BOISE INC.
Form 10-Q
November 03, 2011

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

| | |
|---|---|
| ý | QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 |
| | For the quarterly period ended September 30, 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 |

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

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuers' classes of common stock, as of the latest practicable date.

There were 106,425,545 common shares, $0.0001 per share par value, of Boise Inc. outstanding as of October 31, 2011.

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

Table of Contents

PART I—FINANCIAL INFORMATION

PART II—OTHER INFORMATION



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

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | | | | |
| Trade | $619,396 | $543,505 | $1,772,500 | $1,540,368 |
| Related parties | 12,346 | 10,550 | 31,140 | 29,353 |
| | 631,742 | 554,055 | 1,803,640 | 1,569,721 |
| Costs and expenses | | | | |
| Materials, labor, and other operating expenses | 483,885 | 412,847 | 1,417,956 | 1,240,926 |
| Fiber costs from related parties | 4,786 | 4,905 | 13,609 | 19,904 |
| Depreciation, amortization, and depletion | 36,374 | 32,457 | 106,438 | 96,855 |
| Selling and distribution expenses | 29,799 | 13,884 | 78,655 | 41,872 |
| General and administrative expenses | 14,396 | 12,594 | 41,715 | 36,622 |
| Other (income) expense, net | (130) | 382 | 134 | (238) |
| | 569,110 | 477,069 | 1,658,507 | 1,435,941 |
| Income from operations | 62,632 | 76,986 | 145,133 | 133,780 |
| Foreign exchange gain (loss) | (482) | 386 | (295) | 750 |
| Loss on extinguishment of debt | — | — | — | (22,225) |
| Interest expense | (15,725) | (16,100) | (48,164) | (48,752) |
| Interest income | 58 | 105 | 210 | 203 |
| | (16,149) | (15,609) | (48,249) | (70,024) |
| Income before income taxes | 46,483 | 61,377 | 96,884 | 63,756 |
| Income tax provision | (18,119) | (25,454) | (37,929) | (27,208) |
| Net income | $28,364 | $35,923 | $58,955 | $36,548 |
| Weighted average common shares outstanding: | | | | |
| Basic | 115,657 | 80,664 | 101,250 | 80,366 |
| Diluted | 117,955 | 84,082 | 106,791 | 84,123 |
| Net income per common share: | | | | |
| Basic | $0.25 | $0.45 | $0.58 | $0.45 |
| Diluted | $0.24 | $0.43 | $0.55 | $0.43 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | $169,628 | $166,833 |
| Short-term investments | — | 10,621 |
| Receivables | | |
| Trade, less allowances of $792 and $603 | 236,154 | 188,589 |
| Other | 6,976 | 3,839 |
| Inventories | 290,397 | 261,471 |
| Deferred income taxes | 18,856 | 16,658 |
| Prepaid and other | 11,809 | 5,214 |
| | 733,820 | 653,225 |
| Property | | |
| Property and equipment, net | 1,208,499 | 1,199,035 |
| Fiber farms and deposits | 20,694 | 18,285 |
| | 1,229,193 | 1,217,320 |
| Deferred financing costs | 26,025 | 30,396 |
| Goodwill | 103,242 | — |
| Intangible assets, net | 97,316 | 29,605 |
| Other assets | 8,240 | 8,444 |
| Total assets | $2,197,836 | $1,938,990 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current | | |
| Current portion of long-term debt | $103,125 | $43,750 |
| Income taxes payable | 129 | 82 |
| Accounts payable | 190,607 | 179,214 |
| Accrued liabilities | | |
| Compensation and benefits | 57,999 | 54,574 |
| Interest payable | 23,509 | 10,535 |
| Other | 23,462 | 16,123 |
| | 398,831 | 304,278 |
| Debt | | |
| Long-term debt, less current portion | 647,456 | 738,081 |
| Other | | |
| Deferred income taxes | 155,630 | 88,200 |
| Compensation and benefits | 101,718 | 121,318 |
| Other long-term liabilities | 51,393 | 40,278 |
| | 308,741 | 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; 108,052 shares and 84,845 shares issued and outstanding | 12 | 8 |
| Treasury stock, 13,371 shares and none | (76,328) | — |
| Additional paid-in capital | 841,134 | 581,442 |
| Accumulated other comprehensive income (loss) | (77,072) | (78,822) |
| Retained earnings | 155,062 | 144,207 |
| Total stockholders' equity | 842,808 | 646,835 |
| Total liabilities and stockholders' equity | $2,197,836 | $1,938,990 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2011 | 2010 |
| Cash provided by (used for) operations | | |
| Net income | $58,955 | $36,548 |
| Items in net income not using (providing) cash | | |
| Depreciation, depletion, and amortization of deferred financing costs and other | 111,123 | 102,856 |
| Share-based compensation expense | 2,676 | 2,774 |
| Pension expense | 8,569 | 7,429 |
| Deferred income taxes | 33,806 | 27,196 |
| Change in fair value of energy derivatives | (244) | 1,502 |
| Other | 1,317 | (625) |
| Loss on extinguishment of debt | — | 22,225 |
| Decrease (increase) in working capital, net of acquisitions | | |
| Receivables | (17,711) | 21,725 |
| Inventories | (9,998) | (4,802) |
| Prepaid expenses | (1,301) | 3,655 |
| Accounts payable and accrued liabilities | 10,619 | 13,605 |
| Current and deferred income taxes | 1,912 | (543) |
| Pension payments | (25,659) | (18,463) |
| Other | 1,481 | 208 |
| Cash provided by operations | 175,545 | 215,290 |
| Cash provided by (used for) investment | | |
| Acquisition of businesses and facilities, net of cash acquired | (201,289) | — |
| Expenditures for property and equipment | (83,869) | (66,697) |
| Purchases of short-term investments | (3,494) | (17,675) |
| Maturities of short-term investments | 14,114 | 17,090 |
| Sales of assets | 1,757 | 646 |
| Other | (251) | 1,689 |
| Cash used for investment | (273,032) | (64,947) |
| Cash provided by (used for) financing | | |
| Issuances of long-term debt | 75,000 | 300,000 |
| Payments of long-term debt | (106,250) | (327,846) |
| Payments of deferred financing costs | (160) | (11,861) |
| Repurchases of common stock | (76,328) | — |
| Equity yield enhancement program | (25,000) | — |
| Proceeds from exercise of warrants | 284,785 | — |
| Payments of special dividend | (47,916) | — |
| Other | (3,849) | (6,580) |
| Cash provided by (used for) financing | 100,282 | (46,287) |
| Increase in cash and cash equivalents | 2,795 | 104,056 |
| Balance at beginning of the period | 166,833 | 69,393 |
| Balance at end of the period | $169,628 | $173,449 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | | | | |
| Trade | $619,396 | $543,505 | $1,772,500 | $1,540,368 |
| Related parties | 12,346 | 10,550 | 31,140 | 29,353 |
| | 631,742 | 554,055 | 1,803,640 | 1,569,721 |
| Costs and expenses | | | | |
| Materials, labor, and other operating expenses | 483,885 | 412,847 | 1,417,956 | 1,240,926 |
| Fiber costs from related parties | 4,786 | 4,905 | 13,609 | 19,904 |
| Depreciation, amortization, and depletion | 36,374 | 32,457 | 106,438 | 96,855 |
| Selling and distribution expenses | 29,799 | 13,884 | 78,655 | 41,872 |
| General and administrative expenses | 14,396 | 12,594 | 41,715 | 36,622 |
| Other (income) expense, net | (130) | 382 | 134 | (238) |
| | 569,110 | 477,069 | 1,658,507 | 1,435,941 |
| Income from operations | 62,632 | 76,986 | 145,133 | 133,780 |
| Foreign exchange gain (loss) | (482) | 386 | (295) | 750 |
| Loss on extinguishment of debt | — | — | — | (22,225) |
| Interest expense | (15,725) | (16,100) | (48,164) | (48,752) |
| Interest income | 58 | 105 | 210 | 203 |
| | (16,149) | (15,609) | (48,249) | (70,024) |
| Income before income taxes | 46,483 | 61,377 | 96,884 | 63,756 |
| Income tax provision | (18,119) | (25,421) | (37,929) | (26,334) |
| Net income | $28,364 | $35,956 | $58,955 | $37,422 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Current | | |
| Cash and cash equivalents | $169,628 | $166,833 |
| Short-term investments | — | 10,621 |
| Receivables | | |
| Trade, less allowances of $792 and $603 | 236,154 | 188,589 |
| Other | 6,976 | 3,839 |
| Inventories | 290,397 | 261,471 |
| Deferred income taxes | 18,856 | 16,658 |
| Prepaid and other | 11,809 | 5,214 |
| | 733,820 | 653,225 |
| Property | | |
| Property and equipment, net | 1,208,499 | 1,199,035 |
| Fiber farms and deposits | 20,694 | 18,285 |
| | 1,229,193 | 1,217,320 |
| Deferred financing costs | 26,025 | 30,396 |
| Goodwill | 103,242 | — |
| Intangible assets, net | 97,316 | 29,605 |
| Other assets | 8,240 | 8,444 |
| Total assets | $2,197,836 | $1,938,990 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| LIABILITIES AND CAPITAL | | |
| Current | | |
| Current portion of long-term debt | $103,125 | $43,750 |
| Income taxes payable | 129 | 82 |
| Accounts payable | 190,607 | 179,214 |
| Accrued liabilities | | |
| Compensation and benefits | 57,999 | 54,574 |
| Interest payable | 23,509 | 10,535 |
| Other | 23,462 | 16,123 |
| | 398,831 | 304,278 |
| Debt | | |
| Long-term debt, less current portion | 647,456 | 738,081 |
| Other | | |
| Deferred income taxes | 147,083 | 79,451 |
| Compensation and benefits | 101,718 | 121,318 |
| Other long-term liabilities | 51,443 | 40,530 |
| | 300,244 | 241,299 |
| Commitments and contingent liabilities | | |
| Capital | | |
| Business unit equity | 851,305 | 655,332 |
| Total liabilities and capital | $2,197,836 | $1,938,990 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

| | Nine Months Ended September 30 | |
|---|---|---|
| | 2011 | 2010 |
| Cash provided by (used for) operations | | |
| Net income | $58,955 | $37,422 |
| Items in net income not using (providing) cash | | |
| Depreciation, depletion, and amortization of deferred financing costs and other | 111,123 | 102,856 |
| Share-based compensation expense | 2,676 | 2,774 |
| Pension expense | 8,569 | 7,429 |
| Deferred income taxes | 33,950 | 26,307 |
| Change in fair value of energy derivatives | (244) | 1,502 |
| Other | 1,317 | (625) |
| Loss on extinguishment of debt | — | 22,225 |
| Decrease (increase) in working capital, net of acquisitions | | |
| Receivables | (17,711) | 21,725 |
| Inventories | (9,998) | (4,802) |
| Prepaid expenses | (1,301) | 3,655 |
| Accounts payable and accrued liabilities | 10,619 | 13,605 |
| Current and deferred income taxes | 1,768 | (528) |
| Pension payments | (25,659) | (18,463) |
| Other | 1,481 | 208 |
| Cash provided by operations | 175,545 | 215,290 |
| Cash provided by (used for) investment | | |
| Acquisition of businesses and facilities, net of cash acquired | (201,289) | — |
| Expenditures for property and equipment | (83,869) | (66,697) |
| Purchases of short-term investments | (3,494) | (17,675) |
| Maturities of short-term investments | 14,114 | 17,090 |
| Sales of assets | 1,757 | 646 |
| Other | (251) | 1,689 |
| Cash used for investment | (273,032) | (64,947) |
| Cash provided by (used for) financing | | |
| Issuances of long-term debt | 75,000 | 300,000 |
| Payments of long-term debt | (106,250) | (327,846) |
| Payments of deferred financing costs | (160) | (11,861) |
| Proceeds from Boise Inc., net | 135,541 | — |
| Other | (3,849) | (6,580) |
| Cash provided by (used for) financing | 100,282 | (46,287) |
| Increase in cash and cash equivalents | 2,795 | 104,056 |
| Balance at beginning of the period | 166,833 | 69,393 |
| Balance at end of the period | $169,628 | $173,449 |

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Nature of Operations

Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products. The products we manufacture include papers used for communication, such as office papers, commercial printing papers, envelopes, forms, and newsprint, as well as papers that are associated with packaging, including label and release and flexible papers used for food wrap and other applications. We also manufacture linerboard and corrugating medium, which are combined to make containerboard, the base raw material in our corrugated sheets and containers. We own mill operations in the following locations: Jackson, Alabama; International Falls, Minnesota; St. Helens, Oregon; and Wallula, Washington, all of which manufacture uncoated freesheet paper. We also own a mill in DeRidder, Louisiana, which produces linerboard as well as newsprint. Additionally, we have a network of eight corrugated container plants located in the Western U.S.; four corrugated sheet plants in Georgia, Nevada, Texas, and Washington; a corrugated sheet feeder plant in Texas; and four distribution facilities.

The following sets forth our operating structure:

As of September 30, 2011, we had approximately 5,000 employees. Approximately 53% of these employees worked pursuant to collective bargaining agreements. Approximately 13% work pursuant to collective bargaining agreements that will expire within one year.

Basis of Presentation

Boise Inc., headquartered in Boise, Idaho, operates and reports its business in three reportable segments: Paper, Packaging, and Corporate and Other (support services). See Note 17, Segment Information, for additional information about our reportable segments.

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

- Boise Inc. and its wholly owned subsidiaries, including BZ Intermediate Holdings LLC (BZ Intermediate).
- BZ Intermediate and its wholly owned subsidiaries, parent company to Boise Paper Holdings, L.L.C. (Boise Paper Holdings).

There are no significant differences between the results of operations, financial condition, and cash flows of Boise Inc. and those of BZ Intermediate other than income taxes and common stock activity. Unless the context indicates otherwise, the terms "Company," "we," "us," "our," or "Boise" refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate.

The quarterly consolidated financial statements presented have not been audited by an independent registered public accounting firm but, in the opinion of management, include all adjustments, consisting of normal,

9

recurring adjustments, necessary to present fairly the results for the periods presented. The preparation of the consolidated financial statements involves the use of estimates and accruals. Actual results may vary from those estimates. Quarterly results are not necessarily indicative of results that may be expected for the full year. These condensed notes to unaudited quarterly consolidated financial statements should be read in conjunction with our 2010 Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, and the other reports we file with the Securities and Exchange Commission (SEC).

2. Acquisition of Tharco Packaging, Inc.

On March 1, 2011, our wholly owned subsidiary Boise Paper Holdings acquired 100% of the outstanding stock of Tharco Packaging, Inc. (Tharco) for a preliminary purchase price of $201.3 million (the Tharco Acquisition). We financed the acquisition with existing cash and $75 million in borrowings on our revolving credit facility, which is discussed further in Note 11, Debt. The acquisition expands and diversifies our presence in packaging markets; extends our geographical reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia; and will increase our containerboard integration to approximately 85%.

Our purchase price allocation is preliminary. When finalized, we may have modest changes to the amounts we have included in our preliminary allocation. The following table summarizes our preliminary allocation of the purchase price to the assets acquired and liabilities assumed, based on our current estimates of the fair value at the date of the Tharco Acquisition (dollars in thousands):

| | March 1, 2011 Fair Value |
|---|---|
| Current assets (a) | $53,850 |
| Property and equipment (b) | 27,505 |
| Intangible assets (c): | |
| Customer relationships | 61,200 |
| Trademarks and trade name | 10,900 |
| Noncompete agreement | 300 |
| Goodwill (d) | 103,242 |
| Other long-term assets | 477 |
| Assets acquired | 257,474 |
| | |
| Current liabilities | 21,130 |
| Deferred tax liability | 32,336 |
| Unfavorable leases | 2,583 |
| Other long-term liabilities | 136 |
| Liabilities assumed | 56,185 |
| | |
| Net assets acquired | $201,289 |

(a) Includes $29.6 million of receivables and $20.7 million of inventories.

(b) We are depreciating the property and equipment acquired on a straight-line basis over their estimated remaining lives, which range from one to 20 years.

(c) We are amortizing the intangible assets on a straight-line basis over the following (in years):

| | |
|---|---|
| Customer relationships | 17 |
| Trademarks and trade name | 15 |
| Noncompete agreement | 2 |

(d) The Tharco Acquisition resulted in $103.2 million of goodwill, which we recorded in our Packaging segment. Goodwill is the excess of purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. The goodwill recognized in the transaction is not deductible for income tax purposes. However, we assumed $12.9 million of goodwill in the transaction that Tharco had been amortizing in connection with previous acquisitions, which we will continue to amortize and deduct for income tax purposes.

We expensed $0.7 million of costs related to the Tharco Acquisition for legal, professional, and advisory services during the nine months ended September 30, 2011. All costs were expensed as incurred and recorded in "Other (income) expense, net" in our Consolidated Statements of Income.

The nine months ended September 30, 2011, included $159.8 million of net sales and $4.2 million of operating income from Tharco's operations. Tharco's operating income was negatively affected by $2.2 million of expense related to the inventory purchase price adjustments that were recognized in March 2011. These results are included in our Packaging segment.

The following pro forma financial information presents the combined results of operations as if Tharco had been combined with us on January 1, 2010. The pro forma results are intended for information purposes only and do not purport to represent what the combined companies' results of operations would actually have been had the transaction in fact occurred on January 1, 2010. They also do not reflect any cost savings, operating synergies, or revenue enhancements that we may achieve or the costs necessary to achieve those cost savings, operating synergies, revenue enhancements, or integration efforts (dollars in thousands, except per-share amounts).

| | Pro Forma | |
|---|---|---|
| | Nine Months Ended September 30, 2011 | Year Ended December 31, 2010 |
| Sales | $1,845,291 | $2,355,737 |
| Net income (a) | $59,799 | $67,647 |
| Net income per share—diluted | $0.56 | $0.80 |

(a) The September 30, 2011, pro forma financial information was adjusted to exclude $2.2 million of expense related to inventory purchase price adjustments and $3.4 million of expenses for legal, accounting, and other advisory-related services, including costs incurred by Tharco prior to closing on March 1, 2011. The December 31, 2010, pro forma financial information was adjusted to include these charges. Pro forma net income for the year ended December 31, 2010, includes $22.2 million of noncash expense associated with refinancing our debt in 2010.

3. Net Income Per Common Share

Net income per common share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period. Net income per common share is not applicable to BZ Intermediate, because it does not have common shares. For the three and nine months ended September 30, 2011 and 2010, Boise Inc.'s basic and diluted net income per share is calculated as follows (dollars and shares in thousands, except per-share data):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28,364 | $35,923 | $58,955 | $36,548 |
| Weighted average number of common shares for basic net income per share (a) | 115,657 | 80,664 | 101,250 | 80,366 |
| Incremental effect of dilutive common stock equivalents: | | | | |
| Common stock warrants (a) (b) | — | — | 2,960 | — |
| Stock options (c) | — | — | 2 | — |
| Restricted stock and restricted stock units | 2,298 | 3,418 | 2,579 | 3,757 |
| Weighted average number of shares for diluted net income per share (a) (b) | 117,955 | 84,082 | 106,791 | 84,123 |
| | | | | |
| Net income per share: | | | | |
| Basic (a) | $0.25 | $0.45 | $0.58 | $0.45 |
| Diluted (a) | $0.24 | $0.43 | $0.55 | $0.43 |

___________

(a) During the nine months ended September 30, 2011, 40.3 million warrants were exercised, resulting in the issuance of 38.4 million additional common shares. For the nine months ended September 30, 2011, the exercise added 21.4 million to the number of weighted average shares included in basic net income per share.

During the nine months ended September 30, 2011, 13.4 million common shares were repurchased resulting in a decrease to the number of weighted average shares included in the basic and diluted net income per share calculation by 4.3 million and 1.4 million, respectively.

(b) For the three and nine months ended September 30, 2010, warrants to purchase 44.4 million shares of common stock, which are accounted for under the treasury stock method, were not included in the computation of diluted net income per share, because the exercise price exceeded the average market price of our common stock.

(c) For the three months ended September 30, 2011 the stock options were antidilutive.

4. Income Taxes

For the three and nine months ended September 30, 2011, Boise Inc. and BZ Intermediate recorded $18.1 million and $37.9 million, respectively, of income tax expense. For the three and nine months ended September 30, 2011, Boise Inc.’s and BZ Intermediate's effective tax rates were 39.0% and 39.1%.

For the three and nine months ended September 30, 2010, Boise Inc. recorded $25.5 million and $27.2 million, respectively, of income tax expense. For the three and nine months ended September 30, 2010, Boise Inc.'s effective tax rates were 41.5% and 42.7%. For the three and nine months ended September 30, 2010, BZ Intermediate recorded $25.4 million and $26.3 million, respectively, of income tax expense. For the three and nine months ended September 30, 2010, BZ Intermediate’s effective tax rates were 41.4% and 41.3%.

In all periods, the primary reasons for the difference from the federal statutory income tax rate of 35.0% were the effects of state income taxes and discrete tax items.

Uncertain Income Tax Positions

Both Boise Inc. and BZ Intermediate recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Income. Interest expense related to uncertain tax positions was nominal for the nine months ended September 30, 2011 and 2010. We did not record any penalties associated with our uncertain tax positions during the nine months ended September 30, 2011 and 2010.

Other

Due to Internal Revenue Code Section 382, changes in our ownership limit the amount of net operating losses that we may utilize in any one year. However, we believe it is more likely than not that our net operating losses will be fully realized before they expire in 2028 and 2029.

We file federal income tax returns in the U.S. and state income tax returns in various state jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. BZ Intermediate is a wholly owned, consolidated entity of Boise Inc., and its tax return is filed under the consolidated tax return of Boise Inc. Open tax years for Boise Inc. are 2010, 2009, 2008, and 2007.

During the nine months ended September 30, 2011, payments made for taxes, net of refunds received, were $1.9 million, and during the nine months ended September 30, 2010, refunds received for taxes, net of payments made, were $0.1 million.

5. Transactions With Related Parties

For the period of February 22, 2008, through early March 2010, Boise Cascade Holdings, L.L.C. (Boise Cascade) held a significant equity interest in us, and our transactions with Boise Cascade were recorded as related-party transactions. In early March 2010, Boise Cascade sold all of its remaining investment in us, and accordingly, it is no longer a related party. As a result, beginning in March 2010, transactions (discussed below) of Louisiana Timber Procurement Company, L.L.C. (LTP) represent the only significant related-party activity recorded in our Consolidated Financial Statements.

Related-Party Sales

LTP is a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade. LTP procures saw timber, pulpwood, residual chips, and other residual wood fiber to meet the wood and fiber requirements of Boise Inc. and Boise Cascade. We are the primary beneficiary of LTP, as we have the power to direct the activities that most significantly affect the economic performance of LTP. Therefore, we consolidate LTP in our financial statements in our Packaging segment. At September 30, 2011, and December 31, 2010, the carrying amounts of LTP's assets and liabilities on our Consolidated Balance Sheets were $3.6 million and $2.1 million, which related primarily to noninventory working capital items. During the three and nine months ended September 30, 2011, we recorded $12.3 million and $31.1 million, respectively, of LTP sales to Boise Cascade in "Sales, Related parties" in the Consolidated Statements of Income and approximately the same amount in expenses. During the three and nine months ended September 30, 2010, we recorded $10.6 million and $26.7 million, respectively, of LTP sales to Boise Cascade in "Sales, Related parties" in the Consolidated Statements of Income and approximately the same amount of expenses in "Materials, labor, and other operating expenses." The sales were at prices designed to approximate market prices.

We have an outsourcing services agreement under which we provide a number of corporate staff services to Boise Cascade at our cost. The agreement, as extended, expires on February 22, 2013. It will automatically renew for one-year terms unless either party provides notice of termination to the other party at least 12 months in advance of the expiration date. Services we provide to Boise Cascade under this agreement as well as other services include transportation, information technology, accounting, and human resource services. During the nine months ended September 30, 2010, we recorded $2.3 million of revenues in "Sales, Related parties" in our Consolidated Statements of Income.

Related-Party Costs and Expenses

During the three and nine months ended September 30, 2011, fiber purchases from related parties were $4.8 million and $13.6 million, respectively, and during the three and nine months ended September 30, 2010, fiber purchases from related parties were $4.9 million and $19.9 million, respectively. In 2011, most of these purchases related to chip and log purchases by LTP from Boise Cascade’s wood products business. In 2010, the purchases included both direct chip and log purchases from Boise Cascade while they were a related party and LTP's purchases from Boise Cascade. All of the costs associated with these purchases were recorded as "Fiber costs from related parties" in the Consolidated Statements of Income. Fiber purchases from Boise Cascade subsequent to February 2010 are recorded as “Materials, labor, and other operating expenses” in the Consolidated Statements of Income.

6. Leases

We lease our distribution centers, as well as other property and equipment, under operating leases, including facilities and equipment acquired in the Tharco Acquisition. For purposes of determining straight-line rent expense, the lease term is calculated from the date of possession of the facility, including any periods of free rent and any renewal option periods that are reasonably assured of being exercised. Straight-line rent expense is also adjusted to reflect any allowances or reimbursements provided by the lessor. We had an insignificant amount of sublease rental income in the periods presented below. Accordingly, our future minimum lease payment requirements have not been reduced by sublease rental income. Rental expense for operating leases is as follows (dollars in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Rental expense | $6,185 | $3,820 | $17,312 | $11,350 |

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

| | Remaining 2011 | 2012 | 2013 | 2014 | 2015 | 2016 & Thereafter |
|---|---|---|---|---|---|---|
| Minimum payment | $5,101 | $20,287 | $16,352 | $13,356 | $11,064 | $19,559 |

Substantially all lease agreements have fixed payment terms based on the passage of time. Some lease agreements provide us with the option to purchase the leased property. Additionally, some agreements contain renewal options averaging approximately five years, with fixed payment terms similar to those in the original lease agreements.

7. Concentrations of Risk

Sales to OfficeMax represent a concentration in the volume of business transacted and in revenue generated from those transactions. Sales to OfficeMax were $125.3 million and $369.7 million, respectively, during the three and nine months ended September 30, 2011, representing 20% of total sales for those periods. During the three and nine months ended September 30, 2010, sales to OfficeMax were $123.2 million and $378.1 million, respectively, representing 22% and 24% of total sales for those periods. At September 30, 2011, and December 31, 2010, we had $36.8 million and $30.3 million, respectively, of accounts receivable due from OfficeMax. Pursuant to an agreement entered into in June 2011, we expect OfficeMax to continue to represent a concentration of our revenues and transacted business. Any significant change in the willingness of OfficeMax to purchase our products or a significant deterioration in the financial condition of OfficeMax that affects their ability to pay could have a material adverse effect on our business, financial condition, results of operations, and cash flows.

8. Inventories

The majority of our inventories are valued at the lower of cost or market, where cost is based on the average cost method of inventory valuation. Manufactured inventories include costs for materials, labor, and factory overhead. Other inventories are valued at the lower of either standard cost, which approximates cost based on actual first-in, first-out usage pattern, or market.

Inventories include the following (dollars in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Finished goods | $144,227 | $133,295 |
| Work in process | 33,422 | 24,940 |
| Fiber | 38,940 | 36,166 |
| Other raw materials and supplies | 73,808 | 67,070 |
| | $290,397 | $261,471 |

9. Property and Equipment

Property and equipment consist of the following asset classes (dollars in thousands):

| | September 30, 2011 | December 31, 2010 |
|---|---|---|
| Land | $31,845 | $31,875 |
| Buildings and improvements | 234,256 | 219,345 |
| Machinery and equipment | 1,329,544 | 1,260,265 |
| Construction in progress | 47,563 | 27,667 |
| | 1,643,208 | 1,539,152 |
| Less accumulated depreciation | (434,709) | (340,117) |
| | $1,208,499 | $1,199,035 |

Depreciation expense during the three and nine months ended September 30, 2011, was $32.6 million and $96.3 million, respectively, and during the three and nine months ended September 30, 2010, was $29.9 million and $89.6 million, respectively.

10. Goodwill and Intangible Assets

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 September 30, 2011, we had $103.2 million of goodwill recorded on our Consolidated Balance Sheet, all of which was recorded in connection with the Tharco Acquisition in our Packaging segment. For further information regarding the Tharco Acquisition, see Note 2, Acquisition of Tharco Packaging, Inc. At September 30, 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 amortize based on their estimated useful lives.

We maintain two reporting units for purposes of our goodwill and intangible asset impairment testing, Paper and Packaging, which are the same as our operating segments discussed in Note 17, Segment Information. We test the 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. Additionally, we evaluate the remaining useful lives of our finite-lived purchased intangible assets to determine whether any adjustments to the useful lives are necessary. During third quarter 2011, in connection with the volatility in the stock market, the price of our common stock and corresponding market capitalization declined to less than the book value of our net assets. We concluded that a goodwill impairment test does not need to be performed as it is not more likely than not that the fair value of our Packaging reporting unit had fallen below its carrying amount at September 30, 2011. See "Critical Accounting Estimates" within “Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations” of this Form 10 Q for further information.

The following table sets forth our intangible asset amortization for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Intangible asset amortization | $1,813 | $688 | $4,689 | $2,065 |

Our estimated future amortization expense for the remainder of 2011 and each of the next five years is as follows (dollars in thousands):

| | Remaining 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Amortization expense | $1,813 | $7,241 | $5,971 | $5,717 | $5,717 | $5,717 |

The gross carrying amount, accumulated amortization, and net carrying amount of our intangible assets at September 30, 2011, and December 31, 2010, were as follows (dollars in thousands):

| | As of September 30, 2011 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Customer relationships | $74,900 | $(7,009) | $67,891 |
| Trademarks and trade names | 27,700 | (436) | 27,264 |
| Technology and other | 6,895 | (4,946) | 1,949 |
| Noncompete agreements | 300 | (88) | 212 |
| | $109,795 | $(12,479) | $97,316 |

| | As of December 31, 2010 | | |
|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Trademarks and trade names | $16,800 | $— | $16,800 |
| Customer relationships | 13,700 | (3,882) | 9,818 |
| Technology and other | 6,895 | (3,908) | 2,987 |
| | $37,395 | $(7,790) | $29,605 |

## 11. Debt

At September 30, 2011, and December 31, 2010, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

| | September 30, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Amount | Interest Rate | Amount | Interest Rate |
| Revolving credit facility, due 2013 | $— | —% | $— | —% |
| Tranche A term loan, due 2013 | 150,581 | 3.00 | 181,831 | 3.06 |
| 9% senior notes, due 2017 | 300,000 | 9.00 | 300,000 | 9.00 |
| 8% senior notes, due 2020 | 300,000 | 8.00 | 300,000 | 8.00 |
| Current portion of long-term debt | (103,125) | 3.00 | (43,750) | 3.06 |
| Long-term debt, less current portion | 647,456 | 8.10 | 738,081 | 7.48 |
| Current portion of long-term debt | 103,125 | 3.00 | 43,750 | 3.06 |
| | $750,581 | 7.40% | $781,831 | 7.24% |

As of September 30, 2011, Boise Inc.'s and BZ Intermediate's debt consisted of the following:

- The Revolving Credit Facility: A five-year nonamortizing $250.0 million senior secured revolving credit facility with interest at either the London Interbank Offered Rate (LIBOR) plus an applicable margin, which is currently 275 basis points, or a calculated base rate plus an applicable margin, which is

currently 175 basis points (collectively with the Tranche A term loan facility, the Amended Credit Facilities).

- The Tranche A Term Loan Facility: A five-year amortizing senior secured loan facility with interest at LIBOR plus an applicable margin, which is currently 275 basis points, or a calculated base rate plus an applicable margin, which is currently 175 basis points. The Tranche A term loan facility was originally issued at $250.0 million.
- The 9% Senior Notes: An eight-year nonamortizing $300.0 million senior unsecured debt obligation with annual interest at 9%.
- The 8% Senior Notes: A ten-year nonamortizing $300.0 million senior unsecured debt obligation with annual interest at 8%.

In addition to paying interest, we pay a commitment fee to the lenders under the revolving credit facility at a rate of 0.375% per annum (which shall be increased to 0.50% when the leverage ratio is equal to or greater than 2.25:1.00) times the daily average undrawn portion of the revolving credit facility (reduced by the amount of letters of credit issued and outstanding). We also pay letter of credit fees of 275 basis points times the average daily maximum outstanding amount of the letters of credit and a fronting fee of 15 basis points to the issuing bank of outstanding letters of credit. These fees are payable quarterly and in arrears.

The borrowings under the revolving credit facility ranged from a low of zero to a high of $75.0 million during the nine months ended September 30, 2011. The weighted average amount of borrowings outstanding under the revolving credit facility during the nine months ended September 30, 2011, was $15.1 million. At September 30, 2011, we had availability of $243.7 million, which is net of outstanding letters of credit of $6.3 million.

The Amended Credit Facilities and the senior note agreements contain certain restrictions relating to dividend payments, capital expenditures, financial ratios, guarantees, and the incurrence of additional indebtedness, which are discussed in Note 11, Debt, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2010 Form 10-K.

Other Provisions

Subject to specified exceptions, the Amended Credit Facilities require that the proceeds from certain asset sales, casualty insurance, and certain debt issuances be used to pay down outstanding borrowings. As of September 30, 2011, required debt principal repayments were as follows (dollars in thousands):

| | Remaining 2011 | 2012 | 2013 | 2014-2016 | Thereafter |
|---|---|---|---|---|---|
| Required debt principal repayments | $12,500 | $129,688 | $8,393 | $— | $600,000 |

Other

At September 30, 2011, and December 31, 2010, we had $26.0 million and $30.4 million, respectively, of costs recorded in “Deferred financing costs” on our Consolidated Balance Sheet. The amortization of these costs is recorded in interest expense using the effective interest method over the life of the loans. For the three and nine months ended September 30, 2011, we recorded $1.5 million and $4.5 million, respectively, of amortization expense in "Interest expense" in our Consolidated Statements of Income, and for the three and nine months ended September 30, 2010, we recorded $1.5 million and $5.3 million, respectively.

For the nine months ended September 30, 2011 and 2010, cash payments for interest were $30.6 million and $23.6 million, respectively.

Financing

We have initiated discussions with lenders to enter into a new $200 million senior secured term loan facility and to increase our revolving credit facility from $250 million to $500 million. We will use the proceeds to repay the outstanding borrowings on our existing Tranche A term loan facility and for general corporate purposes. We expect to complete the new borrowings in November 2011.

12. Financial Instruments

Our primary objective in holding derivative financial instruments is to manage cash flow risk related to natural gas purchases and, to a lesser extent, interest rate risk. We do not use derivative instruments for speculative purposes.

Interest Rate Risk

With the exception of the Amended Credit Facilities, our debt is fixed-rate debt. At September 30, 2011, the book value of our fixed-rate debt was $600.0 million, and the fair value was estimated to be $625.0 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value based on quoted market prices for our debt.

During first quarter 2011, we liquidated our certificates of deposit portfolio and recognized an insignificant loss upon liquidation. At December 31, 2010, the fair value of the certificates of deposit was $10.6 million, and they were valued using third-party valuations based on quoted market prices.

Energy Risk

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At September 30, 2011, these derivatives included caps, call spreads, swaps, and three-way collars, which we account for as economic hedges. Some of our swaps are accounted for as cash flow hedges. As of September 30, 2011, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

| | October 2011 | November 2011 Through March 2012 | April 2012 Through October 2012 | November 2012 Through March 2013 | April 2013 Through October 2013 | November 2013 Through March 2014 | April 2014 Through October 2014 |
|---|---|---|---|---|---|---|---|
| Approximate percent hedged | 45 % | 65 % | 53 % | 49 % | 45 % | 31 % | 32 % |

Economic Hedges

For derivative instruments that are designated and qualify as economic hedges, the gain or loss on the derivatives are recognized in earnings. The effects of our economic hedging instruments in our Consolidated Statements of Income were as follows (dollars in thousands):

| | Gain (Loss) Recognized in Earnings | | | | |
|---|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | | |
| | 2011 | 2010 | 2011 | 2010 | Location of Gain (Loss) |
| Natural gas contracts | $(439) | $(884) | $244 | $(1,502) | Materials, labor, and other operating expenses |
| Interest rate contracts | — | (1) | — | (43) | Interest expense |
| Total | $(439) | $(885) | $244 | $(1,545) | |

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets and is recognized in "Materials, labor, and other operating expenses" or "Interest expense" in our Consolidated Statements of Income in the period in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the instruments are reclassified out of accumulated other comprehensive income (loss) to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable. The effects of our cash flow hedging instruments in our Consolidated Balance Sheets and Consolidated Statements of Income were as follows (dollars in thousands):

| | Gain (Loss) Recognized in Accumulated OCI (Effective Portion) | | | | Gain (Loss) Reclassified From Accumulated OCI Into Earnings | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | | Three Months Ended September 30 | | Nine Months Ended September 30 | | Location of Gain (Loss) Reclassified From Accumulated OCI Into Earnings |
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 | |
| Natural gas contracts (a) | $(1,355) | $— | $(1,355) | $— | $— | $— | $— | $— | Materials, labor, and other operating expenses |
| Interest rate contracts | — | — | — | — | — | — | — | (422) | Interest expense |
| Total | $(1,355) | $— | $(1,355) | $— | $— | $— | $— | $(422) | |

(a) Based on September 30, 2011, pricing, the estimated pretax loss to be recognized in earnings during the next 12 months is $1.0 million.

Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) establishes a fair value hierarchy, which prioritizes the inputs of valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted market prices (Level 1) and the lowest priority to unobservable inputs (Level 3). Where applicable, we use quoted prices in active markets for identical assets or liabilities to determine fair value (Level 1). If quoted prices in active markets for identical assets or liabilities are not available to determine fair value, we use quoted prices for similar assets and liabilities or inputs that are observable either directly or indirectly (Level 2). If quoted prices for identical or similar assets are not available or are unobservable, we may use internally developed valuation models, whose inputs include bid prices and third-party valuations utilizing underlying asset assumptions (Level 3). We enter into our hedges with large financial institutions, and we monitor credit ratings to consider the impact, if any, on the determination of fair value. No significant adjustments were made in any periods presented.

Fair Values of Derivative Instruments

At September 30, 2011, and December 31, 2010, the fair value of our financial instruments was determined based on applicable interest rates such as LIBOR, interest rate curves, and New York Mercantile Exchange (NYMEX) price quotations under the terms of the contracts, using current market information as of the reporting date. Interest rate contracts and energy derivatives were valued using third-party valuations based on quoted prices for similar assets and liabilities. Accordingly, all of our fair value measurements use Level 2 inputs.

The fair value of our derivative instruments as of September 30, 2011, and December 31, 2010, was as follows (dollars in thousands):

| | Level 2: Significant Other Observable Inputs | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| | September 30, 2011 | December 31, 2010 | September 30, 2011 | December 31, 2010 |
| Natural gas contracts (a) | | | | |
| Cash flow hedges | $— | $— | $1,355 | $— |

| | | | | |
|---|---|---|---|---|
| Economic hedges | — | — | 1,812 | 2,056 |
| Total derivatives | $— | $— | $3,167 | $2,056 |

(a) Recorded in "Accrued liabilities, Other" on our Consolidated Balance Sheets.

13. Retirement and Benefit Plans

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

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Service cost | $746 | $1,174 | $3,224 | $3,874 |
| Interest cost | 6,385 | 6,312 | 19,196 | 18,967 |
| Expected return on plan assets | (6,179) | (5,786) | (18,402) | (17,455) |
| Amortization of actuarial loss | 1,405 | 439 | 4,189 | 1,334 |
| Amortization of prior service costs and other | 13 | 12 | 38 | 38 |
| Plan settlement curtailment loss | — | 345 | — | 345 |
| Company-sponsored plans | 2,370 | 2,496 | 8,245 | 7,103 |
| Multiemployer plans | 103 | 103 | 324 | 326 |
| Net periodic benefit cost | $2,473 | $2,599 | $8,569 | $7,429 |

Our funding practice for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that we determine to be appropriate considering the funded status of the plan, tax deductibility, our cash flows from operations, and other factors. During the nine months ended September 30, 2011, we contributed $25.7 million to our plans, which exceeds our 2011 estimated pension contribution requirements.

14. Stockholders' Equity and Capital

Stock Repurchase Programs. 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. As of September 30, 2011, we had repurchased 13.4 million common shares at an average price per share of $5.71. We recorded the share repurchases in "Treasury stock" on Boise Inc.'s Consolidated Balance Sheets and "Repurchases of common stock" on the Consolidated Statement of Cash Flows.

As part of our $150 million repurchase program, on September 14, 2011, we entered into an equity yield enhancement program that, upon maturity, could result in the repurchase of up to $25 million of our common stock. Under the program, we paid a financial institution $25 million in consideration for the financial institution's obligation to pay us cash or shares of our common stock, depending on the closing market price of our common stock when the agreement expires in December 2011. On that date, if the closing market price of our common stock is above a set strike price, we have the option to either receive our initial $25 million investment, plus a yield that is higher than the short-term money market yield available at the time we entered into the agreement or, net settle in a variable number of shares. If, however, the closing market price of our common stock at the maturity date is at or below a set strike price we will buy back our shares at a price which may be higher or lower than the closing market price of the stock at the contract maturity date. Therefore, at the program's maturity, we will either receive cash or shares from the financial institution. If the contract maturity date had been September 30, 2011, we would have repurchased approximately 4.2 million shares.

We accounted for the contract in equity because the overall transaction relates to our common stock, we can never be obligated to deliver cash to settle the contract because the contract provides us with a choice to net-cash settle or settle in shares, we achieve the same economic result by net settling in cash or shares, and all settlements resulting in an adjustment are commercially reasonable and none of them require cash payments that are not within our control.

Warrants. During 2011, Boise Inc. warrant holders exercised 40.3 million warrants, resulting in the issuance of 38.4 million additional common shares. During 2011, we received cash proceeds of approximately $284.8 million, which increased "Additional paid-in capital" on our Consolidated Balance Sheet at September 30, 2011, compared with December 31, 2010.

Special Dividend. On May 13, 2011, we paid a special cash dividend of $0.40 per share to Boise Inc. shareholders of record at the close of business on May 4, 2011. Total dividends paid were approximately $47.9 million.

Share-based Compensation

Under the Boise Inc. Incentive and Performance Plan (the Plan), the compensation committee of our board of directors has the ability to authorize the grant of restricted stock, restricted stock units, performance awards payable in stock upon the attainment of specified performance goals, stock options, and other stock- and cash-based awards. Awards granted under the Plan vest and expire in accordance with terms established at the time of grant. Shares issued pursuant to awards under the Plan are from our authorized but unissued shares.

Share-based compensation costs in BZ Intermediate’s financial statements represent expenses for restricted stock of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes.

Pursuant to the Plan, during 2011, we granted a combination of restricted stock, restricted stock units, stock options, and performance units to our directors and key employees as noted below.

Restricted Stock Awards. We granted approximately 140,000 shares of restricted stock and approximately 122,000 restricted stock units (collectively restricted stock), the majority of which are subject to an EBITDA (earnings before interest, taxes, and depreciation, amortization, and depletion) goal and all of which are subject to time-based vesting restrictions. For members of management, 50% of the awards primarily vest in 2013, and the remaining vest in 2014, subject to the provisions of the award agreements. We also granted to our directors approximately 99,000 shares of restricted stock, which will vest in 2012. The fair values of these awards were based on the closing market price of our common stock on the date of grant, and compensation expense is recorded over the awards' vesting periods. These awards are eligible to participate in dividend payments, if any, which we accrue to be paid upon the vesting of those awards.

Stock Option Awards. We granted approximately 363,000 nonqualified stock options to members of management, of which 50% of the option awards vest and become exercisable in 2013, and the remaining vest and become exercisable in 2014. The stock options have a contractual term of ten years. The exercise price of these stock options is between $6.90 and $8.55 per share, which was the closing market price of our common stock on the grant dates. We recognize the grant date fair value of stock options as compensation expense over the awards' vesting periods.

The fair value of the stock options granted during 2011, were between $3.19 and $4.21. We calculated the fair value using a Black-Scholes-Merton option-pricing model based on the market price of our common stock at the grant date and the assumptions specific to the underlying options. We based the expected volatility assumption on our historic stock performance and the volatility of related industry stocks. As this is our first issuance of stock options and our equity shares have been traded for a relatively short period of time, we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected life. Therefore, we used the "simplified method" defined in SEC Staff Accounting Bulletin (SAB) No. 107 to determine the expected life assumption for the options. We based the risk-free interest rate upon yields of U.S. Treasury issues with terms similar to the expected life of the options.

The following table presents the assumptions used to calculate the fair value of stock options:

| | |
|---|---|
| Black-Scholes-Merton assumptions: | |
| Expected volatility | 47.50% - 47.85% |
| Expected life (years) | 5.88 - 6.25 |
| Risk-free interest rate | 1.66% - 2.48% |
| Expected dividend yield | — |

Performance Unit Awards. We granted members of management approximately 204,000 performance units, subject to adjustment based on the achievement of defined percentages of the two-year average return on net operating assets (RONOA). Because the RONOA component contains a performance condition, we record compensation expense, net of estimated forfeitures, over the requisite service period based on the most probable number of awards expected to vest. If the RONOA performance criteria are met, 50% of the performance units will vest in 2013, and the remaining will vest in 2014. Any shares not vested on or before March 17, 2014, will be forfeited. We based the fair value of this award on the closing market price of our common stock on the grant date, and we record compensation expense over the awards' vesting periods. These awards are eligible to participate in dividend payments, if any, which we accrue to be paid upon the vesting of those awards.

Special Equity Award in Lieu of Special Dividend. In 2010, we declared a special cash dividend payable on December 3, 2010, to shareholders of record on November 17, 2010. On the record date, the executive officers held unvested restricted stock that, pursuant to the terms of their award agreements, did not accrue dividends. In February 2011, we approved a special equity award to our executive officers to align management and shareholder interests regarding dividend strategy. We awarded approximately 67,000 shares of restricted stock and approximately 27,000 restricted stock units to our executive officers, equivalent in value to the dividends the officer would have received on his or her restricted stock held as of the record date. These awards will vest on March 15, 2012. We calculated the number of shares awarded to each officer by using the company's share price on February 28, 2011 (for restricted stock vesting on that date) or March 15, 2011 (for remaining restricted stock). We based the fair value of this award on the closing market price of our common stock on the grant date, and we record compensation expense on a straight-line basis over the awards' vesting periods.

Compensation expense. Total recognized share-based compensation expense related to restricted stock, performance units, and stock options, net of estimated forfeitures, for the three and nine months ended September 30, 2011 and 2010, is as follows (dollars in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Restricted stock and performance units | $794 | $940 | $2,409 | $2,774 |
| Stock options | 111 | — | 267 | — |
| Total share-based compensation expense (a) | $905 | $940 | $2,676 | $2,774 |

(a) Most of these costs were recorded in "General and administrative expenses" in our Consolidated Statements of Income.

The unrecognized compensation expense related to restricted stock and performance units was $3.9 million at September 30, 2011, and is expected to be recognized over a weighted average period of 1.6 years. The unrecognized compensation expense related to stock options was $1.1 million at September 30, 2011, and is expected to be recognized over a weighted average period of 2.4 years.

## 15. New and Recently Adopted Accounting Standards

In September 2011, the FASB issued Accounting Standards Update (ASU) 2011-09, Compensation — Retirement Benefits — Multiemployer Plans (Subtopic 715-80): Disclosures about an Employer's Participation in a Multiemployer Plan. This ASU increases quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. The objective is to enhance transparency about significant multiemployer plans in which an employer participates, the level of the employer's participation in those plans, the financial health of the plans, and the nature of the employer's commitments to the plans. This guidance is effective, and shall be applied retrospectively for all prior periods presented, for annual periods for fiscal years ending after December 15, 2011, with early adoption permitted. We are currently evaluating the impact of ASU 2011-09 on our consolidated financial statements and associated disclosures; however, we do not believe the adoption of this guidance will have a material impact on our financial position and results of operations.

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. ASU No. 2011-08 will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. We do not believe the adoption of this update will have a material impact on our financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, which amends current comprehensive income guidance. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, we will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity. This guidance is to be applied retrospectively and will be effective for interim and annual periods beginning after December 15, 2011. Early adoption is permitted. We will adopt the provisions of this guidance beginning in January 2012. The adoption of this guidance will result in a change to our current presentation of comprehensive income but will not have an impact on our financial position and results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This ASU was issued to provide largely identical guidance about fair value measurement and disclosure requirements for entities that disclose the fair value of an asset, a liability, or an instrument classified in shareholders' equity in their consolidated financial statements as that provided in the International Accounting Standards Board's new IFRS 13, Fair Value Measurement. This ASU does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under U.S. generally accepted accounting principles (GAAP). This guidance is to be applied prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is not permitted. In the period of adoption, a reporting entity will be required to disclose a change, if any, in valuation technique and related inputs that results from applying the ASU to quantify the total effect, if practicable. We are currently evaluating the impact that ASU 2011-04 will have on our financial statement disclosures.

In December 2010, the FASB issued ASU 2010-29, Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations (a consensus of the FASB Emerging Issues Task Force). This ASU addresses diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The ASU states that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. In addition, the ASU expands the supplemental pro forma disclosures under FASB ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. We adopted this guidance on January 1, 2011, and the adoption did not have a material impact on our financial position or results of operations. See Note 2, Acquisition of Tharco Packaging, Inc., for our pro forma disclosures.

There were no other accounting standards recently issued that had or are expected to have a material impact on our financial position or results of operations.

16. Comprehensive Income

Comprehensive income includes the following (dollars in thousands):

| | Boise Inc. | | | |
|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28,364 | $35,923 | $58,955 | $36,548 |
| Other comprehensive income, net of tax: | | | | |
| Cash flow hedges | (832) | 294 | (832) | 553 |
| Unfunded accumulated benefit obligation | 867 | 254 | 2,583 | 773 |
| Unrealized gains (losses) on short-term investments | — | 1 | (1) | 6 |
| Comprehensive income | $28,399 | $36,472 | $60,705 | $37,880 |

| | BZ Intermediate Holdings LLC | | | |
|---|---|---|---|---|
| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28,364 | $35,956 | $58,955 | $37,422 |
| Other comprehensive income, net of tax: | | | | |
| Cash flow hedges | (832) | 294 | (832) | 553 |
| Unfunded accumulated benefit obligation | 867 | 254 | 2,583 | 773 |
| Unrealized gains (losses) on short-term investments | — | 1 | (1) | 6 |
| Comprehensive income | $28,399 | $36,505 | $60,705 | $38,754 |

17. Segment Information

There are no differences in our basis of segmentation or in our basis of measurement of segment profit or loss from those disclosed in Note 18, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2010 Form 10-K. As discussed in Note 2, Acquisition of Tharco Packaging, Inc., we acquired $257.5 million of assets as part of the Tharco Acquisition on March 1, 2011. Tharco is included in our Packaging segment. Segment operating results for Boise Inc. and BZ Intermediate are identical for all periods presented, except for insignificant differences in their income tax provisions. See below for a reconciliation of Boise Inc. and BZ Intermediate's net income to EBITDA.

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

| Three Months Ended September 30, 2011 | Sales | | | | Income (Loss) Before Income Taxes | | Depreciation, Amortization, and Depletion | EBITDA (c) | |
|---|---|---|---|---|---|---|---|---|---|
| | Trade | Related Parties | Inter-segment | Total | | | | | |
| Paper | $372.5 | $— | $18.1 | $390.6 | $36.1 | | $22.5 | $58.6 | |
| Packaging | 238.2 | 12.3 | 1.0 | 251.6 | 32.0 | | 13.0 | 45.1 | |
| Corporate and Other | 8.6 | — | 9.2 | 17.8 | (6.0 | ) | 0.9 | (5.2 | ) |
| | 619.4 | 12.3 | 28.3 | 660.1 | 62.2 | | 36.4 | 98.5 | |
| Intersegment eliminations | — | — | (28.3) | (28.3) | — | | — | — | |
| Interest expense | — | — | — | — | (15.7 | ) | — | — | |
| Interest income | — | — | — | — | 0.1 | | — | — | |
| | $619.4 | $12.3 | $— | $631.7 | $46.5 | | $36.4 | $98.5 | |

| Three Months Ended September 30, 2010 | Sales | | | | Income (Loss) Before Income Taxes | | Depreciation, Amortization, and Depletion | EBITDA (c) | |
|---|---|---|---|---|---|---|---|---|---|
| | Trade | Related Parties | Inter-segment | Total | | | | | |
| Paper | $370.0 | $— | $18.2 | $388.2 | $56.9 | (b) | $21.9 | $78.8 | (b) |
| Packaging | 165.7 | 10.6 | 0.8 | 177.1 | 24.8 | (b) | 9.6 | 34.4 | (b) |
| Corporate and Other | 7.8 | — | 8.8 | 16.6 | (4.3 | ) | 1.0 | (3.3 | ) |
| | 543.5 | 10.6 | 27.8 | 581.9 | 77.4 | | 32.5 | 109.8 | |
| Intersegment eliminations | — | — | (27.8) | (27.8) | — | | — | — | |
| Interest expense | — | — | — | — | (16.1 | ) | — | — | |
| Interest income | — | — | — | — | 0.1 | | — | — | |
| | $543.5 | $10.6 | $— | $554.1 | $61.4 | | $32.5 | $109.8 | |

| Nine Months Ended September 30, 2011 | Sales | | | | Income (Loss) Before Income Taxes | | Depreciation, Amortization, and Depletion | EBITDA (c) | |
|---|---|---|---|---|---|---|---|---|---|
| | Trade | Related Parties | Inter-segment | Total | | | | | |
| Paper | $1,084.4 | $— | $52.4 | $1,136.8 | $90.3 | | $66.9 | $157.1 | |
| Packaging | 664.6 | 31.1 | 2.6 | 698.3 | 73.2 | (a) | 36.9 | 110.0 | (a) |
| Corporate and Other | 23.5 | — | 27.1 | 50.6 | (18.6 | ) | 2.7 | (15.9 | ) |
| | 1,772.5 | 31.1 | 82.1 | 1,885.7 | 144.8 | | 106.4 | 251.3 | |
| Intersegment eliminations | — | — | (82.1) | (82.1) | — | | — | — | |
| Interest expense | — | — | — | — | (48.2 | ) | — | — | |
| Interest income | — | — | — | — | 0.2 | | — | — | |
| | $1,772.5 | $31.1 | $— | $1,803.6 | $96.9 | | $106.4 | $251.3 | |

| Nine Months Ended September 30, 2010 | Sales Trade | Related Parties | Inter-segment | Total | Income (Loss) Before Income Taxes | | Depreciation, Amortization, and Depletion | EBITDA (c) | |
|---|---|---|---|---|---|---|---|---|---|
| Paper | $1,057.7 | $— | $48.1 | $1,105.9 | $112.5 | (b) | $65.1 | $177.6 | (b) |
| Packaging | 462.6 | 26.7 | 2.1 | 491.4 | 36.1 | (b) | 28.9 | 65.0 | (b) |
| Corporate and Other | 20.0 | 2.7 | 26.9 | 49.6 | (14.1) | | 2.9 | (11.2) | |
| | 1,540.4 | 29.4 | 77.2 | 1,646.9 | 134.5 | | 96.9 | 231.4 | |
| Intersegment eliminations | — | — | (77.2) | (77.2) | — | | — | — | |
| Loss on extinguishment of debt | — | — | — | — | (22.2) | (b) | — | (22.2) | (b) |
| Interest expense | — | — | — | — | (48.8) | | — | — | |
| Interest income | — | — | — | — | 0.2 | | — | — | |
| | $1,540.4 | $29.4 | $— | $1,569.7 | $63.8 | | $96.9 | $209.2 | |

(a) The nine months ended September 30, 2011, included $2.2 million of expense related to inventory purchase price accounting adjustments.

(b) The three and nine months ended September 30, 2010, included $0.9 million and, $1.5 million of expense related to the change in fair value of energy hedges, of which $0.7 million and $1.3 million, respectively, was recorded in the Paper segment and $0.1 million and $0.2 million, respectively, was recorded in the Packaging segment.

The nine months ended September 30, 2010, included $22.2 million of noncash expense recorded in the Corporate and Other segment associated with the refinancing of our debt.

(c) EBITDA represents income before interest (interest expense and interest income), income tax provision, 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 GAAP and should not be considered as an alternative to net income, income 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 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.

The following is a reconciliation of net income to EBITDA (dollars in millions):

| | Boise Inc. | |
|---|---|---|
| | Three Months Ended September 30 | Nine Months Ended September 30 |

| | 2011 | 2010 | 2011 | 2010 |
|---|---|---|---|---|
| Net income | $28.4 | $35.9 | $59.0 | $36.5 |
| Interest expense | 15.7 | 16.1 | 48.2 | 48.8 |
| Interest income | (0.1) | (0.1) | (0.2) | (0.2) |
| Income tax provision | 18.1 | 25.5 | 37.9 | 27.2 |
| Depreciation, amortization, and depletion | 36.4 | 32.5 | 106.4 | 96.9 |
| EBITDA | $98.5 | $109.8 | $251.3 | $209.2 |

| | BZ Intermediate Holdings LLC | | | |
|---|---|---|---|---|
| | Three Months Ended | | Nine Months Ended | |
| | September 30 | | September 30 | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28.4 | $36.0 | $59.0 | $37.4 |
| Interest expense | 15.7 | 16.1 | 48.2 | 48.8 |
| Interest income | (0.1) | (0.1) | (0.2) | (0.2) |
| Income tax provision | 18.1 | 25.4 | 37.9 | 26.3 |
| Depreciation, amortization, and depletion | 36.4 | 32.5 | 106.4 | 96.9 |
| EBITDA | $98.5 | $109.8 | $251.3 | $209.2 |

## 18. Commitments, Guarantees, and Legal Proceedings

### Commitments

We have financial commitments for leases and long-term debt that are disclosed in Note 6, Leases, and Note 11, Debt. We are party to a number of wood fiber and utilities contracts that are discussed in 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 our 2010 Form 10-K. In addition, we have other financial obligations that we enter into in the normal course of our business to purchase goods and services and to make capital improvements to our facilities. At September 30, 2011, there have been no material changes to our commitments outside of the normal course of business, except as disclosed in Note 19, Subsequent Event.

### Guarantees

We provide guarantees, indemnifications, and assurances to others in the normal course of our business. See Note 11, Debt, and Note 22, Consolidating Guarantor and Nonguarantor Financial Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2010 Form 10-K for a description of the guarantees, including the approximate terms of the guarantees, how the guarantees arose, the events or circumstances that would require us to perform under the guarantees, and the maximum potential undiscounted amounts of future payments we could be required to make. As of September 30, 2011, there have been no material changes to the guarantees disclosed in the 2010 Form 10-K.

### 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.

## 19. Subsequent Event

On October 2, 2011, through our wholly owned subsidiary Boise Paper Holdings, L.L.C., we entered into a Purchase Agreement (Agreement) with Pregis Corporation to purchase its Hexacomb packaging business (the Hexacomb Acquisition). Hexacomb is a leader in kraft paper-based honeycomb protective packaging products. We expect to acquire Hexacomb for a purchase price of $125 million, subject to the adjustments set forth in the Agreement. The Hexacomb Acquisition is expected to be financed with existing cash and we anticipate closing in fourth quarter 2011.

20. Consolidating Guarantor and Nonguarantor Financial Information

Our 9% and 8% senior notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each of its existing and future subsidiaries (other than: (i) the co-issuers, Boise Paper Holdings, Boise Co-Issuer Company, and Boise Finance Company; (ii) Louisiana Timber Procurement Company, L.L.C.; and (iii) our foreign subsidiaries). The following consolidating financial statements present the results of operations, financial position, and cash flows of (i) BZ Intermediate Holdings LLC (parent); (ii) co-issuers; (iii) guarantor subsidiaries; (iv) nonguarantor subsidiaries; and (v) eliminations to arrive at the information on a consolidated basis. Other than the consolidated financial statements and footnotes for Boise Inc. and BZ Intermediate, financial statements and other disclosures concerning the guarantors have not been presented, because management believes that such information is not material to investors.

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income (Loss)
For the Three Months Ended September 30, 2011
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Trade | $— | $3,759 | $613,899 | $1,738 | $— | $619,396 |
| Intercompany | — | — | — | 26,814 | (26,814 ) | — |
| Related parties | — | — | — | 12,346 | — | 12,346 |
| | — | 3,759 | 613,899 | 40,898 | (26,814 ) | 631,742 |
| Costs and expenses | | | | | | |
| Materials, labor, and other operating expenses | — | 3,570 | 466,232 | 40,897 | (26,814 ) | 483,885 |
| Fiber costs from related parties | — | — | 4,786 | — | — | 4,786 |
| Depreciation, amortization, and depletion | — | 699 | 35,675 | — | — | 36,374 |
| Selling and distribution expenses | — | — | 29,717 | 82 | — | 29,799 |
| General and administrative expenses | — | 5,964 | 8,432 | — | — | 14,396 |
| Other (income) expense, net | — | 359 | (399 ) | (90 ) | — | (130 ) |
| | — | 10,592 | 544,443 | 40,889 | (26,814 ) | 569,110 |
| Income (loss) from operations | — | (6,833 ) | 69,456 | 9 | — | 62,632 |
| Foreign exchange gain (loss) | — | (588 ) | 106 | — | — | (482 ) |
| Interest expense | — | (15,725 ) | — | — | — | (15,725 ) |
| Interest expense—intercompany | — | (48 ) | — | (4 ) | 52 | — |
| Interest income | — | 56 | 2 | — | — | 58 |
| Interest income—intercompany | — | 4 | 48 | — | (52 ) | — |
| | — | (16,301 ) | 156 | (4 ) | — | (16,149 ) |
| Income (loss) before income taxes and equity in net income (loss) of affiliates | — | (23,134 ) | 69,612 | 5 | — | 46,483 |
| Income tax provision | — | (18,120 ) | 1 | — | — | (18,119 ) |
| Income (loss) before equity in net income (loss) of affiliates | — | (41,254 ) | 69,613 | 5 | — | 28,364 |
| Equity in net income (loss) of affiliates | 28,364 | 69,618 | — | — | (97,982 ) | — |
| Net income (loss) | $28,364 | $28,364 | $69,613 | $5 | $(97,982 ) | $28,364 |

29

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income (Loss)
For the Three Months Ended September 30, 2010
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Trade | $— | $3,697 | $537,766 | $2,042 | $— | $543,505 |
| Intercompany | — | — | — | 28,883 | (28,883) | — |
| Related parties | — | — | — | 10,550 | — | 10,550 |
| | — | 3,697 | 537,766 | 41,475 | (28,883) | 554,055 |
| Costs and expenses | | | | | | |
| Materials, labor, and other operating expenses | — | 3,523 | 396,732 | 41,475 | (28,883) | 412,847 |
| Fiber costs from related parties | — | — | 4,905 | — | — | 4,905 |
| Depreciation, amortization, and depletion | — | 824 | 31,633 | — | — | 32,457 |
| Selling and distribution expenses | — | — | 13,827 | 57 | — | 13,884 |
| General and administrative expenses | — | 4,709 | 7,885 | — | — | 12,594 |
| Other income | — | 171 | 321 | (110) | — | 382 |
| | — | 9,227 | 455,303 | 41,422 | (28,883) | 477,069 |
| Income (loss) from operations | — | (5,530) | 82,463 | 53 | — | 76,986 |
| Foreign exchange loss | — | 347 | 39 | — | — | 386 |
| Interest expense | — | (16,100) | — | — | — | (16,100) |
| Interest expense—intercompany | — | (55) | — | (4) | 59 | — |
| Interest income | — | 103 | 2 | — | — | 105 |
| Interest income—intercompany | — | 4 | 55 | — | (59) | — |
| | — | (15,701) | 96 | (4) | — | (15,609) |
| Income (loss) before income taxes and equity in net income (loss) of affiliates | — | (21,231) | 82,559 | 49 | — | 61,377 |
| Income tax provision | — | (25,409) | (21) | 9 | — | (25,421) |
| Income (loss) before equity in net income (loss) of affiliates | — | (46,640) | 82,538 | 58 | — | 35,956 |
| Equity in net income (loss) of affiliates | 35,956 | 82,596 | — | — | (118,552) | — |
| Net income (loss) | $35,956 | $35,956 | $82,538 | $58 | $(118,552) | $35,956 |

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income (Loss)
For the Nine Months Ended September 30, 2011
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Trade | $— | $11,028 | $1,756,962 | $4,510 | $— | $1,772,500 |
| Intercompany | — | — | — | 72,213 | (72,213) | — |
| Related parties | — | — | — | 31,140 | — | 31,140 |
| | — | 11,028 | 1,756,962 | 107,863 | (72,213) | 1,803,640 |
| Costs and expenses | | | | | | |
| Materials, labor, and other operating expenses | — | 10,470 | 1,371,836 | 107,863 | (72,213) | 1,417,956 |
| Fiber costs from related parties | — | — | 13,609 | — | — | 13,609 |
| Depreciation, amortization, and depletion | — | 2,235 | 104,203 | — | — | 106,438 |
| Selling and distribution expenses | — | — | 78,412 | 243 | — | 78,655 |
| General and administrative expenses | — | 17,307 | 24,408 | — | — | 41,715 |
| Other (income) expense, net | — | 1,772 | (1,373) | (265) | — | 134 |
| | — | 31,784 | 1,591,095 | 107,841 | (72,213) | 1,658,507 |
| Income (loss) from operations | — | (20,756) | 165,867 | 22 | — | 145,133 |
| Foreign exchange gain (loss) | — | (507) | 212 | — | — | (295) |
| Interest expense | — | (48,164) | — | — | — | (48,164) |
| Interest expense—intercompany | — | (141) | — | (11) | 152 | — |
| Interest income | — | 204 | 6 | — | — | 210 |
| Interest income—intercompany | — | 11 | 141 | — | (152) | — |
| | — | (48,597) | 359 | (11) | — | (48,249) |
| Income (loss) before income taxes and equity in net income (loss) of affiliates | — | (69,353) | 166,226 | 11 | — | 96,884 |
| Income tax provision | — | (37,874) | (55) | — | — | (37,929) |
| Income (loss) before equity in net income (loss) of affiliates | — | (107,227) | 166,171 | 11 | — | 58,955 |
| Equity in net income (loss) of affiliates | 58,955 | 166,182 | — | — | (225,137) | — |
| Net income (loss) | $58,955 | $58,955 | $166,171 | $11 | $(225,137) | $58,955 |

31

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income (Loss)
For the Nine Months Ended September 30, 2010
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| Trade | $— | $8,468 | $1,527,033 | $4,867 | $— | $1,540,368 |
| Intercompany | — | — | — | 83,271 | (83,271) | — |
| Related parties | — | 2,364 | 332 | 26,657 | — | 29,353 |
| | — | 10,832 | 1,527,365 | 114,795 | (83,271) | 1,569,721 |
| Costs and expenses | | | | | | |
| Materials, labor, and other operating expenses | — | 10,723 | 1,198,679 | 114,795 | (83,271) | 1,240,926 |
| Fiber costs from related parties | — | — | 19,904 | — | — | 19,904 |
| Depreciation, amortization, and depletion | — | 2,504 | 94,351 | — | — | 96,855 |
| Selling and distribution expenses | — | — | 41,705 | 167 | — | 41,872 |
| General and administrative expenses | — | 14,103 | 22,519 | — | — | 36,622 |
| Other (income) expense, net | — | 188 | (256) | (170) | — | (238) |
| | — | 27,518 | 1,376,902 | 114,792 | (83,271) | 1,435,941 |
| Income (loss) from operations | — | (16,686) | 150,463 | 3 | — | 133,780 |
| Foreign exchange gain | — | 710 | 40 | — | — | 750 |
| Loss on extinguishment of debt | — | (22,225) | — | — | — | (22,225) |
| Interest expense | — | (48,752) | — | — | — | (48,752) |
| Interest expense—intercompany | — | (154) | — | (12) | 166 | — |
| Interest income | — | 198 | 5 | — | — | 203 |
| Interest income—intercompany | — | 12 | 154 | — | (166) | — |
| | — | (70,211) | 199 | (12) | — | (70,024) |
| Income (loss) before income taxes and equity in net income (loss) of affiliates | — | (86,897) | 150,662 | (9) | — | 63,756 |
| Income tax provision | — | (26,283) | (60) | 9 | — | (26,334) |
| Income (loss) before equity in net income (loss) of affiliates | — | (113,180) | 150,602 | — | — | 37,422 |
| Equity in net income (loss) of affiliates | 37,422 | 150,602 | — | — | (188,024) | — |
| Net income (loss) | $37,422 | $37,422 | $150,602 | $— | $(188,024) | $37,422 |

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at September 30, 2011
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents | $— | $166,208 | $3,075 | $345 | $— | $169,628 |
| Receivables | | | | | | |
| Trade, less allowances | — | 1,344 | 233,381 | 1,429 | — | 236,154 |
| Intercompany | — | — | — | 1,860 | (1,860) | — |
| Other | — | 2,419 | 4,553 | 4 | — | 6,976 |
| Inventories | — | 4 | 290,393 | — | — | 290,397 |
| Deferred income taxes | — | 18,856 | — | — | — | 18,856 |
| Prepaid and other | — | 7,626 | 4,181 | 2 | — | 11,809 |
| | — | 196,457 | 535,583 | 3,640 | (1,860) | 733,820 |
| Property | | | | | | |
| Property and equipment, net | — | 6,442 | 1,202,057 | — | — | 1,208,499 |
| Fiber farms and deposits | — | — | 20,694 | — | — | 20,694 |
| | — | 6,442 | 1,222,751 | — | — | 1,229,193 |
| Deferred financing costs | — | 26,025 | — | — | — | 26,025 |
| Goodwill | — | — | 103,242 | — | — | 103,242 |
| Intangible assets, net | — | — | 97,316 | — | — | 97,316 |
| Investments in affiliates | 851,305 | 1,679,698 | — | — | (2,531,003) | — |
| Other assets | — | 5,365 | 2,875 | — | — | 8,240 |
| Total assets | $851,305 | $1,913,987 | $1,961,767 | $3,640 | $(2,532,863) | $2,197,836 |

33

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at September 30, 2011 (continued)
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| LIABILITIES AND CAPITAL | | | | | | |
| Current | | | | | | |
| Current portion of long-term debt | $— | $103,125 | $— | $— | $— | $103,125 |
| Income taxes payable | — | (758) | 885 | 2 | — | 129 |
| Accounts payable | | | | | | |
| Trade | — | 10,822 | 176,294 | 3,491 | — | 190,607 |
| Intercompany | — | — | 1,860 | — | (1,860) | — |
| Accrued liabilities | | | | | | |
| Compensation and benefits | — | 21,523 | 36,476 | — | — | 57,999 |
| Interest payable | — | 23,509 | — | — | — | 23,509 |
| Other | — | 4,513 | 18,807 | 142 | — | 23,462 |
| | — | 162,734 | 234,322 | 3,635 | (1,860) | 398,831 |
| Debt | | | | | | |
| Long-term debt, less current portion | — | 647,456 | — | — | — | 647,456 |
| Other | | | | | | |
| Deferred income taxes | — | 114,263 | 32,828 | (8) | — | 147,083 |
| Compensation and benefits | — | 101,629 | 89 | — | — | 101,718 |
| Other long-term liabilities | — | 36,600 | 14,843 | — | — | 51,443 |
| | — | 252,492 | 47,760 | (8) | — | 300,244 |
| Commitments and contingent liabilities | | | | | | |
| Capital | | | | | | |
| Business unit equity | 851,305 | 851,305 | 1,679,685 | 13 | (2,531,003) | 851,305 |
| Total liabilities and capital | $851,305 | $1,913,987 | $1,961,767 | $3,640 | $(2,532,863) | $2,197,836 |

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2010
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Current | | | | | | |
| Cash and cash equivalents | $— | $166,410 | $6 | $417 | $— | $166,833 |
| Short-term investments | — | 10,621 | — | — | — | 10,621 |
| Receivables | | | | | | |
| Trade, less allowances | — | 1,004 | 187,502 | 83 | — | 188,589 |
| Intercompany | — | — | 2 | 1,634 | (1,636) | — |
| Other | — | 331 | 3,504 | 4 | — | 3,839 |
| Inventories | — | 15 | 261,456 | — | — | 261,471 |
| Deferred income taxes | — | 16,651 | — | 7 | — | 16,658 |
| Prepaid and other | — | 4,697 | 517 | — | — | 5,214 |
| | — | 199,729 | 452,987 | 2,145 | (1,636) | 653,225 |
| Property | | | | | | |
| Property and equipment, net | — | 5,952 | 1,193,083 | — | — | 1,199,035 |
| Fiber farms and deposits | — | — | 18,285 | — | — | 18,285 |
| | — | 5,952 | 1,211,368 | — | — | 1,217,320 |
| Deferred financing costs | — | 30,396 | — | — | — | 30,396 |
| Intangible assets, net | — | — | 29,605 | — | — | 29,605 |
| Investments in affiliates | 655,332 | 1,479,253 | — | — | (2,134,585) | — |
| Other assets | — | 5,175 | 3,269 | — | — | 8,444 |
| Total assets | $655,332 | $1,720,505 | $1,697,229 | $2,145 | $(2,136,221) | $1,938,990 |

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2010 (continued)
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| LIABILITIES AND CAPITAL | | | | | | |
| Current | | | | | | |
| Current portion of long-term debt | $— | $43,750 | $— | $— | $— | $43,750 |
| Income taxes payable | — | (818) | 898 | 2 | — | 82 |
| Accounts payable | | | | | | |
| Trade | — | 13,513 | 163,710 | 1,991 | — | 179,214 |
| Intercompany | — | 2 | 1,634 | — | (1,636) | — |
| Accrued liabilities | | | | | | |
| Compensation and benefits | — | 23,081 | 31,493 | — | — | 54,574 |
| Interest payable | — | 10,535 | — | — | — | 10,535 |
| Other | — | 5,336 | 10,645 | 142 | — | 16,123 |
| | — | 95,399 | 208,380 | 2,135 | (1,636) | 304,278 |
| Debt | | | | | | |
| Long-term debt, less current portion | — | 738,081 | — | — | — | 738,081 |
| Other | | | | | | |
| Deferred income taxes | — | 78,959 | 492 | — | — | 79,451 |
| Compensation and benefits | — | 121,318 | — | — | — | 121,318 |
| Other long-term liabilities | — | 31,416 | 9,114 | — | — | 40,530 |
| | — | 231,693 | 9,606 | — | — | 241,299 |
| Commitments and contingent liabilities | | | | | | |
| Capital | | | | | | |
| Business unit equity | 655,332 | 655,332 | 1,479,243 | 10 | (2,134,585) | 655,332 |
| Total liabilities and capital | $655,332 | $1,720,505 | $1,697,229 | $2,145 | $(2,136,221) | $1,938,990 |

36

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2011
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Cash provided by (used for) operations | | | | | | |
| Net income (loss) | $58,955 | $58,955 | $166,171 | $11 | $(225,137) | $58,955 |
| Items in net income (loss) not using (providing) cash | | | | | | |
| Equity in net (income) loss of affiliates | (58,955) | (166,182) | — | — | 225,137 | — |
| Depreciation, depletion, and amortization of deferred financing costs and other | — | 6,920 | 104,203 | — | — | 111,123 |
| Share-based compensation expense | — | 2,676 | — | — | — | 2,676 |
| Pension expense | — | 8,569 | — | — | — | 8,569 |
| Deferred income taxes | — | 33,950 | — | — | — | 33,950 |
| Change in fair value of energy derivatives | — | | (244) | — | — | (244) |
| Other | — | 525 | 792 | — | — | 1,317 |
| Decrease (increase) in working capital, net of acquisitions | | | | | | |
| Receivables | — | (1,089) | (15,274) | (1,572) | 224 | (17,711) |
| Inventories | — | 11 | (10,009) | — | — | (9,998) |
| Prepaid expenses | — | 856 | (2,155) | (2) | — | (1,301) |
| Accounts payable and accrued liabilities | — | 6,233 | 3,110 | 1,500 | (224) | 10,619 |
| Current and deferred income taxes | — | 1,782 | (13) | (1) | — | 1,768 |
| Pension payments | — | (25,659) | — | — | — | (25,659) |
| Other | — | (1,423) | 2,904 | — | — | 1,481 |
| Cash provided by (used for) operations | — | (73,876) | 249,485 | (64) | — | 175,545 |
| | | | | | | |
| Cash provided by (used for) investment | | | | | | |
| Acquisitions of businesses and facilities, net of cash acquired | — | — | (201,289) | — | — | (201,289) |
| Expenditures for property and equipment | — | (2,458) | (81,411) | — | — | (83,869) |
| | — | (3,494) | — | — | — | (3,494) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Purchases of short-term investments | | | | | | |
| Maturities of short-term investments | — | 14,114 | — | — | — | 14,114 |
| Sales of assets | — | — | 1,757 | — | — | 1,757 |
| Other | — | (507) | 256 | — | — | (251) |
| Cash provided by (used for) investment | — | 7,655 | (280,687) | — | — | (273,032) |
| | | | | | | |
| Cash provided by (used for) financing | | | | | | |
| Issuances of long-term debt | — | 75,000 | — | — | — | 75,000 |
| Payments of long-term debt | — | (106,250) | — | — | — | (106,250) |
| Payments of deferred financing costs | — | (160) | — | — | — | (160) |
| Proceeds from Boise Inc., net | 135,541 | — | — | — | — | 135,541 |
| Due to (from) affiliates | (135,541) | 101,278 | 34,271 | (8) | — | — |
| Other | — | (3,849) | — | — | — | (3,849) |
| Cash provided by (used for) financing | — | 66,019 | 34,271 | (8) | — | 100,282 |
| | | | | | | |
| Increase in cash and cash equivalents | — | (202) | 3,069 | (72) | — | 2,795 |
| Balance at beginning of the period | — | 166,410 | 6 | 417 | — | 166,833 |
| Balance at end of the period | $— | $166,208 | $3,075 | $345 | $— | $169,628 |

37

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2010
(unaudited, dollars in thousands)

| | BZ Intermediate Holdings LLC (Parent) | Co-issuers | Guarantor Subsidiaries | Nonguarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Cash provided by (used for) operations | | | | | | |
| Net income (loss) | $37,422 | $37,422 | $150,602 | $— | $(188,024) | $37,422 |
| Items in net income (loss) not using (providing) cash | | | | | | |
| Equity in net (income) loss of affiliates | (37,422) | (150,602) | — | — | 188,024 | — |
| Depreciation, depletion, and amortization of deferred financing costs and other | — | 8,505 | 94,351 | — | — | 102,856 |
| Share-based compensation expense | — | 2,774 | — | — | — | 2,774 |
| Pension expense | — | 7,429 | — | — | — | 7,429 |
| Deferred income taxes | — | 26,316 | — | (9) | — | 26,307 |
| Change in fair value of energy derivatives | — | — | 1,502 | — | — | 1,502 |
| Other | — | (665) | 40 | — | — | (625) |
| Loss on extinguishment of debt | — | 22,225 | — | — | — | 22,225 |
| Decrease (increase) in working capital | | | | | | |
| Receivables | — | 1,018 | 21,343 | (1,290) | 654 | 21,725 |
| Inventories | — | 3 | (4,805) | — | — | (4,802) |
| Prepaid expenses | — | 5,356 | (1,699) | (2) | — | 3,655 |
| Accounts payable and accrued liabilities | — | 12,970 | (152) | 1,441 | (654) | 13,605 |
| Current and deferred income taxes | — | (582) | 54 | — | — | (528) |
| Pension payments | — | (18,463) | — | — | — | (18,463) |
| Other | — | 1,060 | (852) | — | — | 208 |
| Cash provided by (used for) operations | — | (45,234) | 260,384 | 140 | — | 215,290 |
| | | | | | | |
| Cash provided by (used for) investment | | | | | | |
| Expenditures for property and equipment | — | (2,306) | (64,391) | — | — | (66,697) |
| Purchases of short-term investments | — | (17,675) | — | — | — | (17,675) |
| Maturities of short-term investments | — | 17,090 | — | — | — | 17,090 |
| Sales of assets | — | — | 646 | — | — | 646 |
| Other | — | 706 | 983 | — | — | 1,689 |
| Cash used for investment | — | (2,185) | (62,762) | — | — | (64,947) |
| | | | | | | |
| Cash provided by (used for) financing | | | | | | |
| Issuances of long-term debt | — | 300,000 | — | — | — | 300,000 |
| Payments of long-term debt | — | (327,846) | — | — | — | (327,846) |
| Payments of deferred financing costs | — | (11,861) | — | — | | (11,861) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Due to (from) affiliates | — | 197,635 | (197,649) | 14 | — | — |
| Other | — | (6,580) | — | — | — | (6,580) |
| Cash provided by (used for) financing | — | 151,348 | (197,649) | 14 | — | (46,287) |
| Increase (decrease) in cash and cash equivalents | — | 103,929 | (27) | 154 | — | 104,056 |
| Balance at beginning of the period | — | 69,071 | 33 | 289 | — | 69,393 |
| Balance at end of the period | $— | $173,000 | $6 | $443 | $— | $173,449 |

## ITEM 2. 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 our 2010 Annual Report on 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-Q.

### Background

In this filing, unless the context indicates otherwise, the terms "Company," "we," "us," "our," or "Boise" refer to Boise Inc. and its consolidated subsidiaries, including BZ Intermediate. Boise Inc. is a large, diverse United States-based manufacturer of paper and packaging products, headquartered in Boise, Idaho. Our operations began on February 22, 2008, when entities controlled by Boise Cascade Holdings, L.L.C. (Boise Cascade) sold their paper and packaging assets. On March 1, 2011, we expanded our presence in packaging markets when our wholly owned subsidiary, Boise Paper Holdings, L.L.C. (Boise Paper Holdings), acquired 100% of the outstanding stock of Tharco Packaging, Inc. (Tharco) for a preliminary purchase price of $201.3 million (the Tharco Acquisition). The acquisition extended our geographical reach from the Pacific Northwest to California, Colorado, Arizona, and Georgia, and will increase our containerboard integration from approximately 70% to approximately 85%. See Note 2, Acquisition of Tharco Packaging, Inc., of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item I. Financial Statements" of this Form 10-Q for further information related to the acquisition. See "Executive Summary" below for more information.

We operate and report our results in three reportable segments: Paper, Packaging, and Corporate and Other (support services). See Note 17, Segment Information, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q for more information related to our segments.

### Executive Summary

During third quarter 2011, we reported record sales and operating income in our Packaging segment, generated $49.3 million in operating cash flow less capital expenditures, utilized $76.3 million in cash to repurchase 13.4 million outstanding common shares and, in October, announced the acquisition of Hexacomb. Year to date, we have generated $91.7 million of operating cash flow less capital expenditures.

Net income for the three months ended September 30, 2011, was $28.4 million, compared with $35.9 million for the three months ended September 30, 2010. Excluding the special items disclosed in the table below, net income for the three months ended September 30, 2011, was $28.4 million, compared with $36.6 million for the three months ended September 30, 2010. The decrease in net income before special items was due to increased chemical and fiber costs, offset partially by higher sales prices across the majority of our products and income related to the Tharco Acquisition.

Net income totaled $59.0 million for the nine months ended September 30, 2011, compared with $36.5 million for the nine months ended September 30, 2010. Excluding the special items disclosed in the table below, net income for the nine months ended September 30, 2011, was $60.3 million, compared with $51.0 million for the nine months ended

September 30, 2010. The increase in net income before special items was due primarily to increased sales and operating income in our Packaging segment driven by the acquisition of Tharco on March 1, 2011, and higher product pricing. During the three and nine months ended September 30, 2011, net selling prices of segment linerboard improved $29 and $85 per short ton, compared with the same periods in the prior year, as we benefited from price increases implemented in the latter part of 2010. Increased income in our Packaging segment was offset partially by lower operating income in our Paper segment, which was affected by higher input costs and continued declines in U.S. industry demand for uncoated freesheet.

We had no scheduled maintenance outages during the third quarter and have one remaining planned outage at our Jackson, Alabama, mill in the fourth quarter.

During third quarter 2011, we announced our intent to repurchase up to $150 million of Boise's outstanding common stock through a variety of methods, including in the open market, privately negotiated transactions, or through structured share repurchases. As of September 30, 2011, we had repurchased 13.4 million common shares at an average price of $5.71 per share and as of October 31, 2011, we had repurchased 15.0 million common shares at an average price of $5.65 per share.

On October 3, 2011, we announced that our board of directors approved an agreement under which we will acquire the Hexacomb packaging business of Pregis Corporation, a leader in kraft paper-based honeycomb protective packaging products, for $125 million (the Hexacomb Acquisition) using existing cash. We expect the transaction to close in fourth quarter 2011. The Hexacomb Acquisition expands our position in the protective packaging market, provides a platform for further growth, and coupled with the Tharco Acquisition, will further increase our vertical integration within our existing packaging business.

Demand for Our Products

U.S. industry demand for uncoated freesheet paper declined during the first nine months of 2011, compared with the first nine months of 2010. According to the American Forest & Paper Association (AF&PA), as of September 2011, U.S. industry shipments were down 3%, compared with the same period in 2010. Year-to-date industry operating rates for 2011, measured as total uncoated freesheet paper shipments in the U.S. as a percentage of total capacity, were at 89%. Demand for commodity communication papers has been negatively affected by 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 in third quarter 2011. Compared with prior years, U.S. uncoated freesheet paper inventories remained low at approximately 855,000 short tons in September 2011, compared with 839,000 and 965,000 short tons, respectively, in June 2011 and December 2010.

Our uncoated freesheet net selling prices were flat in third quarter 2011, compared with third quarter 2010, driven by improved pricing across our cut-size office paper. Total uncoated freesheet sales volumes were 312,000 short tons in third quarter 2011, a decrease of 2% versus the prior-year period.

U.S. industry containerboard demand was flat during the first half of 2011. While absolute industry box shipments in the U.S. increased 0.4% through September 2011, box shipments were down 0.1% on an average-week basis, compared with the same period in 2010. Year-to-date industry operating rates through September 2011, measured as total production in the U.S. as a percentage of total capacity, were at 98%, according to AF&PA. Total U.S. containerboard inventories were 2.3 million short tons in September 2011, compared with 2.2 million and 2.3 million short tons in June 2011 and December 2010, respectively.

Compared with third quarter 2010, our linerboard net selling prices to third parties increased 7% compared with third quarter 2011, due to price increases which were realized during the latter part of 2010. Linerboard sales volumes to third parties were 55,000 short tons in third quarter 2011, up 15%, compared with third quarter 2010, driven by increased production of linerboard and solid demand in linerboard export markets.

Packaging demand in our agriculture, food, and beverage markets has historically been less correlated to broad economic activity. Demand in these markets were flat in the third quarter and modestly increased during the first nine months of 2011, compared with the same periods in 2010, due to colder than normal weather during the spring, which delayed some crop harvests in the second and third quarters. Demand in our containerboard export markets and industrial corrugated markets, including markets in which Tharco operates, is more closely aligned with general economic activity. These markets remained stable through the first nine months of 2011, compared with the same period in 2010.

Net Selling Prices and Input Costs

During third quarter 2011, we began to benefit from a $60-per-ton price increase announced during second quarter across our cut-size office papers, which constitute the majority of our uncoated freesheet sales volumes. As we exited the third quarter, cut-size pricing began to decline as a result of softening demand late in the quarter.

Compared with third quarter 2010, prices for some key commodity chemicals increased. Diesel prices also increased, which increased freight costs on both inbound raw materials and outbound finished goods. Prices for natural gas declined, compared with third quarter 2010. Fiber costs increased in third quarter 2011, compared with 2010, driven by higher wood and purchased pulp prices. 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

During the first nine months of 2011, we experienced rising freight and input costs, including increased prices for chemicals and fiber in our Paper segment. As we look forward, our focus will be to aggressively manage input cost inflation, complete the Hexacomb Acquisition, continue to integrate Tharco's operations, and to continue to pursue growth opportunities in our Packaging segment to improve our competitive position. We expect continued growth in our premium office, label and release, and flexible packaging papers to offset declining demand in commodity paper markets. We continue to monitor regulatory and competitive developments that affect our industry to determine potential impacts on our businesses.

Financial Results and Special Items

The following table sets forth our financial results for the three and nine months ended September 30, 2011 and 2010 (dollars in millions, except per-share data):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | $631.7 | $554.1 | $1,803.6 | $1,569.7 |
| Net income | 28.4 | 35.9 | 59.0 | 36.5 |
| Net income per diluted share | 0.24 | 0.43 | 0.55 | 0.43 |
| Net income excluding special items | 28.4 | 36.6 | 60.3 | 51.0 |
| Net income excluding special items per diluted share | 0.24 | 0.44 | 0.56 | 0.61 |
| EBITDA | 98.5 | 109.8 | 251.3 | 209.2 |
| EBITDA excluding special items | 98.5 | 110.9 | 253.5 | 232.8 |

Net income excluding special items, net income excluding special items per diluted share, EBITDA, and EBITDA excluding special items are not measures under U.S. generally accepted accounting principles (GAAP). EBITDA represents income before interest (interest expense and interest income), income taxes, 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. 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.

41

We believe that using this information, along with our 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 three and nine months ended September 30, 2011 and 2010 (dollars in millions):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28.4 | $35.9 | $59.0 | $36.5 |
| Interest expense | 15.7 | 16.1 | 48.2 | 48.8 |
| Interest income | (0.1) | (0.1) | (0.2) | (0.2) |
| Income tax provision | 18.1 | 25.5 | 37.9 | 27.2 |
| Depreciation, amortization, and depletion | 36.4 | 32.5 | 106.4 | 96.9 |
| EBITDA | $98.5 | $109.8 | $251.3 | $209.2 |
| | | | | |
| Inventory purchase accounting expense | $— | $— | $2.2 | $— |
| St. Helens mill restructuring | — | 0.2 | — | (0.1) |
| Change in fair value of energy hedges | — | 0.9 | — | 1.5 |
| Loss on extinguishment of debt | — | — | — | 22.2 |
| EBITDA excluding special items | $98.5 | $110.9 | $253.5 | $232.8 |

The following table reconciles net income to net income excluding special items and presents net income excluding special items per diluted share for the three and nine months ended September 30, 2011 and 2010 (dollars and shares in millions, except per-share data):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | $28.4 | $35.9 | $59.0 | $36.5 |
| Inventory purchase accounting expense | — | — | 2.2 | — |
| Change in fair value of energy hedges | — | 0.9 | — | 1.5 |
| St. Helens mill restructuring | — | 0.2 | — | (0.1) |
| Loss on extinguishment of debt | — | — | — | 22.2 |
| Tax provision for special items (a) | — | (0.4) | (0.9) | (9.2) |
| Net income excluding special items | $28.4 | $36.6 | $60.3 | $51.0 |
| | | | | |
| Weighted average common shares outstanding: diluted | 118.0 | 84.1 | 106.8 | 84.1 |
| Net income excluding special items per diluted share | $0.24 | $0.44 | $0.56 | $0.61 |

(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, electronic substitution, and relative currency values.
- 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

42

are engaged.
- Our customer concentration and the ability of our customers to pay.
- Labor and personnel relations.
- The ability of our lenders, customers, and suppliers to continue to conduct their businesses.
- Integration of acquisitions.
- 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" in our 2010 Annual Report on Form 10-K.

Our Operating Results

The following table sets forth our operating results in dollars and as a percentage of sales for the three and nine months ended September 30, 2011 and 2010 (dollars in millions, except percent-of-sales data):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales | | | | |
| Trade | $619.4 | $543.5 | $1,772.5 | $1,540.4 |
| Related parties | 12.3 | 10.6 | 31.1 | 29.4 |
| | 631.7 | 554.1 | 1,803.6 | 1,569.7 |
| Costs and expenses | | | | |
| Materials, labor, and other operating expenses | 483.9 | 412.8 | 1,418.0 | 1,240.9 |
| Fiber costs from related parties | 4.8 | 4.9 | 13.6 | 19.9 |
| Depreciation, amortization, and depletion | 36.4 | 32.5 | 106.4 | 96.9 |
| Selling and distribution expenses | 29.8 | 13.9 | 78.7 | 41.9 |
| General and administrative expenses | 14.4 | 12.6 | 41.7 | 36.6 |
| Other (income) expense, net | (0.1) | 0.4 | 0.1 | (0.2) |
| | 569.1 | 477.1 | 1,658.5 | 1,435.9 |
| Income from operations | $62.6 | $77.0 | $145.1 | $133.8 |
| Sales | | | | |
| Trade | 98.0% | 98.1% | 98.3% | 98.1% |
| Related parties | 2.0 | 1.9 | 1.7 | 1.9 |
| | 100.0% | 100.0% | 100.0% | 100.0% |
| Costs and expenses | | | | |
| Materials, labor, and other operating expenses | 76.6% | 74.5% | 78.6% | 79.1% |
| Fiber costs from related parties | 0.8 | 0.9 | 0.8 | 1.3 |
| Depreciation, amortization, and depletion | 5.8 | 5.9 | 5.9 | 6.2 |
| Selling and distribution expenses | 4.7 | 2.5 | 4.4 | 2.7 |
| General and administrative expenses | 2.3 | 2.3 | 2.3 | 2.3 |
| Other (income) expense, net | — | 0.1 | — | — |
| | 90.1% | 86.1% | 92.0% | 91.5% |
| Income from operations | 9.9% | 13.9% | 8.0% | 8.5% |

Sales Volumes and Prices

Set forth below are our segment sales volumes and average net selling prices for our principal products for the three and nine months ended September 30, 2011 and 2010 (in thousands of short tons and dollars per short ton, except corrugated containers and sheets):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Sales Volumes | | | | |
| Paper | | | | |
| Uncoated freesheet | 312 | 318 | 936 | 942 |
| Containerboard (medium) | 35 | 34 | 101 | 97 |
| Market pulp | 31 | 27 | 70 | 59 |
| | 378 | 380 | 1,107 | 1,098 |
| Packaging | | | | |
| Containerboard (linerboard) | 55 | 48 | 173 | 164 |
| Newsprint | 58 | 59 | 172 | 171 |
| Corrugated containers and sheets (mmsf) (a) | 2,284 | 1,741 | 6,423 | 5,044 |
| Sales Prices (b) | | | | |
| Paper | | | | |
| Uncoated freesheet | $1,003 | $1,000 | $989 | $970 |
| Containerboard (medium) | 483 | 502 | 480 | 458 |
| Market pulp | 574 | 563 | 597 | 552 |
| Packaging | | | | |
| Containerboard (linerboard) | $427 | $398 | $426 | $341 |
| Newsprint | 541 | 511 | 541 | 477 |
| Corrugated containers and sheets ($/msf) | 70 | 59 | 67 | 56 |

(a) The increase in corrugated containers and sheets sales volumes in 2011 is due to the inclusion of Tharco's operations after the acquisition date of March 1, 2011.

(b) Average net selling prices for our principal products represent sales less freight costs, discounts, and allowances. Segment revenues, as reported in Note 17, Segment Information, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q include fees for shipping and handling charged to customers for sales transactions.

Operating Results

Sales

For the three months ended September 30, 2011, total sales increased $77.6 million, or 14%, to $631.7 million, compared with $554.1 million for the three months ended September 30, 2010. For the nine months ended September 30, 2011, total sales increased $233.9 million, or 15%, to $1,803.6 million from $1,569.7 million for the nine months ended September 30, 2010. The increase was a result of increased sales from our acquisition of Tharco in first quarter 2011, as well as higher net selling prices for segment linerboard, newsprint, and corrugated products.

45

Paper. Sales increased $2.4 million, or 1%, to $390.6 million from $388.2 million for the three months ended September 30, 2010. The modest increase was due to higher sales prices and volumes of market pulp. Net sales prices for uncoated freesheet in third quarter 2011 were relatively flat, compared with third quarter 2010, as commodity uncoated freesheet net sales prices decreased 1% and premium and specialty net sales prices increased 2%. Overall, uncoated freesheet sales volumes decreased 2% during third quarter 2011, compared with the same period in 2010, as a 5% decline in commodity sales volumes was offset partially by 3% growth in premium and specialty sales volumes. Increased premium and specialty sales volumes were a result of 5% growth in combined sales volumes of premium office, label and release, and flexible packaging papers, which represented 33% of our total third quarter 2011 uncoated freesheet sales volumes.

Sales increased $30.9 million, or 3%, to $1,136.8 million, compared with $1,105.9 million for the nine months ended September 30, 2010. The increase was due to higher sales prices for all of the products we manufacture and distribute. Compared with the same period a year ago, overall net sales prices for uncoated freesheet increased 2%, driven by a 4% increase in premium and specialty net sales prices. Commodity uncoated freesheet net sales prices were flat. Overall, uncoated freesheet sales volumes declined 1%, compared with the prior-year period, as the 3% growth in premium and specialty sales volumes was offset by a 3% decline in commodity sales volumes. Premium and specialty sales volumes increased due to a 4% growth in the combined sales volumes of premium office, label and release, and flexible packaging papers, which represented 32% of our total uncoated freesheet sales volumes for the first nine months of 2011.

Packaging. Sales increased $74.5 million, or 42%, to a record, $251.6 million, compared with $177.1 million for the three months ended September 30, 2010. Approximately 90% of the 42% increase related to the Tharco acquisition. Other drivers included a 7% increase in segment linerboard net selling prices, a 6% increase in newsprint net selling prices, and a 2% increase in corrugated product prices, excluding Tharco.

Sales increased $206.9 million, or 42%, to $698.3 million, compared with $491.4 million for the nine months ended September 30, 2010. A large portion of the increase was the result of our acquisition of Tharco, which accounted for approximately 77% of the 42% sales increase. Other drivers included a 25% increase in segment linerboard net selling prices, a 13% increase in newsprint net selling prices, and a 5% increase in corrugated product prices, excluding Tharco.

Costs and Expenses

Materials, labor, and other operating expenses, including the cost of fiber from related parties, increased $70.9 million to $488.7 million for the three months ended September 30, 2011, compared with $417.8 million for the three months ended September 30, 2010. Compared with the nine months ended September 30, 2010, materials, labor, and other operating expenses, including the cost of fiber from related parties, increased $170.7 million to $1,431.6 million. In both periods, the increase primarily related to operating costs associated with the newly acquired Tharco operations. Higher chemical and fiber costs in our Paper segment also contributed to the increase.

Set forth below is a breakout of our fiber (including rollstock consumed in our corrugated operations), energy, and chemical costs for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Fiber | $143,718 | $119,138 | $397,647 | $351,797 |
| Energy | 52,151 | 52,379 | 157,607 | 163,885 |
| Chemicals | 63,780 | 54,568 | 174,625 | 153,503 |
| Total | $259,649 | $226,085 | $729,879 | $669,185 |

Total fiber, energy and chemical costs for the three months ended September 30, 2011, increased $33.5 million compared with the same period in 2010. This increase was driven by fiber costs associated with Tharco and higher chemical costs and fiber costs in our Paper segment. Compared with the nine months ended September 30, 2010 total fiber, energy, and chemical costs increased $60.7 million. This increase was largely driven by fiber costs associated with Tharco, increased chemical costs, and higher fiber costs in our Paper segment, offset partially by lower energy costs.

Fiber. Costs for fiber, including rollstock consumed in our corrugated operations, increased $7.3 million in our Paper segment and $17.2 million in our Packaging segment, compared with the three months ended September 30, 2010. Cost drivers in our Packaging segment included increased costs for purchased containerboard rollstock as a result of the Tharco Acquisition, offset partially by lower wood costs. In our Paper segment, fiber costs increased as a result of higher prices of wood, purchased pulp and secondary fiber, offset partially by lower consumption of purchased pulp. Delivered-fiber costs in all of our operating regions include the cost of diesel, which increased in third quarter 2011, compared with third quarter 2010. Higher diesel costs increase the cost to harvest and transport wood to the mills, unfavorably affecting fiber costs in all of our regions.

In the Pacific Northwest, our fiber costs increased in third quarter 2011, compared with third quarter 2010, as tighter supply in the region due to continued slowback of sawmill production resulted in higher prices for wood. In Minnesota, our overall fiber costs increased modestly in third quarter 2011, compared with third quarter 2010, due to increased prices for wood and purchased pulp. Purchased pulp consumption decreased as a result of higher pulp production.

Compared with third quarter 2010, total fiber costs at our DeRidder, Louisiana, mill decreased due to lower prices for and consumption of wood fiber, offset partially by increased prices for and consumption of recycled fiber. In Alabama, fiber costs were flat in third quarter 2011, compared with third quarter 2010, driven by reduced consumption of purchased pulp and recycled fiber, offset by higher prices for these materials.

Compared with the nine months ended September 30, 2010, fiber costs increased $3.5 million in our Paper segment and $42.3 million in our Packaging segment. In our Paper segment, cost drivers included higher prices for all sources of wood fiber, offset by reduced consumption of purchased pulp and secondary fiber. In our Packaging segment, increased costs were a result of increased purchased containerboard rollstock related to the acquisition of Tharco, offset partially by lower wood consumption and prices.

Energy. Compared with the three months ended September 30, 2010, energy costs decreased slightly. Overall, the decrease consisted of a $0.4 million decrease in our Packaging segment, offset by a $0.1 million increase in our Paper segment, as lower prices for natural gas offset increased prices for electricity. Compared with the nine months ended September 30, 2010, energy costs decreased $5.1 million in our Paper segment and $1.2 million in our Packaging segment. This was due to lower prices for natural gas in both segments, offset partially by higher consumption of and prices for electricity.

Chemicals. Compared with the three months ended September 30, 2010, chemical costs increased $6.9 million in our Paper segment and $2.4 million in our Packaging segment. Chemical costs increased $16.9 million in our Paper segment and $4.2 million in our Packaging segment, compared with the nine months ended September 30, 2010. The increased costs were a result of increased prices for commodity chemicals, including caustic soda and starch.

Labor. Labor costs related to the production of our products recorded in "Materials, labor, and other operating expenses" were $79.4 million in third quarter 2011, an increase of $12.0 million, or 18%, compared with the same period in 2010. During the first nine months of 2011, labor costs were $234.4 million, an increase of $27.2 million, or 13%, compared with the same period in 2010. Included in 2011 are additional labor costs from our first-quarter acquisition of Tharco. 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.

Depreciation, amortization, and depletion; selling and distribution expenses; and general and administrative expenses increased during the three and nine months ended September 30, 2011, due primarily to incremental expenses from Tharco's operations.

Income From Operations

Income from operations for the three months ended September 30, 2011, decreased $14.4 million to $62.6 million, compared with $77.0 million for the three months ended September 30, 2010. This decrease was due to increased chemical and fiber costs, offset partially by higher sales prices across the majority of our products and income related to our acquisition of Tharco. Income from operations for the nine months ended September 30, 2011, increased $11.4 million to $145.1 million, compared with $133.8 million for the nine months ended

September 30, 2010. This increase was due mainly to higher sales prices across the majority of our products and the acquisition of Tharco, offset partially by increased chemical and fiber costs. Our operating segment results are discussed below. Income from operations also includes net costs from our Corporate and Other segment.

Paper. Segment income from operations decreased $20.8 million to $36.1 million for the three months ended September 30, 2011, compared with $56.9 million for the three months ended September 30, 2010. Segment income from operations decreased $22.2 million to $90.3 million for the nine months ended September 30, 2011, compared with $112.5 million of income for the nine months ended September 30, 2010. The decrease related to higher chemical and fiber costs, offset partially by higher sales prices.

Packaging. Segment income from operations increased $7.2 million to, a record, $32.0 million for the three months ended September 30, 2011, compared with $24.8 million for the three months ended September 30, 2010. Segment income from operations increased $37.1 million to $73.2 million for the nine months ended September 30, 2011, compared with $36.1 million for the nine months ended September 30, 2010.The increase in income from operations in both periods was due primarily to higher prices for segment linerboard, newsprint, and corrugated products and the acquisition of Tharco, offset partially by higher chemical costs. For the nine months ended September 30, 2011, approximately 11% of the $37.1 million increase resulted from our acquisition of Tharco.

Other

Loss on extinguishment of debt. For the nine months ended September 30, 2010, loss on extinguishment of debt was $22.2 million. This amount consists of previously unamortized deferred financing costs for our Tranche B term loan facility, which was paid off as part of our March 2010 debt refinancing.

Income taxes. For the three months ended September 30, 2011 and 2010, Boise Inc. recorded income tax expense of $18.1 million and $25.5 million, respectively, and had an effective tax rate of 39.0% and 41.5%, respectively. For the three months ended September 30, 2011 and 2010, BZ Intermediate recorded income tax expense of $18.1 million and $25.4 million, respectively, and had an effective tax rate of 39.0% and 41.4%, respectively. For the nine months ended September 30, 2011 and 2010, Boise Inc. recorded income tax expense of $37.9 million and $27.2 million, respectively, and had an effective tax rate of 39.1% and 42.7%, respectively. For the nine months ended September 30, 2011 and 2010, BZ Intermediate recorded income tax expense of $37.9 million and $26.3 million, respectively, and had an effective tax rate of 39.1% and 41.3%, respectively. For Boise Inc. and BZ Intermediate, the primary reasons for the difference from the federal statutory income tax rate of 35.0% were the effects 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 Acquisition, the exercise of warrants, and the repurchase of our common stock. As part of the Tharco Acquisition, we increased our assets by approximately $257.5 million and our liabilities by approximately $56.2 million. During 2011, warrant holders exercised 40.3 million warrants, resulting in the issuance of 38.4 million additional common shares and we have repurchased 13.4 million common shares. See Note 2, Acquisition of Tharco Packaging, Inc., and Note 14, Stockholders' Equity and Capital, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q for additional information regarding the acquisition, our warrants, and the repurchase of our common stock.

Industry Activities

In May 2011, RockTenn 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 largest manufacturer 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, the fourth largest producer of containerboard and corrugated containers.

We expect no immediate impact to our Packaging segment as a result of these developments; however, the longer-term outlook is uncertain.

Liquidity and Capital Resources

Our liquidity position continues to remain strong. At September 30, 2011 and December 31, 2010, we had $169.6 million and $166.8 million, respectively of cash and cash equivalents and $750.6 million and $781.8 million of debt, respectively. At September 30, 2011, we had $243.7 million of aggregate liquidity from unused borrowing capacity under the revolving credit facility, net of letters of credit.

During the nine months ended September 30, 2011, we generated $460.3 million of cash, which consisted of $175.5 million of cash from operations and $284.8 million of proceeds from warrants that were exercised. The strong cash flows from operations related primarily to increased sales prices for the majority of the products we manufacture and distribute and the acquisition of Tharco in first quarter this year. Of the $460.3 million of cash generated during the first nine months of the year, we used $201.3 million to acquire Tharco, $76.3 million to repurchase 13.4 million shares of our common stock, $47.9 million to pay a special dividend to our shareholders, $31.3 million towards net long-term debt repayments, contributed $25.0 million towards an equity yield enhancement program that, upon maturity, could result in the repurchase of up to $25 million of our common stock, and used $71.7 million of cash for other investing activities, most of which related to expenditures for property and equipment.

We have initiated discussions with lenders to enter into a new $200 million senior secured term loan facility and to increase our revolving credit facility from $250 million to $500 million. We will use the proceeds to repay the outstanding borrowings on our existing Tranche A term loan facility and for general corporate purposes. We expect to complete the new borrowings in November 2011.

We invest our cash in high-quality, short-term investments. We believe that our cash, as well as our cash flows from operations and the available borrowing capacity under our $250.0 million revolving credit facility, will be adequate to provide cash as required to support our ongoing operations, property and equipment expenditures, and debt service obligations for at least the next 12 months.

Sources and Uses of Cash

We 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, repay debt, and meet our contractual obligations and commercial commitments. Below is a discussion of our sources and uses of cash through operating activities (including a sensitivity analysis related to our sources and uses of cash from/for operating activities), investing activities, and financing activities.

Operating Activities

Our principal operating cash expenditures are for fiber, compensation, energy, chemicals, and interest. During the nine months ended September 30, 2011 and 2010, our operating activities provided $175.5 million and $215.3 million of cash, respectively. Compared with the nine months ended September 30, 2010, the decrease in cash provided by operations relates primarily to the following:

- An $18.4 million increase in working capital, compared with a $34.2 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. Excluding the impact of the Tharco Acquisition, working capital increased during 2011 due to higher accounts receivable, inventory and accrued liabilities. Accounts receivable increased in 2011 due to higher monthly September sales, compared with December 2010, and inventories increased due to the building of raw materials inventories in our business. Higher interest accruals on our senior notes primarily drove the increase in accrued liabilities.

- Increased cash contributions to our pension plans. During the nine months ended September 30, 2011, we contributed $25.7 million to our pension plans, compared with $18.5 million million during the nine months ended September 30, 2010. The 2011 contributions exceed our estimated 2011 pension contribution requirements.

49

The increase in cash used for working capital and pension plan contributions was offset partially by:

- An $11.4 million increase in income from operations. As discussed under “Operating Results” above, the higher income from operations related to increased sales prices for all of our products in both our Paper and Packaging segments.

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

During the nine months ended September 30, 2011, we sold the following:

- 936,000 short tons of uncoated freesheet paper.
- 173,000 short tons of linerboard to third parties.
- 6,423 million square feet of corrugated containers and sheets.
- 172,000 short tons of newsprint.
- 70,000 short tons of market pulp.

Compared with the nine months ended September 30, 2010, selling prices for linerboard (sold to third parties), corrugated sheets and containers, newsprint, market pulp, and uncoated freesheet increased 25%, 20%, 13%, 8%, and 2%, respectively. Selling prices improved due to improved market conditions. Through third quarter 2011, we took approximately 7,000 short tons of market-related downtime for uncoated freesheet, while we took approximately 3,800 short tons of market-related downtime for uncoated freesheet during the nine months ended September 30, 2010.

Our primary uses of cash are for expenses related to the manufacture of paper and packaging 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 for a $10-per-short-ton change in the selling price of the following products, except for corrugated containers and sheets (dollars in millions):

| Sensitivity Analysis (a) | Estimated Annual Impact on Income Before Taxes |
|---|---|
| Paper | |
| Uncoated freesheet | $ 12 |
| Packaging | |
| Containerboard (linerboard) | 2 |
| Newsprint | 2 |
| Corrugated containers and sheets ($1.00/msf change in price) | 9 |
| Interest rate (1% change in interest rate on our variable-rate debt) | 2 |
| Energy (b) | |
| Natural gas ($1.00/mmBtu change in price) | 12 |
| Diesel ($0.50/gallon change in price) | 8 |
| Fiber (1% change in cost of fiber) | 5 |
| Chemicals (1% change in cost of chemicals) | 2 |

(a) Based on 2010 operations adjusted to reflect the Tharco Acquisition.

(b) 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

Cash investing activities used $273.0 million for the nine months ended September 30, 2011, compared with $64.9 million used for the same period in 2010. During the nine months ended September 30, 2011, we used $201.3 million of cash for the Tharco Acquisition. See Note 2, Acquisition of Tharco Packaging, Inc., of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q for additional information. Cash capital expenditures for property and equipment for the nine months ended September 30, 2011, were $83.9 million, compared with $66.7 million for the nine months ended September 30, 2010.

Cash investing activities for the nine months ended September 30, 2011, also included $3.5 million for purchases of short-term investments and $14.1 million of proceeds from the maturity of short-term investments. Cash investing activities for the nine months ended September 30, 2010, included $17.7 million for purchases of short-term investments and $17.1 million of maturities of short-term investments. During first quarter 2011, we liquidated our short-term investment portfolio.

We expect capital investments in 2011 to be approximately $125 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 2011 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 $3 million in 2011 for capital environmental compliance requirements.

Financing Activities

Cash provided by financing activities was $100.3 million for the nine months ended September 30, 2011, compared with $46.3 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 warrants, $76.3 million of cash used to repurchase our common stock, a $25.0 million contribution towards an equity yield enhancement program that upon maturity, could result in the repurchase of up to $25 million of our common stock, $47.9 million of cash used to pay our shareholders a special dividend, a $75.0 million revolving credit facility draw related to the Tharco Acquisition, and $106.3 million of long-term debt repayments, $75.0 million of which related to the repayment of our draw on our revolving credit facility. Cash used for financing activities for the nine months ended September 30, 2010, reflects $327.8 million of debt repayments, $300.0 million of debt issuances, and $11.9 million of cash paid for deferred financing costs.

Based on how our debt agreements are currently structured, our expected debt service obligation, assuming debt interest rates stay at September 30, 2011, levels, is estimated to be approximately $26.7 million for the remainder of 2011 and $184.9 million for 2012, 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 the "Contractual Obligations" section of "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Form 10-K.

For more information about our leases and debt, see Note 6, Leases, and Note 11, Debt, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q.

Contractual Obligations

For information on contractual obligations, see the discussion under the heading "Contractual Obligations" in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Form 10-K. As of September 30, 2011, there have been no material changes to our contractual obligations from those disclosed in our 2010 Form 10-K, except as disclosed in Note 6, Leases, and Note 19, Subsequent Event of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1.

Financial Statements" of this Form 10-Q.

As discussed in the "Executive Summary", in October 2011, we announced our intention to acquire the Hexacomb packaging business of Pregis Corporation, for $125 million using existing cash.

Off-Balance-Sheet Activities

At September 30, 2011, we had no off-balance-sheet arrangements with unconsolidated entities.

Guarantees

Note 11, Debt, and Note 22, Consolidating Guarantor and Nonguarantor Financial Information of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2010 Form 10-K describes the nature of our guarantees, including the approximate terms of the guarantees, how the guarantees arose, the events or circumstances that would require us to perform under the guarantees, and the maximum potential undiscounted amounts of future payments we could be required to make. As of September 30, 2011, there have been no material changes to the guarantees disclosed in the 2010 Form 10-K.

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, the demand for our corrugated containers is influenced by changes in agricultural demand in the Pacific Northwest. In addition, seasonally cold weather increases costs, especially energy consumption, at all of our manufacturing facilities. Seasonality also affects working capital levels as described below.

Working Capital

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

Environmental

For information on environmental issues, see the discussion under the heading "Environmental" in "Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Form 10-K. As of September 30, 2011, there have been no material changes to our environmental information from that disclosed in our 2010 Form 10-K.

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. For information about critical accounting estimates, see the discussion under the heading "Critical Accounting Estimates" in "Part II, Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations" in our 2010 Form 10-K. As of September 30, 2011, there have been no material changes to our critical accounting estimates from those disclosed in our 2010 Form 10-K, except as discussed below.

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 September 30, 2011, we had $103.2 million of goodwill recorded on our Consolidated Balance Sheet, all of which was recorded in connection with the Tharco Acquisition in our Packaging segment. At September 30, 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, Paper and Packaging, which are the same as our operating segments discussed in Note 17, Segment Information, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in this Form 10-Q. We test the 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. During the third quarter, in connection with the volatility in the stock market, the price of our common stock and corresponding market capitalization declined to less than the book value of our net assets. As discussed above, all of our goodwill is reported in our Packaging reporting unit. During 2011, a number of packaging-related market transactions occurred. When we applied the lowest market multiple from these transactions of comparable companies to our Packaging reporting unit EBITDA, the fair value exceeded the carrying value of the net assets. As a result, we concluded that a goodwill impairment test does not need to be performed as it is not more likely than not that the fair value of our Packaging reporting unit had fallen below its carrying amount at September 30, 2011. We will perform our annual goodwill impairment test in fourth quarter 2011 using the discounted cash flow approach.

New and Recently Adopted Accounting Standards

For a listing of our new and recently adopted accounting standards, see Note 15, New and Recently Adopted Accounting Standards, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item 1. Financial Statements" of this Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosures about market risk can be found under the caption "Liquidity and Capital Resources" in "Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Form 10-K. There have been no material changes in our exposure to market risk from those disclosed in our 2010 Form 10-K.

ITEM 4. CONTROLS AND PROCEDURES

Attached as exhibits to this Form 10-Q are certifications of our chief executive officer and chief financial officer. Rule 13a-14 of the Securities Exchange Act of 1934, as amended, requires that we include these certifications with this report. This Controls and Procedures section includes information concerning the disclosure controls and procedures referred to in the certifications. You should read this section in conjunction with the certifications.

Evaluation of Disclosure Controls and Procedures

We maintain "disclosure controls and procedures" as Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, defines such term. We have designed these controls and procedures to reasonably assure that information required to be disclosed in our reports filed under the Exchange Act, such as this Form 10-Q, is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We have also designed our disclosure controls to provide reasonable assurance that such information is accumulated and communicated to our senior management, including our chief executive officer (CEO) and chief financial officer (CFO), as appropriate, to allow them to make timely decisions regarding our required disclosures.

We evaluate the effectiveness of our disclosure controls and procedures on at least a quarterly basis. A number of key components in our internal control system assist us in these evaluations. We have a disclosure committee that meets regularly and receives input from our senior management, general counsel, and internal audit staff. This committee is charged with considering and evaluating the materiality of information and reviewing the company's disclosure obligations on a timely basis. Our internal audit department also evaluates components of our internal controls on an ongoing basis. To assist in its evaluations, the internal audit staff identifies, documents, and tests our disclosure controls and procedures. Our intent is to maintain disclosure controls and procedures as dynamic processes that change as our business and working environments change.

Our management, with the participation of our CEO and CFO, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the quarter covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our CEO and CFO have concluded that, as of such date, our disclosure controls and procedures were effective in meeting the objectives for which they were designed and were operating at a reasonable assurance level.

Limitations on the Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, we recognize that disclosure controls and procedures, no matter how well-conceived and well-operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. We have also designed our disclosure controls and procedures based in part on assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Changes in Internal Control Over Financial Reporting

On March 1, 2011, our wholly owned subsidiary Boise Paper Holdings acquired all of the outstanding stock of Tharco Packaging, Inc. (Tharco). In connection with integrating Tharco, we are implementing changes in controls and procedures. This process resulted in additions and changes to our internal control over financial reporting. There were no changes in our internal control over financial reporting during the quarter ended September 30, 2011, that materially affected, or are reasonably likely to materially affect, our internal controls.

## PART II—OTHER INFORMATION

### ITEM 1. 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 1A. RISK FACTORS

This Quarterly Report on Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about our expectations, anticipated financial results, projected capital expenditures, and future business prospects, are forward-looking statements. You can identify these statements by our use of words such as "may," "will," "expect," "believe," "should," "plan," "anticipate," and other similar expressions. You can find examples of these statements throughout this report, including the "Executive Summary" section of "Management's Discussion and Analysis of Financial Condition and Results of Operations." We cannot guarantee that our actual results will be consistent with the forward-looking statements we make in this report. You should review carefully the risk factors listed in other documents we file with the Securities and Exchange Commission (SEC). During the nine months ended September 30, 2011, there have been no material changes to the risk factors presented in "Part I, Item 1A. Risk Factors" of our Form 10-K for the year ended December 31, 2010, except as noted below. We do not assume an obligation to update any forward-looking statements.

OfficeMax represents a significant portion of our business. Our largest customer, OfficeMax, accounted for approximately 20% and 24% of our total sales for the nine months ended September 30, 2011, and the year ended December 31, 2010, respectively. 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. 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 cash flows.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) None.
(b) None.

(c) The following table presents information related to our repurchases of common stock made during the three months ended September 30, 2011:

Issuer Purchases of Equity Securities

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) (b) | 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 |
|---|---|---|---|---|
| July 1-31, 2011 | — | $— | — | $— |
| August 1-31, 2011 (a) | 7,415,396 | 5.50 | 7,415,396 | — |
| September 1-30, 2011 (a) | 5,955,459 | 5.92 | 5,955,459 | — |
| Total | 13,370,855 | $5.69 | 13,370,855 | $73,676,101 |

(a) On August 4, 2011, we announced that our board of directors authorized share repurchases of up to $75 million of Boise Inc. outstanding common stock. This repurchase program commenced on August 5, 2011. By September 12, 2011, we had completed all of the $75 million authorized share repurchases. We purchased a total of 13,151,855 shares of our outstanding common stock under this program.

On September 14, 2011, we announced that our board of directors authorized additional share repurchases of up to $75 million of Boise Inc. outstanding common stock. By September 30, 2011, we had repurchased 219,000 shares of Boise Inc. outstanding common stock under this program.

For further information on both of these share repurchase programs, see Note 14, Stockholders' Equity and Capital, of the Condensed Notes to Unaudited Quarterly Consolidated Financial Statements in "Part I, Item I. Financial Statements" of this Form 10-Q.

(b) Excludes brokerage commissions paid by the Company. If commissions were included, the average purchase price would be $5.71 per common share.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Required exhibits are listed in the Index to Exhibits and are incorporated by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrants have duly caused this report to be signed on their behalf by the undersigned thereunto duly authorized.

BOISE INC.

/s/ BERNADETTE M. MADARIETA
Bernadette M. Madarieta
Vice President and Controller
(As Duly Authorized Officer and Chief Accounting Officer)
Date: November 3, 2011

BZ INTERMEDIATE HOLDINGS LLC

/s/ BERNADETTE M. MADARIETA
Bernadette M. Madarieta
Vice President and Controller
(As Duly Authorized Officer and Chief Accounting Officer)

BOISE INC.
BZ INTERMEDIATE HOLDINGS LLC
INDEX TO EXHIBITS
Filed or Furnished With the Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2011

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | Filed or Furnished Herewith |
|---|---|---|---|---|---|
| | | Form | Exhibit Number | Filing Date | |
| 11 | Presented in Footnote 3, Net Income Per Common Share, to Consolidated Financial Statements | | | | |
| 31.1 | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 31.2 | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | | | | X |
| 32 | Section 906 Certifications of Chief Executive Officer and Chief Financial Officer of Boise Inc. and BZ Intermediate Holdings LLC | | | | X |
| 101 | Financial Statements in XBRL Format | | | | X |

58