquisition of Tharco. Compared with our historical packaging business, Tharco serves a larger proportion of small customers with a more diverse range of products, resulting in higher selling and distribution costs. Excluding the selling and distribution expenses related to Tharco, our selling and distribution expenses increased only 3.0% in 2011.

Depreciation, amortization, and depletion and general and administrative expenses increased during the year ended December 31, 2011, due primarily to incremental expenses from Tharco's operations. Excluding the expenses related to Tharco, these expenses increased only slightly.
Other (income) expense. “Other (income) expense, net” includes miscellaneous income and expense items. In 2011, we recorded $3.1 million of costs incurred during the initial evaluation of potential targeted acquisitions. The expenses related primarily to costs to analyze, negotiate, and consummate transactions as well as financial and legal due diligence activities. These costs were partially offset by approximately $1.1 million of other miscellaneous income and expenses.

Income From Operations

Income from operations for the year ended December 31, 2011, decreased slightly to $191.1 million, compared with $194.0 million for the year ended December 31, 2010. Excluding the special items discussed in our Executive Summary above, income from operations increased $5.3 million in 2011. Before special items, the increase related to a significant earnings growth in our Packaging segment, partially offset by decreased operating income in our Paper segment. Income from operations also includes net costs from our Corporate and Other segment.

Packaging. Segment income from operations increased $40.0 million to $105.0 million in 2011, compared with $65.0 million for the year ended December 31, 2010. This increase was driven by improved linerboard, newsprint, and corrugated products pricing and the acquisition of Tharco. These factors were offset partially by higher chemical costs. During 2011, net selling prices of segment linerboard improved $57 per short ton, and newsprint prices improved $53 per short ton, compared with the same period in the prior year, as both markets improved in 2011.

Paper. Segment income from operations decreased $39.4 million to $112.1 million in 2011, compared with $151.5 million for the year ended December 31, 2010. This decrease was driven by higher input costs, continued declines in U.S. industry demand for uncoated freesheet, and higher maintenance costs during our annual shutdown at Wallula, Washington. The increased input costs related primarily to increased prices for commodity chemicals, including caustic soda and starch, and to a lesser extent, higher fiber costs, offset partially by higher sales prices, lower energy costs, and increased sales volumes of medium and market pulp.

Other

Loss on extinguishment of debt. During the years ended December 31, 2011 and 2010, we recognized $2.3 million and $22.2 million, respectively, in loss on extinguishment of debt. These amounts consist primarily of previously unamortized deferred financing costs, which were expensed in connection with our financing activities.

Income taxes. For the years ended December 31, 2011 and 2010, Boise Inc. recorded income tax expense of $50.1 million and $45.4 million, respectively, and had effective tax rates of 40.0% and 42.0%, respectively. For the years ended December 31, 2011 and 2010, BZ Intermediate recorded income tax expense of $50.1 million and $44.5

million, respectively, and had effective tax rates of 40.0% and 41.2%, respectively. The primary reason for the difference from the federal statutory income tax rate of 35.0% was the effect of state income taxes and discrete tax items.

Balance Sheet Changes

The changes in our balance sheet, compared with December 31, 2010, relate primarily to the Tharco and Hexacomb acquisitions, the exercise of warrants, the repurchase of our common stock, and an increase in our pension obligations. We increased our assets approximately $423.4 million and our liabilities approximately $97.2 million in total for both acquisitions based on the fair values on the acquisition dates. During 2011, warrant holders exercised 40.3 million warrants, resulting in the issuance of 38.4 million additional common shares and we repurchased 21.2 million common shares. Compared with December 31, 2010, our pension obligation, which is recorded in long-term "Compensation and benefits" on our Consolidated Balance Sheets, increased approximately $83.4 million. The increase in our pension obligation related primarily to a decrease in the discount rate from 5.50% at December 31, 2010 to 4.50% at December 31, 2011. See Note 3, Acquisitions, Note 9, Retirement and Benefit Plans, and Note 10, Stockholders' Equity and Capital, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information.

2010 Compared With 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 Packaging and Paper segments and, to a lesser extent, by increased sales volumes in both segments.

Packaging. For the year ended December 31, 2010, 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 and 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.

Paper. For the year ended December 31, 2010, sales increased $38.4 million, or 3%, to $1,458.3 million compared with $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 during 2010, compared with 2009, uncoated freesheet net sales prices increased 2%, as commodity uncoated freesheet net sales prices increased 2% and premium and specialty net sales prices increased 3%. Compared with 2009, 2010 uncoated freesheet sales volumes were down 1%, 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 during 2010 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.

Costs and Expenses

Materials, labor, and other operating expenses, including the cost of fiber from related parties increased by $26.2 million, or 2%, for the year ended December 31, 2010, compared with 2009. The increase was driven primarily by higher fiber and energy costs.

Set forth below is a breakout of our most significant input costs, fiber, energy, and chemical costs, for the years ended December 31, 2010 and 2009 (dollars in millions):

| | Year Ended December 31 | |
|---|---|---|
| | 2010 | 2009 |
| Fiber | $461.8 | $401.1 |
| Energy | 211.7 | 188.9 |
| Chemicals | 204.9 | 210.3 |
| | $878.4 | $800.3 |

Fiber, energy, and chemical costs for the year ended December 31, 2010, increased $78.1 million, 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. Fiber costs increased in 2010 by $12.8 million in our Packaging segment and $48.0 million in our Paper 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.

Energy. Energy costs increased $14.5 million in our Packaging segment and $8.3 million in our Paper segment, compared with 2009, 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. The increase was offset partially by lower natural gas prices.

Chemicals. Chemical costs in 2010 decreased $3.4 million in our Packaging segment and $2.0 million in our Paper 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. In 2010, selling and distribution expenses increased $2.6 million to $58.1 million, 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%.

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

Alternative fuel mixture credits. The year ended December 31, 2009, included $207.6 million of alternative fuel mixture credits, of which $61.6 million was recorded in our Packaging segment and $149.9 million was recorded in our Paper 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. The expense in 2009 consisted primarily of $5.8 million of expense relating to the restructuring of our mill in St. Helens, Oregon, and approximately $3.5 million of expense related to the idling of our D2 newsprint machine at our DeRidder, Louisiana, mill.

Income From Operations

Income from operations during 2010 decreased $111.7 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 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 Packaging and Paper 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.

Packaging. Segment income from operations in 2010 decreased $2.1 million to $65.0 million. Segment income for the year ended December 31, 2009, included $61.6 million of income from alternative fuel mixture credits recognized during 2009. Excluding the 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.

Paper. Compared with 2009, segment income from operations in 2010 decreased $111.2 million to $151.5 million. This decrease was driven primarily by $149.9 million of income from alternative fuel mixture credits recognized during 2009. Excluding the 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.

Other

Loss on extinguishment of debt. During the year ended December 31, 2010, we recognized $22.2 million in loss on extinguishment of debt. This amount consisted primarily of previously unamortized deferred financing costs. 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, and the loss for BZ Intermediate was $66.8 million. BZ Intermediate's loss was greater because it did not record the gain on repurchase of notes payable, which were held by Boise Inc.

Income taxes. For the years ended December 31, 2010 and 2009, Boise Inc. recorded income tax expense of $45.4 million and $28.0 million, respectively, and had effective tax rates of 42.0% and 15.4%, respectively. For the years ended December 31, 2010 and 2009, BZ Intermediate recorded income tax expense of $44.5 million and $20.4 million, respectively, and had effective tax rates of 41.2% and 12.1%, respectively. During 2009, Boise Inc. and BZ Intermediate released valuation allowances recorded during 2008 because they 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.

Industry Activities

In May 2011, Rock-Tenn Company completed its acquisition of Smurfit-Stone Container Corporation, creating a combined company that is the second-largest North American containerboard and corrugated container manufacturer behind the largest manufacturer, International Paper Company (International Paper).

In September 2011, International Paper announced that they had entered into a definitive merger agreement under which International Paper will acquire all of the outstanding common stock of Temple-Inland Inc., the fourth-largest producer of containerboard and corrugated containers.

We have not experienced an immediate impact to our operations as a result of these developments; however, the longer-term outlook is uncertain.

Liquidity and Capital Resources

In 2011, we generated $121.4 million of operating cash flow, less capital expenditures, and we improved our financial flexibility by entering into a new credit agreement in November, extending maturities and lowering interest rates on that debt. In 2011, we received $284.8 million of warrant proceeds and used $326.2 million of cash to diversify our presence in packaging markets through two acquisitions and returned $169.3 million of capital back to our

shareholders through share repurchases and dividends. We ended the year with $97.0 million of cash and $493.8 million of aggregate liquidity from unused borrowing capacity under the revolving credit facility, net of letters of credit. Our cash equivalents are 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.

Our foreign operations are currently not material to our financial position or results of operations. At December 31, 2011, we had $4.3 million of cash held in operations outside of the United States. We indefinitely

reinvest our earnings in operations outside the United States; however, if foreign earnings were repatriated at a future date, we would need to accrue and pay taxes. At December 31, 2011, we did not hold significant investments tied to debt of countries facing severe fiscal challenges.

We believe that our cash, as well as our cash flows from operations and the available borrowing capacity under our revolving credit facility, will be adequate to provide cash as required to support our ongoing operations, property and equipment expenditures, pension contributions, and debt service obligations for at least the next 12 months.

Sources and Uses of Cash

We primarily 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 addition to paying for ongoing operating costs, we use cash to invest in our business, repurchase common stock, repay debt, and meet our contractual obligations and commercial commitments. Below is a summary table of our cash flows (dollars, in thousands) followed by 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.

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Cash provided by operations | 250,191 | 289,781 | 458,712 |
| Cash used for investment | (443,317) | (109,270) | (84,517) |
| Cash provided by (used for) financing | 123,289 | (83,071) | (327,320) |

Operating Activities

Our principal operating cash expenditures are for fiber, compensation, energy, chemicals, and interest. During the years ended December 31, 2011, 2010, and 2009, our operating activities provided $250.2 million, $289.8 million, and $458.7 million of cash, respectively.

2011 Compared With 2010

In 2011 and 2010, operating activities provided $250.2 million and $289.8 million of cash, respectively. Compared with 2010, the decrease in cash provided by operations related to a $17.1 million increase in working capital in 2011, compared with a $38.1 million reduction in working capital in the prior year. 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. In 2011, the increase in working capital related primarily to increased inventory balances. Inventory increased due to the building of raw materials inventories in our business and a higher valuation of our finished goods inventories. Compared with 2010, cash provided by operations also decreased due to a decline in income from operations in 2011. The decline in income from operations related primarily to decreased operating income in our Paper segment, which was driven by higher input costs and continued declines in U.S. industry demand for uncoated freesheet. For more information, see “Our Operating Results” in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

We made contributions of $25.4 million to our pension plans during 2011. Based on current facts and assumptions, we will contribute at least the required minimum contributions of approximately $20 million to our plans during 2012 and approximately $24 million in 2013.

2010 Compared With 2009

During the years ended December 31, 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 $111.7 million decrease in income from operations. As discussed under "Operating Results" above, this 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. Excluding the fuel mixture credits, income from operations increased due to overall increased net sales prices and sales volumes and, to a lesser extent, lower chemical costs. These increases were offset partially by increased fiber and energy costs.
- During 2010, decreases in working capital provided $38.1 million in cash, compared with $91.6 million in 2009. During 2010, the decreases in working capital related primarily 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 was primarily due to higher linerboard prices and overall slightly higher inventory at the end of 2010, compared with the end of 2009.
- More cash contributions to our pension plans. During 2010, we contributed $25.2 million to our pension plans, compared with $12.3 million during 2009.

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 linerboard, corrugated containers and sheets, newsprint, and uncoated freesheet papers. Declines in working capital, 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, also provide cash for operations.

During the year ended December 31, 2011, we sold the following:

- 230,000 short tons of linerboard to third parties.
- 8,720 million square feet of corrugated containers and sheets.
- 231,000 short tons of newsprint.
- 1.2 million short tons of uncoated freesheet paper.
- 90,000 short tons of market pulp.

Compared with the year ended December 31, 2010, selling prices for corrugated sheets and containers, segment linerboard (sold to third parties), newsprint, market pulp, and uncoated freesheet increased 18%, 16%, 10%, 3%, and 1%, respectively. Selling prices increased due to improved market conditions.

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 (dollars in millions):

| Sensitivity Analysis (a) | Estimated Annual Impact on Income Before Taxes |
|---|---|
| Packaging (b) | |
| Containerboard (linerboard) | $2 |
| Newsprint | 2 |
| Corrugated containers and sheets ($1.00/msf change in price) | 9 |
| Paper (b) | |
| Uncoated freesheet | 12 |
| Interest rate (1% change in interest rate on our variable-rate debt) | 2 |
| Energy (c) | |
| Natural gas ($1.00/mmBtu change in price) | 12 |
| Diesel ($0.50/gallon change in price) | 6 |
| Fiber (1% change in cost) | 5 |
| Chemicals (1% change in cost) | 2 |

(a) Based on 2011 operations.
(b) Calculated using a $10/short ton change in the selling price except as noted.
(c) 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

2011

Cash investing activities used $443.3 million for the year ended December 31, 2011. During 2011, we used $326.2 million of cash for the Tharco and Hexacomb acquisitions, $128.8 million for capital expenditures for property and equipment, and $3.5 million of cash for purchases of short-term investments; and we received $14.1 million of proceeds from the maturity of short-term investments. The short-term investments consisted of funds invested in certificates of deposit insured by the Federal Deposit Insurance Corporation (FDIC). During 2011, we liquidated our short-term investment portfolio.

Excluding acquisitions, the details of cash capital expenditures for property and equipment by segment for the year ended December 31, 2011, are included in the table below (dollars in millions):

| | Year Ended December 31, 2011 | | | |
|---|---|---|---|---|
| | Acquisition/ Expansion | Quality/ Efficiency (a) | Replacement, Environmental, and Other | Total |
| Packaging | $3.5 | $4.5 | $41.3 | $49.3 |
| Paper | 0.1 | 18.7 | 55.4 | 74.2 |
| Corporate and Other | — | 2.6 | 2.7 | 5.3 |
| | $3.6 | $25.8 | $99.4 | $128.8 |

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

We expect capital investments in 2012 to be between $140 million and $145 million, excluding acquisitions. This level of capital investment 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 2012 will be for cost savings, performance improvement, quality/efficiency projects, replacement projects, and ongoing

environmental compliance. Our performance improvement projects also focus on opportunities to improve our energy efficiency. We expect to spend approximately $9 million in 2012 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.

2010

For the year ended December 31, 2010, investing activities used $109.3 million of cash, which consisted of $111.6 million of expenditures for property and equipment, $25.3 million for the purchase of short-term investments, and $24.7 million of proceeds from the maturities of short-term investments.

2009

For the year ended December 31, 2009, investing activities used $84.5 million of cash, which consisted of $77.1 million of expenditures for property and equipment, $21.6 million for purchases of short-term investments, and $11.6 million of proceeds from the maturities of short-term investments.

Financing Activities

2011

Cash provided by financing activities was $123.3 million for the year ended December 31, 2011, compared with $83.1 million of cash used for financing activities for the same period in 2010. Financing activities in 2011 included $284.8 million of cash proceeds from the exercise of 40.3 warrants and $18.2 million of proceeds from the net issuance of debt. During 2011, we replaced our revolving credit facility and entered into a new Tranche A term loan facility (the Credit Facilities), which extended our maturities and lowered our interest rates. These sources of cash were partially offset by $121.4 million of cash used to repurchase 21.2 million shares of our common stock at an average price of $5.74, $47.9 million of cash used to pay our shareholders special dividends, and $8.6 million of cash used to pay financing costs incurred in connection with the new Credit Facilities discussed above.

Based on how our debt agreements are currently structured, our expected debt service obligation, assuming debt interest rates stay at December 31, 2011, levels, is estimated to be approximately $66.2 million for 2012 and $76.2 million for 2013, consisting of cash payments for principal, interest, and fees. These amounts remain subject to change, and such changes may be material.

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 "Contractual Obligations" in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

For more information about our debt and leases, see Note 7, Debt, and Note 14, Leases of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10 K.

2010

Cash used for financing activities for the year ended December 31, 2010, reflects $334.1 million of debt repayments, $300.0 million of debt issuances, $32.3 million for payment of a $0.40 per common share special dividend, and $12.0 million of cash paid for financing costs.

2009

Financing activities for the year ended December 31, 2009, used $327.3 million of cash, which primarily reflects the issuance of $300 million of 9% senior notes due in 2017 obtained as a result of a debt restructuring and repayment of approximately $531.5 million of existing debt.



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Contractual Obligations

In the table below, we set forth our enforceable and legally binding obligations as of December 31, 2011. 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 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2013-2014 | 2015-2016 | Thereafter | Total |
| Long-term debt, including current portion (a) | $10.0 | $40.0 | $150.0 | $600.0 | $800.0 |
| Interest (b) | 56.2 | 110.8 | 106.1 | 111.0 | 384.1 |
| Operating leases (c) | 22.5 | 34.7 | 23.7 | 9.9 | 90.8 |
| Purchase obligations: | | | | | |
| Raw materials and finished goods inventory (d) | 56.3 | 26.0 | — | — | 82.3 |
| Utilities (e) | 23.8 | 2.7 | — | — | 26.5 |
| Other (f) | 4.4 | 1.6 | — | — | 6.0 |
| Other long-term liabilities reflected on our Consolidated Balance Sheet (g): | | | | | |
| Compensation and benefits (h) | 20.2 | 53.0 | 53.5 | 46.2 | 172.9 |
| Other (i) | 4.8 | 6.0 | 4.4 | 23.4 | 38.6 |
| | $198.2 | $274.8 | $337.7 | $790.5 | $1,601.2 |

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(a) The table assumes our long-term debt is held to maturity and includes the current portion of long-term debt.

(b) Amounts represent estimated interest payments as of December 31, 2011, and assume our long-term debt is held to maturity.

(c) We enter into operating leases in the normal course of business. We lease some of our operating facilities 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.

(d) Included among our raw materials purchase obligations are contracts to purchase approximately $76 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 2012 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, 2011, 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) Consists primarily of information technology purchase obligations.

(g) Long-term deferred income taxes of $161 million and unrecognized tax benefits of $23 million are excluded from this table, because the timing of their future cash outflows are uncertain. Additional information relating to the

inclusion of the alternative fuel mixture credits in taxable income may become available in the next 12 months, which could cause us to change our unrecognized tax benefits from the amounts currently recorded. It is not reasonably possible to know to what extent the total amounts of unrecognized benefits will increase or decrease within the next 12 months.

(h) Amounts consist primarily of pension 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 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.

(i) Includes current liabilities of $4.8 million related primarily to the current portion of workers' compensation liability.

Off-Balance-Sheet Activities

At December 31, 2011 and 2010, we had no off-balance-sheet arrangements with unconsolidated entities.

Guarantees

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 describes the nature of our guarantees, including the approximate terms of the guarantees, how the guarantees arose, and the events or circumstances that would require us to perform under the guarantees.

Inflationary and Seasonal Influences

Our major costs of production are fiber, compensation, 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, within the Pacific Northwest, the demand for our corrugated containers is influenced by changes in agricultural demand within that geographic region. 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 us using third-party valuations based on quoted prices for similar assets and liabilities. 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 "Net income (loss)". 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 and energy derivatives as of December 31, 2011. Other instruments subject to market risk, such as obligations for pension plans are not reflected in the table. For our long-term debt obligations, 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. For our energy derivatives, the table sets forth the estimated fair value based on current rates and does not attempt to project future rates (dollars in millions).

| | | | | | | | December 31, 2011 | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | 2013 | 2014 | 2015 | 2016 | There-after | Total | Fair Value |
| Debt | | | | | | | | |
| Long-term debt (a) | $10.0 | $20.0 | $20.0 | $30.0 | $120.0 | $600.0 | $800.0 | $841.9 |
| Fixed-rate debt payments (b) | | | | | | | | |
| 9% senior notes (c) | $— | $— | $— | $— | $— | $300.0 | $300.0 | $333.0 |
| 8% senior notes (c) | — | — | — | — | — | 300.0 | 300.0 | 322.0 |
| Average interest rate (as percentage) | — | — | — | — | — | 8.5 | 8.5 | — |
| Variable-rate debt payments (b) | $10.0 | $20.0 | $20.0 | $30.0 | $120.0 | $— | $200.0 | $186.9 |
| Average interest rate (as percentage) | 2.3 | 2.3 | 2.3 | 2.3 | 2.3 | — | 2.3 | — |
| Energy derivatives (d) | $5.3 | $2.0 | $0.9 | $0.1 | $— | $— | $8.4 | $8.4 |

(a) Includes current portion.

(b) These obligations are further explained in Note 7, 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) These obligations are further explained in Note 8, Financial Instruments, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

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

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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 2011 and expect to spend about $9 million in 2012 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.

In December 2011, the United States EPA published their most recent proposed National Emission Standards for Hazardous Air Pollutants for Major Sources: Industrial, Commercial, and Institutional Boilers and Process Heaters (Boiler MACT rules). The proposed 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 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 current estimates, based on the December 2011 Boiler MACT rule reproposal, indicate we will incur additional capital spending of up to $50 million for compliance at our mills. Compliance with final Boiler MACT rules may also affect operating costs for the mills, some mills may be required to narrow the list of fuels used for energy recovery in their boilers. Final impacts on fuel use and fuel costs cannot be precisely determined at this time due to ambiguities in the proposed rule revisions and the likelihood that additional guidance and rule revisions will be forthcoming from EPA.

The forest products sector and other industrial sectors continue to advocate for legislation that would provide a five-year compliance timeline as well as needed technical, regulatory, and legal certainty to the regulated community affected by the Boiler MACT and related rules. In October 2011, the EPA Regulatory Relief Act (H.R. 2250) was passed by the House of Representatives. The companion bill in the U.S. Senate (S.1392) has not yet received an up or down vote, but has more than 40 cosponsors. With the U.S. District Court for the District of Columbia's decision on January 9, 2012, vacating EPA's stay of the March 2011 Boiler MACT rules, passage of legislation to provide regulatory and legal certainty remains especially relevant.

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 66% 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 have been a voluntary member of the 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 2010 (the last reported year), our company emitted about 2.0 million metric tonnes (2,205 pounds) 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. The carbon dioxide from burning biomass, which is generally considered to be carbon neutral, is excluded from our GHG inventories. The EPA discontinued the Climate Leaders program following the 2010 reporting year, and the CCX was

also disbanded. In 2011, we began reporting GHGs for calendar year 2010 under the EPA's mandatory regulatory program.



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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 passed RES legislation. In 2011, Boise purchased a number of smaller GHG-emitting facilities that operate in states that have RES legislation (California, Colorado, Connecticut, Illinois, North Carolina, and Texas). The expected financial impact of RES in these states is expected to be minimal because of their size. There is currently no national RES in effect. The RES could increase our energy cost due to the higher cost of renewable electrical generation facilities, compared with those generating electricity from fossil fuel.

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

The EPA initiated the regulation of GHGs following its "endangerment finding" in December 2009. The EPA issued final regulations (known as the Tailoring Rule) for GHGs from stationary sources under its Clean Air Act Title V permitting and Prevention of Significant Deterioration (PSD) programs in 2010. These rules were scheduled to take effect on January 2, 2011. On January 12, 2011, the EPA announced that it would defer implementation of the Tailoring Rule, including PSD and Title V permitting requirements, for biogenic GHG emissions sources. On July 20, 2011, the final rule deferral was published in the federal register and became effective on that date for a period of three years. Once the deferral expires and the rule is fully implemented, it could lead to longer permitting times and additional costs to reduce GHG emissions at our mills.

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

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

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

Critical Accounting Estimates

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

accounting estimates with the Audit Committee of our board of directors. Our current critical accounting estimates are as follows:

Pensions

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

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

Asset Return Assumption. The expected long-term rate of return on plan assets was based on a weighted average of the expected returns for the major investment asset classes in which we invest. Expected returns for the asset classes are based on long-term historical returns, inflation expectations, forecasted gross domestic product, earnings growth, and other economic factors. The weights assigned to each asset class were based on the investment strategy. The weighted average expected return on plan assets we will use in our calculation of 2012 net periodic benefit cost is 7.00%.

Rate of Compensation Increases. Many of the pension benefits are frozen, so the compensation increase assumption is not applicable for these plans. There are currently no scheduled increases in pension benefit rates for hourly employees in plans that have not been frozen.

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

Expected Contributions. Plan obligations and expenses are based on existing retirement plan provisions. No assumption is made for future changes to benefit provisions beyond those to which we are presently committed, for example, changes we might commit to in future labor contracts. We estimate we will contribute at least the required minimum contributions of approximately $20 million in 2012 and approximately $24 million in 2013.

We recognize the funded status of our pension plans on our Consolidated Balance Sheet and recognize the actuarial and experience gains and losses and the prior service costs and credits as a component of "Accumulated other comprehensive income (loss)" in our Consolidated Statement of Stockholders' Equity for Boise Inc. or Consolidated Statements of Capital for BZ Intermediate. Actual results that differ from assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. At December 31, 2011, we recorded $69.6 million of actuarial losses as an increase in liabilities and an increase in "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheet. The actuarial losses related primarily to a decrease in the discount rate from 5.50% at December 31, 2010, to 4.50% at December 31, 2011. We expect to recognize these actuarial losses using the "corridor approach" which defines the minimum amortization amount, which is the total net unrecognized gain or loss in excess of 10% of the greater of the projected benefit obligation or the market-related value of the assets amortized on a straight-line basis over the average future service period for the active employees which is generally between seven and ten years for our plans. While we believe that the assumptions used to measure our pension obligations are reasonable, differences in actual experience or changes in assumptions may materially affect our pension obligations and future expense.

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

| | Year Ending December 31, | Year Ended December 31 2011 | 2010 |
|---|---|---|---|

| | 2012 | | |
|---|---|---|---|
| Pension expense | $11.1 | $10.9 | $9.2 |
| Assumptions | | | |
| Discount rate | 4.50 % | 5.50 % | 6.10 % |
| Expected rate of return on plan assets | 7.00 % | 7.25 % | 7.25 % |

A change of 0.25% in either direction to the discount rate or the expected rate of return on plan assets would have had the following effect on 2011 and 2012 pension expense (dollars in millions).

| | Base Expense | Increase (Decrease) in Pension Expense (a) | |
|---|---|---|---|
| | | 0.25% Increase | 0.25% Decrease |
| 2011 Expense | | | |
| Discount rate | $10.9 | $(1.5) | $1.5 |
| Expected rate of return on plan assets | 10.9 | (0.8) | 0.8 |
| 2012 Expense | | | |
| Discount rate | $11.1 | $(1.6) | $1.6 |
| Expected rate of return on plan assets | 11.1 | (1.0) | 1.0 |

(a) The sensitivities shown above are specific to 2011 and 2012. The sensitivities may not be additive, so the impact of changing multiple factors simultaneously cannot be calculated by combining the individual sensitivities shown.

For more information related to our pension plans including the general nature of the plans, deferred gains and losses, funding obligations, and cash flows, see Note 9, Retirement and Benefit Plans, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

Income Taxes

We account for income taxes and separately recognize deferred tax assets and deferred tax liabilities. We are subject to income taxes in both the U.S. and foreign jurisdictions. Significant judgments and estimates are required in determining the consolidated income tax expense and our tax basis in assets and liabilities. Our deferred tax assets and deferred tax liabilities represent the tax effect of temporary differences between financial reporting and tax reporting measured at enacted tax rates in effect for the year in which the differences are expected to reverse. We also recognize only the impact of tax positions that, based on their technical merits, are more likely than not to be sustained upon an audit by the taxing authority.

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

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

In 2009, the U.S. Internal Revenue Code provided a tax credit for companies that use the alternative fuel mixture to produce energy to operate their businesses. For the year ended December 31, 2009, we increased our unrecognized tax benefit $87.6 million, which was charged to income tax expense, by excluding the alternative fuel mixture credits from income for tax purposes. If subsequently recognized, as of December 31, 2011, this unrecognized tax benefit would reduce our tax expense $83.1 million, which is net of a federal benefit for state taxes. This would also increase

our federal net operating losses from $117.3 million ($117.6 million for BZ Intermediate) to $323.6 million ($323.9 million for BZ Intermediate). Additional information relating to the inclusion of the alternative fuel mixture credits in taxable income may become available in the next 12 months, which could

cause us to change our unrecognized tax benefits from the amounts currently recorded. It is not reasonably possible to know to what extent the total amounts of unrecognized benefits will increase or decrease within the next 12 months.

Goodwill and Intangible Asset Impairment

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. At December 31, 2011, we had $161.7 million of goodwill recorded on our Consolidated Balance Sheet within our Packaging segment, all of which we recorded in connection with acquiring Tharco and Hexacomb in 2011. At December 31, 2011, the net carrying amount of intangible assets with indefinite lives, which represents the trade names and trademarks acquired from Boise Cascade, L.L.C., in 2008, was $16.8 million, all of which is recorded in our Paper segment. All of our other intangible assets are amortized over their estimated useful lives.

We maintain two reporting units for purposes of our goodwill and intangible asset impairment testing, Packaging and Paper, which are the same as our operating segments discussed in Note 6, Segment Information, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K. We test goodwill and indefinite-lived intangible assets in each of our reporting units for impairment annually in the fourth quarter or sooner if events or changes in circumstances indicate that the carrying value of the asset may exceed fair value.

In conducting our goodwill impairment analysis, we utilize the income approach, based on a discounted cash flow model. The fair value was also calculated using the market approach based primarily on comparable company EBITDA multiples and was compared to and supported the fair value based upon the discounted cash flow approach. We believe that the discounted cash flow model captures our estimates regarding the results of our future prospects; however, we also considered the market's expectations based on observable market information. The discounted cash flow model estimates the projected future cash flows to be generated by our reporting units, discounted to present value using a discount rate for a potential market participant. The market approach estimates fair value based on multiples of EBITDA. For our trademark and trade name intangible asset impairment testing, we use a discounted cash flow approach based on a relief from royalty method. This method assumes that, through ownership of trademarks and trade names, we avoid royalty expense associated with licensing, resulting in cost savings. An estimated royalty rate, determined as a percentage of net sales, is used to estimate the value of the intangible assets. Differences in assumptions used in projecting future cash flows and cost of funds could have a significant impact on the determination of the fair value of our reporting units and intangible assets. The following assumptions are key to our estimates of fair value:

Business Projections. The discounted cash flow model utilizes business projections based on five-year forecasts that are developed internally by management for use in managing the business and reviewed by the board of directors. These projections include significant assumptions such as estimates of future revenues, profits, working capital requirements, operating plans, and capital expenditures. Our forecasts take into consideration recent sales data for existing products, planned timing of capital projects, and key economic indicators to estimate future production volumes, selling prices, and key input costs for our manufactured products. Our pricing assumptions are estimated based upon an assessment of industry supply and demand dynamics for our major products.

Growth Rates. A growth rate is used to calculate the terminal value in the discounted cash flow model. The growth rate is the expected rate at which earnings or revenue is projected to grow beyond the five-year forecast period.

Discount Rates. Future cash flows are discounted at a rate that is consistent with a weighted average cost of capital for a potential market participant. The weighted average cost of capital is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise. The discount rates selected are based on existing

conditions within our industry and reflect adjustments for potential risk premiums in those markets as well as weighting of the market cost of equity versus debt.

EBITDA Multiples. The market approach requires the use of a valuation multiple to calculate the estimated fair value of a reporting unit. We use an EBITDA multiple based on a selection of comparable companies and recent acquisition transactions within our industries.

Based on the results of the first step of the goodwill impairment test, we determined that the fair value of our Packaging reporting unit was substantially in excess of the carrying amount, and therefore, no goodwill impairment existed. As a result, the second step of the goodwill impairment test was not required to be completed. In addition, based on the impairment tests of our intangible assets with indefinite lives, we determined that the fair value of our intangible assets exceeds their carrying value.

If management's estimates of future operating results materially change or if there are changes to other assumptions, the estimated fair value of our identifiable intangible assets and goodwill could change significantly. Such change could result in impairment charges in future periods, which could have a significant noncash impact on our operating results and financial condition. We cannot predict the occurrence of future events that might adversely affect the reported value of our goodwill and intangible assets. As additional information becomes known, we may change our estimates.

Long-Lived Asset Impairment

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

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

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

New and Recently Adopted Accounting Standards

For a listing of our new and recently adopted accounting standards, see Note 2, Summary of Significant Accounting Policies, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Boise Inc.
Consolidated Statements of Income
(dollars and shares in thousands, except per-share data)

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Sales | | | |
| Trade | $2,364,024 | $2,058,132 | $1,935,410 |
| Related parties | 40,057 | 35,645 | 42,782 |
| | 2,404,081 | 2,093,777 | 1,978,192 |
| Costs and expenses | | | |
| Materials, labor, and other operating expenses | 1,880,271 | 1,634,039 | 1,596,214 |
| Fiber costs from related parties | 18,763 | 25,259 | 36,858 |
| Depreciation, amortization, and depletion | 143,758 | 129,926 | 131,500 |
| Selling and distribution expenses | 107,654 | 58,107 | 55,524 |
| General and administrative expenses | 60,587 | 52,273 | 50,250 |
| Alternative fuel mixture credits, net | — | — | (207,607) |
| Other (income) expense, net | 1,994 | 213 | 9,810 |
| | 2,213,027 | 1,899,817 | 1,672,549 |
| Income from operations | 191,054 | 193,960 | 305,643 |
| Foreign exchange gain | 135 | 890 | 2,639 |
| Loss on extinguishment of debt | (2,300) | (22,225) | (44,102) |
| Interest expense | (63,817) | (64,825) | (82,695) |
| Interest income | 269 | 306 | 367 |
| | (65,713) | (85,854) | (123,791) |
| Income before income taxes | 125,341 | 108,106 | 181,852 |
| Income tax provision | (50,131) | (45,372) | (28,010) |
| Net income | $75,210 | $62,734 | $153,842 |
| Weighted average common shares outstanding: | | | |
| Basic | 101,941 | 80,461 | 78,355 |
| Diluted | 106,746 | 84,131 | 83,081 |
| Net income per common share: | | | |
| Basic | $0.74 | $0.78 | $1.96 |
| Diluted | $0.70 | $0.75 | $1.85 |

See accompanying notes to consolidated financial statements.

Boise Inc.
Consolidated Balance Sheets
(dollars in thousands)

| | December 31 | |
|---|---|---|
| | 2011 | 2010 |
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | $96,996 | $166,833 |
| Short-term investments | — | 10,621 |
| Receivables | | |
| Trade, less allowances of $1,343 and $603 | 228,838 | 188,589 |
| Other | 7,622 | 3,839 |
| Inventories | 307,305 | 261,471 |
| Deferred income taxes | 20,379 | 16,658 |
| Prepaid and other | 6,944 | 5,214 |
| | 668,084 | 653,225 |
| Property | | |
| Property and equipment, net | 1,235,269 | 1,199,035 |
| Fiber farms | 21,193 | 18,285 |
| | 1,256,462 | 1,217,320 |
| Deferred financing costs | 30,956 | 30,396 |
| Goodwill | 161,691 | — |
| Intangible assets, net | 159,120 | 29,605 |
| Other assets | 9,757 | 8,444 |
| Total assets | $2,286,070 | $1,938,990 |

See accompanying notes to consolidated financial statements.

Boise Inc.
Consolidated Balance Sheets (continued)
(dollars and shares in thousands, except per-share data)

| | December 31 | |
|---|---|---|
| | 2011 | 2010 |
| LIABILITIES AND STOCKHOLDERS’ EQUITY | | |
| | | |
| Current | | |
| Current portion of long-term debt | $10,000 | $43,750 |
| Income taxes payable | 590 | 82 |
| Accounts payable | 201,994 | 179,214 |
| Accrued liabilities | | |
| Compensation and benefits | 64,907 | 54,574 |
| Interest payable | 10,528 | 10,535 |
| Other | 22,540 | 16,123 |
| | 310,559 | 304,278 |
| | | |
| Debt | | |
| Long-term debt, less current portion | 790,000 | 738,081 |
| | | |
| Other | | |
| Deferred income taxes | 161,260 | 88,200 |
| Compensation and benefits | 172,394 | 121,318 |
| Other long-term liabilities | 57,010 | 40,278 |
| | 390,664 | 249,796 |
| | | |
| Commitments and contingent liabilities | | |
| | | |
| Stockholders' equity | | |
| Preferred stock, $0.0001 par value per share: 1,000 shares authorized; none issued | — | — |
| Common stock, $0.0001 par value per share: 250,000 shares authorized; 100,272 and 84,845 shares issued and outstanding | 12 | 8 |
| Treasury stock, 21,151 and none | (121,421) | — |
| Additional paid-in capital | 866,901 | 581,442 |
| Accumulated other comprehensive income (loss) | (121,962) | (78,822) |
| Retained earnings | 171,317 | 144,207 |
| Total stockholders' equity | 794,847 | 646,835 |
| | | |
| Total liabilities and stockholders' equity | $2,286,070 | $1,938,990 |

See accompanying notes to consolidated financial statements.

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

| | Year Ended December 31 | | |
|---|---|---|---|
| | 2011 | 2010 | 2009 |
| Cash provided by (used for) operations | | | |
| Net income | $75,210 | $62,734 | $153,842 |
| Items in net income not using (providing) cash | | | |
| Depreciation, depletion, and amortization of deferred financing costs and other | 149,715 | 137,495 | 144,079 |
| Share-based compensation expense | 3,695 | 3,733 | 3,518 |
| Pension expense | 10,916 | 9,241 | 8,287 |
| Deferred income taxes | 44,301 | 38,884 | 27,709 |
| Notes payable interest expense | — | — | 9,000 |
| Other | 1,878 | 95 | (8,570) |
| Loss on extinguishment of debt | 2,300 | 22,225 | 44,102 |
| Decrease (increase) in working capital, net of acquisitions | | | |
| Receivables | 1,624 | 57,255 | (18,579) |
| Inventories | (22,237) | (17,120) | 83,037 |
| Prepaid expenses | (275) | 4,690 | 1,470 |
| Accounts payable and accrued liabilities | 3,803 | (6,690) | 25,710 |
| Current and deferred income taxes | 4,632 | 5,585 | (372) |
| Pension payments | (25,414) | (25,174) | (12,298) |
| Other | 43 | (3,172) | (2,223) |
| Cash provided by operations | 250,191 | 289,781 | 458,712 |
| Cash provided by (used for) investment | | | |
| Acquisition of businesses and facilities, net of cash acquired | (326,223) | — | (543) |
| Expenditures for property and equipment | (128,762) | (111,619) | (77,145) |
| Purchases of short-term investments | (3,494) | (25,336) | (21,643) |
| Maturities of short-term investments | 14,114 | 24,744 | 11,615 |
| Other | 1,048 | 2,941 | 3,199 |
| Cash used for investment | (443,317) | (109,270) | (84,517) |
| Cash provided by (used for) financing | | | |
| Issuances of long-term debt | 275,000 | 300,000 | 310,000 |
| Payments of long-term debt | (256,831) | (334,096) | (531,523) |
| Payments of financing costs | (8,613) | (12,003) | (13,156) |
| Repurchases of common stock | (121,421) | — | — |
| Proceeds from exercise of warrants | 284,785 | 638 | — |
| Payments of special dividend | (47,916) | (32,276) | — |
| Extinguishment of debt | — | — | (39,717) |
| Payments of notes payable | — | — | (52,924) |
| Other | (1,715) | (5,334) | — |
| Cash provided by (used for) financing | 123,289 | (83,071) | (327,320) |
| Increase (decrease) in cash and cash equivalents | (69,837) | 97,440 | 46,875 |
| Balance at beginning of the period | 166,833 | 69,393 | 22,518 |
| Balance at end of the period | $96,996 | $166,833 | $69,393 |

See accompanying notes to consolidated financial statements.

Boise Inc.
Consolidated Statements of Stockholders' Equity
(dollars and shares in thousands)

| | Stockholders' Equity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Common Stock | | Treasury Stock | | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings (Accumulated Deficit) | Total |
| | | Shares | Amount | Shares | Amount | | | | |
| Balance at December 31, 2008 | $— | 79,716 | $ 8 | — | $— | $575,151 | $ (85,682 ) | $ (40,031 ) | $449,446 |
| Comprehensive income: | | | | | | | | | |
| Net income | | | | | | | | 153,842 | 153,842 |
| Other comprehensive income (loss), net of tax | | | | | | | | | |
| Cash flow hedges | | | | | | | 207 | | 207 |
| Investment losses | | | | | | | | | |