

OFFICEMAX INC  
Form 10-Q/A  
March 16, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q/A**

AMENDMENT NO. 1

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

For the quarterly period ended **June 30, 2004**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **1-5057**

**OFFICEMAX INCORPORATED**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of incorporation or  
organization)

**82-0100960**

(I.R.S. Employer Identification No.)

**150 Pierce Road**

**Itasca, Illinois**

(Address of principal executive offices)

**60143**

(Zip Code)

**(630) 773-5000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes  No

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

<b>Class</b>	<b>Shares Outstanding as of July 31, 2004</b>
Common Stock, \$2.50 par value	88,041,342

---

**OFFICEMAX INCORPORATED**

**FORM 10-Q/A**

**INTRODUCTORY NOTE**

This Amendment No. 1 to quarterly report on Form 10-Q/A ( Form 10-Q/A ) is being filed to amend the company's quarterly report on Form 10-Q for the quarter ended June 30, 2004, which was originally filed on August 5, 2004 ( Original Form 10-Q ). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-Q/A contains the complete text of Items 1, 2 and 4 of Part I and Item 6 of Part II, as amended, as well as certain currently dated certifications. Unaffected items have not been repeated in this Amendment No. 1.

Based on the results of an investigation into the company's accounting for vendor income that began in the fourth quarter of 2004, the company concluded in February 2005 that it overstated operating income in the first quarter of 2004 by \$7.1 million and understated operating income by \$1.1 million and \$1.7 million in the second and third quarters of 2004, respectively. Net income was overstated by \$4.3 million in the first quarter of 2004 and understated by \$0.7 million and \$1.0 million in the second and third quarters of 2004, respectively. For the six months ended June 30, 2004, operating income was overstated by \$6.0 million and net income was overstated by \$3.6 million. The company's financial statements as of and for the year ended December 31, 2003, were not materially impacted. See Note 24 to the accompanying consolidated financial statements for a discussion of the adjustment.

Other than the change in our company name, as mentioned below, this Amendment No. 1 does not reflect events occurring after the filing of the Original Form 10-Q, which was filed on August 5, 2004. Such events include, among others, the events described in the company's quarterly report on Form 10-Q for the quarter ended September 30, 2004, and the events described in the company's current reports on Form 8-K filed after the filing of the Original Form 10-Q. This Amendment No. 1 is effective for all purposes as of August 5, 2004.

On October 29, 2004, we sold our paper, forest products and timberland assets to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC. In connection with the sale, we changed our company's name from Boise Cascade Corporation to OfficeMax Incorporated, and the names of our office products segments were changed from Boise Office Solutions to OfficeMax, Contract and OfficeMax, Retail. The Boise Cascade Corporation and Boise Office Solutions names were used in documents furnished to or filed with the Securities and Exchange Commission prior to the sale. The new names of our company and of our office products segments have been used in this Form 10-Q/A, where applicable.

TABLE OF CONTENTS

**PART I - FINANCIAL INFORMATION**

<u>Item 1.</u>	<u>Financial Statements (Restated)</u>	<u>4</u>
	<u>Notes to Quarterly Consolidated Financial Statements (Restated and Unaudited)</u>	<u>9</u>
	<u>1. Basis of Presentation</u>	<u>9</u>
	<u>2. OfficeMax, Inc. Acquisition</u>	<u>9</u>
	<u>3. OfficeMax, Inc. Integration</u>	<u>10</u>
	<u>4. Net Income (Loss) Per Common Share</u>	<u>12</u>
	<u>5. Stock-Based Compensation</u>	<u>14</u>
	<u>6. Other (Income) Expense, Net</u>	<u>15</u>
	<u>7. Income Taxes</u>	<u>15</u>
	<u>8. Comprehensive Income (Loss)</u>	<u>16</u>
	<u>9. Accounting Changes</u>	<u>16</u>
	<u>10. Receivables</u>	<u>17</u>
	<u>11. Investments in Equity Affiliates</u>	<u>17</u>
	<u>12. Inventories</u>	<u>17</u>
	<u>13. Deferred Software Costs</u>	<u>17</u>
	<u>14. Goodwill and Intangible Assets</u>	<u>18</u>
	<u>15. Debt</u>	<u>19</u>
	<u>16. Financial Instruments</u>	<u>20</u>
	<u>17. Retirement and Benefit Plans</u>	<u>21</u>
	<u>18. 2003 Cost-Reduction Program</u>	<u>22</u>
	<u>19. Recently Adopted Accounting Standards</u>	<u>23</u>
	<u>20. Segment Information</u>	<u>24</u>
	<u>21. Commitments and Guarantees</u>	<u>25</u>
	<u>22. Legal Proceedings and Contingencies</u>	<u>26</u>
	<u>23. Subsequent Event</u>	<u>26</u>
	<u>24. Restatement of Previously Issued Financial Statements</u>	<u>26</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations (Restated)</u>	<u>29</u>
	<u>Summary and Outlook</u>	<u>29</u>
	<u>Results of Operations, Consolidated</u>	<u>34</u>
	<u>OfficeMax, Contract</u>	<u>36</u>
	<u>OfficeMax, Retail</u>	<u>38</u>
	<u>Boise Building Solutions</u>	<u>39</u>
	<u>Boise Paper Solutions</u>	<u>40</u>
	<u>Liquidity and Capital Resources</u>	<u>41</u>
	<u>Timber Supply and Environmental Issues</u>	<u>44</u>
	<u>Critical Accounting Estimates</u>	<u>45</u>
	<u>Cautionary and Forward-Looking Statements</u>	<u>45</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>47</u>

**PART II - OTHER INFORMATION**

<u>Item 6.</u>	<u>Exhibits and Reports on Form 8-K</u>	<u>48</u>
----------------	---	-----------

## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

**OfficeMax Incorporated and Subsidiaries**  
**Consolidated Statements of Income (Loss)**  
(thousands, except per-share amounts)

	Three Months Ended June 30	
	2004 (Restated)	2003 (unaudited)
<b>Sales</b>	\$ 3,401,189	\$ 1,928,984
<b>Costs and expenses</b>		
Materials, labor, and other operating expenses	2,672,317	1,578,445
Depreciation, amortization, and cost of company timber harvested	100,693	73,730
Selling and distribution expenses	478,015	217,472
General and administrative expenses	73,739	35,297
Other (income) expense, net	(43,946)	1,836
	3,280,818	1,906,780
<b>Equity in net income of affiliates</b>	1,244	474
<b>Income from operations</b>	121,615	22,678
Interest expense	(40,432)	(31,063)
Interest income	450	318
Foreign exchange gain (loss)	(524)	1,860
	(40,506)	(28,885)
<b>Income (loss) before income taxes and minority interest</b>	81,109	(6,207)
Income tax (provision) benefit	(29,632)	2,273
<b>Income (loss) before minority interest</b>	51,477	(3,934)
Minority interest, net of income tax	(406)	
<b>Net income (loss)</b>	<b>51,071</b>	<b>(3,934)</b>
Preferred dividends	(3,168)	(3,287)
<b>Net income (loss) applicable to common shareholders</b>	\$ 47,903	\$ (7,221)
<b>Net income (loss) per common share</b>		
Basic	\$ 0.55	\$ (0.12)
Diluted	\$ 0.53	\$ (0.12)

See accompanying notes to consolidated financial statements.



**OfficeMax Incorporated and Subsidiaries**  
**Consolidated Statements of Income (Loss)**  
(thousands, except per-share amounts)

	Six Months Ended June 30	
	2004 (Restated)	2003 (unaudited)
<b>Sales</b>	\$ 6,930,843	\$ 3,782,227
<b>Costs and expenses</b>		
Materials, labor, and other operating expenses	5,441,876	3,093,634
Depreciation, amortization, and cost of company timber harvested	199,042	149,312
Selling and distribution expenses	984,447	431,634
General and administrative expenses	146,628	70,670
Other (income) expense, net	(90,607)	12,988
	6,681,386	3,758,238
<b>Equity in net income of affiliates</b>	6,311	415
<b>Income from operations</b>	255,768	24,404
Interest expense	(81,084)	(63,254)
Interest income	934	432
Foreign exchange gain (loss)	(344)	2,816
	(80,494)	(60,006)
<b>Income (loss) before income taxes, minority interest, and cumulative effect of accounting changes</b>	175,274	(35,602)
Income tax (provision) benefit	(63,832)	12,925
<b>Income (loss) before minority interest and cumulative effect of accounting changes</b>	111,442	(22,677)
Minority interest, net of income tax	(1,248)	
<b>Income (loss) before cumulative effect of accounting changes</b>	110,194	(22,677)
Cumulative effect of accounting changes, net of income tax		(8,803)
<b>Net income (loss)</b>	<b>110,194</b>	<b>(31,480)</b>
Preferred dividends	(6,534)	(6,553)
<b>Net income (loss) applicable to common shareholders</b>	\$ 103,660	\$ (38,033)
<b>Net income (loss) per common share</b>		
Basic before cumulative effect of accounting changes	\$ 1.20	\$ (0.50)
Cumulative effect of accounting changes, net of income tax		(0.15)
<b>Basic</b>	<b>\$ 1.20</b>	<b>\$ (0.65)</b>
Diluted before cumulative effect of accounting changes	\$ 1.14	\$ (0.50)
Cumulative effect of accounting changes, net of income tax		(0.15)
<b>Diluted</b>	<b>\$ 1.14</b>	<b>\$ (0.65)</b>

See accompanying notes to consolidated financial statements.

**OfficeMax Incorporated and Subsidiaries**  
**Consolidated Balance Sheets**  
(thousands)

	2004 (Restated)	June 30 (unaudited)	2003	December 31 2003
<b>ASSETS</b>				
<b>Current</b>				
Cash and cash equivalents	\$ 180,194	\$ 98,240	\$ 124,879	\$ 124,879
Receivables, less allowances of \$9,839, \$14,338, and \$10,865	747,927	503,264	574,219	574,219
Inventories	1,591,822	648,831	1,609,811	1,609,811
Deferred income taxes	138,542	62,262	132,235	132,235
Other	68,868	41,485	60,148	60,148
	2,727,353	1,354,082	2,501,292	2,501,292
<b>Property</b>				
Property and equipment				
Land and land improvements	87,145	72,887	87,703	87,703
Buildings and improvements	909,404	749,141	890,871	890,871
Machinery and equipment	4,996,946	4,717,286	4,905,012	4,905,012
	5,993,495	5,539,314	5,883,586	5,883,586
Accumulated depreciation	(3,214,651)	(3,008,395)	(3,058,527)	(3,058,527)
	2,778,844	2,530,919	2,825,059	2,825,059
Timber, timberlands, and timber deposits	303,052	321,414	330,667	330,667
	3,081,896	2,852,333	3,155,726	3,155,726
<b>Goodwill</b>	1,135,016	421,648	1,107,292	1,107,292
<b>Intangible assets, net</b>	210,353	25,557	218,196	218,196
<b>Investments in equity affiliates</b>	85	35,980	44,335	44,335
<b>Other assets</b>	335,678	300,265	349,318	349,318
<b>Total assets</b>	<b>\$ 7,490,381</b>	<b>\$ 4,989,865</b>	<b>\$ 7,376,159</b>	<b>\$ 7,376,159</b>

See accompanying notes to consolidated financial statements.

**OfficeMax Incorporated and Subsidiaries**  
**Consolidated Balance Sheets**  
(thousands, except share amounts)

	2004 (Restated)	June 30 (unaudited)	2003	December 31 2003
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>				
<b>Current</b>				
Short-term borrowings	\$ 49,547	\$ 1,000	\$ 5,188	\$ 5,188
Current portion of long-term debt	667,257	75,485	83,016	83,016
Income taxes payable		8,586	694	694
Accounts payable	1,100,138	558,896	1,255,303	1,255,303
Accrued liabilities				
Compensation and benefits	292,058	205,700	317,934	317,934
Interest payable	30,572	25,167	34,130	34,130
Other	387,243	124,864	280,646	280,646
	2,526,815	999,698	1,976,911	1,976,911
<b>Debt</b>				
Long-term debt, less current portion	1,419,457	1,494,410	1,999,876	1,999,876
Adjustable conversion-rate equity security units	172,500	172,500	172,500	172,500
Guarantee of ESOP debt		40,504	19,087	19,087
	1,591,957	1,707,414	2,191,463	2,191,463
<b>Other</b>				
Deferred income taxes	92,656	153,654	43,311	43,311
Compensation and benefits	573,677	672,411	564,331	564,331
Other long-term liabilities	245,057	57,133	256,355	256,355
	911,390	883,198	863,997	863,997
<b>Minority interest</b>	21,674		20,154	20,154
<b>Commitments and contingent liabilities</b>				
<b>Shareholders equity</b>				
Preferred stock no par value; 10,000,000 shares authorized;				
Series D ESOP: \$.01 stated value; 4,002,031, 4,146,255, and 4,117,827 shares outstanding	180,091	186,581	185,302	185,302
Deferred ESOP benefit		(40,504)	(19,087)	(19,087)
Common stock \$2.50 par value; 200,000,000 shares authorized; 87,914,957; 58,313,553, and 87,137,306 shares outstanding	216,786	145,784	214,805	214,805
Additional paid-in capital	1,263,912	475,215	1,228,694	1,228,694
Retained earnings	979,023	905,308	907,738	907,738
Accumulated other comprehensive loss	(201,267)	(272,829)	(193,818)	(193,818)
<b>Total shareholders equity</b>	2,438,545	1,399,555	2,323,634	2,323,634
<b>Total liabilities and shareholders equity</b>	\$ 7,490,381	\$ 4,989,865	\$ 7,376,159	\$ 7,376,159

See accompanying notes to consolidated financial statements.

**OfficeMax Incorporated and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
(thousands)

	2004 (Restated)	Six Months Ended June 30 (unaudited)	2003
<b>Cash provided by (used for) operations</b>			
Net income (loss)	\$	110,194	\$ (31,480)
Items in net income (loss) not using (providing) cash Equity in net income of affiliates		(6,311)	(415)
Depreciation, amortization, and cost of company timber harvested		199,042	149,312
Deferred income tax provision (benefit)		51,109	(19,971)
Minority interest, net of income tax		1,248	
Gain on sale of assets		(106,660)	
Pension and other postretirement benefits expense		48,971	41,092
Cumulative effect of accounting changes, net of income tax			8,803
Other		13,055	(2,816)
Receivables		(165,063)	(68,899)
Inventories		16,831	61,384
Accounts payable and accrued liabilities		(91,986)	18,912
Current and deferred income taxes		(12,557)	(7,499)
Pension and other postretirement benefits payments		(32,481)	(24,488)
Other		(42,226)	24,905
Cash provided by (used for) operations		(16,834)	148,840
<b>Cash provided by (used for) investment</b>			
Expenditures for property and equipment		(146,772)	(108,001)
Expenditures for timber and timberlands		(4,569)	(4,264)
Proceeds from equity affiliates		20	76
Sale of assets		186,946	
Other		(330)	(3,460)
Cash provided by (used for) investment		35,295	(115,649)
<b>Cash provided by (used for) financing</b>			
Cash dividends paid			
Common stock		(25,825)	(17,486)
Preferred stock		(6,773)	(7,006)
		(32,598)	(24,492)
Short-term borrowings		44,359	(27,000)
Additions to long-term debt		70,098	147,363
Payments of long-term debt		(64,418)	(90,568)
Other		19,413	(5,406)
Cash provided by (used for) financing		36,854	(103)
<b>Increase in cash and cash equivalents</b>		<b>55,315</b>	<b>33,088</b>
<b>Balance at beginning of the year</b>		<b>124,879</b>	<b>65,152</b>
<b>Balance at June 30</b>	<b>\$</b>	<b>180,194</b>	<b>\$ 98,240</b>

See accompanying notes to consolidated financial statements.

*Notes to Quarterly Consolidated Financial Statements (Restated and Unaudited - See Note 24, Restatement of Previously Issued Financial Statements, for a discussion of the Restatement.)*

**1. Basis of Presentation**

We have prepared the quarterly consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Some information and footnote disclosures, which would normally be included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. These statements should be read together with the consolidated statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2003.

The quarterly consolidated financial statements have not been audited by an independent registered public accounting firm, but in the opinion of management, we have included all adjustments necessary to present fairly the results for the periods. Net income (loss) for the three and six months ended June 30, 2004 and 2003, involved estimates and accruals. Actual results may vary from those estimates. Except as may be disclosed within these Notes to Quarterly Consolidated Financial Statements, the adjustments made were of a normal, recurring nature. Quarterly results are not necessarily indicative of results that may be expected for the year.

Certain amounts in prior years' financial statements have been reclassified to conform with the current year's presentation. These reclassifications did not affect net income (loss).

**2. OfficeMax, Inc. Acquisition**

On December 9, 2003, we completed our acquisition of OfficeMax, Inc. We acquired 100% of the voting equity interest. OfficeMax, Inc. is now a subsidiary of OfficeMax Incorporated, and the results of OfficeMax, Inc.'s operations after December 9, 2003, are included in our consolidated financial statements. OfficeMax, Inc. is a retail distributor of office supplies and paper, technology products, and office furniture. Our OfficeMax, Inc. superstores feature CopyMax® and FurnitureMax® in-store modules devoted to print-for-pay services and office furniture. OfficeMax, Inc. has operations in the United States, Puerto Rico, and the U.S. Virgin Islands and a 51%-owned joint venture in Mexico.

The aggregate consideration paid for the acquisition was as follows:

	(thousands)	
Fair value of common stock issued	\$	808,172
Cash consideration for OfficeMax, Inc. common shares exchanged		486,738
Transaction costs		20,000

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

	1,314,910
Debt assumed	81,627
	<b>\$ 1,396,537</b>

We summarized the estimated fair values of assets acquired and liabilities assumed for the OfficeMax, Inc. acquisition in Note 2, OfficeMax Acquisition, in Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on Form 10-K. The initial purchase price allocations may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. During the six months ended June 30, 2004, we recorded \$34.9 million of purchase price adjustments that increased the recorded amount of goodwill. The adjustments were related to adjustments to the recorded amounts of accounts receivable, fair value adjustments and liability accruals as well as severance accruals for the consolidation of one OfficeMax, Inc. customer service center and consolidation of headquarters administrative staff.

**Pro Forma Financial Information**

The following table summarizes unaudited pro forma financial information assuming we had acquired OfficeMax, Inc. on January 1, 2003. The unaudited pro forma financial information uses OfficeMax, Inc.'s data for the months corresponding to our June 30 period-end. This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations or financial position. We have not finalized our integration plans. Accordingly, this pro forma information does not include all costs related to the integration. When the costs are determined, they will either increase the amount of goodwill recorded or decrease net income, depending on the nature of the costs. We also expect to realize operating synergies. Synergies will come from offering more products and services across more customer channels, purchasing leverage from increased scale, and reduced costs in logistics, marketing, and administration. The pro forma information does not reflect these potential expenses and synergies.

	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30, 2003</b>
	<b>(thousands, except per-share amounts)</b>	
Sales	\$ 3,018,410	\$ 6,171,745
Net loss before cumulative effect of accounting changes	\$ (19,523)	\$ (28,369)
Cumulative effect of accounting changes, net of income tax		(8,803)
Net loss	<b>\$ (19,523)</b>	<b>\$ (37,172)</b>
Net loss per common share		
Basic and diluted before cumulative effect of accounting changes	\$ (0.27)	\$ (0.41)
Cumulative effect of accounting changes, net of income tax		(0.10)
Basic and diluted	<b>\$ (0.27)</b>	<b>\$ (0.51)</b>

**3. OfficeMax, Inc. Integration****Integration Charges**

Increased scale as a result of the OfficeMax, Inc. acquisition has allowed us to evaluate the combined office products business to determine what opportunities for consolidating operations may be appropriate. Closures or consolidation of acquired facilities identified in the integration planning process are accounted for as exit activities in connection with the acquisition and charged to goodwill. Charges for all other closures and consolidations have been recognized in our Consolidated Statements of Income.

During the three and six months ended June 30, 2004, we charged approximately \$8.3 million and \$17.2 million of integration costs to our Consolidated Statements of Income. Integration costs occurred primarily in the contract segment as the business consolidated distribution centers, customer service centers, and administrative staff. For the three and six months ended June 30, 2004, approximately \$2.2 million and \$8.3 million of the costs are included in Other (income) expense, net, and \$6.1 million and \$8.9 million are included in Selling and distribution expenses. They are as follows:



	<b>Three Months Ended June 30, 2004</b>		<b>Six Months Ended June 30, 2004</b>
	(thousands)		
Severance	\$ 1,170	\$	5,792
Lease termination costs	1,049		1,049
Vendor transition costs	1,234		1,234
Professional fees	2,181		3,614
Payroll, benefits, and travel	1,295		2,220
Write-down of long-lived assets			1,444
Other integration costs	1,398		1,854
	<b>\$ 8,327</b>	<b>\$</b>	<b>17,207</b>

### *Facility Closure Reserves*

During second quarter 2004, we closed three U.S. distribution centers and two customer service centers, eliminating approximately 345 employee positions. We expect to close three more distribution centers during third quarter 2004. At June 30, 2004, we had accrued for approximately \$6.3 million of costs associated with these closures in our Consolidated Balance Sheet. We are working on a plan to reduce the total number of U.S. distribution centers from 59 at December 31, 2003, to 25 to 30 by the end of 2006. We will account for the additional closures when management formalizes its plans. When the costs are determined, they will either increase the amount of goodwill recorded or decrease net income.

Prior to our acquisition of OfficeMax, Inc., OfficeMax, Inc. had identified and closed underperforming facilities. As part of our purchase price allocation, at December 31, 2003, we had \$58.7 million of reserves recorded for the estimated fair value of future liabilities associated with these closures. These reserves related primarily to future lease termination costs, net of estimated sublease income. Most of the expenditures for these facilities will be made over the remaining lives of the operating leases, which range from three to 16 years. At June 30, 2004, the remaining reserve in our Consolidated Balance Sheet was \$57.4 million.

In addition to these store closures, at December 31, 2003, we identified 45 OfficeMax, Inc. facilities that were no longer strategically or economically viable. In accordance with the provisions of Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Connection With a Purchase Business Combination, at December 31, 2003, we had \$69.4 million of reserves recorded in our Consolidated Balance Sheet. We closed these stores during first quarter 2004, eliminating approximately 995 employee positions, of which approximately 310 people were offered transfers to other stores. These charges were accounted for as exit activities in connection with the acquisition, and we did not recognize a charge to income in our Consolidated Statements of Income. Most of the cash expenditures for the facilities described above will be made over the remaining lives of the operating leases, which range from one month to 12 years. At June 30, 2004, the remaining reserve in our Consolidated Balance Sheet was \$58.1 million.

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

At June 30, 2004, approximately \$36.1 million of the facility closure reserve liability was included in Accrued liabilities, other, and \$85.7 million was included in Other long-term liabilities. Facility closure reserve account activity was as follows:

	Lease Termination Costs	Severance  (thousands)	Other	Total
Facility closure reserve at December 31, 2003	\$ 126,922	\$ 794	\$ 412	\$ 128,128
Costs incurred and charged to expense/goodwill	4,075	3,440		7,515
Charges against the reserve	(12,799)	(1,043)	(2)	(13,844)
	<b>\$ 118,198</b>	<b>\$ 3,191</b>	<b>\$ 410</b>	<b>\$ 121,799</b>

4. *Net Income (Loss) Per Common Share*

Net income (loss) per common share was determined by dividing net income (loss), as adjusted, by weighted average shares outstanding. For the three and six months ended June 30, 2003, the computation of diluted loss per share was antidilutive; therefore, the amounts reported for basic and diluted loss were the same.

	Three Months Ended June 30		Six Months Ended June 30	
	2004 (Restated)	2003	2004 (Restated)	2003
	(thousands, except per-share amounts)			
<b>Basic</b>				
Income (loss) before cumulative effect of accounting changes	\$ 51,071	\$ (3,934)	\$ 110,194	\$ (22,677)
Preferred dividends (a)	(3,168)	(3,287)	(6,534)	(6,553)
Basic income (loss) before cumulative effect of accounting changes	47,903	(7,221)	103,660	(29,230)
Cumulative effect of accounting changes, net of income tax				(8,803)
Basic income (loss)	<b>\$ 47,903</b>	<b>\$ (7,221)</b>	<b>\$ 103,660</b>	<b>\$ (38,033)</b>
Average shares used to determine basic income (loss) per common share	<b>86,474</b>	<b>58,300</b>	<b>86,275</b>	<b>58,295</b>
Basic income (loss) per common share before cumulative effect of accounting changes	\$ 0.55	\$ (0.12)	\$ 1.20	\$ (0.50)
Cumulative effect of accounting changes, net of income tax				(0.15)
Basic income (loss) per common share	<b>\$ 0.55</b>	<b>\$ (0.12)</b>	<b>\$ 1.20</b>	<b>\$ (0.65)</b>



Edgar Filing: OFFICEMAX INC - Form 10-Q/A

	Three Months Ended June 30		Six Months Ended June 30	
	2004 (Restated)	2003	2004 (Restated)	2003
(thousands, except per-share amounts)				
<b>Diluted</b>				
Basic income (loss) before cumulative effect of accounting changes	\$ 47,903	\$ (7,221)	\$ 103,660	\$ (29,230)
Preferred dividends eliminated	3,168		6,534	
Supplemental ESOP contribution	(2,869)		(5,932)	
Diluted income (loss) before cumulative effect of accounting changes	48,202	(7,221)	104,262	(29,230)
Cumulative effect of accounting changes, net of income tax				(8,803)
Diluted income (loss) (b)	\$ 48,202	\$ (7,221)	\$ 104,262	\$ (38,033)
Average shares used to determine basic income (loss) per common share	86,474	58,300	86,275	58,295
Restricted stock, stock options, and other	1,976		1,929	
Series D Convertible Preferred Stock	3,252		3,281	
Average shares used to determine diluted income (loss) per common share (b) (c)	91,702	58,300	91,485	58,295
Diluted income (loss) per common share before cumulative effect of accounting changes	\$ 0.53	\$ (0.12)	\$ 1.14	\$ (0.50)
Cumulative effect of accounting changes, net of income tax				(0.15)
Diluted income (loss) per common share	\$ 0.53	\$ (0.12)	\$ 1.14	\$ (0.65)

(a) The dividend attributable to our Series D Convertible Preferred Stock held by our employee stock ownership plan (ESOP) is net of a tax benefit.

(b) Adjustments totaling \$0.3 million for the three months ended June 30, 2003, which would have reduced the basic loss to arrive at diluted loss, were excluded because the calculation of diluted loss per share was antidilutive. Also, for the three months ended June 30, 2003, potentially dilutive common shares of 3.5 million were excluded from average shares because they were antidilutive.

Adjustments totaling \$0.6 million for the six months ended June 30, 2003, which would have reduced the basic loss to arrive at diluted loss, were excluded because the calculation of diluted loss per share was antidilutive. Also, for the six months ended June 30, 2003, potentially dilutive common shares of 3.6 million were excluded from average shares because they were antidilutive.

(c) Options to purchase 3.2 million and 8.6 million shares of common stock were outstanding during the three months ended June 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the exercise prices of the options were greater than the average market price of the common shares. Forward contracts to purchase 4.9 million and 5.4 million shares of common stock were outstanding during the three months ended June 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the securities were not dilutive under the treasury stock method. These forward contracts are related to our adjustable conversion-rate equity security units.

Options to purchase 3.5 million and 8.5 million shares of common stock were outstanding during the six months ended June 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the exercise prices of the options were greater than the average market price of the common shares. Forward contracts to purchase 5.0 million and 5.4 million shares of common stock were outstanding during the six months ended June 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the securities were not dilutive under the treasury stock method. These forward contracts are related to our adjustable conversion-rate equity security units.

## 5. *Stock-Based Compensation*

In 2003, we adopted the fair-value-based method of accounting for stock-based employee compensation under the provisions of Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. We used the prospective method of transition for all employee awards granted on or after January 1, 2003. Awards under our plans vest over periods up to three years. Therefore, the cost related to stock-based employee compensation included in the determination of our net loss in 2003 is less than that which would have been recognized if the fair-value-based method had been applied to all awards since the original effective date of SFAS No. 123, Accounting for Stock-Based Compensation. During the three and six months ended June 30, 2004, in our Consolidated Statements of Income, we recognized \$7.2 million and \$13.0 million of pretax compensation expense, of which \$7.0 million and \$12.7 million related to restricted stock.

The following table illustrates the effect on net income (loss) and net income (loss) per share if we had applied the fair-value-based method to all outstanding and unvested awards in 2003.

	Three Months Ended June 30		Six Months Ended June 30	
	2004 (Restated)	2003	2004 (Restated)	2003
	(thousands, except per-share amounts)			
Reported net income (loss)	\$ 51,071	\$ (3,934)	\$ 110,194	\$ (31,480)
Add: Total stock-based employee compensation expense included in reported net income (loss), net of related tax effects	4,380	57	7,917	92
Deduct: Total stock-based employee compensation expense determined under the fair value method, for all awards, net of related tax effects	(4,380)	(2,218)	(7,917)	(4,414)
Pro forma net income (loss)	<b>51,071</b>	<b>(6,095)</b>	<b>110,194</b>	<b>(35,802)</b>
Preferred dividends	(3,168)	(3,287)	(6,534)	(6,553)
Pro forma net income (loss) applicable to common shareholders	\$ 47,903	\$ (9,382)	\$ 103,660	\$ (42,355)
Basic and diluted income (loss) per share				
Basic				
As reported	\$ 0.55	\$ (0.12)	\$ 1.20	\$ (0.65)
Pro forma	0.55	(0.16)	1.20	(0.73)

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

Diluted							
As reported	\$	0.53	\$	(0.12)	\$	1.14	\$ (0.65)
Pro forma		0.53		(0.16)		1.14	(0.73)

To calculate stock-based employee compensation expense under SFAS No.123, we estimated the fair value of each option grant on the date of grant, using the Black-Scholes option pricing model with the

following weighted average assumptions used for grants in 2003 and 2002: risk-free interest rates of 4.0%, expected dividends of 15 cents per share per quarter, expected lives of 4.3 years in both periods, and expected stock price volatility of 40%. No options were granted during the three and six months ended June 30, 2004.

We calculate compensation expense for restricted stock awards based on the fair value of OfficeMax's stock on the date of grant. We recognize the expense over the vesting period. For more information, see Note 14, Shareholders' Equity, in our 2003 Annual Report on Form 10-K.

## 6. *Other (Income) Expense, Net*

Other (income) expense, net includes miscellaneous income and expense items. The components of Other (income) expense, net in the Consolidated Statements of Income (Loss) are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
	(thousands)			
Sale of interest in Voyageur Panel (Note 11)	\$ (46,498)	\$	\$ (46,498)	\$
OfficeMax integration costs (Note 3)	2,219		8,285	
Sale of timberlands (a)			(59,915)	
Sale of plywood and lumber operations (b)			7,123	
Cost-reduction program (Note 18)				10,114
Sales of receivables	956	832	1,900	1,691
Other, net	(623)	1,004	(1,502)	1,183
	<b>\$ (43,946)</b>	<b>\$ 1,836</b>	<b>\$ (90,607)</b>	<b>\$ 12,988</b>

(a) In March 2004, we sold approximately 79,000 acres of timberland in western Louisiana for \$84 million and recorded a \$59.9 million pretax gain in our Consolidated Statement of Income for the six months ended June 30, 2004.

(b) In February 2004, we sold our plywood and lumber facilities in Yakima, Washington. In connection with the sale, we recorded \$7.1 million of costs in Other (income) expense, net in our Consolidated Statement of Income for the six months ended June 30, 2004. However, the sale also resulted in a \$7.4 million reduction in our estimated LIFO reserve, which we recorded in Materials, labor, and other operating expenses.

## 7. *Income Taxes*

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

Our estimated tax provision rate for the six months ended June 30, 2004, was 36.4%, compared with an effective tax benefit rate of 36.3% for the six months ended June 30, 2003. Changes in estimated tax rates are due to the sensitivity of the rates to changing income levels and the mix of domestic and foreign sources of income.

For the three and six months ended June 30, 2004, we paid income taxes, net of refunds received, of \$9.8 million and \$15.7 million. We paid \$5.3 million and \$22.4 million for the same periods in 2003.

## 8. *Comprehensive Income (Loss)*

Comprehensive income (loss) for the periods included the following:

	Three Months Ended June 30		Six Months Ended June 30	
	2004 (Restated)	2003	2004 (Restated)	2003
	(thousands)			
Net income (loss)	\$ 51,071	\$ (3,934)	\$ 110,194	\$ (31,480)
Other comprehensive income (loss)				
Cumulative foreign currency translation adjustment	(14,331)	13,950	(9,853)	24,523
Cash flow hedges	1,705	1,719	2,404	1,385
Comprehensive income (loss), net of income taxes	\$ 38,445	\$ 11,735	\$ 102,745	\$ (5,572)

## 9. *Accounting Changes*

### *Asset Retirement Obligations*

Effective January 1, 2003, we adopted the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations, which affects the way we account for landfill closure costs. This statement requires us to record an asset and a liability (discounted) for estimated closure and closed-site monitoring costs and to depreciate the asset over the landfill's expected useful life. Previously, we accrued for the closure costs over the life of the landfill and expensed monitoring costs as incurred. Effective January 1, 2003, we recorded a one-time after-tax charge of \$4.1 million, or 7 cents per share, as a cumulative-effect adjustment for the difference between the amounts recognized in our consolidated financial statements prior to the adoption of this statement and the amount recognized after adopting the provisions of SFAS No. 143.

We record liabilities when assessments and/or remedial efforts are probable and the cost can be reasonably estimated. These liabilities are based on the best estimate of current costs and are updated periodically to reflect current technology, laws and regulations, inflation, and other economic factors.

### *Vendor Rebates and Allowances*

We participate in various cooperative advertising and other vendor marketing programs with our vendors. We also participate in various volume purchase rebate programs. Effective January 1, 2003, we adopted an accounting change for vendor allowances to comply with the guidelines issued by the Financial Accounting Standards Board's (FASB) EITF 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor. Under EITF 02-16, consideration received from a vendor is presumed to be a reduction of the cost of

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

the vendor's products or services, unless it is for a specific incremental cost to sell the product. In addition, under the new guidance, vendor allowances reside in inventory with the product and are recognized when the product is sold, changing the timing of our recognition of these items. For the six months ended June 30, 2003, this change resulted in a one-time, noncash, after-tax charge of \$4.7 million, or 8 cents per share.

**10. Receivables**

We have sold fractional ownership interests in a defined pool of trade accounts receivable. At June 30, 2004, \$300 million of sold accounts receivable were excluded from Receivables in our Consolidated Balance Sheet, compared with \$200 million excluded at June 30, 2003, and \$250 million excluded at December 31, 2003. The portion of fractional ownership interest we retain is included in Receivables in the Consolidated Balance Sheets. The increase at June 30, 2004, in sold accounts receivable of \$50 million over the amount at December 31, 2003, provided cash from operations in 2004. This program consists of a revolving sale of receivables for 364 days and is subject to renewal. Costs related to the program are included in Other (income) expense, net in the Consolidated Statements of Income (Loss); see Note 6, Other (Income) Expense, Net. Under the accounts receivable sale agreements, the maximum amount available from time to time may not exceed \$300 million and is subject to change based on the level of eligible receivables, restrictions on concentrations of receivables, and the historical performance of the receivables.

**11. Investments in Equity Affiliates**

In May 2004, we sold our 47% interest in Voyageur Panel, which owned an oriented strand board (OSB) plant in Barwick, Ontario, Canada, to Ainsworth Lumber Co. Ltd. for \$91.2 million in cash. We recorded a \$46.5 million pretax gain in Other (income) expense, net in our Boise Building Solutions segment. This item increased net income \$28.4 million after taxes for the three and six months ended June 30, 2004.

Prior to the sale, we accounted for the joint venture under the equity method. Accordingly, segment results do not include the joint venture's sales but do include \$1.2 million and \$6.3 million of equity in earnings during the three and six months ended June 30, 2004, and \$0.4 million of equity in earnings during each of the same periods in 2003. Our investment in this venture was \$35.9 million at June 30, 2003, and \$44.2 million at December 31, 2003. We had an agreement with Voyageur Panel under which we operated the plant and marketed its product. During the three months ended June 30, 2004 and 2003, Voyageur Panel paid us sales commissions of \$0.7 million. During the six months ended June 30, 2004 and 2003, they paid us sales commissions of \$2.1 million and \$1.3 million, respectively. Management fees paid to us by Voyageur Panel were \$0.2 million and \$0.5 million during the three and six months ended June 30, 2004, and \$0.3 million and \$0.6 million during the same periods in 2003.

**12. Inventories**

Inventories include the following:

	2004 (Restated)	June 30 2003	December 31 2003
	(thousands)		
Merchandise inventories	\$ 1,261,481	\$ 313,164	\$ 1,246,058
Finished goods and work in process	204,659	201,541	210,956
Logs	19,607	24,048	51,572
Other raw materials and supplies	148,844	151,932	145,390
LIFO reserve	(42,769)	(41,854)	(44,165)

	\$	1,591,822	\$	648,831	\$	1,609,811
--	----	-----------	----	---------	----	-----------

13. *Deferred Software Costs*

We defer internal-use software costs that benefit future years. These costs are amortized on the straight-line method over the expected life of the software, typically three to five years. Other assets in

the Consolidated Balance Sheets includes deferred software costs of \$63.1 million, \$57.2 million, and \$69.1 million at June 30, 2004 and 2003, and December 31, 2003. Amortization of deferred software costs totaled \$6.1 million and \$12.0 million for the three and six months ended June 30, 2004, and \$5.7 million and \$11.4 million for the three and six months ended June 30, 2003.

#### 14. *Goodwill and Intangible Assets*

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and intangible assets of businesses acquired. In accordance with the provisions of SFAS No. 142, Goodwill and Other Intangible Assets, we assess our acquired goodwill and intangible assets with indefinite lives for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. We completed our annual assessment in accordance with the provisions of the standard during first quarter 2004, and there was no impairment.

Changes in the carrying amount of goodwill by segment are as follows:

	OfficeMax, Contract	OfficeMax, Retail (Restated)	Boise Building Solutions	Total (Restated)
	(thousands)			
Balance at December 31, 2003	\$ 487,997	\$ 607,656	\$ 11,639	\$ 1,107,292
Effect of foreign currency translation	(5,707)			(5,707)
Purchase price adjustments				
OfficeMax, Inc. acquisition (Note 2)	690	34,241		34,931
Other	(1,500)			(1,500)
Balance at June 30, 2004	\$ 481,480	\$ 641,897	\$ 11,639	\$ 1,135,016

Intangible assets represent the values assigned to trade names, customer lists and relationships, noncompete agreements, and exclusive distribution rights of businesses acquired. The trade name assets have an indefinite life and are not amortized. All other intangible assets are amortized on a straight-line basis over their expected useful lives. Customer lists and relationships are amortized over three to 20 years, noncompete agreements over three to five years, and exclusive distribution rights over ten years. Intangible assets consisted of the following:

	Gross Carrying Amount	Six Months Ended June 30, 2004 Accumulated Amortization (thousands)	Net Carrying Amount
Trade names	\$ 173,100	\$	\$ 173,100
Customer lists and relationships	31,808	(8,072)	23,736
Noncompete agreements	13,005	(1,763)	11,242
Exclusive distribution rights	3,266	(991)	2,275
	\$ 221,179	\$ (10,826)	\$ 210,353



	Gross Carrying Amount	Six Months Ended June 30, 2003 Accumulated Amortization (thousands)	Net Carrying Amount
Customer lists and relationships	\$ 28,036	\$ (5,531)	\$ 22,505
Noncompete agreements	5,157	(4,542)	615
Exclusive distribution rights	3,017	(580)	2,437
	<b>\$ 36,210</b>	<b>\$ (10,653)</b>	<b>\$ 25,557</b>

	Gross Carrying Amount	Year Ended December 31, 2003 Accumulated Amortization (thousands)	Net Carrying Amount
Trade names	\$ 177,000	\$	\$ 177,000
Customer lists and relationships	32,692	(6,936)	25,756
Noncompete agreements	17,894	(4,984)	12,910
Exclusive distribution rights	3,363	(833)	2,530
	<b>\$ 230,949</b>	<b>\$ (12,753)</b>	<b>\$ 218,196</b>

Intangible asset amortization expense totaled \$1.5 million and \$2.9 million for the three and six months ended June 30, 2004, and \$0.8 million and \$1.6 million for the three and six months ended June 30, 2003. The estimated amortization expense is \$5.5 million, \$5.5 million, \$5.4 million, \$5.3 million, \$3.9 million, and \$1.5 million in 2004, 2005, 2006, 2007, 2008, and 2009, respectively.

## 15. Debt

In March 2002, we entered into a three-year, unsecured revolving credit agreement. The agreement permits us to borrow as much as \$560 million at variable interest rates based on either the London Interbank Offered Rate (LIBOR) or the prime rate. Borrowings under the agreement were \$280 million at June 30, 2004, and were classified in current portion of long-term debt. In addition to these borrowings, \$76.5 million of letters of credit reduced our borrowing capacity at June 30, 2004, to \$203.5 million. At June 30, 2004, our borrowing rate under the revolving credit agreement, including fees, was 3.5%. We have entered into interest rate swaps to hedge the cash flow risk from the variable interest payments on \$50 million of LIBOR-based debt, which gave us an effective interest rate of 4.0% for outstanding borrowings under the revolving credit agreement at June 30, 2004. The revolving credit agreement contains customary conditions to borrowing, including compliance with financial covenants relating to minimum net worth, minimum interest coverage ratio, and ceiling ratio of debt to capitalization. At June 30, 2004, we were in compliance with these covenants. Under this agreement, the payment of dividends depends on the existence and amount of net worth in excess of the defined minimum. Our net worth at June 30, 2004, exceeded the defined minimum by \$1,096.9 million. When the agreement expires in June 2005, any amount outstanding will be due and payable.

In December 2003, we entered into a 19-month, unsecured credit agreement with 13 major financial institutions. Under the agreement, we borrowed \$150 million at variable interest rates based on either the LIBOR or the prime rate. Borrowings under the agreement were \$128 million at June 30, 2004. At June 30, 2004, our borrowing rate under the agreement was 3.4%. The credit agreement contains financial covenants that are essentially the same as those in our revolving credit agreement discussed



above, except that the terms require that the net proceeds of asset sales in excess of the first \$100 million be used to reduce the loan balance. The agreement also states that a lien of two times the outstanding balance will be applied to our inventory if our credit ratings fall to either BB- or Ba3 or lower. When the agreement expires in June 2005, any amount outstanding will be due and payable.

In December 2003, the FASB issued a revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation No. 46, as revised, required us to reclassify \$172.5 million of Adjustable conversion-rate equity security units from Minority Interest to Debt in our Consolidated Balance Sheets and recognize distributions on these securities as Interest expense rather than Minority interest, net of income tax in our Consolidated Statements of Income (Loss). As allowed by the FASB's revised Interpretation No. 46, prior years' financial statements were reclassified to conform with the current year's presentation. In all periods presented, there was no net effect on earnings, and the reclassification of these securities to debt did not affect our financial covenants.

In April and May 2004, we entered into two interest rate swaps with notional amounts of \$50 million each. These swaps convert \$100 million of fixed-rate \$150 million 7.50% debentures to variable-rate debt based on six-month LIBOR plus approximately 3.9% for the April swap and 3.8% for the May swap. The effective interest rate on the \$150 million 7.50% debentures, including the swaps, was 5.9% at June 30, 2004. The swaps expire in February 2008.

In March 2002, we entered into an interest rate swap with a notional amount of \$50 million. This swap converts \$50 million of fixed-rate \$150 million 7.05% debentures to variable-rate debt based on six-month LIBOR plus approximately 2.2%. The effective interest rates on the \$150 million 7.05% debentures, including the swaps, were 5.9% at both June 30, 2004 and 2003. This swap expires in May 2005.

At June 30, 2004 and 2003, we had \$49.5 million and \$1.0 million of short-term borrowings outstanding. Changes in short-term borrowings primarily reflect the addition of two \$20 million floating rate term loans entered into during second quarter 2004. The interest rates on the term loans are variable rates based on either the LIBOR or the prime rate. The term loans expire in May 2005. The minimum and maximum amounts of combined short-term borrowings outstanding were \$6.2 million and \$70.9 million during the six months ended June 30, 2004, and were \$0 and \$117.4 million during the six months ended June 30, 2003. The average amounts of short-term borrowings outstanding during the six months ended June 30, 2004 and 2003, were \$22.0 million and \$52.0 million. The average interest rates for these borrowings were 1.3% for 2004 and 2.1% for 2003.

At June 30, 2004, we had \$143.0 million of unused borrowing capacity registered with the SEC for additional debt securities.

Cash payments for interest, net of interest capitalized, were \$50.3 million and \$84.6 million for the three and six months ended June 30, 2004, and \$30.6 million and \$68.2 million for the three and six months ended June 30, 2003. The difference between the payments made in 2004, compared with 2003, was due to higher debt levels in 2004 related to additional borrowings to provide cash for the OfficeMax, Inc. acquisition.

## **16. Financial Instruments**

Changes in interest and currency rates expose us to financial market risk. Our debt is predominantly fixed-rate. We experience only modest changes in interest expense when market interest rates change. Most foreign currency transactions have been conducted in local currencies, limiting our exposure to changes in currency rates. Consequently, our market risk-sensitive instruments do not subject us to material market risk

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

exposure. Changes in our debt and continued international expansion could increase these risks. To manage volatility relating to these exposures, we may enter into various derivative transactions, such as interest rate swaps, rate hedge agreements, forward purchase contracts, and forward exchange contracts. We do not use derivative financial instruments for trading purposes.

In November 2003, we entered into a natural gas swap to hedge the variable cash flow risk on 25,000 MMBtu per day of natural gas usage to a fixed price. The swap expired in March 2004. In April 2004, we entered into a natural gas swap to hedge the variable cash flow risk on 2,520,000 MMBtu s of gas allocated on a monthly basis to a fixed price. The swap expires in October 2004. The swaps were designated as cash flow hedges. Accordingly, changes in the fair value of the swaps, net of taxes, were

recorded in Accumulated other comprehensive loss in our Consolidated Balance Sheets. The swaps were fully effective in hedging the changes in the index price of the hedged items.

In April and May 2004, we entered into two interest rate swaps with notional amounts of \$50 million each. These swaps convert \$100 million of fixed-rate \$150 million 7.50% debentures to variable-rate debt based on six-month LIBOR plus approximately 3.9% for the April swap and 3.8% for the May swap. The effective interest rate on the \$150 million 7.50% debentures, including the swaps, was 5.9% at June 30, 2004. The swaps expire in February 2008. The swaps are designated as fair value hedges of a proportionate amount of the fixed-rate debentures. The swaps and debentures are marked to market, with changes in the fair value of the instruments recorded in income (loss). These swaps were fully effective in hedging the changes in the fair value of the hedged items; accordingly, changes in the fair value of the instrument had no net effect on our reported income (loss).

See Note 12, Financial Instruments, in Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on Form 10-K and Item 3. Quantitative and Qualitative Disclosures About Market Risk in the Form 10-Q for more information about our financial market risk.

#### 17. *Retirement and Benefit Plans*

The following represents the components of net periodic pension and postretirement benefit costs in accordance with the revised SFAS No. 132, Employers Disclosures About Pensions and Other Postretirement Benefits:

	Pension Benefits Three Months Ended June 30		Other Benefits Three Months Ended June 30	
	2004	2003	2004	2003
	(thousands)			
Service cost	\$ 7,550	\$ 10,053	\$ 473	\$ 411
Interest cost	26,290	26,397	1,597	1,746
Expected return on plan assets	(25,163)	(25,656)		
Recognized actuarial loss	9,740	6,204	286	273
Amortization of prior service costs and other	1,294	1,533	(170)	(531)
Company-sponsored plans	19,711	18,531	2,186	1,899
Multiemployer pension plans	138	133		
Net periodic benefit cost	\$ 19,849	\$ 18,664	\$ 2,186	\$ 1,899

	Pension Benefits Six Months Ended June 30		Other Benefits Six Months Ended June 30	
	2004	2003	2004	2003
	(thousands)			
Service cost	\$ 15,191	\$ 20,106	\$ 952	\$ 812
Interest cost	52,569	52,793	3,213	3,448
Expected return on plan assets	(50,361)	(51,312)		
Recognized actuarial loss	19,480	12,408	572	546
Amortization of prior service costs and other	7,407	3,066	(340)	(1,059)
Company-sponsored plans	44,286	37,061	4,397	3,747
Multiemployer pension plans	288	284		
Net periodic benefit cost	\$ 44,574	\$ 37,345	\$ 4,397	\$ 3,747

Our estimated required minimum contributions for 2004 are approximately \$45 million to \$50 million. We previously announced plans to make pension contributions of \$80 million to \$120 million during 2004. With the announced pending sale of our paper, forest products, and timberland assets to affiliates of Boise Cascade, L.L.C. (see Note 23), we would expect pension contributions to increase to \$190 million to \$240 million during the year. If the additional contributions are made prior to consummation of the transaction, they may be funded initially with short-term borrowings. When the transaction is completed, the short-term borrowings, if any, would be paid with the net proceeds of the asset sales. As of June 30, 2004, we have contributed \$30 million.

#### 18. *2003 Cost-Reduction Program*

In March 2003, we announced the termination of approximately 550 employees in connection with our 2003 cost-reduction program. At June 30, 2004, we had terminated approximately 505 employees. Under our severance policy, in first quarter 2003, we recorded a pretax charge of \$10.1 million for employee-related costs in Other (income) expense, net in our Consolidated Statement of Loss. We recorded these costs in accordance with the provisions of SFAS No. 112, Employers' Accounting for Postemployment Benefits. We recorded \$9.2 million in the OfficeMax, Contract, segment; \$0.2 million in the Boise Paper Solutions segment; and \$0.7 million in our Corporate and Other segment. Employee-related costs are primarily for severance payments, most of which were paid in 2003, with the remainder to be paid in 2004. This item increased our net loss by \$6.1 million for the six months ended June 30, 2003.

The reserve liability for the cost-reduction program is included in Accrued liabilities, other, in the accompanying Consolidated Balance Sheets. Reserve liability activity related to the 2003 charge is as follows:

		<b>Employee- Related Costs (thousands)</b>
2003 expense recorded	\$	10,100
Charges against reserve		(7,800)
Balance at December 31, 2003		2,300
Charges against reserve		(1,100)
Reserves credited to income		(200)
Balance at June 30, 2004	\$	<b>1,000</b>

#### 19. *Recently Adopted Accounting Standards*

On December 8, 2003, the President signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a Medicare prescription drug benefit as well as a federal subsidy to sponsors of retiree healthcare benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare benefit. As allowed by FASB Staff Position (FSP) 106-1, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003, we had deferred recognizing the effects of the Act in the consolidated financial statements and notes to consolidated financial statements. In May 2004, the FASB issued FSP 106-2, which supersedes FSP 106-1 and provides guidance on the accounting of the effects of the Act. We adopted FSP 106-2 on July 1, 2004, and it did not have a material impact on our financial position or results of operations.

In December 2003, the FASB issued a revised SFAS No. 132. This statement revised companies' disclosures about pension plans and other postretirement benefit plans. It requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. It does not change the measurement or recognition of our plans. We adopted this statement in December 2003, and it had no impact on our financial position or results of operations.

In November 2003, the FASB's EITF reached a consensus on EITF 03-10, Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers. The consensus required that consideration received by a reseller from a vendor that is a reimbursement by the vendor for honoring the vendor's sales incentives offered directly to consumers be recorded as revenue rather than as a reduction of cost of goods sold. We adopted EITF 03-10 on January 1, 2004, and it did not have a material impact on our financial position or results of operations.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments With Characteristics of Both Liabilities and Equity. SFAS No. 150 requires issuers to classify as liabilities (or assets in some circumstances) three classes of free-standing financial instruments that embody obligations for the issuer. The statement was effective on July 1, 2003, for financial instruments entered into or modified after May 31, 2003, and otherwise effective for existing financial instruments entered into before May 31, 2003. We adopted this statement July 1, 2003, and it did not have a material impact on our financial position or results of operations.

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities. In December 2003, the FASB issued a revised FASB Interpretation No. 46. Interpretation No. 46, as revised, required us to reclassify \$172.5 million of Adjustable conversion-rate equity security units from Minority Interest to Debt in our Consolidated Balance Sheets and recognize distributions on these

securities as Interest expense rather than Minority interest, net of income tax in our Consolidated Statements of Income (Loss). As allowed by the FASB's revised Interpretation No. 46, prior years' financial statements have been reclassified to conform with the current year's presentation. In all periods presented, there was no net effect on earnings, and the reclassification of these securities to debt did not affect our financial covenants.

See Note 9, Accounting Changes, for a discussion of SFAS No. 143, Accounting for Asset Retirement Obligations, and EITF 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor, and their effect on our consolidated financial statements.

## 20. Segment Information

There are no differences in our basis of segmentation or in our basis of measurement of segment profit or loss from our 2003 Annual Report on Form 10-K. An analysis of our operations by segment is as follows:

	Trade	Sales Intersegment	Total	Income (Loss) Before Taxes and Minority Interest (a) (Restated)
	(thousands)			
<b>Three Months Ended June 30, 2004</b>				
OfficeMax, Contract	\$ 1,037,506	\$ 606	\$ 1,038,112	\$ 21,410
OfficeMax, Retail	966,668		966,668	(4,235)
Boise Building Solutions	1,047,698	7,569	1,055,267	126,659(b)
Boise Paper Solutions	340,529	153,697	494,226	(958)
Corporate and Other	8,788	30,960	39,748	(21,335)
	3,401,189	192,832	3,594,021	121,541
Intersegment eliminations		(192,832)	(192,832)	
Interest expense				(40,432)
	\$ 3,401,189	\$	\$ 3,401,189	\$ 81,109
<b>Three Months Ended June 30, 2003</b>				
OfficeMax, Contract	\$ 904,316	\$ 613	\$ 904,929	\$ 23,883
Boise Building Solutions	687,114	5,729	692,843	9,820
Boise Paper Solutions	331,778	127,598	459,376	1,023
Corporate and Other	5,776	12,993	18,769	(9,870)
	1,928,984	146,933	2,075,917	24,856
Intersegment eliminations		(146,933)	(146,933)	
Interest expense				(31,063)
	\$ 1,928,984	\$	\$ 1,928,984	\$ (6,207)

(a) Interest income has been allocated to our segments in the amounts of \$0.5 million and \$0.3 million for the three months ended June 30, 2004 and 2003.

- (b) Includes a \$46.5 million pretax gain for the sale of our 47% interest in Voyageur Panel (see Note 11).

	Trade	Sales Intersegment	Total	Income (Loss) Before Taxes, Minority Interest, and Cumulative Effect of Accounting Changes (a) (Restated)
	(thousands)			
<b>Six Months Ended June 30, 2004</b>				
OfficeMax, Contract	\$ 2,157,058	\$ 1,161	\$ 2,158,219	\$ 55,792
OfficeMax, Retail	2,187,660		2,187,660	12,691
Boise Building Solutions	1,891,432	15,374	1,906,806	195,081(b)
Boise Paper Solutions	678,106	291,592	969,698	26,842(c)
Corporate and Other	16,587	45,261	61,848	(34,048)
	6,930,843	353,388	7,284,231	256,358
Intersegment eliminations		(353,388)	(353,388)	
Interest expense				(81,084)
	\$ 6,930,843	\$	\$ 6,930,843	\$ 175,274
<b>Six Months Ended June 30, 2003</b>				
OfficeMax, Contract	\$ 1,841,935	\$ 1,273	\$ 1,843,208	\$ 44,555(d)
Boise Building Solutions	1,255,154	12,333	1,267,487	1,367
Boise Paper Solutions	673,443	254,146	927,589	338
Corporate and Other	11,695	26,487	38,182	(18,608)
	3,782,227	294,239	4,076,466	27,652
Intersegment eliminations		(294,239)	(294,239)	
Interest expense				(63,254)
	\$ 3,782,227	\$	\$ 3,782,227	\$ (35,602)

- (a) Interest income has been allocated to our segments in the amounts of \$0.9 million and \$0.4 million for the six months ended June 30, 2004 and 2003.
- (b) Includes a \$46.5 million pretax gain for the sale of our 47% interest in Voyageur Panel (see Note 11).
- (c) Includes a \$59.9 million pretax gain for the sale of approximately 79,000 acres of timberland in western Louisiana (see Note 6).
- (d) Includes a \$9.2 million pretax charge for employee-related costs incurred in connection with the 2003 cost-reduction program (see Note 18).

## 21. *Commitments and Guarantees*

As discussed in Notes 1, 7, and 11 of Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on Form 10-K, we have commitments for timber contracts, leases, and long-term debt. In addition, we have purchase obligations for goods and services, capital expenditures, and raw materials entered into in the normal course of business. During the six months ended June 30, 2004, there have been no material changes to our contractual obligations outside the ordinary course of our business.

We have a legal obligation to fund our defined benefit pension plans. In 2004, the required minimum contribution to our pension plans is estimated to be approximately \$45 million to \$50 million. We previously announced plans to make pension contributions of \$80 million to \$120 million during 2004. With the announced pending sale of our paper, forest products, and timberland assets to affiliates of

Boise Cascade, L.L.C. (see Note 23), we would expect pension contributions to increase to \$190 million to \$240 million during the year. If the additional contributions are made prior to consummation of the transaction, they may be funded initially with short-term borrowings. When the transaction is completed, the short-term borrowings, if any, would be paid with the net proceeds of the asset sales. As of June 30, 2004, we have contributed \$30 million.

We provide guarantees, indemnifications, and assurances to others, which constitute guarantees as defined under FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. Note 17, Commitments and Guarantees, of Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on 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. The following represent changes to the guarantees disclosed in our 2003 Annual Report on Form 10-K:

Boise Cascade Office Products Corporation and OfficeMax, Inc. (both wholly owned subsidiaries of OfficeMax Incorporated) guaranteed three of OfficeMax Incorporated's floating-rate term loans. At June 30, 2004, \$60 million was outstanding under the term loans. One of the term loans expires in April 2005, and two expire in May 2005.

Previously, OfficeMax Incorporated guaranteed the debt used to fund our employee stock ownership plan (ESOP) for our U.S. salaried employees. The debt was repaid in 2004. We have guaranteed tax indemnities on the ESOP debt. Although the debt was paid, under these indemnities, we would be required to pay additional amounts to the debt holders if the interest payments on the debt were determined to be taxable. Any amounts paid under this tax indemnification would be dependent upon future tax rulings and assessments by the Internal Revenue Service and are not quantifiable at this time.

## **22. *Legal Proceedings and Contingencies***

We are involved in litigation and administrative proceedings arising in the normal course of our business. In the opinion of management, our recovery, if any, or our liability, if any, under pending litigation or administrative proceedings would not materially affect our financial position or results of operations. For information concerning legal proceedings and contingencies, see our 2003 Annual Report on Form 10-K.

## **23. *Subsequent Event***

On July 26, 2004, we announced that we had reached a definitive agreement to sell our paper, forest products, and timberland assets for approximately \$3.7 billion to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC, a leading private equity investment firm located in Chicago, Illinois. If consummated, this step will complete our review of strategic alternatives originally announced in July 2003. We expect the transaction to be completed by mid-November 2004. Following completion of the transaction, Boise Cascade Corporation will change our company and trade name to OfficeMax Incorporated, and will continue to operate the office products distribution business. OfficeMax will trade on the New York Stock Exchange under the ticker symbol OMX, and the OfficeMax corporate headquarters will be in Itasca, Illinois. George J. Harad, currently chairman and chief executive officer of Boise Cascade Corporation, will become executive chairman of the board of OfficeMax, Inc., and Chris Milliken, currently division president and chief executive officer for our office products distribution business, will be elected president and chief executive officer of OfficeMax, Inc.

24. ***Restatement of Previously Issued Financial Statements***

Based on the results of an investigation into the company's accounting for vendor income that began in the fourth quarter of 2004, we concluded in February 2005 that operating income had been understated by \$1.1 million in the quarter ended June 30, 2004 and overstated by \$6.0 million for the six months ended June 30, 2004. Net income was understated by \$0.7 million and overstated by \$3.6 million in the three and six month periods ended June 30, 2004, respectively. To correct this error, the consolidated balance sheet as of June 30, 2004, the consolidated statements of income for the three and six months ended June 30, 2004, and the consolidated statement of cash flows for the six months ended June 30, 2004, have been restated. The accompanying notes to consolidated financial statements have been restated as necessary to reflect the adjustments.

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

The effects of the revisions on the consolidated balance sheet as of June 30, 2004 are summarized in the following table:

	June 30, 2004	
	Previously Reported	Restated (thousands)
<b>Current assets</b>		
Receivables	\$ 766,799	\$ 747,927
Inventories	1,591,711	1,591,822
Goodwill	1,106,980	1,135,016
Total assets	7,481,106	7,490,381
<b>Current liabilities</b>		
Accrued liabilities, other	\$ 371,992	\$ 387,243
Deferred income taxes	94,980	92,656
Shareholders' equity		
Retained earnings	982,675	979,023
Total shareholders' equity	2,442,197	2,438,545
Total liabilities and shareholders' equity	7,481,106	7,490,381

Operating income in the consolidated statements of income were adjusted by an increase of \$1.1 million for the three months ended June 30, 2004, and by a cumulative decrease of \$6.0 million for the six months ended June 30, 2004. These adjustments were made to Materials, labor, and other operating expenses. Net income was increased by \$0.7 million for the quarter ended June 30, 2004, and was reduced by \$3.6 million for the six months ended June 30, 2004.

The effects of the revisions on the consolidated statement of income for the three and six month periods ended June 30, 2004, are summarized in the following table:

	Three Months Ended June 30, 2004		Six Months Ended June 30, 2004	
	Previously Reported	Restated (thousands, except per-share amounts)	Previously Reported	Restated
<b>Costs and expenses</b>				
Materials, labor, and other operating expenses	\$ 2,673,447	\$ 2,672,317	\$ 5,435,900	\$ 5,441,876
Income from operations	120,485	121,615	261,744	255,768
Income (loss) before income taxes, minority interest, and cumulative effect of accounting changes	79,979	81,109	181,250	175,274
Income tax (provision) benefit	(29,192)	(29,632)	(66,156)	(63,832)
	50,787	51,477	115,094	111,442

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

Income (loss) before minority interest and  
cumulative effect of accounting changes

Net income (loss)	50,381	51,071	113,846	110,194
-------------------	--------	--------	---------	---------

Net income (loss) applicable to common  
shareholders

	47,213	47,903	107,312	103,660
--	--------	--------	---------	---------

Net income (loss) per common share

Basic	\$	0.54	\$	0.55	\$	1.24	\$	1.20
Diluted	\$	0.52	\$	0.53	\$	1.18	\$	1.14

The effects of the revisions on the consolidated statement of cash flows for the six months ended June 30, 2004, are summarized in the following table:

	<b>Six Months Ended June 30, 2004</b>	
	<b>Previously Reported</b>	<b>Restated</b>
	(thousands)	
<b>Cash provided by (used for) operations</b>		
Net income	\$ 113,846	\$ 110,194
Receivables	(183,935)	(165,063)
Inventories	16,942	16,831
Current and deferred income taxes	(10,233)	(12,557)
Other	(29,441)	(42,226)

There was no net impact on cash used for operations, cash provided by investment and cash provided by financing for the six months ended June 30, 2004.

The following notes to the consolidated financial statements have been restated to reflect the correction of the accounting for vendor income: Note 4. Net Income (Loss) Per Common Share; the fair-value-based method of accounting for stock-based compensation table in Note 5; Note 8. Comprehensive Income (Loss); Note 12. Inventories, Note 14. Goodwill and Intangible Assets; and Note 20. Segment Information.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Restated)**

The following discussion, including the Summary and Outlook, contains statements about our future financial performance. These statements are only predictions. Our actual results may differ materially from these predictions. In evaluating these statements, you should review the section of this report entitled Cautionary and Forward-Looking Statements.

***Summary and Outlook***

***Financial Performance***

Sales in second quarter 2004 increased 76% to \$3.4 billion, compared with \$1.9 billion in the second quarter a year ago. Sales for the first half of 2004 increased 83% to \$6.9 billion, compared with \$3.8 billion in the first half of 2003. Sales increased, relative to comparison periods, primarily because of the acquisition of OfficeMax, Inc. in December 2003 but were also aided by strong product prices in Boise Building Solutions.

Second quarter 2004 net income was \$51.1 million, or 53 cents per diluted share, compared with a net loss of \$3.9 million, or 12 cents per diluted share, in second quarter 2003. Results in second quarter 2004 include a pretax gain of approximately \$46.5 million on the sale in May 2004 of our 47% interest in Voyageur Panel, offset by \$8.3 million of OfficeMax, Inc. integration costs in combined OfficeMax. Income increased because of the gain on the sale of Voyageur Panel and strong product prices in Boise Building Solutions.

Net income for the first half of 2004 was \$110.2 million, or \$1.14 per diluted share, compared with a loss for the year-ago half of \$31.5 million, or 65 cents per diluted share. Income in 2004 included the previously mentioned pretax gain on the sale of our 47% interest in Voyageur Panel and a \$59.9 million pretax gain for the sale of approximately 79,000 acres of timberland in western Louisiana, offset by approximately \$17.2 million of OfficeMax, Inc. integration costs in our OfficeMax contract and retail segments. Before these items, income increased from income in the first half of 2003 primarily because of strong product prices in Boise Building Solutions and increased income in our office products distribution business due primarily to the OfficeMax, Inc. acquisition.

*OfficeMax, Contract and OfficeMax, Retail*

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

In our combined OfficeMax contract and retail segments, sales increased 122% to \$2.0 billion, compared with \$904.9 million in the same quarter a year ago. Combined sales for these segments for the first half of 2004 increased 136% to \$4.3 billion, compared with \$1.8 billion in the first half of 2003. Sales increased, compared with both prior periods, because of the acquisition of OfficeMax, Inc.

Combined operating income for our contract and retail segments in second quarter 2004 was \$17.2 million, down from \$23.9 million in second quarter 2003. Results weakened primarily because of seasonal losses in the retail segment. For the first half of 2004, operating income for both segments was \$68.5 million, compared with \$44.6 million in the first half of 2003. Income increased in the first half of 2004 because of the acquisition of OfficeMax, Inc.

In second quarter 2004, our OfficeMax contract and retail segments achieved \$31.7 million of integration synergies and recorded integration costs of \$8.3 million. In the first half of 2004, synergies totaled \$44.3 million of the \$80 million expected for the year. The synergies were achieved through the consolidation of facilities and administrative staff and purchasing leverage. Synergies were modestly greater in our contract segment than in retail. First-half integration costs were \$17.2 million.

### ***Boise Building Solutions***

Fueled by strong plywood and lumber markets, Boise Building Solutions reported second quarter 2004 sales of \$1.1 billion, compared with \$692.8 million in second quarter 2003. Sales for the first half of 2004 rose to \$1.9 billion from \$1.3 billion in the first half of 2003. Both periods reflect nearly 60% increases in building materials distribution sales due to strong pricing and increased sales volume. Prices

for both plywood and lumber increased, while unit sales volume declined because of the sale of our Yakima, Washington, plywood and lumber facilities in February 2004.

Boise Building Solutions reported operating income of \$126.7 million in second quarter 2004, compared with \$9.8 million in the prior-year second quarter. In May 2004, we sold our 47% interest in Voyageur Panel for \$91.2 million in cash and recorded a \$46.5 million pretax gain. Before the gain on the sale, segment income increased \$70.3 million to \$80.2 million in second quarter 2004, compared with \$9.8 million in second quarter 2003, primarily due to increased product prices.

Boise Building Solutions income for the first half of 2004 was \$195.1 million, compared with \$1.4 million for the same period in 2003. Results for 2004 included the previously mentioned gain on the sale of our Voyageur Panel joint venture. Before the gain on the sale of this joint venture, segment income increased \$147.2 million, compared with the first half of 2003, again primarily due to increased product prices.

***Boise Paper Solutions***

Boise Paper Solutions sales increased 8% in second quarter 2004 to \$494.2 million, compared with \$459.4 million in second quarter 2003, primarily because of an 11% increase in sales volume. Sales volumes for all of our product categories increased during second quarter 2004, compared with the same quarter in 2003. For the first half of 2004, sales increased 5% to \$969.7 million, compared with \$927.6 million in the first half of 2003, as sales volume increased 6% year over year. During the first half of 2004, sales volumes increased for all of our product categories except containerboard, which decreased 1%.

Boise Paper Solutions lost \$1.0 million in second quarter 2004, compared with income of \$1.0 million in second quarter 2003, as the positive impact of higher sales volumes was offset by slightly weaker average prices. Average quarterly prices for uncoated free sheet, our largest grade, were \$24 per ton lower than prices in second quarter 2003. Overall, average paper prices declined 1% from year-ago levels.

Boise Paper Solutions posted operating income of \$26.8 million for the first half of 2004, compared with income of \$0.3 million during the same period in 2003. Results for 2004 include a \$59.9 million pretax gain on the sale of 79,000 acres of timberland in western Louisiana in March 2004. Before this item, the segment lost \$33.1 million. Lower average paper prices, increased unit manufacturing costs, operating difficulties due to adverse weather conditions, and other production issues all contributed to the operating loss before the timberland sale.

#### *Strategic Alternatives*

On July 26, 2004, we announced that we had reached a definitive agreement to sell our paper, forest products, and timberland assets for approximately \$3.7 billion to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC, a leading private equity investment firm located in Chicago, Illinois. If consummated, this step will complete our review of strategic alternatives that was originally announced in July 2003.

Following completion of the transaction, Boise Cascade Corporation will change our company and trade name to OfficeMax Incorporated, and will continue to operate the office products distribution business. OfficeMax will trade on the New York Stock Exchange under the ticker symbol OMX, and the OfficeMax corporate headquarters will be in Itasca, Illinois. George J. Harad, currently chairman and chief executive officer of Boise Cascade Corporation, will become executive chairman of the board of OfficeMax Incorporated, and Chris Milliken, currently division president and chief executive officer for our office products and distribution business, will be elected president and chief executive officer of OfficeMax Incorporated.

We expect to realize approximately \$3.1 billion to \$3.2 billion in cash proceeds after allowing for our \$175 million reinvestment in Boise Cascade, L.L.C., and its affiliates, a retained interest in a timberland installment note, and other transaction-related settlements. We currently expect to use approximately \$2.2 billion to \$2.3 billion of the net proceeds to pay down debt and other obligations and to return the remaining \$800 million to \$1.0 billion of net proceeds to shareholders through common and/or preferred stock buybacks, cash dividends, or a combination.

The acquiring company, Boise Cascade, L.L.C., will be privately held and headquartered in Boise, Idaho. Its chief executive officer will be W. Thomas Stephens, former president and chief executive officer of MacMillan Bloedel Ltd. and former chairman, chief executive officer, and president of Manville Corporation.

*Outlook*

We expect two of OfficeMax's three current businesses to show improved results in the third quarter. Sales and income in our office products business typically strengthen significantly from second-quarter levels and should again this year. In our paper business, gradually strengthening uncoated free sheet, containerboard, and newsprint markets should lead to improved results in the third quarter. In Boise Building Solutions, segment operating income is likely to decline in the third quarter, reflecting the weakening in product prices at the end of the second quarter.

*OfficeMax, Inc. Acquisition*

On December 9, 2003, we completed our acquisition of OfficeMax, Inc. OfficeMax, Inc. is now a subsidiary of OfficeMax Incorporated, and the results of OfficeMax, Inc.'s operations after December 9, 2003, are included in our consolidated financial statements. OfficeMax, Inc. is a retail distributor of office supplies and paper, technology products, and office furniture. Our OfficeMax, Inc. superstores feature CopyMax® and FurnitureMax® in-store modules devoted to print-for-pay services and office furniture. OfficeMax, Inc. has operations in the United States, Puerto Rico, and the U.S. Virgin Islands and a 51%-owned joint venture in Mexico.

The aggregate consideration paid for the acquisition was as follows:

	(millions)
Fair value of common stock issued	\$ 808.2
Cash consideration for OfficeMax, Inc. common shares exchanged	486.7
Transaction costs	20.0
	1,314.9
Debt assumed	81.6
	\$ 1,396.5

We summarized the estimated fair values of assets acquired and liabilities assumed for the OfficeMax, Inc. acquisition in Note 2, OfficeMax Acquisition, in Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on Form 10-K. The initial purchase price allocations may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. During the six months ended June 30, 2004, we recorded \$34.9 million of purchase price adjustments that increased the recorded amount of goodwill. The adjustments were related to adjustments to the recorded amounts of accounts receivable, fair value adjustments and liability accruals as well as severance accruals for the consolidation of one OfficeMax, Inc. customer service center and consolidation of headquarters administrative staff.

*Pro Forma Financial Information*

The following table summarizes unaudited pro forma financial information assuming we had acquired OfficeMax, Inc. on January 1, 2003. The unaudited pro forma financial information uses OfficeMax, Inc. data for the months corresponding to our June 30 period-end. This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations or financial position. We have not finalized our integration plans. Accordingly, this pro forma information does not include all costs related to the integration. When the costs are determined, they will either increase the amount of goodwill recorded or decrease net income, depending on the nature of the costs. We also expect to realize operating synergies. Synergies will come from offering more products and services across more customer channels, purchasing leverage from increased scale, and reduced costs in logistics, marketing, and administration. The pro forma information does not reflect these potential expenses and synergies.

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

	<b>Three Months Ended June 30, 2003</b>	<b>Six Months Ended June 30, 2003</b>
	<b>(millions, except per-share amounts)</b>	
Sales	\$ 3,018	\$ 6,172
Net loss before cumulative effect of accounting changes	\$ (19.5)	\$ (28.4)
Cumulative effect of accounting changes, net of income tax		(8.8)
Net loss	<b>\$ (19.5)</b>	<b>\$ (37.2)</b>
Net loss per common share		
Basic and diluted before cumulative effect of accounting changes	\$ (0.27)	\$ (0.41)
Cumulative effect of accounting changes, net of income tax		(0.10)
Basic and diluted	<b>\$ (0.27)</b>	<b>\$ (0.51)</b>

*Integration Charges*

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

Increased scale as a result of the OfficeMax, Inc. acquisition has allowed us to evaluate the combined office products business to determine what opportunities for consolidating operations may be appropriate. Closures or consolidation of acquired facilities identified in the integration planning process are accounted for as exit activities in connection with the acquisition and charged to goodwill. Charges for all other closures and consolidations have been recognized in our Consolidated Statements of Income.

During the three and six months ended June 30, 2004, we charged approximately \$8.3 million and \$17.2 million of integration costs to our Consolidated Statements of Income. Integration costs occurred primarily in the contract segment as the business consolidated distribution centers, customer service centers, and administrative staff. For the three and six months ended June 30, 2004, approximately \$2.2 million and \$8.3 million of the costs are included in Other (income) expense, net, and \$6.1 million and \$8.9 million are included in Selling and distribution expenses. They are as follows:

	<b>Three Months Ended June 30, 2004</b>	<b>Six Months Ended June 30, 2004</b>
	(millions)	
Severance	\$ 1.2	\$ 5.8
Lease termination costs	1.0	1.0
Vendor transition costs	1.2	1.2
Professional fees	2.2	3.6
Payroll, benefits, and travel	1.3	2.2
Write-down of long-lived assets		1.5
Other integration costs	1.4	1.9
	<b>\$ 8.3</b>	<b>\$ 17.2</b>

*Facility Closure Reserves*

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

During second quarter 2004, we closed three U.S. distribution centers and two customer service centers, eliminating approximately 345 employee positions. We expect to close three more distribution centers during third quarter 2004. At June 30, 2004, we had accrued for approximately \$6.3 million of costs associated with these closures in our Consolidated Balance Sheet. We are working on a plan to reduce the total number of U.S. distribution centers from 59 at December 31, 2003, to 25 to 30 by the end of 2006. We will account for the additional closures when management formalizes its plans. When the costs are determined, they will either increase the amount of goodwill recorded or decrease net income.

Prior to our acquisition of OfficeMax, Inc., OfficeMax, Inc. had identified and closed underperforming facilities. As part of our purchase price allocation, at December 31, 2003, we had \$58.7 million of reserves recorded for the estimated fair value of future liabilities associated with these closures. These reserves related primarily to future lease termination costs, net of estimated sublease income. Most of the expenditures for these facilities will be made over the remaining lives of the operating leases, which range from three to 16 years. At June 30, 2004, the remaining reserve in our Consolidated Balance Sheet was \$57.4 million.

In addition to these store closures, at December 31, 2003, we identified 45 OfficeMax, Inc. facilities that were no longer strategically or economically viable. In accordance with the provisions of Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Connection With a Purchase Business Combination, at December 31, 2003, we had \$69.4 million of reserves recorded in our Consolidated Balance Sheet. We closed these stores during first quarter 2004, eliminating approximately 995 employee positions, of which approximately 310 people were offered transfers to other stores. These charges were accounted for as exit activities in connection with the acquisition, and we did not recognize a charge to income in our Consolidated Statements of Income. Most of the cash expenditures for the facilities described above will be made over the remaining lives of the operating leases, which range from one month to 12 years. At June 30, 2004, the remaining reserve in our Consolidated Balance Sheet was \$58.1 million.

At June 30, 2004, approximately \$36.1 million of the facility closure reserve liability was included in Accrued liabilities, other, and \$85.7 million was included in Other long-term liabilities. Facility closure reserve account activity was as follows:

	Lease Termination Costs		Severance (millions)		Other		Total
Facility closure reserve at December 31, 2003	\$ 126.9	\$	0.8	\$	0.4	\$	128.1
Costs incurred and charged to expense/goodwill	4.1		3.4				7.5
Charges against the reserve	(12.8)		(1.0)				(13.8)
	<b>\$ 118.2</b>	<b>\$</b>	<b>3.2</b>	<b>\$</b>	<b>0.4</b>	<b>\$</b>	<b>121.8</b>

### *Segment Discussion*

We report our business results using five reportable segments: OfficeMax, Contract; OfficeMax, Retail; Boise Building Solutions; Boise Paper Solutions; and Corporate and Other. Material increases in balance sheet items, such as inventories, goodwill, accounts payable, and debt, are primarily due to the OfficeMax, Inc. acquisition.

OfficeMax, Contract, markets and sells office supplies and paper, technology products, and office furniture through field salespeople, catalogs, the Internet, and stores. OfficeMax, Retail, markets and sells office supplies and paper, technology products, and office furniture through OfficeMax office supply superstores. These superstores feature CopyMax® and FurnitureMax® in-store modules devoted to print-for-pay

services and office furniture. Boise Building Solutions manufactures, markets, and

distributes various products that are used for construction, while Boise Paper Solutions manufactures, markets, and distributes uncoated free sheet papers, containerboard, corrugated containers, newsprint, and market pulp. Corporate and Other includes support staff services and related assets and liabilities. The segments' profits and losses are measured on operating profits before interest expense, income taxes, minority interest, extraordinary items, and cumulative effect of accounting changes.

**Results of Operations, Consolidated**

	Three Months Ended June 30		Six Months Ended June 30	
	2004 (Restated)	2003	2004 (Restated)	2003
Sales	\$ 3.4 billion	\$ 1.9 billion	\$ 6.9 billion	\$ 3.8 billion
Income (loss) before cumulative effect of accounting changes	\$ 51.1 million	\$ (3.9 million)	\$ 110.2 million	\$ (22.7 million)
Cumulative effect of accounting changes, net of income tax	\$	\$	\$	\$ (8.8 million)
Net income (loss)	\$ 51.1 million	\$ (3.9 million)	\$ 110.2 million	\$ (31.5 million)
<b>Diluted income (loss) per common share</b>				
Diluted before cumulative effect of accounting changes	\$ 0.53	\$ (0.12)	\$ 1.14	\$ (0.50)
Cumulative effect of accounting changes, net of income tax				(0.15)
<b>Diluted</b>	<b>\$ 0.53</b>	<b>\$ (0.12)</b>	<b>\$ 1.14</b>	<b>\$ (0.65)</b>
	(percentage of sales)			
Materials, labor, and other operating expenses	78.6%	81.8%	78.5%	81.8%
Selling and distribution expenses	14.1%	11.3%	14.2%	11.4%
General and administrative expenses	2.2%	1.8%	2.1%	1.9%

**Operating Results**

For the three and six months ended June 30, 2004, total sales increased 76% and 83%, compared with the same periods a year ago. In both periods, total sales increased primarily because of the acquisition of OfficeMax, Inc. in December 2003 but were also aided by strong product prices in Boise Building Solutions and, to a lesser extent, increased sales in Boise Paper Solutions as a result of increased sales volume. For more information about our segment results, see the discussion of each segment below.

For the three and six months ended June 30, 2004, materials, labor, and other operating expenses as a percentage of sales decreased 3.2% and 3.3%, respectively. The decline was primarily because our retail office products business has higher gross margins as a percentage of sales. In both periods, excluding the impact of our retail office products segment, materials, labor, and other operating expenses declined only about 1%. The decrease was primarily attributable to increased gross margins resulting from purchasing synergies in OfficeMax, Contract, and higher sales due to increased product prices in Boise Building Solutions.

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

For the three and six months ended June 30, 2004, selling and distribution expenses increased 2.8%, compared with the same periods a year ago. The increase was primarily because our retail office products business has higher selling and distribution expenses as a percentage of sales. Excluding the impact of our retail office products segment, selling and distribution expenses declined slightly, compared with the same periods a year ago. The decrease was primarily attributable to higher sales due to increased product prices in Boise Building Solutions.

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

During the three and six months ended June 30, 2004, general and administrative expenses increased 0.4% and 0.2%, primarily due to higher payroll and benefit-related costs.

During the three months ended June 30, 2004, in Other (income) expense, net, we reported \$43.9 million of income, compared with \$1.8 million of expense during the same period a year ago. In second quarter 2004, Other (income) expense, net included a \$46.5 million pretax gain for the sale of our 47% interest in Voyageur Panel to Ainsworth Lumber Co. Ltd., offset by \$2.2 million of OfficeMax, Inc. integration costs and other miscellaneous income and expense items.

During the six months ended June 30, 2004, in Other (income) expense, net, we reported \$90.6 million of income, compared with \$13.0 million of expense in the same period a year ago. In 2004, Other (income) expense, net included the \$46.5 million pretax gain for the sale of our 47% interest in Voyageur Panel and a \$59.9 million pretax gain for the sale of approximately 79,000 acres of timberland in western Louisiana, offset by approximately \$8.3 million of OfficeMax, Inc. integration costs in our contract and retail segments; \$7.1 million of costs related to the sale of our Yakima, Washington, plywood and lumber facilities; and other miscellaneous income and expense items.

For the six months ended June 30, 2003, Other (income) expense, net included a \$10.1 million pretax charge for employee-related costs incurred in connection with our 2003 cost-reduction program. As part of this program, we announced the termination of approximately 550 employees. At June 30, 2004, we had terminated approximately 505 employees. We recorded these costs in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 112, Employers' Accounting for Postemployment Benefits. We recorded \$9.2 million in the OfficeMax, Contract, segment; \$0.2 million in the Boise Paper Solutions segment; and \$0.7 million in our Corporate and Other segment. Employee-related costs are primarily for severance payments, most of which were paid in 2003, with the remainder to be paid in 2004. This item increased our net loss \$6.1 million for the six months ended June 30, 2003.

The reserve liability for the cost-reduction program is included in Accrued liabilities, other in the Consolidated Balance Sheets. Reserve liability activity related to the 2003 charge is as follows:

		<b>Employee- Related Costs (millions)</b>
2003 expense recorded	\$	10.1
Charges against reserve		(7.8)
Balance at December 31, 2003		2.3
Charges against reserve		(1.1)
Reserves credited to income		(0.2)
Balance at June 30, 2004	\$	<b>1.0</b>

Equity in net income (loss) of affiliates was \$1.2 million and \$0.5 million for the three months ended June 30, 2004 and 2003, and \$6.3 million and \$0.4 million for the six months ended June 30, 2004 and 2003. The variances were due to increased equity in earnings of Voyageur Panel, in which we had a 47% interest and accounted for under the equity method. The increased equity in earnings of Voyageur Panel resulted from higher OSB prices in 2004 than in 2003. In May 2004, we sold our equity interest to Ainsworth Lumber Co. Ltd. for \$91.2 million of cash. We

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

recorded a \$46.5 million pretax gain in Other (income) expense, net in our Boise Building Solutions segment. This item increased net income \$28.4 million after taxes for the three and six months ended June 30, 2004.

Interest expense was \$40.4 million and \$31.1 million for the three months ended June 30, 2004 and 2003, and \$81.1 million and \$63.3 million for the six months ended June 30, 2004 and 2003. The variances were due to incremental interest expense directly related to higher debt levels in 2004, compared with 2003. The higher debt levels in 2004 related to additional borrowings to provide cash for the OfficeMax, Inc. acquisition.

Our estimated annual effective tax provision rate for the six months ended June 30, 2004, was 36.4%, compared with an effective tax benefit rate of 36.3% for the six months ended June 30, 2003. Changes in estimated tax rates are due to the sensitivity of the rates to changing income levels and the mix of domestic and foreign sources of income.

For the three and six months ended June 30, 2004, income before the cumulative effect of accounting changes increased significantly, compared with the same periods a year ago. The increase in second quarter 2004 resulted from the \$28.4 million after-tax gain on the sale of our 47% interest in Voyageur Panel (discussed above) as well as increased income from operations in Boise Building Solutions due to strong product prices. The increase in income for the six months ended June 30, 2004, compared with the same period a year ago, resulted from increased income in Boise Building Solutions due to the Voyageur Panel sale and strong product prices, increased income in our contract and retail segments due primarily to the OfficeMax, Inc. acquisition, and a \$36.6 million after-tax gain related to a timberland sale (discussed above) in Boise Paper Solutions, offset by a loss from operations in Boise Paper Solutions due to higher costs and other operating difficulties experienced during first quarter 2004 (discussed below).

For the six months ended June 30, 2003, the \$8.8 million recorded in Cumulative effect of accounting changes, net of income tax consisted of an after-tax charge of \$4.1 million, or 7 cents per share, for the adoption of SFAS No. 143, Accounting for Asset Retirement Obligations, which affects the way we account for landfill closure costs. This statement requires us to record an asset and a liability (discounted) for estimated closure and closed-site monitoring costs and to depreciate the asset over the landfill's expected useful life. Previously, we accrued for the closure costs over the life of the landfill and expensed monitoring costs as incurred. We also recorded an after-tax charge of \$4.7 million, or 8 cents per share, for the adoption of Emerging Issues Task Force (EITF) 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor. EITF 02-16 requires that vendor allowances reside in inventory with the product and be recognized when the product is sold, changing the timing of our recognition of these items and creating a one-time, noncash, cumulative-effect adjustment.

#### *OfficeMax, Contract*

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$ 1.0 billion	\$ 0.9 billion	\$ 2.2 billion	\$ 1.8 billion
Segment income	\$ 21.4 million	\$ 23.9 million	\$ 55.8 million	\$ 44.6 million

(millions)

#### **Sales by Product Line**

Office supplies and paper	\$ 576.3	\$ 539.1	\$ 1,218.3	\$ 1,106.3
Technology products	341.9	274.7	693.6	552.1
Office furniture	119.9	91.1	246.3	184.8

#### **Sales by Geography**

United States	\$ 812.9	\$ 682.5	\$ 1,666.1	\$ 1,391.3
International	225.2	222.4	492.1	451.9

Sales growth	15%	6%	17%	6%
Same-location sales growth	6%	6%	7%	6%

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

(percentage of sales)

Gross profit margin	24.0%	23.8%	24.2%	23.8%
Operating expenses	21.9%	21.1%	21.6%	21.4%
Operating profit margin	2.1%	2.6%	2.6%	2.4%

*Operating Results*

During the three and six months ended June 30, 2004, our contract segment reported total sales of \$1.0 billion and \$2.2 billion, up 15% and 17% from \$904.9 million and \$1.8 billion reported during the same periods a year ago. Excluding the benefit from favorable foreign exchange rates, total sales increased 13% and 14%, respectively. Excluding the impact of favorable foreign exchange rates, pro forma same-location sales rose 3% and 4%. The total sales increase reflects incremental sales contributed by the former OfficeMax Direct businesses, which includes sales generated by the OfficeMax, Inc. field salespeople, catalogs, and E-commerce business, and by the general improvement of the U.S. economy. In both periods, total sales for locations operating in both periods, including OfficeMax, Inc. direct 2003 sales on a pro forma basis, increased 5% and 6%, respectively. Period-over-period pro forma total sales comparisons, which include the effects of foreign exchange, increased in all product categories. Compared with the three and six months ended June 30, 2003, pro forma sales of office supplies and paper increased 2% and 5%, respectively. In both periods, pro forma sales of technology products increased 9%, while pro forma sales of furniture increased 10%.

E-commerce sales increased about 40% over sales reported during the three and six months ended June 30, 2003. In both periods, E-commerce sales represented about 50% of the contract segment's total sales. The growth in E-commerce sales is due to the addition of the OfficeMax, Inc. E-commerce business and increased sales at our other locations.

Our reported gross profit margins for the three and six months ended June 30, 2004, were 24.0% and 24.2%, an increase 0.2% and 0.4%, compared with the same periods a year ago. The increase in gross profit margins resulted from purchasing synergies, which were partially offset by the impact of increased sales of lower-margin technology products.

During the second quarter, operating expenses as a percentage of sales increased 0.8%. During the six months ended June 30, 2004, operating expenses increased 0.2%. However, before the \$9.2 million pretax charge recorded for our 2003 cost-reduction program (discussed above), operating expenses increased 0.7%, compared with the six months ended June 30, 2003. In both periods, the increases resulted primarily from OfficeMax, Inc. integration costs. Excluding integration costs, operating expenses increased only 0.2%, compared with second quarter 2003, due in part to salary increases that became effective during the quarter. Operating expenses as a percentage of sales were flat, compared with operating expenses (before the 2003 cost-reduction program) during the six months ended June 30, 2003, despite increased expenses associated with duplicative U.S. warehouse facilities. We plan to reduce our U.S. warehouse facilities from 59 at December 31, 2003, to 25 to 30 by the end of 2006.

Segment income in the second quarter was \$21.4 million, down 10%, compared with \$23.9 million a year ago. The decrease in operating income was the result of increased operating expenses discussed above. For the six months ended June 30, 2004, segment income increased 25%, compared with the same period a year ago. The increase was attributable to higher sales and increased gross profit margin as a percentage of sales, partially offset by higher operating expenses as a percentage of sales.

*OfficeMax, Retail*

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

	<b>Three Months Ended June 26 2004 (Restated)</b>	<b>Six Months Ended June 26 2004 (Restated)</b>
Sales	\$ 966.7 million	\$ 2.2 billion
Segment income	\$ (4.2) million	\$ 12.7 million

(millions)

**Sales by Product Line**

Office supplies and paper	\$ 379.4	\$ 849.5
Technology products	502.9	1,143.1
Office furniture	84.4	195.1

**Sales by Geography**

United States	\$ 933.2	\$ 2,113.7
International	33.5	74.0

(percentage of sales)

Gross profit margin	26.9%	25.9%
Operating expenses	27.3%	25.3%
Operating profit margin	(0.4)%	0.6%

***Operating Results***

Sales for our retail office products segment, which consists of our OfficeMax office supply stores, were \$966.7 million, down 3% from pro forma sales in second quarter 2003. Pro forma sales consist of OfficeMax, Inc. sales for the 13 weeks ended June 28, 2003. The decrease was the result of closing 45 U.S. superstores during first quarter 2004. Compared with second quarter 2003, same-store sales on a pro forma basis were flat.

For the six months ended June 26, 2004, the retail segment reported sales of \$2.2 billion, about flat with pro forma sales in the same period a year ago. Compared with the six months ended June 28, 2003, same-store sales on a pro forma basis increased 2%. The increase resulted from an increased number of customer transactions and a higher dollar amount per customer transaction.

Our reported gross profit margins for the three and six months ended June 26, 2004, and June 28, 2003, were 26.9% and 25.9%. During second quarter 2004, we decreased promotional activity, resulting in a positive impact on gross margins, specifically in technology products.

Our retail segment reported a \$4.2 million loss during second quarter 2004 and \$12.7 million of income during the six months ended June 26, 2004. The second-quarter loss reflects normal seasonal trends. The second quarter is historically the slowest quarter of the year for sales volume. As a result of seasonal declines in sales, our fixed costs as a percentage of sales and operating profit margin as a percentage of sales increase. We utilize the second quarter to complete projects, such as store remodels, and prepare the stores for the upcoming back-to-school, holiday, and January back-to-business selling seasons. In second quarter 2004, we also incurred additional integration costs.

**Boise Building Solutions**

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$ 1.1 billion	\$ 692.8 million	\$ 1.9 billion	\$ 1.3 billion
Segment income	\$ 126.7 million	\$ 9.8 million	\$ 195.1 million	\$ 1.4 million
<b>Sales Volumes</b>				
Plywood (1,000 sq ft) (3/8 basis)	440,266	476,896	904,118	943,433
Particleboard (1,000 sq ft) (3/4 basis)	47,331	38,609	86,927	79,801
Lumber (1,000 board feet)	87,548	93,113	177,722	186,637
LVL (100 cubic feet)	31,362	25,063	58,390	45,748
I-joists (1,000 equivalent lineal feet)	61,692	53,271	111,667	93,805
Engineered wood products (sales dollars)	\$ 116.8 million	\$ 85.0 million	\$ 206.8 million	\$ 152.5 million
Building materials distribution (sales dollars)	\$ 793.8 million	\$ 504.6 million	\$ 1,413.0 million	\$ 896.0 million
<b>Average Net Selling Prices</b>				
Plywood (1,000 sq ft) (3/8 basis)	\$ 364	\$ 228	\$ 344	\$ 224
Particleboard (1,000 sq ft) (3/4 basis)	320	230	299	224
Lumber (1,000 board feet)	566	400	541	406
LVL (100 cubic feet)	1,618	1,447	1,580	1,450
I-joists (1,000 equivalent lineal feet)	973	861	943	864

**Operating Results**

Fueled by strong plywood and lumber markets, Boise Building Solutions reported income of \$126.7 million and \$195.1 million for the three and six months ended June 30, 2004, compared with \$9.8 million and \$1.4 million a year ago. In May 2004, we sold our 47% interest in Voyageur Panel to Ainsworth Lumber Co. Ltd. for \$91.2 million of cash. We recorded a \$46.5 million pretax gain in Other (income) expense, net. Prior to the sale, we accounted for the joint venture under the equity method. Accordingly, segment results do not include the joint venture's sales but do include \$1.2 million and \$6.3 million of equity in earnings during the three and six months ended June 30, 2004, and \$0.4 million of equity in earnings during each of the same periods in 2003. Before the gain on the sale, segment income increased \$70.3 million and \$147.2 million, compared with the three and six months ended June 30, 2003, due primarily to increased product prices.

Relative to the three and six months ended June 30, 2003, building materials distribution sales increased nearly 60% in each period to \$793.8 million and \$1.4 billion due to strong pricing and about a 20% increase in physical sales volume. Building materials manufacturing sales of engineered wood products (laminated veneer lumber, wood I-joists, and laminated beams) increased 37% and 36% during the three and six months ended June 30, 2004, also due to strong pricing and increased sales volume. Relative to the three and six months ended June 30, 2003, average plywood prices rose 60% and 54%, and average lumber prices increased 42% and 33%, respectively. At the same time, unit sales volume for plywood and lumber declined year over year because of the sale of our Yakima, Washington, facilities in February 2004. The sale of our Yakima plywood and lumber facilities did not have a material impact on our financial position or results of operations.

In 2001, we began construction of a new facility near Elma, Washington, to manufacture integrated wood-polymer building materials. The plant has had a very difficult start-up, in part due to its unique manufacturing processes. While product quality has met our expectations, production has not reached anticipated levels. In February 2004, we announced we would temporarily discontinue production at the facility to allow us to

## Edgar Filing: OFFICEMAX INC - Form 10-Q/A

make the technical improvements necessary to move to production status. Although we are making good progress in resolving the critical areas that have precluded our ability to consistently produce product, we cannot accurately predict when the facility will be in production status.

*Boise Paper Solutions*

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Sales	\$ 494.2 million	\$ 459.4 million	\$ 969.7 million	\$ 927.6 million
Segment income (loss)	\$ (1.0 million)	\$ 1.0 million	\$ 26.8 million	\$ 0.3 million

(short tons)

**Sales Volumes**

Uncoated free sheet	374,000	351,000	760,000	704,000
Containerboard	173,000	154,000	310,000	312,000
Newsprint	105,000	89,000	209,000	195,000
Other	40,000	31,000	78,000	64,000
	<b>692,000</b>	<b>625,000</b>	<b>1,357,000</b>	<b>1,275,000</b>

(per short ton)

**Average Net Selling Prices**

Uncoated free sheet	\$ 710	\$ 734	\$ 699	\$ 741
Containerboard	353	347	337	344
Newsprint	432	399	431	385

**Operating Results**

Boise Paper Solutions lost \$1.0 million during second quarter 2004. The loss was primarily the result of lower weighted average paper prices. Average quarterly prices for uncoated free sheet, our largest grade, were \$24 per ton lower than prices in the second quarter a year ago. Average newsprint and containerboard prices increased \$33 and \$6 per ton, respectively. Overall, average paper prices declined 1% from second quarter 2003 levels.

During the six months ended June 30, 2004, our paper segment reported operating income of \$26.8 million. In March 2004, we sold approximately 79,000 acres of timberland in western Louisiana for \$84 million and recorded a \$59.9 million pretax gain in Other (income) expense, net. Before this item, the segment lost \$33.1 million, compared with income of \$0.3 million during the six months ended June 30, 2003. Contributing to the operating loss, before the timberland sale, during the six months ended June 30, 2004, were lower average paper prices, increased unit manufacturing costs, operating difficulties associated with adverse weather conditions, and other production issues experienced during first quarter 2004. During the six months ended June 30, 2004, average quarterly prices for uncoated free sheet and containerboard decreased 6% and 2%, respectively. Average newsprint prices increased \$46 per ton, or 12%, compared with the six months ended June 30, 2003. Unit manufacturing costs increased 2% during the period, primarily due to 7% and 2% increases in fiber and chemical costs, respectively.

During the three and six months ended June 30, 2004, sales increased 8% and 5%, compared with the same periods a year ago, primarily because of 11% and 6% increases in sales volumes. During second quarter 2004, sales volumes for all of our product categories were up. During the six months ended June 30, 2004, sales volumes were up in all of our product categories except containerboard, which decreased 1%. The increased sales volumes reflect a stronger economy. As evidence of strengthening markets, we experienced less market-related curtailment during the three and six months ended June 30, 2004, than in comparison periods. We took 13,000 and 35,000 tons of market-related curtailment during the three and six months ended June 30, 2004, compared with 67,000 and 107,000 tons during the same periods a year ago. Less curtailment reflects growing market demand and about a 20% increase in tons sold through combined OfficeMax.

We also increased sales of value-added papers produced on our smaller machines. Sales volumes were up 14% and 11% during the three and six months ended June 30, 2004, to an annualized rate of 392,000 tons. In both periods, the greatest area of growth in these grades was label,

release, and specialty papers, whose volume increased 41% on an annualized basis, compared with a year ago. The

increased sales volume of value-added office papers resulted primarily from Boise's value-added grades being sold through our OfficeMax office supply stores. Value-added grades generally have higher unit costs than commodities but also have higher net sales prices and profit margins. Overall, the average net selling price of our value-added grades during the six months ended June 30, 2004, was \$188 per ton higher than the average net selling price of our uncoated commodity grades.

### *Liquidity and Capital Resources*

We have funded our ongoing operations and growth initiatives primarily by using cash generated by our operations and borrowings under our existing credit facilities and by issuing new debt or equity securities. We have substantially more debt as a result of our OfficeMax, Inc. acquisition. As of July 31, 2004, our outstanding debt was approximately \$2.3 billion. This increased debt level has required us to dedicate a substantial portion of our cash flow from operations for debt repayment and has thereby reduced the funds we have available for working capital, capital expenditures, acquisitions, store remodels, and other purposes. As a result of the OfficeMax, Inc. acquisition, Standard and Poor's Rating Services and Moody's Investors Services, Inc., lowered our credit ratings to BB and Ba2, respectively, which are both below investment grade.

On July 26, 2004, we announced that we reached a definitive agreement to sell our paper, forest products, and timberland assets for approximately \$3.7 billion to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC, a leading private equity investment firm located in Chicago, Illinois. If consummated, this step will complete our review of strategic alternatives that was originally announced in July 2003. We expect the transaction to be completed by mid-November 2004. Of the approximately \$3.7 billion in gross proceeds, we will realize approximately \$3.1 billion to \$3.2 billion in cash proceeds after allowing for our \$175 million reinvestment in Boise Cascade, L.L.C., and its affiliates, a retained interest in a timberland installment note, and certain transaction-related settlements. We currently expect to use approximately \$2.2 billion to \$2.3 billion of the net proceeds to pay down debt and other obligations. This includes about \$200 million for pension funding requirements, a reduction of about \$200 million in accounts receivable financing, and debt retirements and repurchases of between \$1.8 billion and \$1.9 billion. We expect to return the remaining approximately \$800 million to \$1.0 billion of net proceeds to shareholders through common and/or preferred stock buybacks, cash dividends, or a combination. These planned debt retirements and equity repurchases or dividends will begin soon after the transaction is completed.

In anticipation of the above transaction, during third quarter 2004, we may enter into approximately \$200 million to \$400 million of short-term borrowings to fund incremental contributions to our pension plans (discussed below) and to decrease our accounts receivable financing. When the sale of our paper, forest products, and timberland assets is completed, we would pay off the incremental borrowings, if any, with proceeds from the asset sales.

In March 2004, we sold approximately 79,000 acres of timberland in western Louisiana for \$84 million. In April, we reached an agreement with Ainsworth Lumber Co. Ltd. to sell our Barwick, Ontario, Canada, OSB joint venture, of which we own 47%. We realized approximately \$91 million of cash from this transaction. We used the \$175 million in proceeds from these two transactions primarily to pay down debt.

Our ongoing cash requirements are expected to be funded through a combination of cash flow from operations, borrowings under our existing credit facilities, incremental short-term borrowings, and asset sales. Management believes we have sufficient liquidity to meet our future needs.

The sections that follow discuss in more detail our liquidity and capital resources.

*Operating Activities*

For the first six months of 2004, operations used \$16.8 million in cash, compared with \$148.8 million provided for the same period in 2003. For the six months ended June 30, 2004, items included in net income (loss) provided \$310.7 million of cash, and unfavorable changes in working capital items used \$327.5 million. For the first six months of 2003, items in net income (loss) provided \$144.5 million of cash, and favorable changes in working capital items provided \$4.3 million. Compared with the first six months of 2003, the change in working capital items was primarily attributable to the OfficeMax, Inc. acquisition.

We have sold fractional ownership interests in a defined pool of trade accounts receivable. At June 30, 2004, \$300 million of sold accounts receivable were excluded from *Receivables* in the Consolidated Balance Sheet, compared with \$250 million excluded at December 31, 2003. The increase at June 30, 2004, in sold accounts receivable of \$50 million over the amount at December 31, 2003, provided cash from operations in 2004.

Some of our U.S. employees are covered by noncontributory defined benefit pension plans. The assets of the pension plans are invested primarily in common stocks, fixed-income securities, and cash equivalents. The market performance of these investments affects our recorded pension obligations, expense, and cash contributions. Pension expenses for the six months ended June 30, 2004, were \$44.6 million, compared with \$37.3 million in the same period a year ago. These are noncash charges in our consolidated financial statements. In 2004, the required minimum contribution to our pension plans is estimated to be \$45 million to \$50 million. We previously announced plans to make pension contributions of \$80 million to \$120 million during 2004. With the announced pending sale of our paper, forest products, and timberland assets to affiliates of Boise Cascade, L.L.C., we would expect pension contributions to increase to \$190 million to \$240 million during the year. If the additional contributions are made prior to consummation of the transaction, they may be funded initially with short-term borrowings. When the transaction is completed, the short-term borrowings, if any, would be paid with the net proceeds of the asset sales. As of June 30, 2004, we have contributed \$30 million.

Our ratio of current assets to current liabilities was 1.08:1 at June 30, 2004, compared with 1.35:1 at June 30, 2003, and 1.27:1 at December 31, 2003. The decrease in our ratio of current assets to current liabilities at June 30, 2004, resulted from the reclassification of our revolver from *Long-term debt, less current portion* to *Current portion of long-term debt* in our June 30, 2004 Consolidated Balance Sheet.

### *Investment Activities*

Cash provided by investment activities was \$35.3 million for the six months ended June 30, 2004, compared with \$115.6 million used for investment activities during the same period in 2003. Cash expenditures of \$151.3 million for property and equipment and timber and timberlands were offset by \$186.9 million of proceeds from the sale of timberlands in Louisiana, the sale of our Yakima, Washington, plywood and lumber facilities, and the sale of our Barwick, Ontario, Canada, OSB joint venture during the six months ended June 30, 2004. During the six months ended June 30, 2003, cash expenditures for property and equipment and timber and timberlands totaled \$112.3 million. In both years, our property and equipment expenditures reflected the cost of facility improvements, facility and equipment modernization, energy and cost-saving projects, and environmental compliance. For the six months ended June 30, 2004, property and equipment expenditures also included expenditures for leasehold improvements and new stores.

In our current company configuration, we expect our capital investments in 2004 to total between \$360 million and \$380 million, excluding acquisitions. Our capital spending in 2004 will be for leasehold improvements, new stores, quality and efficiency projects, replacement projects, and ongoing environmental compliance. During 2003, we spent \$12 million on environmental compliance. We expect to spend approximately \$14 million in 2004 for this purpose.

### ***Financing Activities***

Cash provided by financing was \$36.9 million for the first six months of 2004. Cash used for financing was \$0.1 million for the first six months of 2003. Dividend payments totaled \$32.6 million and \$24.5 million for the first six months of 2004 and 2003. In both years, our quarterly dividend was 15 cents per common share. The increase in dividends paid in 2004 was the result of more common shareholders after the OfficeMax, Inc. acquisition.

Changes in short-term borrowings primarily reflect the addition of two \$20 million floating-rate term loans entered into during second quarter 2004. The interest rates on the term loans are variable rates based on either the London Interbank Offered Rate (LIBOR) or the prime rate. The term loans expire in May 2005. Additions to long-term debt for the six months ended June 30, 2004, included \$70.0 million under our revolving credit agreement. Payments of long-term debt in this period included \$40.0 million of medium-term notes and \$22.0 million toward the \$150 million unsecured credit agreement. Additions to long-term debt for the six months ended June 30, 2003, included \$115.0 million under our revolving credit agreement and \$32.3 million for the sale-leaseback of equipment at our *HomePlate*<sup>TM</sup> siding facility that

was accounted for as a financing arrangement. Payments of long-term debt in this period included \$90.0 million of medium-term notes.

At June 30, 2004, and December 31, 2003, we had \$2.3 billion of debt outstanding. At June 30, 2003, we had \$1.8 billion of debt outstanding. Our debt-to-equity ratio was 0.95:1 and 1.27:1 at June 30, 2004 and 2003. Our debt-to-equity ratio was 0.98:1 at December 31, 2003. Our June 30, 2004, debt-to-equity ratio decreased, compared with the same period a year ago, because the increase in equity from the stock issued in December 2003 for the OfficeMax, Inc. acquisition was greater than the increase in debt that resulted from the OfficeMax, Inc. acquisition.

We lease our store space and other property and equipment under operating leases. These operating leases are not included in debt; however, they represent a significant commitment. For operating leases with remaining terms of more than one year, the minimum lease payment requirements are \$382.7 million for 2004, \$364.2 million for 2005, \$329.5 million for 2006, \$284.4 million for 2007, and \$255.8 million for 2008, with total payments thereafter of \$1,275.4 million. These minimum lease payments do not include contingent rental expenses that may be paid based on a percentage in excess of stipulated amounts. These future minimum lease payment requirements have not been reduced by minimum sublease rentals due in the future under noncancelable subleases.

Our debt structure consists of credit agreements, note agreements, adjustable conversion-rate equity security units, and other borrowings. See Note 11, Debt, of the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data of our 2003 Annual Report on Form 10-K for a listing of our debt. For more information, also see Contractual Obligations and Disclosures of Financial Market Risks in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2003 Annual Report on Form 10-K. Components of our debt structure that are subject to variable interest rates or have recently changed are as follows:

In March 2002, we entered into a three-year, unsecured revolving credit agreement. The agreement permits us to borrow as much as \$560 million at variable interest rates based on either the LIBOR or the prime rate. Borrowings under the agreement were \$280 million at June 30, 2004, and were classified in current portion of long-term debt. In addition to these borrowings, \$76.5 million of letters of credit reduced our borrowing capacity at June 30, 2004, to \$203.5 million. At June 30, 2004, our borrowing rate under the revolving credit agreement, including fees, was 3.5%. We have entered into interest rate swaps to hedge the cash flow risk from the variable interest payments on \$50 million of LIBOR-based debt, which gave us an effective interest rate of 4.0% for outstanding borrowings under the revolving credit agreement at June 30, 2004. The revolving credit agreement contains customary conditions to borrowing, including compliance with financial covenants relating to minimum net worth, minimum interest coverage ratio, and ceiling ratio of debt to capitalization. At June 30, 2004, we were in compliance with these covenants. Under this agreement, the payment of dividends depends on the existence and amount of net worth in excess of the defined minimum. Our net worth at June 30, 2004, exceeded the defined minimum by \$1,096.9 million. When the agreement expires in June 2005, any amount outstanding will be due and payable.

In December 2003, we entered into a 19-month, unsecured credit agreement with 13 major financial institutions. Under the agreement, we borrowed \$150 million at variable interest rates based on either the LIBOR or the prime rate. Borrowings under the agreement were \$128 million at June 30, 2004. At June 30, 2004, our borrowing rate under the agreement was 3.4%. The credit agreement contains financial covenants that are essentially the same as those in our revolving credit agreement discussed above, except that the terms require that the net proceeds of asset sales in excess of the first \$100 million be used to reduce the loan balance. The agreement also states that a lien of two times the outstanding balance will be applied to our inventory if our credit ratings fall to either BB- or Ba3 or lower. When the agreement expires in June 2005, any amount outstanding will be due and payable.

In December 2003, the FASB issued a revised FASB Interpretation No. 46, Consolidation of Variable Interest Entities. Interpretation No. 46, as revised, required us to reclassify \$172.5 million of Adjustable conversion-rate equity security units from Minority Interest to Debt in our Consolidated Balance Sheets and recognize distributions on these securities as Interest expense rather than Minority interest, net of income tax in our Consolidated Statements of Income (Loss). As allowed by the FASB's revised Interpretation No. 46, prior years' financial statements were

Edgar Filing: OFFICEMAX INC - Form 10-Q/A

reclassified to conform with the current year's presentation. In all periods presented, there was no net effect on earnings, and the reclassification of these securities to debt did not affect our financial covenants.

In April and May 2004, we entered into two interest rate swaps with notional amounts of \$50 million each. These swaps convert \$100 million of fixed-rate \$150 million 7.50% debentures to variable-rate debt based on six-month LIBOR plus approximately 3.9% for the April swap and 3.8% for the May swap. The effective interest rate on the \$150 million 7.50% debentures, including the swaps, was 5.9% at June 30, 2004. The swaps expire in February 2008.

In March 2002, we entered into an interest rate swap with a notional amount of \$50 million. This swap converts \$50 million of fixed-rate \$150 million 7.05% debentures to variable-rate debt based on six-month LIBOR plus approximately 2.2%. The effective interest rates on the \$150 million 7.05% debentures, including the swaps, were 5.9% at both June 30, 2004 and 2003. This swap expires in May 2005.

At June 30, 2004 and 2003, we had \$49.5 million and \$1.0 million of short-term borrowings outstanding. Changes in short-term borrowings primarily reflect the addition of two \$20 million floating-rate term loans entered into during second quarter 2004. The interest rates on the term loans are variable rates based on either the LIBOR or the prime rate. The term loans expire in May 2005. The minimum and maximum amounts of combined short-term borrowings outstanding were \$6.2 million and \$70.9 million during the six months ended June 30, 2004, and were \$0 and \$117.4 million during the six months ended June 30, 2003. The average amounts of short-term borrowings outstanding during the six months ended June 30, 2004 and 2003, were \$22.0 million and \$52.0 million. The average interest rates for these borrowings were 1.3% for 2004 and 2.1% for 2003.

At June 30, 2004, we had \$143.0 million of unused borrowing capacity registered with the SEC for additional debt securities.

#### ***Off-Balance-Sheet and Other Contractual Arrangements and Guarantees***

For information on off-balance-sheet and other contractual arrangements and guarantees, see our Annual Report on Form 10-K for the year ended December 31, 2003. At June 30, 2004, there had been no material changes to our contractual obligations outside the ordinary course of business. The following represent changes to the guarantees disclosed in our 2003 Annual Report on Form 10-K:

Boise Cascade Office Products Corporation and OfficeMax, Inc. (both wholly owned subsidiaries of OfficeMax Incorporated) guaranteed three of OfficeMax Incorporated's floating-rate term loans. At June 30, 2004, \$60 million was outstanding under the term loans. One of the term loans expires in April 2005, and two expire in May 2005.

Previously, OfficeMax Incorporated guaranteed the debt used to fund our employee stock ownership plan (ESOP) for our U.S. salaried employees. The debt was repaid in 2004. We have guaranteed tax indemnities on the ESOP debt. Under these indemnities, we would be required to pay additional amounts to the debt holders if the interest payments on the debt were determined to be taxable. Any amounts paid under this tax indemnification would be dependent upon future tax rulings and assessments by the Internal Revenue Service and are not quantifiable at this time.

*Inflationary and Seasonal Influences*

We believe inflation has not had a material effect on our financial condition or results of operations; however, there can be no assurance that we will not be affected by inflation in the future.

Our office products businesses are seasonal. Sales in the second quarter and summer months are historically the slowest of the year. Our building products businesses are dependent on housing starts, repair-and-remodel activity, and commercial and industrial building, which in turn are influenced by the availability and cost of mortgage funds and adverse weather conditions. In addition, adverse weather may affect our operating costs (including energy) at our manufacturing facilities.

*Timber Supply and Environmental Issues*

For information on timber supply and environmental issues, see our Annual Report on Form 10-K for the year ended December 31, 2003.

***Critical Accounting Estimates***

For information on critical accounting estimates, see our Annual Report on Form 10-K for the year ended December 31, 2003.

***Cautionary and Forward-Looking Statements***

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, 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 Summary and Outlook section. We cannot guarantee that our actual results will be consistent with the forward-looking statements we make in this report. We have listed below inherent risks and uncertainties that could cause our actual results to differ materially from those we project. We do not assume an obligation to update any forward-looking statement.

***We cannot ensure that we will complete the announced sale of our forest products assets.*** On July 26, we announced that we had reached a definitive agreement to sell our paper, forest products, and timberland assets to affiliates of Madison Dearborn Partners LLC. There is no assurance that we will be able to complete the sale at all or complete it on the terms and conditions that we have described here and in our other filings with the SEC. The closing of the transaction depends upon a number of factors, some of which are outside of our control. If we cannot complete the sale, we will not be able to repay debt or return proceeds to our shareholders at the same level or within the same time frames as we have anticipated. In addition, intervening or unexpected events, changes in our debt structure, or unanticipated cash requirements could disrupt our plans to repay debt and return proceeds to our shareholders.

***We have more indebtedness since our merger with OfficeMax, Inc., which could adversely affect our cash flows, business, and ability to fulfill our debt obligations.*** We have a substantial amount of debt, some of which we recently incurred as part of our acquisition of OfficeMax, Inc. in 2003. As of July 31, 2004, our outstanding debt was approximately \$2.3 billion. The increased levels of debt could, among other things: require us to dedicate a substantial portion of our cash flow from operations to payments on our debt, thereby reducing funds available for working capital, capital expenditures, acquisitions, and other purposes; increase the cost and reduce the availability of funds from commercial lenders, debt financing transactions, and other sources; increase our vulnerability to, and limit our flexibility in planning for, adverse economic and industry conditions; create competitive disadvantages, compared with other companies with lower debt levels; and cause further downgrading of our credit rating, which could limit our ability to borrow money and increase the cost of doing so. While we anticipate repaying some of this debt with the proceeds from the planned sale of our forest products assets, we cannot ensure that the sale will be completed or that intervening events will not cause us to deploy proceeds for another use.

***Competition in our markets could harm our ability to achieve or maintain profitability.*** All of the markets we serve are highly competitive, with a number of large companies operating in each. We compete in our markets principally through price, service, quality, and value-added products and services.

*OfficeMax, Contract and Retail.* The office products market is highly competitive. Purchasers of office products have many options when purchasing office supplies and paper, technology products, and office furniture. We compete with worldwide contract stationers, large retail office products suppliers, direct-mail distributors, discount retailers, drugstores, supermarkets, and thousands of local and regional contract stationers, many of whom have long-standing customer relationships. Increased competition in the office products industry, together with increased advertising, has heightened price awareness among end-users. Such heightened price awareness has led to margin pressure on office products. Besides price, competition is also based on customer service.

*Boise Building Solutions.* The building products markets in which we compete are very large and highly fragmented, with fewer than ten national producers but hundreds of local and regional manufacturers and distributors. Most of our competitors are located in the United States and Canada, although we have seen increasing competition from outside North America. We compete not only with manufacturers and distributors of similar building products but also with products made from alternative

materials, such as steel and plastic. Many factors (chiefly price, quality, and service) influence competition in the building products markets.

*Boise Paper Solutions.* Our major paper products are uncoated free sheet, containerboard, and newsprint, all of which are globally traded commodities with numerous worldwide manufacturers and distributors. About a dozen major manufacturers compete in the North American paper market. Price, quality, and service are important competitive determinants across paper markets. All of our paper manufacturing facilities are located in the United States, and we compete largely in the domestic arena. We do, however, face competition from foreign producers. The level of this competition varies depending on the level of demand abroad and the relative rates of currency exchange. Our paper products also compete with electronic transmission and document storage alternatives. As trends toward more use of these alternatives continue, we may see variances in the overall demand for paper products or shifts from one type of paper to another. For example, demand for newsprint has declined as newspapers are replaced with electronic media.

Some of our competitors in each of our businesses are larger than we are and have greater financial and other resources available to them, and there can be no assurance that we can continue to compete successfully with them. Some of our competitors are also currently lower-cost producers and distributors than we are and may be better able to withstand price declines. In addition, if we do not continue to provide excellent customer service and quality products in each of our businesses, our profitability in each business and our overall profitability may be harmed.

*We cannot ensure that our integration with OfficeMax, Inc. will be successful.* Integrating and coordinating our operations and personnel with those of OfficeMax, Inc. will involve complex operational and personnel-related challenges. This process will be time-consuming and expensive, may disrupt the business of either or both companies, and may not result in the full benefits we expect. The difficulties, costs, and delays that could be encountered include: unanticipated issues in integrating information, communications, and other systems; negative effects on employee morale and performance as a result of job changes and reassignments; difficulties attracting and retaining key personnel; loss of customers; unanticipated incompatibility of purchasing, logistics, marketing, paper sales, and administration methods; and unanticipated costs of terminating or relocating facilities and operations.

*The prices we charge for our paper and building products are subject to cyclical market pressures.* Our paper and building products businesses are subject to cyclical market pressures. Historical prices for our products have been volatile, and our direct influence over the timing and extent of price changes for our products is limited. The relationship between supply and demand in the paper and building products industries significantly affects product pricing. Demand for building products is driven mainly by factors outside our control, such as the construction, repair-and-remodeling, and industrial markets; interest rates; and weather. The supply of paper and building products fluctuates based on available manufacturing capacity, and excess capacity in either industry, both domestically and abroad, can result in significant declines in market prices for our products. Prolonged periods of weak demand or excess supply in any of our businesses could negatively affect our market share, seriously reduce our margins, and harm our liquidity, financial condition, or results of operations.

*Increases in our raw material costs may harm the results of our operations.* The cost of our raw supplies, such as wood fiber, energy, and chemicals, significantly affects the results of our operations. Selling prices of our products have not always increased in response to increases in the prices of our raw materials. On occasion, our results of operations

have been, and in the future may be, harmed if we are unable to pass raw material price increases through to our customers. Wood fiber is a significant raw material for our paper and building products businesses. The percentage of our wood fiber requirements obtained from our timberlands will fluctuate based on a variety of factors, including changes in our timber harvest levels and changes in our manufacturing capacity. The cost of various types of wood fiber that we purchase in the market has at times fluctuated greatly because of economic or industry conditions. The volume and value of timber that can be harvested from our lands may be limited by natural disasters such as fire, insect infestation, disease, ice storms, windstorms, flooding, and other weather conditions and causes. We do not maintain insurance for any loss to our standing timber from natural disasters or other causes.

*Environmental regulation and environmental compliance expenditures affect our results.* Our paper and building products businesses are subject to a wide range of general and industry-specific environmental laws and regulations, particularly with respect to air emissions, wastewater discharges, solid and hazardous waste management, site remediation, forestry operations, and endangered species.

Compliance with these laws and regulations is a significant factor in our business. We expect to continue to incur significant capital and operating expenditures to maintain compliance with applicable environmental laws and regulations. Our failure to comply with applicable environmental laws and regulations, including permit requirements, could result in civil or criminal fines or penalties or in enforcement actions, including regulatory or judicial orders enjoining or curtailing operations or requiring corrective measures, installation of pollution control equipment, or remedial actions. As an owner and operator of real estate, we may be liable under environmental laws for cleanup and other costs and damages, including tort liability, resulting from past or present spills or releases of hazardous or toxic substances on or from our properties. Liability under these laws may be imposed without regard to whether we knew of, or were responsible for, the presence of such substances on our property and, in some cases, may not be limited to the value of the property. Unanticipated situations could give rise to material environmental liabilities. Enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant expenditures. We may be unable to generate funds or other sources of liquidity and capital to fund unforeseen environmental liabilities or expenditures.

**ITEM 4.**

***CONTROLS AND PROCEDURES***

(a) As of the end of the period covered by this quarterly report on Form 10-Q/A for the quarter ended June 30, 2004, the chief executive officer and chief financial officer directed and supervised an evaluation of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934). The evaluation was conducted to determine whether the company's disclosure controls and procedures were effective in bringing material information about the company to the attention of senior management. The company's chief executive officer and chief financial officer believe that the company's disclosure controls and procedures were designed to alert them in a timely manner to material information that the company is required to disclose in its filings with the Securities and Exchange Commission.

Subsequent to this evaluation, management assessed the effectiveness of our internal control over financial reporting as of December 31, 2004. Based on its assessment, management concluded that, as of June 30, 2004, OfficeMax's internal control over financial reporting was not effective due to a material weakness in internal control associated with the control environment of an entity acquired near the end of 2003, described below. Accordingly, our chief executive officer and chief financial officer concluded that the company's disclosure controls and procedures were not effective as of June 30, 2004 to alert them in a timely manner to material information that the company is required to disclose in its filings with the Securities and Exchange Commission.

The material weakness resulted from the combination of the following internal control deficiencies that, when aggregated, resulted in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements would not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions: (i) insufficient policies and procedures to ensure that employees in the merchandising department of the acquired entity acted in accordance with our Code of Conduct, (ii) insufficient policies and procedures regarding the follow-up on communications from vendor(s) regarding disputed claims, including the lack of adequate segregation of duties involving initiation of transactions and dispute resolution, and (iii) inadequately trained personnel within the merchandising and accounting departments. As a result of the deficiencies, the company overstated operating income in the first quarter of 2004 and understated operating income in the second and third quarters of 2004. The company has restated each of the aforementioned quarters to properly reflect the appropriate accounting in each period.

During December of 2004 we began an investigation under the direction of the audit committee of our board of directors into claims by a vendor to our retail business that certain employees acted inappropriately in requesting promotional payments and in falsifying supporting documentation for claims billed to the vendor by the company during 2003 and 2004. The investigation, which was concluded in February 2005, confirmed that certain employees fabricated supporting documents for approximately \$3.3 million in claims billed to the vendor. In addition, the investigation identified certain rebates and other payments from vendors in 2004 that were not recorded in the appropriate accounting period, because certain employees submitted inaccurate claim forms to support immediate recognition of vendor income related to future activities and over-deducted monies on payment to vendors for volume purchases (or other performance) that had not yet occurred. As a result, the company overstated operating income in the first quarter of 2004 by approximately \$7.1 million and understated operating income by approximately \$1.1 million and \$1.7 million in the second and third quarters of 2004, respectively. Although the amounts of overstatement and understatement were relatively small compared with the total vendor credits and the company's cost of sales in each quarter, the company has restated quarterly income in each of the first three fiscal quarters of 2004.

The company has made and will continue to make improvements to processes and controls that we believe will remediate the material weakness. Specifically, the company has:

Terminated employees who knowingly violated company policies;

Completed a review of all outstanding vendor claims and receivables;

Converted a substantial portion of our vendor credits to standard agreements that emphasize purchase volume credits over promotion and event driven credits, thereby ensuring the use of objective criteria to determine when a credit has been earned and may be taken into income by the company;

Expanded the practice of requesting vendor confirmation of vendor credit claims and outstanding receivables;  
and

Clarified the duties and responsibilities of the company personnel who interact with vendors to reinforce accountability.

In addition, management intends to:

Improve the training of personnel in the accounting and merchandising departments with respect to the company's vendor income policies and practices;

Enhance the skill level, staffing and reporting authority of personnel in the accounting and merchandising departments; and

Vest a senior executive with the responsibility to review issues related to vendor credits, such as outstanding receivables and disagreements with vendors, and regularly report his or her findings directly to the audit committee.

(b) While there have been significant changes (described above) in the company's internal control over financial reporting since December 31, 2004, no change in the company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits.

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

(b) Reports on Form 8-K.

On April 20, 2004, we filed a Form 8-K with the Securities and Exchange Commission to furnish the earnings release announcing our first quarter 2004 financial results and selected pages from our First Quarter 2004 Fact Book.

On July 20, 2004, we filed a Form 8-K with the Securities and Exchange Commission to furnish the earnings release announcing our second quarter 2004 financial results and selected pages from our Second Quarter 2004 Fact Book.

On July 26, 2004, we filed a Form 8-K with the Securities and Exchange Commission to file a news release, and to furnish a webcast and conference call PowerPoint presentation and script, announcing the company had reached a definitive agreement to sell its paper, forest products, and timberland assets for approximately \$3.7 billion to Madison Dearborn Partners LLC., a private equity investment firm located in Chicago, Illinois.

On July 28, 2004, we filed a Form 8-K with the Securities and Exchange Commission to file the Asset Purchase Agreement, and to furnish the webcast and conference call transcript, in connection with the company's July 26 announcement that it had reached a definitive agreement to sell its paper, forest products, and timberland assets to Madison Dearborn Partners LLC.

On July 29, 2004, we filed a Form 8-K with the Securities and Exchange Commission to file a news release announcing the election of Warren F. Bryant to the company's board of directors.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OFFICEMAX INCORPORATED

/s/ Theodore Crumley  
Theodore Crumley  
Executive Vice President and Chief Financial Officer  
(As Duly Authorized Officer and  
Principal Financial Officer)

Date: March 16, 2005

**OFFICEMAX INCORPORATED**

**INDEX TO EXHIBITS**

Filed With the Quarterly Report on Form 10-Q/A for the Quarter Ended June 30, 2004

<b>Number</b>	<b>Description</b>
11	Computation of Per-Share Income (Loss) (Restated)
12.1	Ratio of Earnings to Fixed Charges (Restated)
12.2	Ratio of Earnings to Combined Fixed Charges and Preferred Dividend Requirements (Restated)
31.1	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer of Boise Cascade Corporation

*Boise* and *HomePlate* are trademarks of Boise Cascade Corporation.