BOISE INC.
Form 10-Q
May 02, 2013

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

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013

or

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

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

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

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

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

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

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

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

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

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

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

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

There were 100,885,033 common shares, $0.0001 per share par value, of Boise Inc. outstanding as of April 30, 2013.

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

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

	Three Months Ended March 31	
	2013	2012
Sales		
Trade	$591,321	$633,528
Related party	15,697	11,318
	607,018	644,846
Costs and expenses		
Materials, labor, and other operating expenses (excluding depreciation)	496,269	502,299
Fiber costs from related party	6,146	4,946
Depreciation, amortization, and depletion	43,428	37,556
Selling and distribution expenses	28,849	30,642
General and administrative expenses	18,923	20,008
Other (income) expense, net	331	(300)
	593,946	595,151
Income from operations	13,072	49,695
Foreign exchange gain (loss)	(341)	157
Interest expense	(15,419)	(15,365)
Interest income	27	44
	(15,733)	(15,164)
Income (loss) before income taxes	(2,661)	34,531
Income tax (provision) benefit	1,436	(13,193)
Net income (loss)	$(1,225)	$21,338
Weighted average common shares outstanding:		
Basic	100,242	99,052
Diluted	100,242	101,414
Net income (loss) per common share:		
Basic	$(0.01)	$0.22
Diluted	$(0.01)	$0.21

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
Net income (loss)	$(1,225)	$21,338
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment, net of tax of ($40) and $0, respectively	(228)	855
Cash flow hedges:		
Change in fair value, net of tax of $1,038 and ($1,388), respectively	1,656	(2,215)
(Gain) loss included in net income, net of tax of ($62) and $511, respectively	(98)	817
Actuarial gain (loss) and prior service cost (including related amortization) for defined benefit pension plans, net of tax of $825 and $1,019, respectively	1,316	1,625
Other, net of tax of ($15) and ($4), respectively	(24)	(5)
	2,622	1,077
Comprehensive income	$1,397	$22,415

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	March 31, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	$57,416	$49,707
Receivables		
Trade, less allowances of $1,425 and $1,382	247,172	240,459
Other	9,289	8,267
Inventories	306,752	294,484
Deferred income taxes	9,521	17,955
Prepaid and other	10,321	8,828
	640,471	619,700
Property		
Property and equipment, net	1,214,785	1,223,001
Fiber farms	24,170	24,311
	1,238,955	1,247,312
Deferred financing costs	25,528	26,677
Goodwill	160,219	160,130
Intangible assets, net	144,598	147,564
Other assets	6,802	7,029
Total assets	$2,216,573	$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	March 31, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Current portion of long-term debt	$10,000	$10,000
Accounts payable	206,778	185,078
Accrued liabilities		
Compensation and benefits	54,669	70,950
Interest payable	23,724	10,516
Other	21,145	20,528
	316,316	297,072
Debt		
Long-term debt, less current portion	765,000	770,000
Other		
Deferred income taxes	190,541	198,370
Compensation and benefits	121,311	121,682
Other long-term liabilities	73,076	73,102
	384,928	393,154
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, $0.0001 par value per share: 1,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value per share: 250,000 shares authorized; 100,885 and 100,503 shares issued and outstanding	12	12
Treasury stock, 21,151 shares held	(121,423)	(121,423)
Additional paid-in capital	869,540	868,840
Accumulated other comprehensive income (loss)	(98,682)	(101,304)
Retained earnings	100,882	102,061
Total stockholders' equity	750,329	748,186
Total liabilities and stockholders' equity	$2,216,573	$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
Cash provided by (used for) operations		
Net income (loss)	$(1,225)	$21,338
Items in net income (loss) not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	44,659	38,702
Share-based compensation expense	1,324	1,233
Pension expense	1,348	2,771
Deferred income taxes	(1,003)	8,838
Other	(92)	(429)
Decrease (increase) in working capital		
Receivables	(7,070)	(12,313)
Inventories	(12,316)	(12,467)
Prepaid expenses	746	(21)
Accounts payable and accrued liabilities	13,965	(7,585)
Current and deferred income taxes	(770)	(684)
Pension payments	(49)	(9,094)
Other	346	1,190
Cash provided by operations	39,863	31,479
Cash provided by (used for) investment		
Expenditures for property and equipment	(26,610)	(23,133)
Other	412	590
Cash used for investment	(26,198)	(22,543)
Cash provided by (used for) financing		
Payments of long-term debt	(5,000)	(2,500)
Payments of special dividend	—	(47,483)
Other	(956)	(1,300)
Cash used for financing	(5,956)	(51,283)
Increase (decrease) in cash and cash equivalents	7,709	(42,347)
Balance at beginning of the period	49,707	96,996
Balance at end of the period	$57,416	$54,649

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
Sales		
Trade	$591,321	$633,528
Related party	15,697	11,318
	607,018	644,846
Costs and expenses		
Materials, labor, and other operating expenses (excluding depreciation)	496,269	502,299
Fiber costs from related party	6,146	4,946
Depreciation, amortization, and depletion	43,428	37,556
Selling and distribution expenses	28,849	30,642
General and administrative expenses	18,923	20,008
Other (income) expense, net	331	(300)
	593,946	595,151
Income from operations	13,072	49,695
Foreign exchange gain (loss)	(341)	157
Interest expense	(15,419)	(15,365)
Interest income	27	44
	(15,733)	(15,164)
Income (loss) before income taxes	(2,661)	34,531
Income tax (provision) benefit	1,436	(13,193)
Net income (loss)	$(1,225)	$21,338

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
Net income (loss)	$(1,225)	$21,338
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustment, net of tax of ($40) and $0, respectively	(228)	855
Cash flow hedges:		
Change in fair value, net of tax of $1,038 and ($1,388), respectively	1,656	(2,215)
(Gain) loss included in net income, net of tax of ($62) and $511, respectively	(98)	817
Actuarial gain (loss) and prior service cost (including related amortization) for defined benefit pension plans, net of tax of $825 and $1,019, respectively	1,316	1,625
Other, net of tax of ($15) and ($4), respectively	(24)	(5)
	2,622	1,077
Comprehensive income	$1,397	$22,415

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	March 31, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	$57,416	$49,707
Receivables		
Trade, less allowances of $1,425 and $1,382	247,172	240,459
Other	9,289	8,267
Inventories	306,752	294,484
Deferred income taxes	11,451	17,955
Prepaid and other	10,321	8,828
	642,401	619,700
Property		
Property and equipment, net	1,214,785	1,223,001
Fiber farms	24,170	24,311
	1,238,955	1,247,312
Deferred financing costs	25,528	26,677
Goodwill	160,219	160,130
Intangible assets, net	144,598	147,564
Other assets	6,802	7,029
Total assets	$2,218,503	$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	March 31, 2013	December 31, 2012
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	$10,000	$10,000
Accounts payable	206,778	185,078
Accrued liabilities		
Compensation and benefits	54,669	70,950
Interest payable	23,724	10,516
Other	21,145	20,528
	316,316	297,072
Debt		
Long-term debt, less current portion	765,000	770,000
Other		
Deferred income taxes	183,923	189,823
Compensation and benefits	121,311	121,682
Other long-term liabilities	73,127	73,152
	378,361	384,657
Commitments and contingent liabilities		
Capital		
Business unit equity	857,508	857,987
Accumulated other comprehensive income (loss)	(98,682)	(101,304)
	758,826	756,683
Total liabilities and capital	$2,218,503	$2,208,412

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended March 31	
	2013	2012
Cash provided by (used for) operations		
Net income (loss)	$(1,225)	$21,338
Items in net income (loss) not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	44,659	38,702
Share-based compensation expense	1,324	1,233
Pension expense	1,348	2,771
Deferred income taxes	(1,003)	8,838
Other	(92)	(429)
Decrease (increase) in working capital		
Receivables	(7,070)	(12,313)
Inventories	(12,316)	(12,467)
Prepaid expenses	746	(21)
Accounts payable and accrued liabilities	13,965	(7,585)
Current and deferred income taxes	(770)	(684)
Pension payments	(49)	(9,094)
Other	346	1,190
Cash provided by operations	39,863	31,479
Cash provided by (used for) investment		
Expenditures for property and equipment	(26,610)	(23,133)
Other	412	590
Cash used for investment	(26,198)	(22,543)
Cash provided by (used for) financing		
Payments of long-term debt	(5,000)	(2,500)
Payments (to) from Boise Inc., net	(873)	(48,033)
Other	(83)	(750)
Cash used for financing	(5,956)	(51,283)
Increase (decrease) in cash and cash equivalents	7,709	(42,347)
Balance at beginning of the period	49,707	96,996
Balance at end of the period	$57,416	$54,649

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

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

Our organizational structure is noted below:

Boise Inc.

BZ Intermediate Holdings LLC

Boise Paper Holdings, L.L.C.

Packaging Segment	Paper Segment	Corporate and Other Segment

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

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

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

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

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

2. St. Helens Charges

In December 2012, we ceased paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill. This reduced our annual uncoated freesheet capacity by almost 60,000 tons and resulted in the loss of approximately 100 jobs, primarily at the mill. For more information, see Note 3, St. Helens Charges, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

The following table sets forth a summary of changes of the employee-related and other costs included in "Accrued liabilities, Other" on our Consolidated Balance Sheets during the three months ended March 31, 2013 (in thousands):

	Employee-Related and Other Costs
Balance at January 1, 2013	$5,099
Additions and adjustments (a)	463
Payments	(4,080)
Balance at March 31, 2013	$1,482

(a) During the three months ended March 31, 2013, we recorded the additional expense in "Other (income) expense, net" in the Consolidated Statements of Operations.

3. Net Income (Loss) Per Common Share

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

	Three Months Ended March 31	
	2013	2012
Net income (loss)	$(1,225)	$21,338
Weighted average number of common shares for basic net income (loss) per common share	100,242	99,052
Incremental effect of dilutive common stock equivalents: (a)		
Restricted stock and restricted stock units	—	2,043
Performance units	—	319
Total stockholder return units	—	—
Stock options	—	—
Weighted average number of common shares for diluted net income (loss) per common share	100,242	101,414
Net income (loss) per common share:		
Basic	$(0.01)	$0.22
Diluted	$(0.01)	$0.21

(a) During the three months ended March 31, 2013 and 2012, we excluded a weighted average 1.1 million and 0.8 million potentially dilutive shares, respectively, from the diluted net income (loss) per share calculation as they would have been antidilutive or were out-of the money.

4. Income Taxes

For the three months ended March 31, 2013, we recorded $1.4 million of income tax benefit and had an effective tax rate of 54.0%. During the three months ended March 31, 2013, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of recording the 2012 benefit related to the American Tax Relief Act in first quarter 2013, when the Act was enacted. We recorded the benefit as a discrete item.

For the three months ended March 31, 2012, we recorded $13.2 million of income tax expense and had an effective tax rate of 38.2%. During the three months ended March 31, 2012, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of state taxes.

Uncertain Income Tax Positions

We recognize tax liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur. We recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Operations. Interest expense and penalties relating to uncertain tax positions were nominal for all periods presented. There were no significant changes to our uncertain tax positions. For more information, see Note 6, Income Taxes, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

As of March 31, 2013, we had not recognized U.S. deferred income taxes on our cumulative total of undistributed earnings for non-U.S. subsidiaries. Determining the unrecognized deferred tax liability related to investments in these non-U.S. subsidiaries that are indefinitely reinvested is not practicable. We currently intend to indefinitely reinvest those earnings in operations outside the United States.

During the three months ended March 31, 2013 and 2012, refunds received, net of cash paid for taxes, were $0.4 million and $2.0 million, respectively.

5. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. All of our goodwill is recorded in our Packaging segment. At March 31, 2013, and December 31, 2012, the carrying amount of goodwill was $160.2 million and $160.1 million, respectively. The change in the carrying amount related to foreign currency translations.

Intangible Assets

Intangible assets consist of customer relationships, trademarks and trade names, technology, and noncompete agreements. We had $144.6 million and $147.6 million of intangible assets at March 31, 2013, and December 31, 2012, net of $29.0 million and $26.3 million of accumulated amortization, respectively. During the three months ended March 31, 2013 and 2012, we recorded intangible asset amortization of $2.8 million and $3.3 million, respectively. Foreign intangible assets are affected by foreign currency translation.

6. Debt

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

	March 31, 2013		December 31, 2012	
	Amount	Interest Rate	Amount	Interest Rate
Revolving credit facility, due 2016	$—	— %	$5,000	2.21 %
Tranche A term loan, due 2016	175,000	2.21	175,000	2.22
9% senior notes, due 2017	300,000	9.00	300,000	9.00
8% senior notes, due 2020	300,000	8.00	300,000	8.00
Long-term debt	775,000	7.08	780,000	7.05
Current portion of long-term debt	(10,000)	2.21	(10,000)	2.22
Long-term debt, less current portion	$765,000	7.14 %	$770,000	7.11 %

As of March 31, 2013, our debt consisted of the following:

- The Revolving Credit Facility: A five-year nonamortizing $500 million senior secured revolving credit facility with variable annual interest. In addition to paying interest, we pay an annual commitment fee for undrawn amounts at a rate of either 0.35% or 0.50% depending on our total leverage ratio.
- The Tranche A Term Loan Facility: A five-year amortizing $200 million senior secured loan facility with variable annual interest.
- The 9% Senior Notes: An eight-year nonamortizing $300 million senior unsecured debt obligation with fixed annual interest of 9%.
- The 8% Senior Notes: A ten-year nonamortizing $300 million senior unsecured debt obligation with fixed annual interest of 8%.

Under our Credit Facilities (the Revolving Credit Facility together with the Term Loan Facility) we elect whether interest on our Term Loan and, separately, interest under any Revolving Credit Facility is based on an alternative base rate or the London Interbank Offered Rate (LIBOR), plus an applicable spread based on our total leverage ratio. Our total leverage ratio is essentially our total net debt divided by our trailing four quarters of Adjusted Consolidated EBITDA (as defined in the Credit Agreement). Based on our current one-month LIBOR election, at March 31, 2013, the interest rate on our Credit Facilities was LIBOR plus 200 basis points, and we pay interest on the Credit Facilities monthly in arrears.

At March 31, 2013, we had no borrowings outstanding under our Revolving Credit Facility and had availability of $493.0 million, which is net of outstanding letters of credit of $7.0 million. The maximum borrowings under our Revolving Credit Facility for the three months ended March 31, 2013, was $5.0 million, and the weighted average was $1.5 million. For the three months ended March 31, 2013, the average interest rate for our outstanding borrowings under our Revolving Credit Facility was 2.21%.

The Credit Facilities and 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 8, Debt, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K. Under our Credit Facilities and the indentures governing our Senior Notes, a dividend may be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions, together with other amounts as specified in the Credit Facilities. At March 31, 2013, the available restricted payment amount under our 8% Senior Notes indenture, which is more restrictive than our Credit Agreement and our 9% Senior Notes indenture, was approximately $106.9 million. To the extent we do not have adequate surplus or net profits, or available restricted payment amounts, we will be prohibited from paying dividends.

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

As of March 31, 2013, required debt principal repayments were as follows (dollars in thousands):

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

For the three months ended March 31, 2013 and 2012, cash payments for interest were $1.0 million and $1.6 million, respectively.

With the exception of the Credit Facilities, our debt is fixed-rate debt. At March 31, 2013, the book value of our fixed-rate debt was $600.0 million, and the fair value was estimated to be $658.5 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value of our fixed-rate debt using quoted market prices (Level 1 inputs), discussed further in Note 7, Financial Instruments.

7. Financial Instruments

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

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At March 31, 2013, these derivatives included caps and call spreads, which we account for as economic hedges, and swaps, which are designated and accounted for as cash flow hedges. As of March 31, 2013, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

	April 2013 Through October 2013	November 2013 Through March 2014	April 2014 Through October 2014	November 2014 Through March 2015	April 2015 Through October 2015	November 2015 Through March 2016
Approximate percent hedged	79 %	57 %	50 %	43 %	37 %	13 %

Economic Hedges

For derivative instruments that are not designated as cash flow hedges for accounting purposes, the gain or loss on the derivatives is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in the Consolidated Statements of Operations. During the three months ended March 31, 2013 and 2012, we recognized an insignificant amount of expense and/or income related to natural gas contracts we account for as economic hedges.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets and is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in our Consolidated Statements of Operations in the period in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the instruments is reclassified out of accumulated other comprehensive income (loss) to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable. At March 31, 2013, and December 31, 2012, we had $0.3 million of income and $1.2 million of losses, respectively, net of tax, recorded in "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets related to our natural gas contracts.

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

	(Gain) Loss Recognized in Accumulated Other Comprehensive Income		(Gain) Loss Reclassified From Accumulated Other Comprehensive Income Into Earnings	
	Three Months Ended March 31			
	2013 (a)	2012	2013	2012
Natural gas contracts	$(2,694)	$3,603	$(160)	$1,328

(a) Based on March 31, 2013, pricing, the estimated income, net of tax, to be recognized in earnings during the next 12 months is $0.2 million.

Fair Value Measurements

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

Fair Values of Derivative Instruments

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

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

	Gross Amounts of Recognized Assets (Liabilities)	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets (Liabilities) Presented in the Consolidated Balance Sheets
	March 31, 2013		
Instruments in a net asset position, by counterparty (a)			
Cash flow hedges	$648	$(17)	$631
Instruments in a net liability position, by counterparty (b)			
Cash flow hedges	(749)	287	(462)
Economic hedges	(2,369)	363	(2,006)
Total	$(2,470)	$633	$(1,837)
	December 31, 2012		
Instruments in a net liability position, by counterparty (b)			
Cash flow hedges	$(2,568)	$203	$(2,365)
Economic hedges	(2,582)	385	(2,197)
Total	$(5,150)	$588	$(4,562)

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(a) Instruments in a net asset position, by counterparty, are recorded in "Receivables, Other" on our Consolidated Balance Sheet.

(b) At March 31, 2013, $1.2 million was recorded in both "Accrued liabilities, Other" and "Other long-term liabilities." At December 31, 2012, amounts were $4.1 million and $0.5 million, respectively.

8. Retirement and Benefit Plans

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

	Three Months Ended March 31	
	2013	2012
Service cost	$573	$735
Interest cost	5,979	6,168
Expected return on plan assets	(7,345)	(6,776)
Amortization of actuarial loss	2,141	2,641
Amortization of prior service costs and other	—	3
Net periodic benefit cost	$1,348	$2,771

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

9. Share-Based Compensation

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

Shares issued pursuant to awards under the Plan are from our authorized but unissued shares or from treasury shares. The maximum number of shares approved for grant under the Plan is 17.2 million shares. As of

March 31, 2013, 7.8 million shares remained available for future issuance under the Plan. Share-based compensation costs in BZ Intermediate's financial statements represent expenses for restricted stock, restricted stock units, stock options, and performance units of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes. Additional information regarding the Plan and awards can be found in Note 11, Share-Based Compensation, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

Restricted Stock and Performance Units

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

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

Market-condition awards, or TSR awards, have been granted to members of management. Each TSR award reflects a target number of shares that may be issued to the award recipient. The actual number of shares the recipient receives is determined at the end of a three-year performance period based on total stockholder return relative to a set of comparator companies. Market condition awards represent a more difficult threshold to meet before payout, with greater uncertainty that the market condition will be satisfied; therefore, these awards have a lower fair value than those that vest based primarily on the passage of time. Compensation expense is required to be recognized for these awards regardless of when, if ever, the market condition is satisfied. The fair value of the TSR awards estimated on the grant date using a Monte Carlo simulation was $8.56 per unit. Compensation expense is recorded over the awards' vesting period.

The following table presents the assumptions used to calculate the fair value of the TSR awards:

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

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The following table presents restricted stock, RONOA performance award, and TSR award activity for the three months ended March 31, 2013 (shares in thousands):

	Restricted Stock		RONOA Performance Awards		TSR Market-Condition Awards	
	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012 (a)	636	$ 6.66	489	$ 7.90	—	$ —
Granted	417	8.61	258	8.87	232	8.56
Vested	(231)	8.52	(93)	8.53	—	—
Forfeited	(2)	8.24	—	—	—	—
Outstanding at March 31, 2013 (a)	820	$ 7.13	654	$ 8.20	232	$ 8.56

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

Stock Options

In 2012 and 2011, we granted nonqualified stock options to members of management. The stock options generally vest and become exercisable over three years. Our stock options generally have a contractual term of ten years, meaning the option must be exercised by the holder before the tenth anniversary of the grant date. No options were granted during the three months ended March 31, 2013.

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	841	$8.34		
Exercised	—	—		
Forfeited	—	—		
Outstanding at March 31, 2013	841	$8.34	8.6	$266
Exercisable at March 31, 2013	335	$8.37	8.5	$96
Vested and expected to vest at March 31, 2013	821	$8.34	8.6	$260

Compensation Expense

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

	Three Months Ended March 31	
	2013	2012
Restricted stock	$449	$833
RONOA performance awards	472	242
TSR market-condition awards	27	—
Stock options	376	158
Total share-based compensation expense	$1,324	$1,233

The unrecognized compensation expense for all share-based awards at March 31, 2013, is as follows (dollars in thousands):

	Unrecognized Compensation Expense	Remaining Weighted Average Recognition Period (in years)
Restricted stock	$5,066	2.2
RONOA performance awards	3,623	2.0
TSR market-condition awards	1,815	3.0
Stock options	1,664	1.7
Total unrecognized share-based compensation expense	$12,168	2.2

10. Stockholders' Equity

The following tables detail the changes in accumulated other comprehensive income, net of tax, for the three months ended March 31, 2013 and 2012, respectively.

	Changes in Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31, 2013				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$(302)	$(1,230)	$(100,108)	$336	$(101,304)
Other comprehensive income (loss) before reclassification, net of tax	(228)	1,656	—	—	1,428
Amounts reclassified from accumulated other comprehensive income, net of tax	—	(98)	1,316	(24)	1,194
Ending balance	$(530)	$328	$(98,792)	$312	$(98,682)

	Changes in Accumulated Other Comprehensive Income (Loss) Three Months Ended March 31, 2012				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$(352)	$(3,702)	$(118,141)	$233	$(121,962)
Other comprehensive income (loss) before reclassification, net of tax	855	(2,215)	—	—	(1,360)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	817	1,625	(5)	2,437
Ending balance	$503	$(5,100)	$(116,516)	$228	$(120,885)

	Reclassifications Out of Accumulated Other Comprehensive Income Three Months Ended	
	March 31, 2013	March 31, 2012
(Gains) losses on cash flow hedges		
Natural gas contracts (a)	$(160)	$1,328
Tax expense (benefit)	62	(511)
Net of tax	$(98)	$817
Pension benefits		
Amortization of prior service cost	$—	$3
Amortization of actuarial loss	2,141	2,641
Total before tax (b)	2,141	2,644
Tax benefit	(825)	(1,019)
Net of tax	$1,316	$1,625
Other	$(39)	$(9)
Tax expense	15	4
Net of tax	$(24)	$(5)

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(a) Amounts are recorded in "Materials, labor and other operating expenses (excluding depreciation)" in our Consolidated Statements of Operations.

(b) Amounts are included in the computation of net periodic pension cost. For additional information, see Note 8, Retirement and Benefit Plans.

11. 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 the actual first-in, first-out usage pattern, or market.

Inventories included the following (dollars in thousands):

	March 31, 2013	December 31, 2012
Finished goods	$156,638	$150,496
Work in process	41,989	41,575
Fiber	40,343	35,840
Other raw materials and supplies	67,782	66,573
	$306,752	$294,484

12. Property and Equipment

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

	March 31, 2013	December 31, 2012
Land	$28,821	$28,899
Buildings and improvements	264,286	260,607
Machinery and equipment	1,491,388	1,479,212
Construction in progress	59,492	46,538
	1,843,987	1,815,256
Less accumulated depreciation	(629,202)	(592,255)
	$1,214,785	$1,223,001

Depreciation expense for the three months ended March 31, 2013 and 2012, was $38.7 million and $32.7 million, respectively.

We periodically assess the estimated useful lives of our assets. Changes in circumstances, such as changes to our operational or capital strategy, changes in regulation, or technological advances, may result in the actual useful lives differing from our estimates. Revisions to the estimated useful lives of assets requires judgment and constitutes a change in accounting estimate, which is accounted for prospectively by adjusting or accelerating depreciation and amortization rates. During the three months ended March 31, 2013, we recognized $5.3 million of incremental depreciation expense related to shortening the useful lives of some of our assets, primarily at International Falls, Minnesota. See Note 19, Subsequent Events, for more information.

13. Leases

We lease some of our locations, as well as other property and equipment, under operating leases. 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. Rental expense for operating leases was $6.9 million and $7.0 million for the three months ended March 31, 2013 and 2012, respectively. Sublease rental income was not material in any of the periods presented.

14. Concentrations of Risk

Business

Our largest customer is OfficeMax Incorporated (OfficeMax). Although we expect our long-term business relationship with OfficeMax to continue, the relationship exposes us to a significant concentration of business and financial risk. Sales to OfficeMax were $117.7 million and $130.0 million, respectively, during the three months ended March 31, 2013 and 2012, representing 19% and 20% of total sales for those periods. At March 31, 2013, and December 31, 2012, we had $35.8 million and $39.5 million, respectively, of accounts receivable due from OfficeMax, which represents 14% and 16%, respectively, of our total company receivables.

On February 20, 2013, OfficeMax announced it had signed a definitive merger agreement with its competitor, Office Depot. Our paper purchase agreement with OfficeMax provides that it would survive the merger with respect to the office paper requirements of the legacy OfficeMax business. We cannot predict how the merger, if finalized, would affect the financial condition of the combined company, the paper requirements of the legacy OfficeMax business, or the effects the combined company would have on the pricing and competition for office papers. Significant reductions in paper purchases from OfficeMax (or the post-merger entity) 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 (or the post-merger entity) affecting the ability to pay or causing a significant change in the willingness 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 liquidity.

Labor

At March 31, 2013, we had approximately 5,200 employees, and approximately 50% of these employees worked pursuant to collective bargaining agreements. Approximately 3% of our employees work pursuant to collective bargaining agreements that will expire within the next 12 months.

15. Transactions With Related Party

Related-Party Sales

Louisiana Timber Procurement Company, L.L.C. (LTP) is a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade Holdings, L.L.C. (Boise Cascade). LTP procures sawtimber, pulpwood, residual chips, and other residual wood fiber to meet the wood and fiber requirements of Boise Inc. and Boise Cascade in Louisiana. 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. The carrying amounts of LTP's assets and liabilities (which relate primarily to noninventory working capital items) on our Consolidated Balance Sheets were $4.6 million and $4.0 million at March 31, 2013, and December 31, 2012, respectively. During the three months ended March 31, 2013 and 2012, we recorded $15.7 million and $11.3 million, respectively, of LTP sales to Boise Cascade in "Sales, Related party" in the Consolidated Statements of Operations and approximately the same amount of expenses in "Materials, labor, and other operating expenses (excluding depreciation)." The sales were at prices designed to approximate market prices.

Related-Party Costs and Expenses

During the three months ended March 31, 2013 and 2012, fiber purchases from a related party were $6.1 million and $4.9 million, respectively. Most of these purchases related to log and chip purchases by LTP from Boise Cascade's wood products business. Costs associated with these purchases were recorded as "Fiber costs from related party" in the Consolidated Statements of Operations.

16. Segment Information

We operate and report our business in three reportable segments: Packaging, Paper, and Corporate and Other (support services). These segments represent distinct businesses that are managed separately because of differing products and services. Each of these businesses requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments. 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 17, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

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

	Sales						
Three Months Ended March 31, 2013	Trade	Related Party	Inter-segment	Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion (a)	EBITDA (b)
Packaging	$270.7	$15.7	$0.7	$287.0	$0.9	$16.3	$17.2
Paper	312.9	—	19.8	332.7	19.7	26.0	45.6
Corporate and Other	7.7	—	8.5	16.3	(7.8)	1.1	(6.7)
Intersegment eliminations	—	—	(29.0)	(29.0)	—	—	—
	$591.3	$15.7	$—	$607.0	12.7	$43.4	$56.2
Interest expense					(15.4)		

Interest income	—
	$(2.7)

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Three Months Ended March 31, 2012	Sales Trade	Related Party	Inter-segment	Total	Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (b)
Packaging	$260.3	$11.3	$0.7	$272.3	$22.4	$15.5	$37.9
Paper	365.6	—	16.9	382.4	33.9	21.2	55.2
Corporate and Other	7.7	—	10.5	18.2	(6.5)	0.9	(5.7)
Intersegment eliminations	—	—	(28.0)	(28.0)	—	—	—
	$633.5	$11.3	$—	$644.8	49.9	$37.6	$87.4
Interest expense					(15.4)		
Interest income							