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

FORM 8-K

Current Report
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 15, 2013

Packaging Corporation of America
(Exact name of registrant as specified in its charter)

Delaware	1-15399	36-4277050
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1955 West Field Court, Lake Forest, Illinois 60045
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (847) 482-3000

Former name or former address, if changed since last report: N/A

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 230.425)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 8.01. Other Events

In connection with the proposed acquisition by Packaging Corporation of America ("PCA") of Boise Inc. ("Boise"), PCA is filing unaudited pro forma condensed combined financial statements of PCA and certain audited and unaudited consolidated financial statements of Boise.

Pro Forma Financial Information

Attached hereto as Exhibit 99.1 and incorporated herein by reference is the unaudited pro forma condensed combined financial information of PCA that is based on the historical consolidated financial information of PCA and Boise, as adjusted to illustrate the estimated pro forma effects of the events that are directly attributable to the acquisition of Boise (the "Transactions"). The unaudited pro forma condensed combined balance sheet gives effect to the Transactions as if they had been completed as of June 30, 2013. The unaudited pro forma condensed combined income statement information gives effect to the Transactions as if they had occurred on January 1, 2012.

The unaudited pro forma adjustments are based upon currently available preliminary information and assumptions that PCA believes to be reasonable. The pro forma adjustments and related assumptions are described in Exhibit 99.1 hereto.

Historical Financial Statements of Boise

Attached hereto as Exhibit 99.2 and incorporated herein by reference are the audited consolidated balance sheets of Boise and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2012, with the reports of KPMG LLP, an independent registered public accounting firm.

Attached hereto as Exhibit 99.3 and incorporated herein by reference are the unaudited consolidated balance sheets of Boise and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and six month periods ended June 30, 2013 and 2012, and the unaudited consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and six month periods ended June 30, 2013 and 2012.

Item 9.01. Financial Statements and Exhibits

Number	Description
23.1	Consent of KPMG LLP, an independent registered public accounting firm.
99.1	Unaudited pro forma condensed combined financial statements of Packaging Corporation of America, including the unaudited pro forma condensed combined balance sheet as of June 30, 2013 and the unaudited pro forma condensed combined statements of income for the year ended December 31, 2012 and for the six months ended June 30, 2013.
99.2	Audited consolidated balance sheets of Boise Inc. and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2012, with the reports of KPMG LLP, an independent registered public accounting firm.
99.3	Unaudited consolidated balance sheets of Boise Inc. and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and the six month periods ended June 30, 2013 and 2012, and the unaudited consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and the six month periods ended June 30, 2013 and 2012.

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 hereunto duly authorized.

PACKAGING CORPORATION OF AMERICA

Dated: October 15, 2013

By: /s/ Kent A. Pflederer
Name: Kent A. Pflederer
Title: Senior Vice President—Legal and Administration, General Counsel and Secretary

EXHIBIT INDEX

Number	Description
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99.2	Audited consolidated balance sheets of Boise Inc. and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2012, with the reports of KPMG LLP, an independent registered public accounting firm.
99.3	Unaudited consolidated balance sheets of Boise Inc. and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and six month periods ended June 30, 2013 and 2012, and the unaudited consolidated balance sheets of BZ Intermediate Holdings LLC and its subsidiaries as of June 30, 2013 and December 31, 2012, and the related consolidated statements of operations, comprehensive income, and cash flows for the three and six month periods ended June 30, 2013 and 2012.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Boise Inc.:

We consent to the incorporation by reference in the registration statements (Nos. 333-179620, 333-159576, 333-188265, and 333-191713) on Forms S-8 and S-3 of Packaging Corporation of America of our reports dated February 26, 2013, with respect to the consolidated balance sheets of Boise Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012, and the consolidated balance sheets of BZ Intermediate Holdings LLC as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2012, which reports appear in the Form 8-K of Packaging Corporation of America dated October 15, 2013. Also, we consent to the reference to our firm under the heading "Experts" in the prospectus.

KPMG LLP

Boise, Idaho
October 15, 2013

Exhibit 99.1

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

The following unaudited pro forma condensed combined financial information is based on the historical consolidated financial information of Packaging Corporation of America ("PCA") and Boise, Inc. ("Boise"), as adjusted to illustrate the estimated pro forma effects of the events that are directly attributable to the acquisition of Boise (the "Transactions"). The unaudited pro forma condensed combined balance sheet gives effect to the Transactions as if they had been completed as of June 30, 2013. The unaudited pro forma condensed combined income statement information gives effect to the Transactions as if they had occurred on January 1, 2012.

The unaudited pro forma condensed combined financial statements of PCA and Boise have been derived from:

- The unaudited condensed consolidated financial statements of PCA and Boise as of and for the period ended June 30, 2013 and the related notes included in the respective company's quarterly report on Form 10-Q;
- The audited consolidated financial statements of PCA and Boise as of and for the year ended December 31, 2012 and the related notes included in the respective company's annual report on Form 10-K;

The unaudited pro forma adjustments are based upon currently available preliminary information and assumptions that we believe to be reasonable. The pro forma adjustments and related assumptions are described in the accompanying notes presented on the following pages.

The unaudited pro forma condensed combined financial information is for informational purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position that PCA and Boise would have reported had the Transactions been completed as of the dates set forth in this unaudited pro forma condensed combined financial information and should not be taken as indicative of PCA's future consolidated results of operations or financial position. The actual results may differ significantly from those reflected in the unaudited pro forma condensed combined financial information for a number of reasons, including, but not limited to, differences between the assumptions used to prepare the unaudited pro forma condensed combined financial information and actual amounts.

The unaudited pro forma condensed combined financial information has been prepared using the purchase method of accounting as if the Transactions had been completed as of January 1, 2012 for the purposes of the unaudited pro forma condensed combined income statements, and as of June 30, 2013 for the purposes of the unaudited pro forma condensed combined balance sheet. Under the purchase method of accounting, the purchase price is required to be allocated to the underlying tangible and identifiable intangible assets acquired and liabilities assumed based on their respective fair market values as of the date of the acquisition, with any excess purchase price allocated to goodwill. The allocation of the purchase price as reflected in the unaudited pro forma condensed combined financial information is based upon management's internally developed preliminary estimates of the values of assets acquired and liabilities assumed as if the Transactions had been completed as of the above dates. This allocation of the purchase price depends upon certain estimates and assumptions, all of which are preliminary and in some instances are incomplete and have been made solely for the purpose of developing the unaudited pro forma condensed combined financial information. With respect to identifiable intangible assets and goodwill, the allocation of purchase price is preliminary. The final purchase price allocation may be different than that reflected in the pro forma purchase price allocation, and those differences may be material.

The unaudited pro forma condensed combined statements of income do not include (i) any revenue or cost saving synergies that may be achievable subsequent to the completion of the Transactions or (ii) the impact of non-recurring items directly related to the Transactions.

Unaudited Pro Forma Condensed Combined Balance Sheet as of June 30, 2013
($ in millions)

	Packaging Corporation of America	Boise Inc. (3)	Adjustments: New Financing (1)	Adjustments: Acquisition (2)	Pro Forma Combined
ASSETS					
Current assets:					
Cash and cash equivalents	$ 370	$ 61	$ 1,022(a)	$ (1,328)(i)	$ 125
Accounts receivable, net	403	263	—	(5)(o)	661
Inventories	263	289	—	26(j)	578
Prepaid expenses and other current assets	38	14	—	18(p)	70
Federal and state income taxes receivable	5	1	22(g)	(8)(j),(p)	20
Deferred income taxes	23	10	—	—	33
Total current assets	1,102	638	1,044	(1,297)	1,487
Property, plant and equipment, net	1,364	1,238	—	187(j)	2,789
Goodwill and other intangible assets	104	302	—	415(j)	821
Other long-term assets	45	31	9(b)	(22)(j)	63
Total assets	$ 2,615	$ 2,209	$ 1,053	$ (717)	$ 5,160
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Current maturities of long-term debt	$ 15	$ 15	$ 9(c)	$ —	$ 39
Capital lease obligations	1	—	—	—	1
Accounts payable	165	203	—	(5)(o)	363
Dividends payable	39	—	—	—	39
Accrued interest	4	11	(11)(e)	—	4
Accrued liabilities	121	90	—	—	211
Total current liabilities	345	319	(2)	(5)	657
Long-term liabilities:					
Long-term debt	771	760	1,089(d)	—	2,620
Capital lease obligations	24	—	—	—	24
Deferred income taxes	128	190	—	74(j)	392
Pension and postretirement benefit plans	164	116	—	—	280
Cellulosic biofuel tax reserve	102	—	—	—	102
Other long-term liabilities	30	74	—	—	104
Total long-term liabilities	1,219	1,140	1,089	74	3,522
Stockholders' equity:					
Common stock	1	—	—	—	1
Additional paid in capital	392	871	—	(871)(l)	392
Treasury stock	—	(121)	—	121(m)	—
Retained earnings	753	99	(34)(f)	(135)(k)	683
Total accumulated other comprehensive loss	(95)	(99)	—	99(n)	(95)
Total stockholders' equity	1,051	750	(34)	(786)	981
Total liabilities and stockholders' equity	$ 2,615	$ 2,209	$ 1,053	$ (717)	$ 5,160

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Condensed Combined Statement of Income for the Year Ended December 31, 2012
($ in millions, except per-share data)

	Packaging Corporation of America	Boise Inc. (3)	Adjustments: New Financing (1)	Adjustments: Acquisition (2)	Pro Forma Combined
Statement of income:					
Net sales	$ 2,844	$ 2,555	$ —	$ (20)(o)	$ 5,379
Cost of sales	(2,204)	(2,195)	—	8(o),(q)	(4,391)
Gross profit	640	360	—	(12)	988
Selling, general and administrative expenses	(280)	(183)	—	—	(463)
St. Helens charges	—	(28)	—	—	(28)
Alternative fuel mixture credits	96	—	—	—	96
Other expense, net	(12)	(1)	—	—	(13)
Income (loss) from operations	444	148	—	(12)	580
Interest expense, net	(63)	(62)	8(h)	—	(117)
Income (loss) before taxes	381	86	8	(12)	463
(Provision) benefit for income taxes	(217)	(34)	(3)(h)	5(r)	(249)
Net income (loss)	$ 164	$ 52	$ 5	$ (7)	$ 214
Weighted average common shares outstanding:					
Basic	96.4				96.4
Diluted	97.5				97.5
Net income per common share:					
Basic	$ 1.70				$ 2.22
Diluted	$ 1.68				$ 2.19

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information.

Unaudited Pro Forma Condensed Combined Statement of Income for the Six Months Ended June 30, 2013
($ in millions, except per-share data)

	Packaging Corporation of America	Boise Inc. (3)	Adjustments: New Financing (1)	Adjustments: Acquisition (2)	Pro Forma Combined
Statement of income:					
Net sales	$ 1,555	$ 1,229	$ —	$ (4)(o)	$ 2,780
Cost of sales	(1,181)	(1,100)	—	16(o),(p),(q)	(2,265)
Gross profit	374	129	—	12	515
Selling, general and administrative expenses	(149)	(92)	—	—	(241)
Restructuring costs	—	(9)	—	—	(9)
Other expense, net	(15)	(3)	—	—	(18)
Income from operations	210	25		12	247
Interest expense, net	(18)	(31)	3(h)	—	(46)
Income (loss) before taxes	192	(6)	3	12	201
(Provision) benefit for income taxes	(67)	3	(1)(h)	(5)(r)	(70)
Net income (loss)	$ 125	$ (3)	$ 2	$ 7	$ 131
Weighted average common shares outstanding:					
Basic	96.4				96.4
Diluted	97.5				97.5
Net income per common share:					
Basic	$ 1.30				$ 1.36
Diluted	$ 1.28				$ 1.34

See accompanying Notes to the Unaudited Pro Forma Condensed Combined Financial Information.

NOTES TO THE UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL INFORMATION

(1) New Financing Arrangement

These pro forma financial statements reflect PCA's acquisition of Boise, additional borrowings to consummate the acquisition and repayment of existing PCA and Boise debt through a combination of the issuance of $2.0 billion in term loans and senior notes. The amounts of the pro forma adjustments related to the issuance of term loans and senior notes at June 30, 2013 were based upon available cash and the capital structure as of the respective date.

(a) Represents the net adjustment to cash as a result of the financing transactions, calculated as follows:

(Dollar amounts in millions)	
Five-year term loan	$ 650
Seven-year term loan	650
Ten-year senior notes	700
Gross proceeds from new borrowings	2,000
Repayment of Boise debt (i)	(841)
Repayment of PCA existing senior credit facility	(127)
Estimated financing fees	(10)
Net adjustment to cash	$1,022

(i) Amount includes the following:

(Dollar amounts in millions)	
9% notes due 2017	$300
8% notes due 2020	300
Term loan due 2016	175
Estimated notes redemption premium	55
Accrued and unpaid interest	11
Total	$841

(b) Represents the estimated fees and expenses associated with the financing transactions, calculated as follows:

(Dollar amounts in millions)	
Credit Facilities and notes	$10
Unamortized financing fees written off on repayment of the existing PCA term loan	(1)
Net adjustment to deferred financing fees	$ 9

(c) Represents the current portion of the five and seven-year term loans after the new financing, calculated as follows:

(Dollar amounts in millions)	
Five-year term loan (i)	$ 33
Seven-year term loan (ii)	6
Repayment of current portion of existing PCA and Boise debt	(30)
Net adjustment to current maturities of long-term debt	$ 9

(i) Represents 5% of the $650 million five-year term loan.
(ii) Represents 1% of the $650 million seven-year term loan.

(d) Represents the net increase in long-term debt less current maturities, calculated as follows:

(Dollar amounts in millions)	
Five-year term loan	$ 617
Seven-year term loan	644
Ten-year senior notes	700
Repayment of the non-current portion of the existing Boise debt	(760)
Repayment of the non-current portion of the existing PCA term loan	(112)
Net adjustment to long-term debt, less current maturities	$1,089

(e) Represents the payment of accrued interest relating to Boise's existing debt.

(f) Represents the adjustment to retained earnings, comprising:

(Dollar amounts in millions)	
Unamortized financing fees relating to existing PCA's term loan	$ (1)
Estimated Boise notes redemption premium	(55)
Pre-tax adjustment to retained earnings	(56)
Tax effect (at federal and state statutory tax rate of 39%)	22
Net adjustment to retained earnings	$(34)

(g) Represents increase in deferred income tax assets associated with financing fees and redemption premium shown in Note f.

(h) Represents the decrease to interest expense, net as if the Transactions had been completed as of January 1, 2012, as follows:

(Dollar amounts in millions)	For the Year Ended December 31, 2012	For the Six Months Ended June 30, 2013
Interest expense relating to new debt (i)	$ 57	$ 29
Less interest expense on existing Boise debt	(62)	(31)
Less interest expense on existing PCA term loan	(3)	(1)
Pro forma decrease to interest expense, net	(8)	(3)
Tax effect (ii)	$ 3	$ 1

(i) Assumes a combined weighted average interest rate for the Credit Facilities and the notes of 2.9%. A 1/8% change in the interest rate would result in an increase or decrease in interest expense of $2.5 million for the twelve months ended December 31, 2012 and $1.3 million for the six months ended June 30, 2013, respectively.

(ii) Assumes a federal and state statutory tax rate of 39%.

(2) Preliminary Fair Value and Other Adjustments for the Acquisition

This adjustment is comprised of:

- the acquisition of Boise by PCA (the "Acquisition");
- preliminary fair value adjustments with respect to the Acquisition; and
- the payment of estimated fees and expenses

(i) Reflects the net adjustment to cash if the acquisition had occurred on June 30, 2013, calculated as follows:

(Dollar amounts in millions)	
Purchase price at $12.55 per common share	$(1,281)
Estimated transaction costs	(47)
Net adjustment to cash	$(1,328)

(j) Represents the estimated purchase price in excess of the fair value of the assets acquired and liabilities assumed upon acquisition of Boise by PCA. The estimated purchase price is allocated to the tangible and intangible assets acquired and liabilities assumed based on the estimated fair values with the excess of the purchase price over the fair value recorded to goodwill. The following table presents the calculation of preliminary goodwill arising from the Acquisition:

(Dollar amounts in millions)	
Purchase price, net of assumed debt of $775 million (i)	$1,281
Less: net book value of Boise net assets acquired (including historical goodwill):	(750)
Excess consideration transferred over net book value of assets acquired	531
Less fair value adjustments related to (ii):	
Inventory	26
Property, plant and equipment (iii)	187
Other assets	(22)
Income tax receivable	(1)
Deferred income taxes – long term	(74)
Pro forma adjustment to goodwill	415
Boise historical goodwill included in net assets	160
Pro forma goodwill (iv)	$ 575

(i) Estimated purchase price of outstanding Boise shares of common stock at a price of $12.55 per share.

(ii) PCA is in process of completing a fair value analysis of assets and liabilities to be acquired from Boise. The adjustments noted above only include preliminary adjustments related to the fair value of inventory, leases and property, plant and equipment. PCA is currently evaluating additional potential adjustments that include, but are not limited to, the following assets and liabilities to be acquired: intangible assets and pension liabilities. At this time, PCA does not have sufficient information to make a determination of the potential magnitude of the fair value adjustment.

(iii) With respect to property, plant, and equipment, a preliminary analysis to assign fair market values has been prepared and has been reflected within the unaudited pro forma combined financial information.

(iv) Intangible assets continue to be reported at their historical values in this unaudited pro forma condensed combined financial information. PCA believes that the historical intangibles assets are a reasonable approximation of fair value as they are the result of purchase accounting and recent fair value appraisals completed by Boise for recent acquisitions. PCA is currently re-evaluating the fair value of the intangible assets in connection with the acquisition of Boise. The final purchase price allocation may include necessary adjustments to allocate a portion of the purchase price to identifiable intangible assets as of the closing of the Transactions. While PCA's analysis to assign preliminary fair market values has not been completed, the Company expects that identifiable intangible assets will include trade names, customer relationships and proprietary technology. The final valuation of identifiable intangible assets may differ materially from the information presented herein.

(k) Represents the decrease to retained earnings for estimated acquisition-related expenses of $47 million expected to be incurred plus the elimination of historical Boise retained earnings of $99 million less an $11 million adjustment related to PCA's planned major maintenance accounting policy as described in Note p. During the six months ended June 30, 2013, acquisition-related expenses incurred by PCA were immaterial.

(l) Represents the elimination of Boise additional paid in capital.

(m) Represents the elimination of Boise treasury stock.

(n) Represents the elimination of Boise accumulated other comprehensive loss.

(o) Represents elimination adjustments for sales between PCA and Boise, accounts receivable and accounts payable due from/to the respective companies.

(p) PCA's policy is to defer the costs associated with planned major maintenance and recognize the expense ratably over the remainder of the fiscal year after incurred. As of June 30, 2013, Boise would have recognized a current asset with an increase in income of $18 million and corresponding tax impact of $7 million related to costs incurred that would have been recognized ratably over the remaining fiscal year in accordance with PCA policy.

PCA may identify additional differences between the accounting policies of the two companies that, when conformed, could have a material impact on the combined financial statements. At this time, PCA is not aware of any additional differences in accounting policies that would have a material impact on the combined financial statements that have not been adjusted for in the pro forma financial information. Accounting policy differences may be identified after completion of the acquisition.

(q) Reflects the estimated impact on depreciation for the fair value adjustment for property, plant and equipment using a weighted average estimated useful remaining life of 15 years. PCA has based these adjustments on preliminary estimates of the fair values of Boise's property, plant and equipment. The actual fair values assigned and the impact on depreciation expense may be materially different than the estimates provided herein.

(r) Reflects the income tax effect of the pro forma adjustments based on an estimated statutory tax rate of 39% for the period ended June 30, 2013.

(3) Reclassifications

For the purpose of this unaudited pro forma information, certain amounts in Boise's unaudited condensed consolidated balance sheet as of June 30, 2013, the consolidated statements of income for the six-month period then ended and the consolidated statements of income for the twelve-month period ended December 31, 2012 were reclassified to maintain consistency in presentation with PCA's financial information. The significant amounts that were reclassified on the balance sheet at June 30, 2013 were: (1) $24 million from deferring financing costs to other assets; and (2) $65 million from compensation and benefits to other accrued liabilities. The significant amounts that were reclassified in the consolidated income statement for the twelve-month period ended December 31, 2012 were: (1) $149 million from depreciation and amortization to cost of sales, (2) $20 million of related party fiber costs to cost of sales; and (3) $21 million of freight costs included within selling and distribution expenses to cost of sales. The significant amounts that were reclassified in the consolidated income statement for the six-month period ended June 30, 2013 were: (1) $85 million from depreciation and amortization to cost of sales, (2) $11 million of related party fiber costs to cost of sales, and (3) $11 million of freight costs included within selling and distribution expenses to cost of sales.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Boise Inc.:

We have audited the accompanying consolidated balance sheets of Boise Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Boise Inc. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boise, Idaho
February 26, 2013

Report of Independent Registered Public Accounting Firm

The Board of Directors
Boise Inc.:

We have audited the accompanying consolidated balance sheets of BZ Intermediate Holdings LLC and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, capital, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BZ Intermediate Holdings LLC and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Boise, Idaho
February 26, 2013

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

	Year Ended December 31		
	2012	2011	2010
Sales			
Trade	$2,495,092	$2,364,024	$2,058,132
Related parties	60,271	40,057	35,645
	2,555,363	2,404,081	2,093,777
Costs and expenses			
Materials, labor, and other operating expenses (excluding depreciation)	2,004,044	1,880,271	1,634,039
Fiber costs from related parties	19,772	18,763	25,259
Depreciation, amortization, and depletion	152,306	143,758	129,926
Selling and distribution expenses	121,827	107,654	58,107
General and administrative expenses	79,748	60,587	52,273
St. Helens charges	27,559	—	—
Other (income) expense, net	2,572	1,994	213
	2,407,828	2,213,027	1,899,817
Income from operations	147,535	191,054	193,960
Foreign exchange gain	179	135	890
Loss on extinguishment of debt	—	(2,300)	(22,225)
Interest expense	(61,740)	(63,817)	(64,825)
Interest income	160	269	306
	(61,401)	(65,713)	(85,854)
Income before income taxes	86,134	125,341	108,106
Income tax provision	(33,984)	(50,131)	(45,372)
Net income	**$ 52,150**	**$ 75,210**	**$ 62,734**
Weighted average common shares outstanding:			
Basic	**99,872**	**101,941**	**80,461**
Diluted	**101,143**	**106,746**	**84,131**
Net income per common share:			
Basic	**$ 0.52**	**$ 0.74**	**$ 0.78**
Diluted	**$ 0.52**	**$ 0.70**	**$ 0.75**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	2012	2011	2010
Net income	$52,150	$ 75,210	$62,734
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment, net of tax of $76, $0, and $0, respectively	50	(352)	—
Cash flow hedges:			
Change in fair value, net of tax of $534, ($2,611), and $0, respectively	850	(4,165)	—
Loss included in net income, net of tax of $1,015, $291, and $131, respectively	1,622	463	553
Actuarial gain (loss) and prior service cost (including related amortization) for defined benefit pension plans, net of tax of $11,303, ($24,540), and ($4,892), respectively	18,033	(39,149)	(7,744)
Other, net of tax of ($13), ($10), and ($53), respectively	103	63	(78)
	20,658	(43,140)	(7,269)
Comprehensive income	**$72,808**	**$ 32,070**	**$55,465**

See accompanying notes to consolidated financial statements.

Boise Inc.
Consolidated Balance Sheets
(dollars in thousands)

	December 31 2012	December 31 2011
ASSETS		
Current		
Cash and cash equivalents	$ 49,707	$ 96,996
Receivables		
Trade, less allowances of $1,382 and $1,343	240,459	228,838
Other	8,267	7,622
Inventories	294,484	307,305
Deferred income taxes	17,955	20,379
Prepaid and other	8,828	6,944
	619,700	668,084
Property		
Property and equipment, net	1,223,001	1,235,269
Fiber farms	24,311	21,193
	1,247,312	1,256,462
Deferred financing costs	26,677	30,956
Goodwill	160,130	161,691
Intangible assets, net	147,564	159,120
Other assets	7,029	9,757
Total assets	**$2,208,412**	**$2,286,070**

See accompanying notes to consolidated financial statements.

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

	December 31	
	2012	**2011**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable	185,078	202,584
Accrued liabilities		
Compensation and benefits	70,950	64,907
Interest payable	10,516	10,528
Other	20,528	22,540
	297,072	310,559
Debt		
Long-term debt, less current portion	770,000	790,000
Other		
Deferred income taxes	198,370	161,260
Compensation and benefits	121,682	172,394
Other long-term liabilities	73,102	57,010
	393,154	390,664
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, $0.0001 par value per share: 1,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value per share: 250,000 shares authorized; 100,503 and 100,272 shares issued and outstanding	12	12
Treasury stock, 21,151 shares held	(121,423)	(121,421)
Additional paid-in capital	868,840	866,901
Accumulated other comprehensive income (loss)	(101,304)	(121,962)
Retained earnings	102,061	171,317
Total stockholders' equity	748,186	794,847
Total liabilities and stockholders' equity	**$2,208,412**	**$2,286,070**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	2012	**2011**	**2010**
Cash provided by (used for) operations			
Net income	$ 52,150	$ 75,210	$ 62,734
Items in net income not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	157,040	149,715	137,495
Share-based compensation expense	5,983	3,695	3,733
Pension expense	11,279	10,916	9,241
Deferred income taxes	33,684	44,301	38,884
St. Helens charges	28,481	—	—
Other	1,868	1,878	95
Loss on extinguishment of debt	—	2,300	22,225
Decrease (increase) in working capital, net of acquisitions			
Receivables	(9,803)	1,624	57,255
Inventories	8,136	(22,237)	(17,120)
Prepaid expenses	(814)	(275)	4,690
Accounts payable and accrued liabilities	(16,505)	3,803	(6,690)
Current and deferred income taxes	(1,938)	4,632	5,585
Pension payments	(35,205)	(25,414)	(25,174)
Other	674	43	(3,172)
Cash provided by operations	235,030	250,191	289,781
Cash provided by (used for) investment			
Acquisition of businesses and facilities, net of cash acquired	—	(326,223)	—
Expenditures for property and equipment	(137,642)	(128,762)	(111,619)
Purchases of short-term investments	—	(3,494)	(25,336)
Maturities of short-term investments	—	14,114	24,744
Other	1,393	1,048	2,941
Cash used for investment	(136,249)	(443,317)	(109,270)
Cash provided by (used for) financing			
Issuances of long-term debt	5,000	275,000	300,000
Payments of long-term debt	(25,000)	(256,831)	(334,096)
Payments of financing costs	(188)	(8,613)	(12,003)
Repurchases of common stock	(2)	(121,421)	—
Proceeds from exercise of warrants	—	284,785	638
Payments of special dividends	(119,653)	(47,916)	(32,276)
Tax withholdings on net settlements of share-based awards	(5,833)	(2,775)	(1,629)
Other	(394)	1,060	(3,705)
Cash provided by (used for) financing	(146,070)	123,289	(83,071)
Increase (decrease) in cash and cash equivalents	(47,289)	(69,837)	97,440
Balance at beginning of the period	96,996	166,833	69,393
Balance at end of the period	**$ 49,707**	**$ 96,996**	**$ 166,833**

See accompanying notes to consolidated financial statements.

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

	Stockholders' Equity								
	Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock Shares	Treasury Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance at December 31, 2009	**$ —**	**84,419**	**$ 8**	**—**	**$ —**	**$ 578,669**	**$ (71,553)**	**$ 113,811**	**$ 620,935**
Net income								62,734	62,734
Other comprehensive loss, net of tax							(7,269)		(7,269)
Dividends declared								(32,338)	(32,338)
Warrants exercised		85	—			638			638
Share-based compensation awards		562	—			3,733			3,733
Restricted stock withheld for taxes		(221)	—			(1,629)			(1,629)
Other						31			31
Balance at December 31, 2010	**$ —**	**84,845**	**$ 8**	**—**	**$ —**	**$ 581,442**	**$ (78,822)**	**$ 144,207**	**$ 646,835**
Net income								75,210	75,210
Other comprehensive loss, net of tax							(43,140)		(43,140)
Dividends declared								(48,100)	(48,100)
Warrants exercised		38,407	4			284,781			284,785
Repurchases of common stock		(21,151)	—	21,151	(121,421)				(121,421)
Share-based compensation awards		(1,579)	—			3,695			3,695
Restricted stock withheld for taxes		(250)	—			(2,775)			(2,775)
Other						(242)			(242)
Balance at December 31, 2011	**$ —**	**100,272**	**$ 12**	**21,151**	**$ (121,421)**	**$ 866,901**	**$ (121,962)**	**$ 171,317**	**$ 794,847**
Net income								52,150	52,150
Other comprehensive income, net of tax							20,658		20,658
Dividends declared								(121,406)	(121,406)
Repurchases of common stock		—	—	—	(2)				(2)
Share-based compensation awards		695	—			5,983			5,983
Restricted stock withheld for taxes		(464)	—			(5,833)			(5,833)
Dividends accrued on share-based awards						1,125			1,125
Other						664			664
Balance at December 31, 2012	**$ —**	**100,503**	**$ 12**	**21,151**	**$ (121,423)**	**$ 868,840**	**$ (101,304)**	**$ 102,061**	**$ 748,186**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	2012	2011	2010
Sales			
Trade	$2,495,092	$2,364,024	$2,058,132
Related parties	60,271	40,057	35,645
	2,555,363	2,404,081	2,093,777
Costs and expenses			
Materials, labor, and other operating expenses (excluding depreciation)	2,004,044	1,880,271	1,634,039
Fiber costs from related parties	19,772	18,763	25,259
Depreciation, amortization, and depletion	152,306	143,758	129,926
Selling and distribution expenses	121,827	107,654	58,107
General and administrative expenses	79,748	60,587	52,273
St. Helens charges	27,559	—	—
Other (income) expense, net	2,572	1,994	213
	2,407,828	2,213,027	1,899,817
Income from operations	147,535	191,054	193,960
Foreign exchange gain	179	135	890
Loss on extinguishment of debt	—	(2,300)	(22,225)
Interest expense	(61,740)	(63,817)	(64,825)
Interest income	160	269	306
	(61,401)	(65,713)	(85,854)
Income before income taxes	86,134	125,341	108,106
Income tax provision	(33,984)	(50,131)	(44,529)
Net income	**$ 52,150**	**$ 75,210**	**$ 63,577**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	2012	**2011**	**2010**
Net income	$52,150	$ 75,210	$63,577
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustment, net of tax of $76, $0, and $0, respectively	50	(352)	—
Cash flow hedges:			
Change in fair value, net of tax of $534, ($2,611), and $0, respectively	850	(4,165)	—
Loss included in net income, net of tax of $1,015, $291, and $131, respectively	1,622	463	553
Actuarial gain (loss) and prior service cost (including related amortization) for defined benefit pension plans, net of tax of $11,303, ($24,540), and ($4,892), respectively	18,033	(39,149)	(7,744)
Other, net of tax of ($13), ($10), and ($53), respectively	103	63	(78)
	20,658	(43,140)	(7,269)
Comprehensive income	**$72,808**	**$ 32,070**	**$56,308**

See accompanying notes to consolidated financial statements.

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

	December 31 2012	December 31 2011
ASSETS		
Current		
Cash and cash equivalents	$ 49,707	$ 96,996
Receivables		
Trade, less allowances of $1,382 and $1,343	240,459	228,838
Other	8,267	7,622
Inventories	294,484	307,305
Deferred income taxes	17,955	20,379
Prepaid and other	8,828	6,944
	619,700	668,084
Property		
Property and equipment, net	1,223,001	1,235,269
Fiber farms	24,311	21,193
	1,247,312	1,256,462
Deferred financing costs	26,677	30,956
Goodwill	160,130	161,691
Intangible assets, net	147,564	159,120
Other assets	7,029	9,757
Total assets	**$2,208,412**	**$2,286,070**

See accompanying notes to consolidated financial statements.

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

	December 31	
	2012	2011
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	$ 10,000	$ 10,000
Accounts payable	185,078	202,584
Accrued liabilities		
Compensation and benefits	70,950	64,907
Interest payable	10,516	10,528
Other	20,528	22,540
	297,072	310,559
Debt		
Long-term debt, less current portion	770,000	790,000
Other		
Deferred income taxes	189,823	152,712
Compensation and benefits	121,682	172,394
Other long-term liabilities	73,152	57,061
	384,657	382,167
Commitments and contingent liabilities		
Capital		
Business unit equity	857,987	925,306
Accumulated other comprehensive income (loss)	(101,304)	(121,962)
	756,683	803,344
Total liabilities and capital	**$2,208,412**	**$2,286,070**

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31		
	2012	2011	2010
Cash provided by (used for) operations			
Net income	$ 52,150	$ 75,210	$ 63,577
Items in net income not using (providing) cash			
Depreciation, depletion, and amortization of deferred financing costs and other	157,040	149,715	137,495
Share-based compensation expense	5,983	3,695	3,733
Pension expense	11,279	10,916	9,241
Deferred income taxes	33,684	44,446	37,882
St. Helens charges	28,481	—	—
Other	1,868	1,878	95
Loss on extinguishment of debt	—	2,300	22,225
Decrease (increase) in working capital, net of acquisitions			
Receivables	(9,803)	1,624	57,255
Inventories	8,136	(22,237)	(17,120)
Prepaid expenses	(814)	(275)	4,690
Accounts payable and accrued liabilities	(16,505)	3,803	(6,690)
Current and deferred income taxes	(1,938)	4,487	5,744
Pension payments	(35,205)	(25,414)	(25,174)
Other	674	43	(3,172)
Cash provided by operations	235,030	250,191	289,781
Cash provided by (used for) investment			
Acquisition of businesses and facilities, net of cash acquired	—	(326,223)	—
Expenditures for property and equipment	(137,642)	(128,762)	(111,619)
Purchases of short-term investments	—	(3,494)	(25,336)
Maturities of short-term investments	—	14,114	24,744
Other	1,393	1,048	2,941
Cash used for investment	(136,249)	(443,317)	(109,270)
Cash provided by (used for) financing			
Issuances of long-term debt	5,000	275,000	300,000
Payments of long-term debt	(25,000)	(256,831)	(334,096)
Payments of financing costs	(188)	(8,613)	(12,003)
Payments (to) from Boise Inc., net	(124,824)	115,196	(31,639)
Other	(1,058)	(1,463)	(5,333)
Cash provided by (used for) financing	(146,070)	123,289	(83,071)
Increase (decrease) in cash and cash equivalents	(47,289)	(69,837)	97,440
Balance at beginning of the period	96,996	166,833	69,393
Balance at end of the period	**$ 49,707**	**$ 96,996**	**$ 166,833**

See accompanying notes to consolidated financial statements.

BZ Intermediate Holdings LLC
Consolidated Statements of Capital
(dollars in thousands)

	Capital		
	Business Unit Equity	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2009	**$ 700,143**	**$ (71,553)**	**$ 628,590**
Net income	63,577		63,577
Other comprehensive loss, net of tax		(7,269)	(7,269)
Net equity transactions with Boise Inc.	(29,566)		(29,566)
Balance at December 31, 2010	**$ 734,154**	**$ (78,822)**	**$ 655,332**
Net income	75,210		75,210
Other comprehensive loss, net of tax		(43,140)	(43,140)
Net equity transactions with Boise Inc.	115,942		115,942
Balance at December 31, 2011	**$ 925,306**	**$ (121,962)**	**$ 803,344**
Net income	52,150		52,150
Other comprehensive income, net of tax		20,658	20,658
Net equity transactions with Boise Inc.	(119,469)		(119,469)
Balance at December 31, 2012	**$ 857,987**	**$ (101,304)**	**$ 756,683**

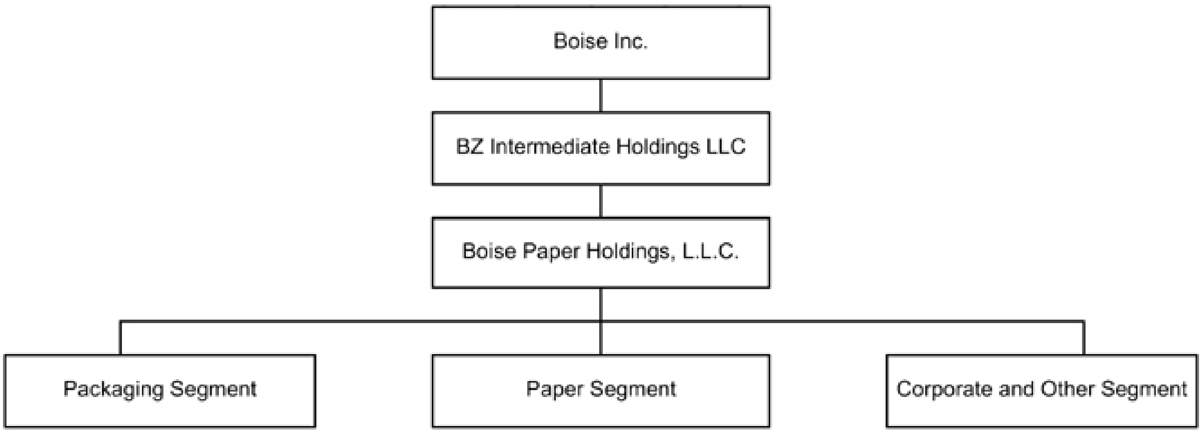
See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

Boise Inc. is a large, diverse manufacturer and seller of packaging and paper products. Our operations began on February 22, 2008, when we acquired the packaging and paper assets of Boise Cascade Holdings, L.L.C. (Boise Cascade). We are headquartered in Boise, Idaho, and we operate largely in the United States but also have operations in Europe, Mexico, and Canada. We manufacture and sell corrugated containers and sheets, protective packaging products and papers associated with packaging, such as label and release papers, and newsprint. Additionally, we manufacture linerboard, which when combined with corrugating medium is used in the manufacture of corrugated sheets and containers. The term containerboard is used to describe linerboard, corrugating medium, or a combination of the two.

Our organizational structure is noted below:



See Note 17, Segment Information, for additional information about our three reportable segments, Packaging, Paper, and Corporate and Other (support services).

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

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

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

2. Summary of Significant Accounting Policies

Consolidation and Use of Estimates

The consolidated financial statements include the accounts of Boise Inc. and its subsidiaries after elimination of intercompany balances and transactions. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include the valuation of accounts receivable, inventories, goodwill, intangible assets, and asset retirement obligations; assumptions used in retirement benefit obligations; the recognition, measurement, and valuation of income taxes; the determination and allocation of the fair values of assets acquired and liabilities assumed in acquisitions; and assessment of the recoverability of long-lived assets. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Revenue Recognition

We recognize revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, our price to the buyer is fixed or determinable, and collectibility is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated freight on board (FOB) shipping point. For sales transactions designated FOB destination, revenue is recorded when the product is delivered to the customer's delivery site. Fees for shipping and handling charged to customers for sales transactions are included in "Sales". Costs related to shipping and handling are included in "Materials, labor, and other operating expenses (excluding depreciation)". We present taxes collected from customers and remitted to governmental authorities on a net basis in our Consolidated Statements of Income.

Share-Based Compensation

We recognize compensation expense for awards granted under the Boise Inc. Incentive and Performance Plan (the Plan) based on the fair value on the grant date. We recognize the cost of the equity awards over the period the awards vest. See Note 11, Share-Based Compensation, for more information.

Advertising Costs

We expense advertising costs as incurred. These expenses are generally recorded in "Selling and distribution expenses" in our Consolidated Statements of Income. For the years ended December 31, 2012 and 2011, advertising costs were $3.8 million in both periods, compared with $3.0 million in 2010.

Foreign Currency

Local currencies are the functional currencies for our operations outside the United States. Assets and liabilities are remeasured into U.S. dollars using the exchange rates as of the Consolidated Balance Sheet date. Revenue and expense items are remeasured into U.S. dollars using an average exchange rate prevailing during the period. Any resulting translation adjustments are recorded in the Consolidated Statements of Comprehensive Income. The foreign exchange gain (loss) reported in the Consolidated Statements of Income resulted from remeasuring transactions into the functional currencies.

Cash and Cash Equivalents

We consider all highly liquid interest-earning investments, including time deposits and certificates of deposit, with a maturity of three months or less at the date of purchase to be cash equivalents. The fair value of these investments approximates their carrying value. Cash totaled $44.9 million and $21.9 million at December 31, 2012 and 2011, respectively. Included in the December 31, 2012 and 2011, amounts were $8.0 million and $4.3 million, respectively, of cash at our operations outside the United States. Cash equivalents totaled $4.8 million and $75.1 million, respectively, at December 31, 2012 and 2011.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the amount we expect to collect. Trade accounts receivable do not bear interest. The allowance for doubtful accounts is our best estimate of the losses we expect will result from the inability of our customers to make required payments. We determine the allowance based on a combination of actual historical loss experience and an analysis of specific customer accounts. We periodically review our allowance for doubtful accounts and adjustments to the valuation allowance are charged to income. Trade accounts receivable balances that remain outstanding after we have used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. We may, at times, insure or arrange for guarantees on our receivables.

Financial Instruments

Our financial instruments include cash and cash equivalents, short-term investments, accounts receivable, accounts payable, long-term debt, and energy hedges. The recorded values of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable approximate fair values based on their short-term nature. Our long-term debt is recorded at the face value of those obligations. Our energy hedges are recorded at fair value.

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

We record all derivative instruments as assets or liabilities on our Consolidated Balance Sheets at fair value. The fair value of these instruments is determined by us using third-party valuations based on quoted prices for similar assets and liabilities. Changes in the fair value of derivatives are recorded in either "Net income (loss)" or "Other comprehensive income (loss)" as appropriate. The gain or loss on derivatives designated as cash flow hedges is included in "Other comprehensive income (loss)" in the period in which changes in fair value occur and is reclassified to income (loss) in the period in which the hedged item affects income (loss), and any ineffectiveness is recognized currently in "Net income (loss)". The gain or loss on derivatives that have not been designated as hedging instruments is included in income (loss) in the period in which changes in fair value occur.

Fair Value Measurements

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

Customer Rebates and Allowances

We provide rebates to our customers based on the volume of their purchases. We provide the rebates to increase the sell-through of our products. The rebates are recorded as a decrease in "Sales, Trade" in our Consolidated Statements of Income. At December 31, 2012 and 2011, we had $20.8 million and $14.5 million, respectively, of rebates payable recorded in "Accounts payable" on our Consolidated Balance Sheets.

Inventory Valuation

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

Inventories include the following (dollars in thousands):

	December 31	
	2012	2011
Finished goods	$150,496	$155,588
Work in process	41,575	41,172
Fiber	35,840	38,469
Other raw materials and supplies	66,573	72,076
	$294,484	**$307,305**

Property and Equipment

Property and equipment are recorded at cost. Cost includes expenditures for major improvements and replacements and the amount of interest cost associated with significant capital additions. For the years ended December 31, 2012, 2011, and 2010, capitalized interest, if any, was immaterial. Repairs and maintenance costs are expensed as incurred. When property and equipment are retired, sold, or otherwise disposed of, the asset's carrying amount and related accumulated depreciation are removed from the accounts and any gain or loss is included in "Net income (loss)". In all periods presented, we used the straight-line method of depreciation. We periodically assess the estimated useful lives of our assets. Changes in circumstances, such as changes to our operational or capital strategy, changes in regulation, or technological advances, may result in the actual useful lives differing from our estimates. Revisions to the estimated useful lives of assets requires judgment and constitutes a change in accounting estimate, which is accounted for prospectively by adjusting or accelerating depreciation and amortization rates.

Property and equipment consisted of the following asset classes and the following general range of estimated useful lives (dollars in thousands):

	December 31		General Range of Estimated Useful Lives in Years
	2012	2011	
Land	$ 28,899	$ 34,735	
Buildings and improvements	260,607	248,174	9 - 40
Machinery and equipment	1,479,212	1,375,069	3 - 20
Construction in progress	46,538	44,563	
	1,815,256	1,702,541	
Less accumulated depreciation	(592,255)	(467,272)	
	$1,223,001	**$1,235,269**	

Weighted average useful lives are approximately 27 years for buildings and improvements and 13 years for machinery and equipment. Machinery and equipment consists of the following categories of assets and the following estimated useful lives:

Computer hardware and software	3 - 10
Furniture and fixtures	3 - 10
Vehicles	3 - 7
Packaging and papermaking equipment	9 - 20

Depreciation expense for the years ended December 31, 2012, 2011, and 2010, was $134.0 million, $129.8 million, and $120.5 million, respectively.

Leases

We assess lease classification as either capital or operating at lease inception or upon modification. We lease some of our locations, as well as other property and equipment, under operating leases. For purposes of determining straight-line rent expense, the lease term is calculated from the date of possession of the facility, including any periods of free rent and any renewal option periods that are reasonably assured of being exercised.

Fiber Farms

Costs for activities related to the establishment of a new crop of trees, including planting, thinning, fertilization, pest control, herbicide application, irrigation, and land lease costs, are capitalized. The capitalized costs are accumulated by specifically identifiable farm or irrigation blocks. We charge capitalized costs, excluding land, to “Depreciation, amortization, and depletion” in the accompanying Consolidated Statements of Income at the time of harvest based on actual accumulated costs associated with the fiber cut. Costs for administration, harvesting, insurance, and property taxes are recognized in “Materials, labor and other operating expenses (excluding depreciation)” in the accompanying Consolidated Statements of Income at the time the associated fiber is utilized.

Long-Lived Asset Impairment

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

Goodwill and Intangible Assets

We maintain two reporting units for purposes of our goodwill and intangible asset impairment testing, Packaging and Paper, which are the same as our operating segments discussed in Note 17, Segment Information. We test goodwill, recorded in our Packaging segment, and indefinite-lived intangible assets, recorded in our Paper segment, for impairment annually in the fourth quarter or sooner if events or changes in circumstances indicate that the carrying value of the asset may exceed fair value. Additionally, we evaluate the remaining useful lives of our finite-lived purchased intangible assets to determine whether any adjustments to the useful lives are necessary. See Note 7, Goodwill and Intangible Assets, for additional information.

Deferred Software Costs

Internal-use software is software that is developed internally, developed or modified solely to meet our needs, and for which, during the software’s development or modification, a plan does not exist to market the software externally. We defer internal-use software costs that benefit future years. These costs are amortized using the straight-line method over the expected life of the software, typically three to five years. “Other assets” in the Consolidated Balance Sheets include $6.4 million of deferred software costs at both December 31, 2012 and 2011, respectively. We amortized $1.6 million, $0.9 million, and $0.8 million of deferred software costs for the years ended December 31, 2012, 2011, and 2010, respectively.

Pension Benefits

Several estimates and assumptions are required to record pension costs and liabilities, including discount rate, return on assets, and longevity and service lives of employees. We review and update these assumptions annually unless a plan curtailment or other event occurs, requiring we update the estimates on an interim basis. While we believe the assumptions used to measure our pension obligations are reasonable, differences in actual experience or changes in assumptions may materially affect our pension obligations and future expense.

New and Recently Adopted Accounting Standards

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU requires entities to disclose additional information about changes in and significant items reclassified out of accumulated other comprehensive income. The guidance is effective for annual and interim reporting periods beginning after January 1, 2013. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. This guidance is effective for annual and interim reporting periods beginning January 1, 2013. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In July 2012, the FASB issued ASU 2012-02, Intangibles — Goodwill and Other (Topic 350): *Testing Indefinite-Lived Intangible Assets for Impairment*. This ASU gives entities testing indefinite-lived intangible assets for impairment the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action. However, if an entity concludes otherwise, a quantitative impairment test is required. This guidance is effective for our annual and interim impairment tests beginning January 1, 2013, with early adoption permitted. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This ASU improves reporting and transparency of offsetting (netting) assets and liabilities and the related effects on the financial statements. This guidance is effective for annual and interim reporting periods beginning January 1, 2013. We do not believe the adoption of this update will have a material effect on our financial position and results of operations.

In September 2011, the FASB issued ASU 2011-08, Intangibles — Goodwill and Other (Topic 350): *Testing Goodwill for Impairment*. This ASU gives entities testing goodwill for impairment the option of performing a qualitative assessment before calculating the fair value of a reporting unit in step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. We adopted the provisions of this guidance on January 1, 2012, and it had no effect on our financial position and results of operations.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income (Topic 220): *Presentation of Comprehensive Income*. This ASU increases the prominence of other comprehensive income in financial statements. Under this ASU, we have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. The ASU eliminates the option to present the components of other comprehensive income as part of the statement of equity. We adopted the provisions of ASU 2011-05 on January 1, 2012. The adoption of this guidance resulted in adding the Consolidated Statements of Comprehensive Income to our Consolidated Financial Statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS)*. This ASU was issued to provide largely identical guidance about fair value measurement and disclosure requirements for entities that disclose the fair value of an asset, a liability, or an instrument classified in shareholders' equity in their consolidated financial statements as that provided in the International Accounting Standards Board's new IFRS 13, *Fair Value Measurement.* This ASU does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under U.S. generally accepted accounting principles (GAAP). We adopted the provisions of ASU 2011-04 on January 1, 2012. The adoption of this guidance did not have a material effect on our financial statement disclosures.

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

3. St. Helens Charges

In December 2012, we ceased paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill. The cessation is a result of the machine's inability to compete in the marketplace over the long-term, due primarily to high fiber costs and declining product demand. This reduces our annual uncoated freesheet capacity by almost 60,000 tons and results in the loss of approximately 100 jobs, primarily at the mill. The remaining machine, which is owned by Cascades Tissue Group (Cascades), continues to operate on the site, and we continue to lease Cascades supporting assets.

During the year ended December 31, 2012, we recorded $31.7 million of pretax costs in our Paper segment, related primarily to ceasing paper production at the mill. In our Consolidated Statements of Income, we recorded $27.6 million of shutdown costs in "St. Helens charges" and $4.1 million in "Materials, labor, and other operating expenses (excluding depreciation)" related to inventory write-downs and other one-time costs incurred. At December 31, 2012, $4.3 million of costs were recorded in "Accrued liabilities, Compensation and benefits", $0.7 million in "Accrued liabilities, Other", and $10.3 million in "Other long-term liabilities" on our Consolidated Balance Sheet.

An analysis of the St. Helens costs is as follows (in thousands):

	Noncash		Cash (a)	Total Costs
Asset write-down	$11,144	(b)	$ —	$ 11,144
Inventory write-down	1,982		—	1,982
Employee-related costs	—		4,334	4,334
Pension curtailment loss	1,060		—	1,060
Increase in asset retirement obligations (Note 15)	—		10,256	10,256
Other	—		2,969	2,969
	$14,186		**$17,559**	**$ 31,745**

(a) We expect to pay approximately $7.3 million of the $17.6 million of cash costs in early 2013 and the remaining cash costs over a longer term.

(b) During third quarter 2012, we assessed the St. Helens long-lived assets for impairment. Our assessment was based upon, among other things, our estimates of the amount of future net cash flows to be generated by the long-lived assets and our estimates of the current fair value of the assets (Level 3 inputs). Considerable management judgment is necessary to evaluate estimated future cash flows. The assumptions used in our impairment evaluations are consistent with our operating plans.

4. Acquisitions

On March 1, 2011, we acquired Tharco Packaging, Inc. and its subsidiaries (Tharco) for $201.3 million (Tharco Acquisition), and on December 1, 2011, we acquired Hexacomb Corporation and its affiliated companies and all of the honeycomb packaging-related assets of Pregis Mexico (Hexacomb) for $124.9 million (Hexacomb Acquisition). We acquired 100% of the outstanding stock and voting equity interests of both Tharco and Hexacomb. The financial results for Tharco and Hexacomb are included in our Packaging segment.

During the year ended December 31, 2012, we recorded approximately $1.8 million of purchase price adjustments that decreased goodwill. These adjustments related primarily to changes in deferred tax liabilities that resulted from further analysis of the tax basis of acquired assets and liabilities and other tax adjustments.

5. Net Income Per Common Share

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

	Year Ended December 31		
	2012	**2011**	**2010**
Net income	$ 52,150	$ 75,210	$62,734
Weighted average number of common shares for basic net income per common share (a)	99,872	101,941	80,461
Incremental effect of dilutive common stock equivalents:			
Restricted stock and restricted stock units	999	2,502	3,670
Performance units	268	87	—
Common stock warrants (b)	—	2,214	—
Stock options (c)	4	2	—
Weighted average number of common shares for diluted net income per common share	101,143	106,746	84,131
Net income per common share:			
Basic	**$ 0.52**	**$ 0.74**	**$ 0.78**
Diluted	**$ 0.52**	**$ 0.70**	**$ 0.75**

(a) During the year ended December 31, 2011, 40.3 million warrants were exercised, resulting in the issuance of 38.4 million additional common shares. For the year ended December 31, 2011, the exercise added 25.7 million to the number of weighted average shares included in basic net income per share.
During the year ended December 31, 2011, 21.2 million common shares were repurchased, resulting in a 5.1 million decrease in the number of weighted average shares included in basic and diluted net income per share.

(b) For the year ended December 31, 2010, the warrants were not included in the computation of diluted net income per share because the exercise price exceeded the average market price of our common stock. The warrants were accounted for under the treasury stock method.

(c) We excluded 0.8 million and 0.3 million of stock options from the computation of diluted net income per common share because they were antidilutive for the years ended December 31, 2012 and 2011, respectively. We had no stock options outstanding during 2010.

6. Income Taxes

A reconciliation of the statutory U.S. federal tax provision and the reported tax provision is as follows (dollars in thousands):

	Boise Inc.			BZ Intermediate		
	Year Ended December 31					
	2012	2011	2010	2012	2011	2010
Income before income taxes	$86,134	$125,341	$108,106	$86,134	$125,341	$108,106
Statutory U.S. income tax rate	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
Statutory tax provision	$30,147	$ 43,870	$ 37,837	$30,147	$ 43,870	$ 37,837
Foreign rate differential	(165)	3	—	(165)	3	—
State taxes	3,340	4,839	4,120	3,340	4,839	4,120
Valuation allowance	225	146	307	225	146	307
Nondeductible costs	985	1,476	652	985	1,476	652
Other	(548)	(203)	2,456	(548)	(203)	1,613
Income tax provision	**$33,984**	**$ 50,131**	**$ 45,372**	**$33,984**	**$ 50,131**	**$ 44,529**
Effective income tax provision rate	**39.5%**	**40.0%**	**42.0%**	**39.5%**	**40.0%**	**41.2%**

The income tax provision shown in the Consolidated Statements of Income includes the following (dollars in thousands):

	Boise Inc.			BZ Intermediate		
	Year Ended December 31					
	2012	2011	2010	2012	2011	2010
Current income tax provision (benefit)						
Federal	$ (599)	$ 2,249	$ 4,253	$ (599)	$ 2,047	$ 4,454
State	832	3,472	2,236	832	3,529	2,194
Foreign	67	109	(1)	67	109	(1)
Total current	$ 300	$ 5,830	$ 6,488	$ 300	$ 5,685	$ 6,647
Deferred income tax provision (benefit)						
Federal	$29,985	$40,778	$34,061	$29,985	$40,980	$33,151
State	3,705	3,524	4,831	3,705	3,467	4,739
Foreign	(6)	(1)	(8)	(6)	(1)	(8)
Total deferred	$33,684	$44,301	$38,884	$33,684	$44,446	$37,882
Income tax provision (a)	**$33,984**	**$50,131**	**$45,372**	**$33,984**	**$50,131**	**$44,529**

(a) In January 2013, the U.S. President signed into law the American Taxpayer Relief Act of 2012, which extended many tax provisions that would have otherwise expired in 2012. Our income tax provision at December 31, 2012, does not include the effect of this law; however, the effect, if any, would not be significant. We will record the effect, if any, of the extended tax provisions in first quarter 2013.

During the year ended December 31, 2012, refunds received, net of cash paid for taxes, was $0.5 million. During the years ended December 31, 2011 and 2010, cash paid for taxes, net of refunds received, was $1.9 million and $0.7 million, respectively.

The following details the scheduled expiration dates of our tax effected net operating loss (NOL) and tax credit carryforwards at December 31, 2012 (dollars in thousands):

	Boise Inc.				BZ Intermediate			
	2013 Through 2022	2023 Through 2032	Indefinite	Total	2013 Through 2022	2023 Through 2032	Indefinite	Total
U.S. federal and non-U.S. NOLs	$ 4,432	$35,820	$ —	$40,252	$ 4,432	$35,920	$ —	$40,352
State taxing jurisdiction NOLs	351	3,380	—	3,731	351	3,380	—	3,731
U.S. federal, non-U.S., and state tax credit carryforwards	196	589	4,053	4,838	196	589	4,053	4,838
U.S. federal capital loss carryforwards	1,232	—	—	1,232	1,232	—	—	1,232
Total	**$ 6,211**	**$39,789**	**$ 4,053**	**$50,053**	**$ 6,211**	**$39,889**	**$ 4,053**	**$50,153**

Internal Revenue Code Section 382 imposes limitations on our ability to use net operating losses if we experience “ownership changes.” In general terms, ownership change may result from transactions increasing the ownership of specified shareholders by greater than 50 percentage points over a three year period. We cannot give any assurance we will not undergo any ownership change at a time when these limitations would have a significant effect. To the extent we are not able to use net operating losses in any given year, the unused limitation amount may be carried over to later years. We believe it is more likely than not that our net operating losses will be fully realized before they expire.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. The components of our net deferred tax assets and liabilities at December 31, 2012 and 2011, in the Consolidated Balance Sheets are as follows (dollars in thousands):

	Boise Inc.		BZ Intermediate	
	December 31			
	2012	2011	2012	2011
Deferred tax assets				
Employee benefits (a)	$ 68,375	$ 84,453	$ 68,375	$ 84,453
Deferred financing costs	1,584	1,593	1,584	1,593
Intangible assets and other	310	122	310	122
Net operating loss carryforwards (b)	61,106	61,262	60,999	61,155
Alternative minimum tax	4,053	4,877	4,053	4,877
Asset retirement obligations	8,025	3,933	8,025	3,933
Inventories	7,752	11,875	7,752	11,875
State income tax adjustments	4,894	4,701	4,894	4,701
Other	9,130	10,000	9,130	10,000
Gross deferred tax assets	165,229	182,816	165,122	182,709
Valuation allowance (c)	(5,296)	(5,340)	(5,296)	(5,340)
Net deferred tax assets	**$159,933**	**$177,476**	**$159,826**	**$177,369**
Deferred tax liabilities				
Property and equipment	$266,120	$244,230	$266,120	$244,230
Intangible assets and other	60,195	61,416	60,195	61,416
Deferred income	9,647	9,647	908	908
Other	4,386	3,064	4,471	3,148
Deferred tax liabilities	**$340,348**	**$318,357**	**$331,694**	**$309,702**
As reported on our Consolidated Balance Sheets				
Current deferred tax assets, net	$ 17,955	$ 20,379	$ 17,955	$ 20,379
Noncurrent deferred tax liabilities	198,370	161,260	189,823	152,712
Total deferred tax liabilities, net (d)	**$180,415**	**$140,881**	**$171,868**	**$132,333**

(a) The decrease relates to the tax effect of changes in recorded pension liabilities. See Note 10, Retirement and Benefit Plans, for more information.

(b) At December 31, 2012 and 2011, net operating losses exclude $9.8 million and $4.4 million, respectively, of tax benefits that arose directly from tax deductions related to equity compensation in excess of compensation recognized for financial reporting. To the extent such net operating losses are utilized, stockholders’ equity will be increased.

(c) Deferred tax assets are reduced by a valuation allowance when it is more likely than not that some portion of the deferred tax assets will not be realized. In 2012 and 2011, we recorded a $5.3 million valuation allowance. In 2012, $4.1 million of the valuation allowance relates to foreign net operating loss carryforwards, and the remaining $1.2 million relates to a valuation allowance recorded in full on deferred tax assets relating to capital losses. In 2011, $4.3 million of the valuation allowance relates to foreign net operating loss carryforwards and credits acquired as part of the Hexacomb acquisition. The remaining $1.0 million valuation allowance recorded during 2011 relates to a valuation allowance recorded in full on deferred tax assets relating to capital losses. We do not expect to generate capital gains before the losses expire. If or when recognized, the tax benefits relating to the reversal of any of or all of the valuation allowance will be recognized as a reduction of income tax expense.

(d) As of December 31, 2012, we had not recognized U.S. deferred income taxes on our cumulative total of undistributed earnings for non-U.S. subsidiaries. Determining the unrecognized deferred tax liability related to investments in these non-U.S. subsidiaries that are indefinitely reinvested is not practicable. We currently intend to indefinitely reinvest those earnings in operations outside the United States.

Pretax income from domestic and foreign sources is as follows (dollars in thousands):

	Boise Inc.			BZ Intermediate		
	Year Ended December 31					
	2012	2011	2010	2012	2011	2010
Domestic	$85,287	$125,072	$108,095	$85,287	$125,072	$108,095
Foreign	847	269	11	847	269	11
Income before income taxes	**$86,134**	**$125,341**	**$108,106**	**$86,134**	**$125,341**	**$108,106**

Uncertain Income Tax Positions

A reconciliation of the unrecognized tax benefits is as follows (dollars in thousands):

	Boise Inc.			BZ Intermediate		
	2012	2011	2010	2012	2011	2010
Beginning balance	$90,989	$87,585	$87,838	$90,968	$87,564	$87,820
Gross increases related to prior-period tax positions	189	409	169	189	409	166
Gross decreases related to prior-period tax positions	(2,284)	(228)	(529)	(2,284)	(228)	(529)
Gross increases related to current-period tax positions	—	3,223	107	—	3,223	107
Settlements	—	—	—	—	—	—
Ending balance (a)	**$88,894**	**$90,989**	**$87,585**	**$88,873**	**$90,968**	**$87,564**

(a) The unrecognized tax benefit, net of federal benefit for state taxes of $4.1 million, was $84.8 million at December 31, 2012. If that amount were recognized it would decrease our annual effective tax rate. Of this amount, $56.6 million ($56.5 million for BZ Intermediate) is recorded as a credit to long-term deferred taxes to eliminate the benefit associated with the uncertain tax position. The remaining $28.3 million ($28.4 million for BZ Intermediate) is recorded in "Other long-term liabilities" on our Consolidated Balance Sheets. Included in the $84.8 million is a credit related to our use of alternative fuel mixture to produce energy to operate our business of $83.2 million. Additional information relating to the inclusion of the alternative fuel mixture credits in taxable income may become available in the next 12 months, which could cause us to change our unrecognized tax benefits from the amounts currently recorded. It is not reasonably possible to know to what extent the total amounts of unrecognized benefits will increase or decrease within the next 12 months.

We recognize tax liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur. We recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Income. Interest expense and penalties relating to uncertain tax positions were nominal for the years ended December 31, 2012, 2011, and 2010.

BZ Intermediate is a wholly owned, consolidated entity of Boise Inc., and its tax return is filed under the consolidated tax return of Boise Inc. We file federal income tax returns in the U.S., state income tax returns in various state jurisdictions, and foreign income tax returns in various foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities. Tax years beginning in 2009 are subject to examination by taxing authorities, although net operating loss and credit carryforwards from all years are subject to examinations and adjustments for at least three years following the year in which utilized. Some foreign tax jurisdictions are open for the 2008 tax year.

7. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. At December 31, 2012, we had $160.1 million of goodwill recorded on our Consolidated Balance Sheet in our Packaging segment.

Changes in the carrying amount of our goodwill are as follows (dollars in thousands):

	Goodwill
Balance at January 1, 2011	$ —
Goodwill acquired	162,169
Foreign currency translation adjustments	(478)
Balance at December 31, 2011	**161,691**
Additions (reductions) (a)	(1,799)
Foreign currency translation adjustments	238
Balance at December 31, 2012	**$160,130**

(a) Represents purchase price adjustments related to the Tharco and Hexacomb acquisitions.

Intangible Assets

Intangible assets are comprised of customer relationships, trademarks and trade names, technology, and noncompete agreements. At December 31, 2012, the net carrying amount of intangible assets with indefinite lives, which represents trade names and trademarks, was $16.8 million, all of which is recorded in our Paper segment. All of our other intangible assets amortize based on their estimated useful lives. Foreign intangible assets are affected by foreign currency translation.

The gross carrying amount, accumulated amortization, net carrying amount, and weighted average useful life of our intangible assets were as follows (dollars in thousands):

	As of December 31, 2012			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in Years)
Customer relationships	$ 120,077	$ (16,485)	$ 103,592	15
Trademarks and trade names	28,400	(2,634)	25,766	15
Technology and other	7,760	(6,771)	989	5
Noncompete agreements	835	(418)	417	3
Total finite-lived intangible assets	**$ 157,072**	**$ (26,308)**	**130,764**	13
Indefinite-lived trademarks and trade names			16,800	
Total intangible assets (excluding goodwill)			**$ 147,564**	

	As of December 31, 2011			
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Weighted Average Useful Life (in Years)
Customer relationships	$ 119,646	$ (8,275)	$ 111,371	15
Trademarks and trade names	28,400	(623)	27,777	15
Technology and other	7,760	(5,265)	2,495	5
Noncompete agreements	835	(158)	677	3
Total finite-lived intangible assets	**$ 156,641**	**$ (14,321)**	**142,320**	13
Indefinite-lived trademarks and trade names			16,800	
Total intangible assets (excluding goodwill)			**$ 159,120**	

The following table sets forth our intangible asset amortization (dollars in thousands):

	Year Ended December 31		
	2012	2011	2010
Intangible asset amortization	$11,952	$6,533	$2,754

Based on current intangibles subject to amortization, our estimated future intangible asset amortization expense is as follows (dollars in thousands):

	2013	2014	2015	2016	2017	2018 and After
Amortization expense	$10,375	$10,122	$10,122	$10,113	$10,021	$80,011

Impairment Testing

We maintain two reporting units for purposes of our goodwill and intangible asset impairment testing, Packaging and Paper, which are the same as our operating segments discussed in Note 17, Segment Information. We test the goodwill, recorded in our Packaging segment, and the indefinite-lived intangible assets, recorded in our Paper segment, for impairment annually in the fourth quarter or sooner if events or changes in circumstances indicate that the carrying value of the asset may exceed fair value. Additionally, we evaluate the remaining useful lives of our finite-lived purchased intangible assets to determine whether any adjustments to the useful lives are necessary. We completed our test in fourth quarter, and there is no indication of goodwill or intangible asset impairment.

8. Debt

At December 31, 2012 and 2011, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

	December 31, 2012		December 31, 2011	
	Amount	Interest Rate	Amount	Interest Rate
Revolving credit facility, due 2016	$ 5,000	2.21%	$ —	— %
Tranche A term loan, due 2016	175,000	2.22	200,000	2.30
9% senior notes, due 2017	300,000	9.00	300,000	9.00
8% senior notes, due 2020	300,000	8.00	300,000	8.00
Long-term debt	780,000	7.05	800,000	6.95
Current portion of long-term debt	(10,000)	2.22	(10,000)	2.30
Long-term debt, less current portion	**$770,000**	7.11%	**$790,000**	7.01%

In 2011, Boise Paper Holdings, as borrower, and BZ Intermediate, as guarantor, entered into a $700 million five-year senior secured credit agreement (Credit Agreement) with a syndicate of lenders. The Credit Agreement consists of a five-year amortizing $200 million Tranche A term loan facility (the Term Loan Facility) and a five-year nonamortizing $500 million revolving credit facility (the Revolving Credit Facility and, together with the Term Loan Facility, the Credit Facilities).

As of December 31, 2012, our debt consisted of the following:

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

Credit Facilities

Under our Credit Facilities we elect whether interest on our Term Loan and, separately, interest under any Revolving Credit Facility is based on an alternative base rate or the London Interbank Offered Rate (LIBOR), plus an applicable spread based on our total leverage ratio. Our total leverage ratio is essentially our total net debt divided by our four trailing quarters of Adjusted Consolidated EBITDA (as defined in the Credit Agreement). Based on our current one-month LIBOR election, at December 31, 2012, the interest rate on our Credit Facilities was LIBOR plus 200 basis points and we pay interest on the Credit Facilities monthly in arrears.

At December 31, 2012, we had $5.0 million of borrowings outstanding under our Revolving Credit Facility. No amounts were outstanding at December 31, 2011. During 2012, the maximum borrowings under the Revolving Credit Facility were $5.0 million, and the weighted average amount of borrowings outstanding during the year was $0.1 million. At December 31, 2012, we had availability of $487.7 million, which is net of outstanding letters of credit of $7.3 million. At December 31, 2012, the average interest rate for our outstanding borrowings under our Revolving Credit Facility was 2.21%.

We are required to maintain the following financial covenant ratios under the Credit Agreement:

- Interest expense coverage ratio must be 2.50 or more based on four consecutive fiscal quarters.
- Senior secured leverage ratio must be 2.75 or less as of the end of any fiscal quarter.
- Total leverage ratio must be 4.50 or less as of the end of any fiscal quarter.

The Credit Facilities also contain representations and warranties, affirmative and negative covenants, events of default, and indemnifications customary for loan agreements for similar secured financings, including limits on the ability of Boise Paper Holdings and its subsidiaries to make restricted payments, acquisitions, and capital expenditures.

In the event of default, the lenders could terminate their commitments, declare the Credit Facilities, including interest and fees, due and payable, or enforce liens and security interests to collect outstanding amounts due under the Credit Facilities. In addition, the Credit Facilities require the proceeds from asset sales, subject to specified exceptions and casualty insurance, be used to pay down outstanding borrowings. At December 31, 2012, we were in compliance with these covenants. In third quarter 2012, we made $25.0 million of long-term debt payments on our Tranche A Term Loan Facility, $17.5 million of which were voluntary and eliminate our required principal payment obligations until December 31, 2013.

The obligations of Boise Paper Holdings under our Credit Facilities are guaranteed by each of BZ Intermediate's and Boise Paper Holdings' existing and subsequently acquired domestic and foreign subsidiaries, subject to materiality limitations (collectively, the Credit Facility Guarantors). The Credit Facilities are secured by all intercompany debt and a first-priority security interest in substantially all of the real, personal, and mixed property of Boise Paper Holdings and the Credit Facility Guarantors, including a first-priority security interest in 100% of the equity interests of Boise Paper Holdings and each domestic subsidiary of Boise Paper Holdings and, if requested by the administrative agent, 65% of the equity interests of our foreign subsidiaries.

8% *and* 9% *Senior Notes*

The 8% and 9% Senior Notes (together, the Senior Notes) are senior unsecured obligations and rank equally with all of our present and future senior indebtedness, senior to all of our future subordinated indebtedness and effectively subordinated to all of our present and future senior secured indebtedness (including all borrowings with respect to the Credit Facilities to the extent of the value of the assets securing such indebtedness). Interest on the Senior Notes is due semiannually.

The Senior Notes indenture agreements contain covenants which, subject to exceptions, limit the ability of the Senior Notes issuers and guarantors to, among other things, incur additional indebtedness, engage in some asset sales, make specified types of restricted payments, engage in transactions with affiliates, and create liens on assets of the Senior Notes issuers or guarantors. Upon a change of control, the Senior Notes issuers must offer to repurchase the Senior Notes at 101% of the principal amount, plus accrued and unpaid interest. If the Senior Notes issuers sell specified types of assets and do not use the proceeds from such sales for specified purposes, they must offer to repurchase the Senior Notes at 100% of the principal amount, plus accrued and unpaid interest.

Our 9% Senior Notes are callable at any time on or after November 1, 2013, at 104.5% of the principal amount, decreasing to par by November 1, 2015, plus accrued and unpaid interest.

Our 8% Senior Notes are callable at any time on or after April 1, 2015, at 104% of the principal amount, decreasing to par by April 1, 2018, plus accrued and unpaid interest.

The Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each existing and future subsidiary of BZ Intermediate (other than their respective issuers). The Senior Notes Guarantors do not include Louisiana Timber Procurement Company, L.L.C., or our foreign subsidiaries.

Other

As of December 31, 2012, required debt principal repayments were as follows (dollars in thousands):

	2013	2014	2015	2016	2017	Thereafter
Required debt principal repayments (a)	$10,000	$20,000	$30,000	$120,000	$300,000	$300,000

(a) Debt maturities in 2013 include repayment of $5.0 million of borrowings under our Revolving Credit Facility based on our intent to repay in 2013.

At December 31, 2012 and 2011, we had $26.7 million and $31.0 million, respectively, of costs recorded in “Deferred financing costs” on our Consolidated Balance Sheet. When we entered into the Credit Agreement in November 2011, we capitalized $7.9 million of financing costs, which we recorded in “Deferred financing costs” on our Consolidated Balance Sheets. We record the amortization of deferred financing costs in interest expense using the effective interest method over the life of the loans. For the years ended December 31, 2012, 2011, and 2010, we recorded $4.5 million, $5.8 million, and $6.8 million, respectively, of amortization expense in “Interest expense” in our Consolidated Statements of Income.

During 2011 and 2010, we substantially modified our debt structures, and as a result, we expensed $2.3 million in 2011 and $22.2 million in 2010 in “Loss on extinguishment of debt” in our Consolidated Statements of Income.

For the years ended December 31, 2012, 2011, and 2010, cash payments for interest were $57.3 million, $58.1 million, and $51.6 million, respectively.

With the exception of the Credit Facilities, our debt is fixed-rate debt. At December 31, 2012, the book value of our fixed-rate debt was $600.0 million, and the fair value was estimated to be $660.5 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value of our fixed-rate debt using quoted market prices (Level 1 inputs), discussed further in Note 2, Summary of Significant Accounting Policies.

9. Financial Instruments

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

Energy Risk

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At December 31, 2012, these derivatives included caps and call spreads, which we account for as economic hedges, and swaps, which are designated and accounted for as cash flow hedges. As of December 31, 2012, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

	January 2013 Through March 2013	April 2013 Through October 2013	November 2013 Through March 2014	April 2014 Through October 2014	November 2014 Through March 2015	April 2015 Through October 2015	November 2015 Through March 2016
Approximate percent hedged	87%	75%	53%	48%	43%	37%	13%

Economic Hedges

For derivative instruments that are not designated as hedges for accounting purposes, the gain or loss on the derivatives is recognized in “Materials, labor, and other operating expenses (excluding depreciation)” in the Consolidated Statements of Income. During the years ended December 31, 2012, 2011 and 2010, we recognized an insignificant amount of expense and/or income related to natural gas contracts we account for as economic hedges.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of “Accumulated other comprehensive income (loss)” on our Consolidated Balance Sheets and is recognized in “Materials, labor, and other operating expenses (excluding depreciation)” or “Interest expense” in our Consolidated Statements of Income in the period in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the instruments is reclassified out of accumulated other comprehensive income (loss) to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable. At December 31, 2012 and 2011, we had $1.2 million and $3.7 million of losses, respectively, net of tax recorded in “Accumulated other comprehensive income (loss)” on our Consolidated Balance Sheets related to our natural gas contracts.

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

	(Gain) Loss Recognized in Accumulated Other Comprehensive Income			Loss Reclassified From Accumulated Other Comprehensive Income Into Earnings		
	Year Ended December 31					
	2012 (a)	2011	2010	2012	2011	2010
Natural gas contracts	$ (1,384)	$ 6,776	$ —	$ 2,637	$ 754	$ —
Interest rate contracts	—	—	—	—	—	422
Total	**$ (1,384)**	**$ 6,776**	**$ —**	**$ 2,637**	**$ 754**	**$ 422**

(a) Based on December 31, 2012, pricing, the estimated loss, net of tax, to be recognized in earnings during the next 12 months is $1.2 million.

Fair Values of Derivative Instruments

At December 31, 2012 and 2011, the fair value of our financial instruments was determined based on New York Mercantile Exchange (NYMEX) price quotations under the terms of the contracts, using current market information as of the reporting date. The derivatives were valued by us using third-party valuations based on quoted prices for similar assets and liabilities. Accordingly, all of our fair value measurements use Level 2 inputs.

All of our derivative instruments are recorded in “Accrued liabilities, Other” and “Other long-term liabilities” on our Consolidated Balance Sheets. We offset asset and liability balances, by counterparty, where legal right of offset exists. The following table presents the fair value of these instruments (dollars in thousands):

	Level 2: Significant Other Observable Inputs	
	December 31	
	2012	2011
Natural gas contracts		
Cash flow hedges	$ 2,365	$ 6,022
Economic hedges	2,197	2,370
Total	**$ 4,562**	**$ 8,392**

Derivative instruments in an asset position at December 31, 2012, were not material. We did not have any derivative instruments in an asset position at December 31, 2011.

10. Retirement and Benefit Plans

Some of our employees participate in noncontributory defined benefit pension plans, contributory defined contribution savings plans, and deferred compensation plans.

Defined Benefit Plans

The majority of our pension benefit plans are frozen; however, approximately 400 hourly employees continue to accrue benefits under our defined benefit pension plans. When frozen, the pension benefit for salaried employees was based primarily on the employees’ years of service and highest five-year average compensation. The benefit for hourly employees is generally based on a fixed amount per year of service. Expenses attributable to participation in noncontributory defined benefit plans for the years ended December 31, 2012, 2011, and 2010, were $11.3 million, $10.9 million, and $9.2 million, respectively.

Defined Contribution Plans

Some of our employees participate in contributory defined contribution savings plans, which cover most of our salaried and hourly employees. Expenses related to matching contributions attributable to participation in contributory defined contribution savings plans for the years ended December 31, 2012, 2011, and 2010, were $17.7 million, $14.3 million, and $12.0 million, respectively. The company contributions for eligible salaried employees consist of a nondiscretionary, nonmatching base contribution, plus a matching contribution. We may also make additional discretionary matching and/or nonmatching contributions each year. The company contribution structure for hourly employees varies according to location and union arrangements.

Deferred Compensation Plans

Some of our employees participate in deferred compensation plans, in which key managers and nonaffiliated directors may irrevocably elect to defer a portion of their base salary and bonus or director's fees until termination of employment or beyond. Participants other than directors may elect to receive their company contributions in the deferred compensation plan in lieu of any company contribution in the defined contribution savings plan. The deferred compensation plans are unfunded; therefore, benefits are paid from our general assets. At December 31, 2012 and 2011, we had $5.9 million and $3.7 million, respectively, of liabilities attributable to participation in our deferred compensation plan on our Consolidated Balance Sheets.

Obligations and Funded Status of Defined Benefit Pension Plans

The funded status of our plans change from year to year based on the plan asset investment return, contributions, benefit payments, and the discount rate used to measure the liability. The following table, which includes only company-sponsored defined benefit plans, reconciles the beginning and ending balances of the projected benefit obligation and the fair value of plan assets. We recognize the unfunded status of our defined benefit pension plans on our Consolidated Balance Sheets, and we recognize changes in funded status in the year changes occur through our Consolidated Statements of Comprehensive Income (dollars in thousands):

	December 31	
	2012	**2011**
Projected benefit obligation at beginning of year	$558,416	$475,044
Service cost	2,732	3,969
Interest cost	24,596	25,582
Actuarial loss (a)	14,162	69,768
Closure and curtailment loss	1,060	—
Benefits paid and settlements	(26,965)	(15,947)
Projected benefit obligation at end of year	$574,001	$558,416
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$390,082	$355,901
Actual return on plan assets	60,613	24,714
Employer contributions	35,205	25,414
Benefits paid	(18,551)	(15,947)
Settlements	(8,414)	—
Fair value of plan assets at end of year	$458,935	$390,082
Underfunded status	**$115,066**	**$168,334**
Amounts recognized on our consolidated balance sheets		
Current liabilities	$ 309	$ 294
Noncurrent liabilities	114,757	168,040
Net amount recognized	**$115,066**	**$168,334**
Amounts recognized in accumulated other comprehensive income (loss)		
Actuarial net loss	$109,796	$139,061
Prior service cost	—	71
Net loss recognized	**$109,796**	**$139,132**

(a) The actuarial loss in 2012 is due primarily to a decrease in the weighted average discount rate from 4.50% to 4.25%, compared with a decrease from 5.50% to 4.50% in 2011.

The accumulated benefit obligation for all defined benefit pension plans was $574.0 million and $558.4 million as of December 31, 2012 and 2011, respectively. All of our defined benefit pension plans have accumulated benefit obligations in excess of plan assets.

Components of Net Periodic Benefit Cost and Other Comprehensive (Income) Loss

The components of net periodic benefit cost and other comprehensive (income) loss (pretax) are as follows (dollars in thousands):

	Year Ended December 31		
	2012	2011	2010
Service cost	$ 2,732	$ 3,969	$ 5,041
Interest cost	24,596	25,582	25,272
Expected return on plan assets	(27,286)	(24,581)	(23,242)
Amortization of actuarial loss	10,107	5,595	1,774
Amortization of prior service cost	5	51	51
Plan settlement curtailment loss	1,125	300	345
Net periodic benefit cost	**$ 11,279**	**$ 10,916**	**$ 9,241**
Changes in plan assets and benefit obligations recognized in other comprehensive (income) loss			
Actuarial net (gain) loss	$(19,158)	$ 69,635	$ 14,461
Prior service credit	(66)	(300)	—
Amortization of actuarial loss	(10,107)	(5,595)	(1,774)
Amortization of prior service cost	(5)	(51)	(51)
Total recognized in other comprehensive (income) loss	(29,336)	63,689	12,636
Total recognized in net periodic benefit cost and other comprehensive (income) loss	**$(18,057)**	**$ 74,605**	**$ 21,877**

We estimate net periodic benefit cost to be recognized in 2013 will be $5.4 million**.**

Assumptions

The following table presents the assumptions used in the measurement of our benefits obligation:

	December 31	
	2012	2011
Weighted average:		
Discount rate	4.25%	4.50%
Rate of compensation increase	— %	— %

The following table presents the assumptions used in the measurement of net periodic benefit cost:

	Year Ended December 31		
	2012	2011	2010
Weighted average assumptions as of the last day in the presented period:			
Discount rate	4.50%	5.50%	6.10%
Expected long-term rate of return on plan assets	7.00%	7.25%	7.25%
Rate of compensation increase	— %	— %	— %

Discount Rate Assumption. The discount rate reflects the current rate at which the pension obligations could be settled on the measurement date: December 31. At December 31, 2012, the discount rate assumption used to calculate the benefit obligation was determined using a hypothetical bond portfolio of AA-graded or better corporate bonds. At December 31, 2011, and for the periods ended December 31, 2012, 2011, and 2010, the discount rate assumption used to calculate the benefit obligation and the net periodic benefit cost was determined using a spot rate yield curve constructed to replicate Aa-graded corporate bonds. In all periods, the bonds included in the models reflect anticipated investments that would be made to match the expected monthly benefit payments over time. The plan's projected cash flows were duration-matched to these models to develop an appropriate discount rate. The discount rate we will use in our calculation of 2013 net periodic benefit cost is 4.25%.

Asset Return Assumption. The expected long-term rate of return on plan assets was based on a weighted average of the expected returns for the major investment asset classes in which we invest, considering the effects of active portfolio management and expenses paid from plan assets. Expected returns for the asset classes are based on long-term historical returns, inflation expectations, forecasted gross domestic product, earnings growth, and other economic factors. The weights assigned to each asset class were based on the investment strategy. The weighted average expected return on plan assets we will use in our calculation of 2013 net periodic benefit cost is 6.75%. In 2012, plan assets performed better than the long-term return assumption due to improved equity and debt market conditions.

Rate of Compensation Increases. Pension benefits for all salaried employees and most hourly employees are frozen. There are currently no scheduled increases in pension benefit rates for hourly employees in plans that have not been frozen. The compensation increase assumption is not applicable for all plans.

Investment Policies and Strategies

At December 31, 2012, 24% of our pension plan assets were invested in U.S. equity securities, 27% were invested in international equity securities, 27% were invested in long-duration fixed-income securities, 20% were invested in intermediate-duration fixed-income securities, and 2% were invested in private equity, cash, and other. The general investment objective for all of our plan assets is to optimize growth of the pension plan trust assets, while minimizing the risk of significant losses to enable the plans to satisfy their benefit payment obligations over time. The objectives take into account the long-term nature of the benefit obligations, the liquidity needs of the plans, and the expected risk/return trade-offs of the asset classes in which the plans may choose to invest. Our Retirement Funds Investment Committee is responsible for establishing and overseeing the implementation of our investment policy. Russell Investments (Russell) oversees the active management of our pension investments to achieve broad diversification in a cost-effective manner. At December 31, 2012, our investment policy governing our relationship with Russell allocated 28% to long-duration fixed-income securities, 20% to intermediate-duration fixed-income securities, 24% to U.S. equity securities, and 28% to international equity securities. Our arrangement with Russell allows monthly rebalancing to the policy targets noted above.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility risk, all of which are subject to change. Due to the level of risk associated with some investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could materially affect the reported amounts.

Fair Value Measurements of Plan Assets

The defined benefit plans hold an interest in the Boise Paper Holdings, L.L.C., Master Pension Trust (Master Trust). The assets in the Master Trust are invested in a common and collective trust whose funds are invested in U.S. equities, international equities, and fixed-income securities managed by Russell Trust Company. The Master Trust also invests in private equity securities managed by Pantheon Ventures Inc.

The following tables set forth, by level within the fair value hierarchy, discussed in Note 2, Summary of Significant Accounting Policies, the pension plan assets, by major asset category, at fair value at December 31, 2012 and 2011 (dollars in thousands):

	December 31, 2012			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3)	Total
Cash equivalents	$ —	$ 225	$ —	$ 225
Equity securities:				
Large-cap U.S. equity securities (b)	—	90,024	—	90,024
Small- and mid-cap U.S. equity securities (c)	—	17,998	—	17,998
International equity securities (d)	—	126,010	—	126,010
Fixed-income securities (e)	—	217,456	—	217,456
Private equity securities (f)	—	—	6,346	6,346
Total securities at fair value	—	451,713	6,346	458,059
Receivables and accrued expenses				876
Total fair value of plan assets				**$458,935**

	December 31, 2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2) (a)	Significant Unobservable Inputs (Level 3)	Total
Equity securities:				
Large-cap U.S. equity securities (b)	$ —	$ 112,609	$ —	$ 112,609
Small- and mid-cap U.S. equity securities (c)	—	19,426	—	19,426
International equity securities (d)	—	65,265	—	65,265
Fixed-income securities (e)	—	188,287	—	188,287
Private equity securities (f)	—	—	3,531	3,531
Total securities at fair value	—	385,587	3,531	389,118
Receivables and accrued expenses				964
Total fair value of plan assets				**$390,082**

(a) Investments are mutual funds managed by Russell Trust Company. The funds are valued at the net asset value (NAV) provided by Russell Trust Company, the administrator of the funds. We use NAV as a practical expedient for fair value. The NAV is based on the value of the assets owned by the fund, less liabilities at year-end. While the underlying assets are actively traded on an exchange, the funds are not. We have the ability to redeem these funds with a one-day notice, except as disclosed below in note (e).

(b) Our investments in this category are invested in the Russell Equity I Fund. The fund seeks higher long-term returns that exceed the Russell 1000 Index by investing in large-capitalization stock in the U.S. stock market.

(c) Our investments in this category are invested in the Russell Equity II Fund. The fund seeks high, long-term returns that exceed the Russell 2500 Index by investing in mid- and small-capitalization stocks of the U.S. stock market.

(d) At December 31, 2012 and 2011, our investments in this category included the Russell International Fund with Active Currency. The fund benchmarks against the Russell Developed ex-U.S. Large Cap Index Net and seeks favorable total returns and additional diversification through investment in non-U.S. equity securities and active currency management. The fund participates primarily in the stock markets of Europe and the Pacific Rim and seeks to opportunistically add value through active investment in foreign currencies. In addition, at December 31, 2012, our investments in this category included the Russell World Equity and the Russell Emerging Markets Funds. The Russell World Equity Fund benchmarks against the Russell Developed Large Cap Index and seeks higher returns through access to the large-cap segment of both U.S. and international developed equities. The Russell Emerging Markets Fund benchmarks against the Russell Emerging Markets Index and is designed to maintain a broadly diversified exposure to emerging market countries.

(e) In 2012, the Russell Long Credit Fixed income Fund (Long Credit Fund) was converted to a fund of funds structure and offers six Liability Driven Investment (LDI) fixed-income funds with horizons ranging from six to 16 years. Our investments at December 31, 2012, included the six LDI funds, which are designed to reduce defined benefit plan funded status volatility by more closely matching the interest rate sensitivity of plan liabilities. At December 31, 2012 and 2011, our investments in this category included the Russell Long Duration Fixed Income Fund (Long Duration Fund), which seeks to achieve above-average consistency in performance relative to the Barclays Capital U.S. Long Government/Credit Bond Index by combining manager styles and strategies with different payoffs over various phases of an investment cycle. At December 31, 2011, our investments included the Long Credit Fund, which seeks to achieve above-average consistency in performance relative to the Barclays Capital Long Credit Index and is used with other bond funds, such as the Long Duration Fund, to gain additional credit exposure to asset portfolios. Funds in this category are designed to provide maximum total return through diversified strategies, including sector rotation, modest interest rate timing, security selection, and tactical use of high-yield and emerging markets bonds. Investments in this category may be redeemed monthly with four days' notice.

(f) Our investments in this category are invested in the Pantheon Global Secondary Fund IV, LP. The fund specializes in investments in the private equity secondary market and occasionally directly in private companies to maximize capital growth. Fund investments are carried at fair value as determined quarterly using the market approach to estimate the fair value of private investments. The market approach utilizes prices and other relevant information generated by market transactions, type of security, size of the position, degree of liquidity, restrictions on the disposition, latest round of financing data, current financial position, and operating results, among other factors. In circumstances where fair values are not provided with respect to any of the company's fund investments, the investment advisor will seek to determine the fair value of such investments based on information provided by the general partners or managers of such funds or from other sources. Notwithstanding the above, the variety of valuation bases adopted and quality of management data of the ultimate underlying investee companies means that there are inherent difficulties in determining the value of the investments. Amounts realized on the sale of these investments may differ from the calculated values.

The following table sets forth a summary of changes in the fair value of the pension plans' Level 3 assets for the years ended December 31, 2012 and 2011 (dollars in thousands):

	Year Ended December 31	
	2012	**2011**
Balance, beginning of year	$ 3,531	$ 2,225
Purchases	2,400	720
Sales	(375)	—
Unrealized gain	790	586
Balance, end of year	**$ 6,346**	**$ 3,531**

Funding and Cash Flows

We fund our pension plans with amounts sufficient to meet legal funding requirements, plus any additional amounts we may determine to be appropriate considering the funded status of the plans, tax deductibility, cash flow from operations, and other factors. In 2012, we contributed $35.2 million to our plans, which exceeded our 2012 minimum pension contribution requirements. We have no required minimum contribution in 2013 and we will contribute at least the required minimum currently estimated to be approximately $3 million in 2014. The required minimum contribution depends on, among other things, actual returns on plan assets, changes in interest rates that affect our discount rate assumptions, changes in pension funding requirement laws, and modifications to our plans. Our estimates may change materially depending upon the effect of these and other factors. We may also elect to make additional voluntary contributions in any year, which could reduce the amount of required contributions in future years.

The following benefit payments reflect expected future service, as appropriate, and are expected to be paid to plan participants (dollars in thousands). Qualified pension benefit payments are paid from plan assets, while nonqualified pension benefit payments are paid by the Company.

	Pension Benefits
2013	$ 21,787
2014	24,145
2015	26,204
2016	28,046
2017	29,998
Years 2018-2022	172,273

11. Share-Based Compensation

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

Shares issued pursuant to awards under the Plan are from our authorized but unissued shares or from treasury shares. The maximum number of shares approved for grant under the Plan is 17.2 million shares. As of December 31, 2012, 9.0 million shares remained available for future issuance under the Plan. Share-based compensation costs in BZ Intermediate's financial statements represent expenses for restricted stock, restricted stock units, stock options, and performance units of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes.

Restricted Stock and Performance Units

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

In 2012 and 2011, pursuant to the Plan, we also granted performance units to members of management. The number of performance units awarded is subject to adjustment based on the two-year average return on net operating assets (RONOA). Because the RONOA component contains a performance condition, we record compensation expense, net of estimated forfeitures, over the requisite service period based on the most probable number of shares expected to vest. Any shares not vested are forfeited. We based the fair value of these awards on the closing market price of our common stock on the grant date, and we record compensation expense over the awards' vesting period.

The following summarizes the activity of our outstanding service- and market-condition restricted stock awards and performance units awarded under the Plan as of December 31, 2012, 2011, and 2010, and changes during the years ended December 31, 2012, 2011, and 2010 (number of shares in thousands):

	Service-Condition Vesting Awards (Restricted Stock Awards and Performance Units)		Market-Condition Vesting Awards	
	Number of Shares	Weighted Average Grant-Date Fair Value	Number of Shares	Weighted Average Grant-Date Fair Value
Outstanding at January 1, 2010 (a)	**6,331**	**$ 0.74**	**1,884**	**$ 1.75**
Granted	250	5.81	—	—
Vested (b)	(3,009)	0.77	(4)	1.75
Forfeited	(43)	4.26	(2)	1.75
Outstanding at December 31, 2010 (a)	3,529	$ 1.04	1,878	$ 1.75
Granted	658	8.52	—	—
Vested (b)	(1,128)	1.94	—	—
Forfeited	(535)	1.19	(1,878)	1.75
Outstanding at December 31, 2011 (a)	2,524	$ 2.55	—	$ —
Granted	760	8.04	—	—
Vested (b)	(2,133)	1.46	—	—
Forfeited	(26)	5.51	—	—
Outstanding at December 31, 2012 (a)	**1,125**	**$ 7.20**	—	**$ —**

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

(b) Total fair value of awards upon vesting for the years ended December 31, 2012, 2011, and 2010, was $17.5 million, $9.7 million, and $16.3 million, respectively.

Stock Options

In 2012 and 2011, we granted approximately 508,000 and 363,000 nonqualified stock options to members of management. The stock options generally vest and become exercisable over three years. Our stock options generally have a contractual term of ten years, meaning the option must be exercised by the holder before the tenth anniversary of the grant date. No options were vested and exercisable at December 31, 2012.

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

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2010	—	$ —		
Granted	363	8.53		
Forfeited	(30)	8.55		
Outstanding at December 31, 2011	333	$ 8.53	**9.2**	**$ —**
Granted	508	8.22		
Forfeited	—	—		
Outstanding at December 31, 2012	**841**	**$ 8.34**	**8.8**	**$ —**

The weighted average fair value of the stock options granted during 2012 and 2011 was $3.97 and $4.20, respectively. We recognize compensation expense over each award's vesting period. We calculated the fair value using a Black-Scholes-Merton option-pricing model based on the market price of our common stock at the grant date and the assumptions specific to the underlying options. We based the expected volatility assumption on our historic stock performance and the volatility of related industry stocks. As the 2011 grants were our first issuances of stock options and our equity shares have been traded for a relatively short period of time, we did not have sufficient historical data to provide a reasonable basis upon which to estimate the expected life. Therefore, we used the simplified method as allowed by the Securities and Exchange Commission (SEC). We based the risk-free interest rate upon yields of U.S. Treasury issues with terms similar to the expected life of the options.

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

	Year Ended December 31					
	2012			2011		
Black-Scholes-Merton assumptions:						
Expected volatility	50.00%	-	50.10%	47.50%	-	47.85%
Expected life (years)	5.91	-	6.00	5.88	-	6.25
Risk-free interest rate	1.08%	-	1.39%	1.66%	-	2.48%
Expected dividend yield			—			—

Compensation expense

Most of our share-based compensation expense was recorded in "General and administrative expenses" in our Consolidated Statements of Income. Total recognized share-based compensation expense related to restricted stock, performance units, and stock options, net of estimated forfeitures, is as follows (dollars in thousands):

	Year Ended December 31		
	2012	2011	2010
Service-condition restricted stock awards and performance units	$5,039	$3,415	$2,663
Market-condition restricted stock awards	—	(98)	1,070
Stock options	944	378	—
Total share-based compensation expense	**$5,983**	**$3,695**	**$3,733**

The unrecognized compensation expense for all share-based awards is as follows (dollars in thousands):

	As of December 31, 2012	
	Unrecognized Compensation Expense	Remaining Weighted Average Recognition Period (in years)
Service-condition restricted stock awards and performance units	$ 4,528	1.5
Stock options	1,752	1.9
Total unrecognized share-based compensation expense	**$ 6,280**	**1.6**

We evaluate share-based compensation expense for awards granted under the Plan on a quarterly basis based on our estimate of expected forfeitures, review of recent forfeiture activity, and expected future turnover. We recognize the effect of adjusting the forfeiture rate for all expense amortization in the period that we change the forfeiture estimate. The effect of forfeiture adjustments was insignificant in all periods presented.

The net income tax benefit associated with share-based payment awards was $2.6 million, $2.0 million, and $0.8 million for the years ended December 31, 2012, 2011, and 2010, respectively.

12. Stockholders' Equity and Capital

Common Stock and Preferred Stock

We are authorized to issue 250.0 million shares of common stock, of which 100.5 million shares were issued and outstanding at December 31, 2012. At December 31, 2011, we had 100.3 million shares of common stock issued and outstanding, of which 1.5 million shares were restricted stock. The common stock outstanding does not include restricted stock units, performance units, or stock options under our share-based compensation plans. For additional information see Note 11, Share-Based Compensation.

We are also authorized to issue 1.0 million shares of preferred stock, with such rights and preferences as our board of directors may determine, without further shareholder action. No preferred shares were issued or outstanding at December 31, 2012 or 2011.

Share Repurchase Plan

In 2011, we announced our intent to repurchase up to $150 million of our common stock through a variety of methods, including in the open market, privately negotiated transactions, or through structured share repurchases. In 2011, we repurchased 21.2 million common shares for an average price of $5.74 per common share. We recorded the share repurchases in “Treasury stock” on Boise Inc.’s Consolidated Balance Sheets and “Repurchases of common stock” on the Consolidated Statement of Cash Flows. During the year ended December 31, 2012, we repurchased 441 common shares for an average price of $6.63 per common share. Our board of directors reserves the right, in its sole discretion, to terminate or suspend the share repurchase plan at any time.

Dividends

In 2012, 2011, and 2010, we paid special cash dividends of $1.20, $0.40, and $0.40 per common share, or total dividends of $119.7 million, $47.9 million, and $32.3 million, respectively.

Any decision to declare and pay dividends in the future will be made at the discretion of our board of directors and will depend on, among other things, our results of operations, cash requirements, financial condition, and other factors our board of directors may deem relevant. In addition, our ability to pay dividends is restricted by our Credit Facilities, the indentures governing our Senior Notes, and Delaware law and state regulatory authorities. Under Delaware law, our board of directors may not authorize payment of a dividend unless it is either paid out of our capital surplus, as calculated in accordance with Delaware General Corporation Law, or if we do not have a surplus, it is paid out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Under our Credit Facilities and the indentures governing our Senior Notes, a dividend may be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions, together with other amounts as specified in our Credit Facilities. At December 31, 2012, the available restricted payment amount under our 8% Senior Notes indenture, which is more restrictive than our Credit Agreement and our 9% Senior Notes indenture, was approximately $106.9 million. To the extent we do not have adequate surplus or net profits, or available restricted payment amounts, we will be prohibited from paying dividends.

Warrants

In 2011, warrant holders exercised 40.3 million warrants, resulting in the issuance of 38.4 million additional common shares and cash proceeds of approximately $284.8 million. There are no further warrants outstanding or exercisable.

Accumulated Other Comprehensive Income (Loss)

An analysis of the changes in accumulated other comprehensive income (loss) and the related tax effects follows (dollars in thousands). See Note 9, Financial Instruments, and Note 10, Retirement and Benefit Plans, for additional information regarding the amounts recorded in accumulated other comprehensive income (loss).

				Benefit Plans		
	Investment Gains (Losses)	Foreign Currency Translation	Cash Flow Hedges	Actuarial Loss (a)	Prior Service Cost	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2009, net of taxes	**$ (5)**	**$ —**	**$ (553)**	**$ (70,578)**	**$ (417)**	**$ (71,553)**
Current-period changes, before taxes	6	—	—	(14,449)	—	(14,443)
Reclassifications to earnings, before taxes	—	—	422	1,625	51	2,098
Income taxes	—	—	131	4,964	(19)	5,076
Balance at December 31, 2010, net of taxes	**$ 1**	**$ —**	**$ —**	**$ (78,438)**	**$ (385)**	**$ (78,822)**
Current-period changes, before taxes	(1)	(352)	(6,776)	(69,555)	300	(76,384)
Reclassifications to earnings, before taxes	—	—	754	5,569	51	6,374
Income taxes	—	—	2,320	24,685	(135)	26,870
Balance at December 31, 2011, net of taxes	**$ —**	**$ (352)**	**$(3,702)**	**$(117,739)**	**$ (169)**	**$ (121,962)**
Current-period changes, before taxes	—	126	1,384	19,281	61	20,852
Reclassifications to earnings, before taxes	—	—	2,637	10,074	10	12,721
Income taxes	—	(76)	(1,549)	(11,262)	(28)	(12,915)
Balance at December 31, 2012, net of taxes	**$ —**	**$ (302)**	**$(1,230)**	**$ (99,646)**	**$ (126)**	**$ (101,304)**

(a) Accumulated losses in excess of 10% of the greater of the projected benefit obligation or the market-related value of assets will be recognized on a straight-line basis over the average remaining service period of active employees, which is between seven to ten years, to the extent that losses are not offset by gains in subsequent years. The estimated net loss and prior service cost that will be amortized from “Accumulated other comprehensive income (loss)” into pension expense in 2013 is $8.6 million.

BZ Intermediate Holdings LLC

BZ Intermediate has authorized 1,000 voting common units, all of which were issued and outstanding at December 31, 2012 and 2011, with a par value of $0.01. All of these units have been issued to Boise Inc. BZ Intermediate refers to its capital as “Business unit equity” on its Consolidated Balance Sheets, and this represents its equity transactions with Boise Inc., net income (loss) from the operations of its subsidiaries, the effect of changes in other comprehensive income, and stock-based compensation.

13. Concentrations of Risk

Business

Our largest customer is OfficeMax Incorporated (OfficeMax). Although we expect our long-term business relationship with OfficeMax to continue, the relationship exposes us to a significant concentration of business and financial risk. In 2012, our sales to OfficeMax were $493.9 million, which represents 19% of our total annual sales revenue and 35% of the annual sales revenue in our Paper segment. Approximately 38% of our total uncoated freesheet sales volume was purchased by OfficeMax in 2012. At December 31, 2012 and 2011, we had $39.5 million and $35.3 million, respectively, of accounts receivable due from OfficeMax, which represents 16% and 15%, respectively, of our total company receivables.

On February 20, 2013, OfficeMax announced it had signed a definitive merger agreement with its competitor, Office Depot. Our agreement with OfficeMax provides that it would survive the merger with respect to the office paper requirements of the legacy OfficeMax business. We cannot predict how the merger, if finalized, would affect the financial condition of the combined company, the paper requirements of the legacy OfficeMax business, or the effects the combined company would have on the pricing and competition for office papers. Significant reductions in paper purchases from OfficeMax (or the post-merger entity) would cause us to expand our customer base and could potentially decrease our profitability if new customer sales required either a decrease in our pricing and/or an increase in our cost of sales. Any significant deterioration in the financial condition of OfficeMax (or the post-merger entity) affecting the ability to pay or causing a significant change in the willingness to continue to purchase our products could have a material adverse effect on our business, financial condition, results of operations, and liquidity.

OfficeMax was our only customer that accounted for more than 10% of our total revenues, sales volumes, or accounts receivable in 2012.

Labor

At December 31, 2012, we had approximately 5,400 employees and approximately 50% of these employees worked pursuant to collective bargaining agreements. Approximately 4% of our employees work pursuant to collective bargaining agreements that will expire within the next twelve months.

14. Leases

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

	Year Ended December 31		
	2012	**2011**	**2010**
Rental expense	$29,367	$23,855	$15,267

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

	2013	**2014**	**2015**	**2016**	**2017**	**2018 & Thereafter**
Minimum payment	$22,680	$21,688	$18,092	$15,037	$10,228	$ 11,065

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

15. Asset Retirement Obligations

We accrue for asset retirement obligations in the period in which they are incurred if sufficient information is available to reasonably estimate the fair value of the obligation. Fair value estimates are determined using Level 3 inputs in the fair value hierarchy. The fair value of our asset retirement obligations is measured using expected future cash outflows discounted using the company's credit-adjusted risk-free interest rate. When we record the liability, we capitalize the cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its settlement value, and the capitalized cost is depreciated over the useful life of the related asset. Occasionally, we become aware of events or circumstances that require us to revise our future estimated cash flows. When revisions become necessary, we recalculate our obligation and adjust our asset and liability accounts utilizing appropriate discount rates. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded.

At December 31, 2012 and 2011, asset retirement obligations related predominantly to landfill closure, wastewater treatment pond dredging, and closed-site monitoring costs and were recorded primarily in “Other long-term liabilities” on the Consolidated Balance Sheets. These liabilities are based on the best estimate of costs and are updated periodically to reflect current technology, laws and regulations, inflation, and other economic factors. No assets are legally restricted for purposes of settling asset retirement obligations. The table below describes changes to the asset retirement obligations (dollars in thousands):

	Year Ended December 31	
	2012	**2011**
Asset retirement obligation at beginning of period	$ 10,041	$ 10,403
Liabilities incurred (Note 3)	10,256	—
Accretion expense	387	812
Payments	(30)	(29)
Revisions in estimated cash flows	41	(1,145)
Asset retirement obligation at end of period	**$ 20,695**	**$ 10,041**

We have additional asset retirement obligations with indeterminate settlement dates. The fair value of these asset retirement obligations cannot be estimated due to the lack of sufficient information to estimate the settlement dates of the obligations. These asset retirement obligations include, for example, (i) removal and disposal of potentially hazardous materials related to equipment and/or an operating facility if the equipment and/or facilities were to undergo major maintenance, renovation, or demolition and (ii) storage sites or owned facilities for which removal and/or disposal of chemicals and other related materials are required if the operating facility is closed. We will recognize a liability in the period in which sufficient information becomes available to reasonably estimate the fair value of these obligations.

16. Transactions With Related Parties

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

Related-Party Sales

LTP is a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade. LTP procures sawtimber, pulpwood, residual chips, and other residual wood fiber to meet the wood and fiber requirements of Boise Inc. and Boise Cascade in Louisiana. We are the primary beneficiary of LTP, as we have the power to direct the activities that most significantly affect the economic performance of LTP. Therefore, we consolidate LTP in our financial statements in our Packaging segment. The carrying amounts of LTP’s assets and liabilities (which relate primarily to noninventory working capital items) on our Consolidated Balance Sheets were $4.0 million at December 31, 2012, and $3.3 million at December 31, 2011. During the years ended December 31, 2012, 2011, and 2010, we recorded $60.3 million, $40.1 million, and $33.0 million, respectively, of LTP sales to Boise Cascade in “Sales, Related parties” in the Consolidated Statements of Income and approximately the same amount of expenses in “Materials, labor, and other operating expenses (excluding depreciation).” The sales were at prices designed to approximate market prices.

We have an outsourcing services agreement under which we provide a number of corporate staff services to Boise Cascade at our cost. The agreement, as extended, expires on February 22, 2014. It will automatically renew for one-year terms unless either party provides notice of termination to the other party at least 12 months in advance of the expiration date. During the year ended December 31, 2010, we recorded $2.4 million of revenues in “Sales, Related parties” in our Consolidated Statements of Income. Services we provide to Boise Cascade under this agreement include transportation, information technology, accounting, and human resource services.

Related-Party Costs and Expenses

During the years ended December 31, 2012, 2011, and 2010, fiber purchases from related parties were $19.8 million, $18.8 million, and $25.3 million, respectively. In 2012 and 2011, most of these purchases related to chip and log purchases by LTP from Boise Cascade's wood products business. In 2010, the purchases included both direct chip and log purchases from Boise Cascade while they were a related party and LTP's purchases from Boise Cascade. All of the costs associated with these purchases were recorded as "Fiber costs from related parties" in the Consolidated Statements of Income. Fiber purchases from Boise Cascade subsequent to February 2010 are recorded as "Materials, labor, and other operating expenses (excluding depreciation)" in the Consolidated Statements of Income.

17. Segment Information

We operate and report our business in three reportable segments: Packaging, Paper, and Corporate and Other (support services). These segments represent distinct businesses that are managed separately because of differing products and services. Each of these businesses requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments. The segments follow the accounting principles described in Note 2, Summary of Significant Accounting Policies.

Packaging. We manufacture and sell linerboard, corrugated containers and sheets, protective packaging products, and newsprint. We sell these products using our own sales personnel, independent brokers, and distribution partners. Our newsprint is sold primarily to newspaper publishers in the southern and southwestern U.S.

Paper. We manufacture and sell a range of papers, including communication-based papers, packaging-based papers, and market pulp. These products can be either commodity papers or papers with specialized or custom features, such as colors, coatings, high brightness, or recycled content, which make them specialty or premium products. We ship to customers both directly from our mills and through distribution centers. In 2012, approximately 38% of our uncoated freesheet paper sales volume, including approximately 63% of our office papers sales volume, was sold to OfficeMax, our largest customer.

Corporate and Other. Our Corporate and Other segment includes corporate support services, related assets and liabilities, and foreign exchange gains and losses. This segment also includes transportation assets, such as rail cars and trucks, which we use to transport our products from our manufacturing sites. We provide transportation services not only to our own facilities but also, on a limited basis, to third parties when geographic proximity and logistics are favorable. Rail cars and trucks are generally leased. Sales in this segment relate primarily to our rail and truck business.

Each segments' profits and losses are measured on operating profits before interest expense and interest income. Specified operating expenses are accounted for in the Corporate and Other segment and are allocated to the segments. For many of these allocated expenses, the related assets and liabilities remain in the Corporate and Other segment. Segment operating results for Boise Inc. and BZ Intermediate are identical for all periods presented, except for insignificant differences in income tax provisions.

Segment sales to external customers by product line are as follows (dollars in millions):

	Year Ended December 31		
	2012	2011	2010
Packaging			
Linerboard	$ 76.6	$ 110.2	$ 94.2
Newsprint	134.3	132.7	121.7
Corrugated containers and sheets	833.9	627.0	388.0
Other	82.6	76.3	65.3
	1,127.5	946.2	669.2
Paper			
Uncoated freesheet	1,334.3	1,334.5	1,309.8
Corrugating medium	1.0	0.3	0.1
Market pulp and other	60.4	91.8	84.7
	1,395.6	1,426.5	1,394.6
Corporate and Other	32.3	31.4	30.0
	$2,555.4	**$2,404.1**	**$2,093.8**

Sales to foreign unaffiliated customers during the years ended December 31, 2012, 2011, and 2010, were $260.8 million, $242.1 million, and $212.2 million, respectively. At December 31, 2012 and 2011, the net carrying value of long-lived assets held by foreign operations were $11.7 million and $12.1 million, respectively.

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

Year Ended December 31, 2012	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)	Capital Expenditures (d)	Assets
	Trade	Related Parties	Inter-segment	Total					
Packaging	$1,067.2	$ 60.3	$ 2.6	$1,130.1	$ 101.6	$ 60.9	$ 162.5	$ 61.3	$ 958.0
Paper	1,395.6	—	72.7	1,468.3	73.9(a)	87.7	161.6(a)	71.1	1,144.7
Corporate and Other	32.3	—	36.6	68.9	(27.8)	3.7	(24.1)	5.3	105.7
Intersegment eliminations	—	—	(112.0)	(112.0)	—	—	—	—	—
	$2,495.1	**$ 60.3**	**$ —**	**$2,555.4**	147.7	**$ 152.3**	300.0	**$ 137.6**	**$2,208.4**
Interest expense					(61.7)				
Interest income					0.2				
					$ 86.1		**$ 300.0**		

Year Ended December 31, 2011	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)	Capital Expenditures (d)	Assets
	Trade	Related Parties	Inter-segment	Total					
Packaging	$ 906.2	$ 40.1	$ 3.5	$ 949.7	$ 105.0(b)	$ 50.5	$ 155.5(b)	$ 49.2	$ 957.3
Paper	1,426.5	—	70.0	1,496.5	112.1	89.5	201.5	74.2	1,190.9
Corporate and Other	31.4	—	36.9	68.3	(25.9)(b)	3.7	(22.1)(b)	5.3	138.0
Intersegment eliminations	—	—	(110.4)	(110.4)	—	—	—	—	—
	$2,364.0	**$ 40.1**	**$ —**	**$2,404.1**	191.2	**$ 143.8**	334.9	**$ 128.8**	**$2,286.1**
Loss on extinguishment of debt					(2.3)		(2.3)		
Interest expense					(63.8)				
Interest income					0.3				
					$ 125.3		**$ 332.6**		

Year Ended December 31, 2010	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (c)	Capital Expenditures (d)	Assets
	Trade	Related Parties	Inter-segment	Total					
Packaging	$ 636.2	$ 33.0	$ 2.7	$ 671.9	$ 65.0	$ 38.6	$ 103.6	$ 38.6	$ 505.6
Paper	1,394.6	—	63.8	1,458.3	151.5	87.4	238.9	67.8	1,187.9
Corporate and Other	27.4	2.7	35.3	65.4	(21.7)	4.0	(17.7)	5.1	245.4
Intersegment eliminations	—	—	(101.8)	(101.8)	—	—	—	—	—
	$2,058.1	**$ 35.6**	**$ —**	**$2,093.8**	194.9	**$ 129.9**	324.8	**$ 111.6**	**$1,939.0**
Loss on extinguishment of debt					(22.2)		(22.2)		
Interest expense					(64.8)				
Interest income					0.3				
					$ 108.1		**$ 302.6**		

(a) Included $31.7 million of charges related primarily to ceasing paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill.

(b) Included $2.2 million of expense recorded in our Packaging segment related to the inventory purchase price adjustments.
Included $3.1 million of transaction-related costs, of which $1.6 million was recorded in our Packaging segment and $1.5 million was recorded in our Corporate and Other segment. Transaction-related costs include expenses associated with transactions, whether consummated or not, and do not include integration costs.

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

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

	Boise Inc.			BZ Intermediate		
	Year Ended December 31					
	2012	2011	2010	2012	2011	2010
Net income	$ 52.2	$ 75.2	$ 62.7	$ 52.2	$ 75.2	$ 63.6
Interest expense	61.7	63.8	64.8	61.7	63.8	64.8
Interest income	(0.2)	(0.3)	(0.3)	(0.2)	(0.3)	(0.3)
Income tax provision	34.0	50.1	45.4	34.0	50.1	44.5
Depreciation, amortization, and depletion	152.3	143.8	129.9	152.3	143.8	129.9
EBITDA	**$300.0**	**$332.6**	**$302.6**	**$300.0**	**$332.6**	**$302.6**

(d) This figure represents "Expenditures for property and equipment" and excludes cash used for "Acquisition of businesses and facilities, net of cash acquired" as reported on our Consolidated Statements of Cash Flows.

18. Commitments, Guarantees, Indemnifications, and Legal Proceedings

Commitments

We have financial commitments and obligations that arise in the ordinary course of our business. These include long-term debt, lease payments, and derivative instruments (discussed in Note 8, Debt, Note 9, Financial Instruments, and Note 14, Leases) and obligations to purchase goods and services (discussed below).

We are a party to a number of long-term log and fiber supply agreements. At December 31, 2012 and 2011, our total estimated obligation for log and fiber purchases under contracts with third parties was approximately $65.6 million and $75.5 million, respectively. The estimate is based on contract terms or first quarter 2013 pricing. Purchase prices under most of these agreements are set quarterly or semiannually based on regional market prices. Except for deposits required pursuant to wood supply contracts, these obligations are not recorded in our consolidated financial statements until contract payment terms take effect. Under most of the log and fiber supply agreements, we have the right to cancel or reduce our commitments if our requirements decrease.

We have financial obligations to purchase electricity and natural gas for our manufacturing locations. These obligations include multiple-year purchase commitments and minimum annual purchase requirements. At December 31, 2012 and 2011, we had approximately $27.4 million and $26.5 million, respectively, of utility purchase commitments. These commitments were estimated at prices in effect on December 31, 2012 or 2011, respectively, or determined pursuant to contractual terms, if available.

Guarantees and Indemnifications

We provide guarantees, indemnifications, and other assurances to third parties in the normal course of our business. These include tort indemnifications, environmental assurances, and representations and warranties in merger and acquisition agreements. At December 31, 2012, we are not aware of any material liabilities arising from any guarantee, indemnification, or financial assurance we have provided. If we determined such a liability was probable and subject to reasonable determination, we would accrue for it at that time.

Legal Proceedings

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

19. Quarterly Results of Operations (unaudited, dollars in millions, except per-share and stock price information)

	2012			
	First Quarter	Second Quarter	Third Quarter (a)	Fourth Quarter (a)
Net sales	$ 644.8	$ 637.8	$ 645.2	$ 627.5
Income from operations	49.7	37.7	21.3	38.8
Net income	21.3	13.7	3.6	13.5
Net income per common share:				
Basic	0.22	0.14	0.04	0.14
Diluted	0.21	0.14	0.04	0.13
Common stock dividends per share	0.48	—	—	0.72
Common stock prices (d)				
High	8.49	8.21	8.93	9.06
Low	7.25	6.48	6.86	7.63

	2011			
	First Quarter (b)	Second Quarter	Third Quarter	Fourth Quarter (c)
Net sales	$ 568.8	$ 603.1	$ 631.7	$ 600.4
Income from operations	48.1	34.4	62.6	45.9
Net income	18.7	11.9	28.4	16.3
Net income per common share:				
Basic	0.23	0.11	0.25	0.16
Diluted	0.21	0.11	0.24	0.15
Common stock dividends per share	—	0.40	—	—
Common stock prices (d)				
High	9.55	9.82	8.12	7.12
Low	8.10	6.75	4.42	4.71

(a) Third quarter and fourth quarter 2012 included $31.3 million and $0.5 million, respectively, of charges related primarily to ceasing paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill.

(b) First quarter 2011 included $2.2 million of expense related to inventory purchase price accounting adjustments.

(c) Fourth quarter 2011 included $2.3 million of expense recorded in the Corporate and Other segment associated with entering into a new credit agreement.

Fourth quarter 2011 included $1.4 million of transaction-related costs that were recorded in our Packaging segment. Transaction-related costs include expenses associated with transactions, whether consummated or not, and do not include integration costs.

(d) Our common stock trades on the New York Stock Exchange under the symbol BZ. Common stock prices are based on daily closing prices.

The net sales, income from operations, and net income for BZ Intermediate are substantially the same as the quarterly results for Boise Inc. included above.

20. Consolidating Guarantor and Nonguarantor Financial Information

Our 9% and 8% senior notes (Senior Notes) were issued by Boise Paper Holdings and co-issuers (Boise Co-Issuer Company and Boise Finance Company). The Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each of its existing and, to the extent they become guarantors under the Credit Facilities, future subsidiaries (other than: (i) Boise Paper Holdings and the co-issuers; (ii) Louisiana Timber Procurement Company, L.L.C.; and (iii) our foreign subsidiaries, including those acquired as part of the Hexacomb Acquisition). Each of the co-issuers of the senior subordinated notes and each of the subsidiaries of BZ Intermediate that is a guarantor thereof is 100% owned, directly or indirectly by Boise Paper Holdings.

The following consolidating financial statements present the results of operations, comprehensive income, financial position, and cash flows of (i) BZ Intermediate Holdings LLC (parent); (ii) Boise Paper Holdings and co-issuers; (iii) guarantor subsidiaries; (iv) nonguarantor subsidiaries; and (v) eliminations to arrive at the information on a consolidated basis. Other than these consolidated financial statements and footnotes for Boise Inc. and BZ Intermediate, financial statements and other disclosures concerning the guarantors have not been presented. Management believes that such information is not material to investors and because the cancellation provisions of the guarantor subsidiaries guarantees are customary and do not permit a guarantor subsidiary to opt out of the obligation prior to or during the term of the debt. Under these cancellation provisions, each guarantor subsidiary is automatically released from its obligations as a guarantor upon the sale of the subsidiary or substantially all of its assets to a third party, the designation of the subsidiary as an unrestricted subsidiary for the purposes of the covenants included in the indentures, the release of the indebtedness under the indentures, or if the issuers exercise their legal defeasance option or discharge their obligations in accordance with the indentures.

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income
For the Year Ended December 31, 2012
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 14,956	$2,431,516	$ 48,620	$ —	$2,495,092
Intercompany	—	—	5,213	113,566	(118,779)	—
Related parties	—	—	—	60,271	—	60,271
	—	14,956	2,436,729	222,457	(118,779)	2,555,363
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	13,817	1,916,907	192,099	(118,779)	2,004,044
Fiber costs from related parties	—	—	—	19,772	—	19,772
Depreciation, amortization, and depletion	—	2,978	146,449	2,879	—	152,306
Selling and distribution expenses	—	—	120,845	982	—	121,827
General and administrative expenses	—	28,313	45,971	5,464	—	79,748
St. Helens charges	—	—	27,559	—	—	27,559
Other (income) expense, net	—	1,136	1,049	387	—	2,572
	—	46,244	2,258,780	221,583	(118,779)	2,407,828
Income (loss) from operations	—	(31,288)	177,949	874	—	147,535
Foreign exchange gain	—	145	10	24	—	179
Interest expense	—	(61,693)	—	(47)	—	(61,740)
Interest expense—intercompany	—	(191)	—	(55)	246	—
Interest income	—	48	60	52	—	160
Interest income—intercompany	—	55	191	—	(246)	—
	—	(61,636)	261	(26)	—	(61,401)
Income (loss) before income taxes and equity in net income of affiliates	—	(92,924)	178,210	848	—	86,134
Income tax provision	—	(32,431)	(1,500)	(53)	—	(33,984)
Income (loss) before equity in net income of affiliates	—	(125,355)	176,710	795	—	52,150
Equity in net income of affiliates	52,150	177,505	—	—	(229,655)	—
Net income	**$ 52,150**	**$ 52,150**	**$ 176,710**	**$ 795**	**$ (229,655)**	**$ 52,150**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income
For the Year Ended December 31, 2011
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 14,657	$2,340,570	$ 8,797	$ —	$2,364,024
Intercompany	—	—	40	100,536	(100,576)	—
Related parties	—	—	—	40,057	—	40,057
	—	14,657	2,340,610	149,390	(100,576)	2,404,081
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	13,835	1,837,170	129,842	(100,576)	1,880,271
Fiber costs from related parties	—	—	—	18,763	—	18,763
Depreciation, amortization, and depletion	—	3,091	140,563	104	—	143,758
Selling and distribution expenses	—	—	107,302	352	—	107,654
General and administrative expenses	—	25,452	34,688	447	—	60,587
Other (income) expense, net	—	1,600	730	(336)	—	1,994
	—	43,978	2,120,453	149,172	(100,576)	2,213,027
Income (loss) from operations	—	(29,321)	220,157	218	—	191,054
Foreign exchange gain (loss)	—	(390)	453	72	—	135
Loss on extinguishment of debt	—	(2,300)	—	—	—	(2,300)
Interest expense	—	(63,814)	—	(6)	3	(63,817)
Interest expense—intercompany	—	(188)	—	(15)	203	—
Interest income	—	260	9	—	—	269
Interest income—intercompany	—	18	188	—	(206)	—
	—	(66,414)	650	51	—	(65,713)
Income (loss) before income taxes and equity in net income of affiliates	—	(95,735)	220,807	269	—	125,341
Income tax provision	—	(48,372)	(1,662)	(97)	—	(50,131)
Income (loss) before equity in net income of affiliates	—	(144,107)	219,145	172	—	75,210
Equity in net income of affiliates	75,210	219,317	—	—	(294,527)	—
Net income	**$ 75,210**	**$ 75,210**	**$ 219,145**	**$ 172**	**$ (294,527)**	**$ 75,210**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Income
For the Year Ended December 31, 2010
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 11,994	$2,039,308	$ 6,830	$ —	$2,058,132
Intercompany	—	—	—	110,619	(110,619)	—
Related parties	—	2,364	333	32,948	—	35,645
	—	14,358	2,039,641	150,397	(110,619)	2,093,777
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	14,039	1,605,480	125,139	(110,619)	1,634,039
Fiber costs from related parties	—	—		25,259	—	25,259
Depreciation, amortization, and depletion	—	3,454	126,472	—	—	129,926
Selling and distribution expenses	—	—	57,873	234	—	58,107
General and administrative expenses	—	21,949	30,324	—	—	52,273
Other (income) expense, net	—	225	249	(261)	—	213
	—	39,667	1,820,398	150,371	(110,619)	1,899,817
Income (loss) from operations	—	(25,309)	219,243	26	—	193,960
Foreign exchange gain	—	871	19	—	—	890
Loss on extinguishment of debt	—	(22,225)	—	—	—	(22,225)
Interest expense	—	(64,825)	—	—	—	(64,825)
Interest expense—intercompany	—	(212)	—	(16)	228	—
Interest income	—	299	7	—	—	306
Interest income—intercompany	—	16	212	—	(228)	—
	—	(86,076)	238	(16)	—	(85,854)
Income (loss) before income taxes and equity in net income of affiliates	—	(111,385)	219,481	10	—	108,106
Income tax (provision) benefit	—	(43,187)	(1,350)	8	—	(44,529)
Income (loss) before equity in net income of affiliates	—	(154,572)	218,131	18	—	63,577
Equity in net income of affiliates	63,577	218,149	—	—	(281,726)	—
Net income	**$ 63,577**	**$ 63,577**	**$ 218,131**	**$ 18**	**$ (281,726)**	**$ 63,577**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Year Ended December 31, 2012
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 52,150	$52,150	$ 176,710	$ 795	$ (229,655)	$ 52,150
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	50	—	50
Cash flow hedges:						
Change in fair value	—	850	—	—	—	850
Loss included in net income	—	1,622	—	—	—	1,622
Actuarial gain and prior service cost (including related amortization) for defined benefit pension plans	—	18,033	—	—	—	18,033
Other	—	103	—	—	—	103
Equity in other comprehensive income of affiliates	20,658	50	—	—	(20,708)	—
	20,658	20,658	—	50	(20,708)	20,658
Comprehensive income	**$ 72,808**	**$72,808**	**$ 176,710**	**$ 845**	**$ (250,363)**	**$ 72,808**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Year Ended December 31, 2011
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 75,210	$ 75,210	$ 219,145	$ 172	$ (294,527)	$ 75,210
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	(352)	—	(352)
Cash flow hedges:						
Change in fair value	—	(4,165)	—	—	—	(4,165)
Loss included in net income	—	463	—	—	—	463
Actuarial loss and prior service cost (including related amortization) for defined benefit pension plans	—	(39,149)	—	—	—	(39,149)
Other	—	63	—	—	—	63
Equity in other comprehensive loss of affiliates	(43,140)	(352)	—	—	43,492	—
	(43,140)	(43,140)	—	(352)	43,492	(43,140)
Comprehensive income (loss)	**$ 32,070**	**$ 32,070**	**$ 219,145**	**$ (180)**	**$ (251,035)**	**$ 32,070**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Year Ended December 31, 2010
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 63,577	$63,577	$ 218,131	$ 18	$ (281,726)	$ 63,577
Other comprehensive income (loss), net of tax						
Cash flow hedges:						
Loss included in net income	—	553	—	—	—	553
Actuarial loss and prior service cost (including related amortization) for defined benefit pension plans	—	(7,744)	—	—	—	(7,744)
Other	—	(78)	—	—	—	(78)
Equity in other comprehensive loss of affiliates	(7,269)	—	—	—	7,269	—
	(7,269)	(7,269)	—	—	7,269	(7,269)
Comprehensive income	**$ 56,308**	**$56,308**	**$ 218,131**	**$ 18**	**$ (274,457)**	**$ 56,308**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2012
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current						
Cash and cash equivalents	$ —	$ 40,801	$ 516	$ 8,390	$ —	$ 49,707
Receivables						
Trade, less allowances	—	1,458	230,178	8,823	—	240,459
Intercompany	—	2,234	1,580	2,670	(6,484)	—
Other	—	2,880	4,266	1,121	—	8,267
Inventories	—	3	291,065	3,416	—	294,484
Deferred income taxes	—	17,955	—	—	—	17,955
Prepaid and other	—	6,952	1,021	855	—	8,828
	—	72,283	528,626	25,275	(6,484)	619,700
Property						
Property and equipment, net	—	7,930	1,203,384	11,687	—	1,223,001
Fiber farms	—	—	24,311	—	—	24,311
	—	7,930	1,227,695	11,687	—	1,247,312
Deferred financing costs	—	26,677	—	—	—	26,677
Goodwill	—	—	153,576	6,554	—	160,130
Intangible assets, net	—	—	133,115	14,449	—	147,564
Investments in affiliates	756,683	1,778,531	—	—	(2,535,214)	—
Intercompany notes receivable	—	3,400	1,524	—	(4,924)	—
Other assets	—	5,992	902	135	—	7,029
Total assets	**$ 756,683**	**$1,894,813**	**$2,045,438**	**$ 58,100**	**$(2,546,622)**	**$2,208,412**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2012 (continued)
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND CAPITAL						
Current						
Current portion of long-term debt	$ —	$ 10,000	$ —	$ —	$ —	$ 10,000
Accounts payable						
Trade	—	18,547	160,152	6,379	—	185,078
Intercompany	—	571	2,090	3,842	(6,503)	—
Accrued liabilities						
Compensation and benefits	—	22,206	47,605	1,139	—	70,950
Interest payable	—	10,516	—	—	—	10,516
Other	—	3,773	14,033	2,703	19	20,528
	—	65,613	223,880	14,063	(6,484)	297,072
Debt						
Long-term debt, less current portion	—	770,000	—	—	—	770,000
Intercompany notes payable	—	—	—	4,924	(4,924)	—
	—	770,000	—	4,924	(4,924)	770,000
Other						
Deferred income taxes	—	132,841	53,497	3,485	—	189,823
Compensation and benefits	—	121,606	76	—	—	121,682
Other long-term liabilities	—	48,070	24,932	150	—	73,152
	—	302,517	78,505	3,635	—	384,657
Commitments and contingent liabilities						
Capital						
Business unit equity	857,987	857,987	1,743,053	35,779	(2,636,819)	857,987
Accumulated other comprehensive loss	(101,304)	(101,304)	—	(301)	101,605	(101,304)
	756,683	756,683	1,743,053	35,478	(2,535,214)	756,683
Total liabilities and capital	**$ 756,683**	**$1,894,813**	**$2,045,438**	**$ 58,100**	**$(2,546,622)**	**$2,208,412**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2011
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current						
Cash and cash equivalents	$ —	$ 82,532	$ 9,737	$ 4,727	$ —	$ 96,996
Receivables						
Trade, less allowances	—	1,183	220,621	7,034	—	228,838
Intercompany	—	40	21	2,099	(2,160)	—
Other	—	2,477	5,064	81	—	7,622
Inventories	—	3	304,490	2,812	—	307,305
Deferred income taxes	—	20,379	—	—	—	20,379
Prepaid and other	—	4,467	2,588	(111)	—	6,944
	—	111,081	542,521	16,642	(2,160)	668,084
Property						
Property and equipment, net	—	5,652	1,217,520	12,097	—	1,235,269
Fiber farms	—	—	21,193	—	—	21,193
	—	5,652	1,238,713	12,097	—	1,256,462
Deferred financing costs	—	30,956	—	—	—	30,956
Goodwill	—	—	156,305	5,386	—	161,691
Intangible assets, net	—	—	143,986	15,134	—	159,120
Investments in affiliates	803,344	1,817,537	—	—	(2,620,881)	—
Intercompany notes receivable	—	3,400	—	—	(3,400)	—
Other assets	—	5,805	3,948	4	—	9,757
Total assets	**$ 803,344**	**$1,974,431**	**$2,085,473**	**$ 49,263**	**$(2,626,441)**	**$2,286,070**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2011 (continued)
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND CAPITAL						
Current						
Current portion of long-term debt	$ —	$ 10,000	$ —	$ —	$ —	$ 10,000
Accounts payable						
Trade	—	19,566	176,575	6,443	—	202,584
Intercompany	—	—	2,119	1	(2,120)	—
Accrued liabilities						
Compensation and benefits	—	24,581	39,457	869	—	64,907
Interest payable	—	10,528	—	—	—	10,528
Other	—	8,626	13,769	185	(40)	22,540
	—	73,301	231,920	7,498	(2,160)	310,559
Debt						
Long-term debt, less current portion	—	790,000	—	—	—	790,000
Intercompany notes payable	—	—	—	3,400	(3,400)	—
	—	790,000	—	3,400	(3,400)	790,000
Other						
Deferred income taxes	—	94,822	53,365	4,525	—	152,712
Compensation and benefits	—	172,305	89	—	—	172,394
Other long-term liabilities	—	40,659	16,261	141	—	57,061
	—	307,786	69,715	4,666	—	382,167
Commitments and contingent liabilities						
Capital						
Business unit equity	925,306	925,306	1,783,838	34,051	(2,743,195)	925,306
Accumulated other comprehensive loss	(121,962)	(121,962)	—	(352)	122,314	(121,962)
	803,344	803,344	1,783,838	33,699	(2,620,881)	803,344
Total liabilities and capital	**$ 803,344**	**$1,974,431**	**$2,085,473**	**$ 49,263**	**$(2,626,441)**	**$2,286,070**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Year Ended December 31, 2012
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used for) operations						
Net income	$ 52,150	$ 52,150	$ 176,710	$ 795	$ (229,655)	$ 52,150
Items in net income not using (providing) cash						
Equity in net income of affiliates	(52,150)	(177,505)	—	—	229,655	—
Depreciation, depletion, and amortization of deferred financing costs and other	—	7,712	146,449	2,879	—	157,040
Share-based compensation expense	—	5,983	—	—	—	5,983
Pension expense	—	10,219	1,060	—	—	11,279
Deferred income taxes	—	33,581	108	(5)	—	33,684
St. Helens charges	—	—	28,481	—	—	28,481
Other	—	224	1,640	4	—	1,868
Decrease (increase) in working capital						
Receivables	—	(1,973)	(9,297)	(2,857)	4,324	(9,803)
Inventories	—	—	8,896	(760)	—	8,136
Prepaid expenses	—	(1,966)	1,567	(415)	—	(814)
Accounts payable and accrued liabilities	—	(3,579)	(11,964)	3,362	(4,324)	(16,505)
Current and deferred income taxes	—	(1,650)	—	(288)	—	(1,938)
Pension payments	—	(35,205)	—	—	—	(35,205)
Other	—	3,510	(4,368)	1,532	—	674
Cash provided by (used for) operations	—	(108,499)	339,282	4,247	—	235,030
Cash provided by (used for) investment						
Expenditures for property and equipment	—	(4,677)	(132,190)	(775)	—	(137,642)
Other	—	146	1,182	65	—	1,393
Cash used for investment	—	(4,531)	(131,008)	(710)	—	(136,249)
Cash provided by (used for) financing						
Issuances of long-term debt	—	5,000	—	—	—	5,000
Payments of long-term debt	—	(25,000)	—	—	—	(25,000)
Payments of financing costs	—	(188)	—	—	—	(188)
Payments (to) from Boise Inc., net	(124,824)	—	—	—	—	(124,824)
Due to (from) affiliates	124,824	91,737	(217,495)	934	—	—
Other	—	(250)	—	(808)	—	(1,058)
Cash provided by (used for) financing	—	71,299	(217,495)	126	—	(146,070)
Increase (decrease) in cash and cash equivalents	—	(41,731)	(9,221)	3,663	—	(47,289)
Balance at beginning of the period	—	82,532	9,737	4,727	—	96,996
Balance at end of the period	**$ —**	**$ 40,801**	**$ 516**	**$ 8,390**	**$ —**	**$ 49,707**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Year Ended December 31, 2011
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used for) operations						
Net income	$ 75,210	$ 75,210	$ 219,145	$ 172	$ (294,527)	$ 75,210
Items in net income not using (providing) cash						
Equity in net income of affiliates	(75,210)	(219,317)	—	—	294,527	—
Depreciation, depletion, and amortization of deferred financing costs and other	—	9,048	140,563	104	—	149,715
Share-based compensation expense	—	3,695	—	—	—	3,695
Pension expense	—	10,916	—	—	—	10,916
Deferred income taxes	—	43,904	542	—	—	44,446
Other	—	408	1,542	(72)	—	1,878
Loss on extinguishment of debt	—	2,300	—	—	—	2,300
Decrease (increase) in working capital, net of acquisitions						
Receivables	—	(884)	3,471	(1,487)	524	1,624
Inventories	—	12	(22,346)	97	—	(22,237)
Prepaid expenses	—	233	(437)	(71)	—	(275)
Accounts payable and accrued liabilities	—	6,724	(3,744)	1,347	(524)	3,803
Current and deferred income taxes	—	2,920	1,250	317	—	4,487
Pension payments	—	(25,414)	—	—	—	(25,414)
Other	—	(3,660)	281	3,422	—	43
Cash provided by (used for) operations	—	(93,905)	340,267	3,829	—	250,191
Cash provided by (used for) investment						
Acquisitions of business and facilities, net of cash acquired	—	—	(292,600)	(33,623)	—	(326,223)
Expenditures for property and equipment	—	(3,633)	(125,129)	—	—	(128,762)
Purchases of short-term investments	—	(3,494)	—	—	—	(3,494)
Maturities of short-term investments	—	14,114	—	—	—	14,114
Other	—	(390)	1,743	(305)	—	1,048
Cash provided by (used for) investment	—	6,597	(415,986)	(33,928)	—	(443,317)
Cash provided by (used for) financing						
Issuances of long-term debt	—	275,000	—	—	—	275,000
Payments of long-term debt	—	(256,831)	—	—	—	(256,831)
Payments of financing costs	—	(8,613)	—	—	—	(8,613)
Payments (to) from Boise Inc., net	115,196	—	—	—	—	115,196
Due to (from) affiliates	(115,196)	(3,771)	85,450	33,517	—	—
Other	—	(2,355)	—	892	—	(1,463)
Cash provided by financing	—	3,430	85,450	34,409	—	123,289
Increase (decrease) in cash and cash equivalents	—	(83,878)	9,731	4,310	—	(69,837)
Balance at beginning of the period	—	166,410	6	417	—	166,833
Balance at end of the period	**$ —**	**$ 82,532**	**$ 9,737**	**$ 4,727**	**$ —**	**$ 96,996**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Year Ended December 31, 2010
(dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used for) operations						
Net income	$ 63,577	$ 63,577	$ 218,131	$ 18	$ (281,726)	$ 63,577
Items in net income not using (providing) cash						
Equity in net income of affiliates	(63,577)	(218,149)	—	—	281,726	—
Depreciation, depletion, and amortization of deferred financing costs and other	—	11,023	126,472	—	—	137,495
Share-based compensation expense	—	3,733	—	—	—	3,733
Pension expense	—	9,241	—	—	—	9,241
Deferred income taxes	—	37,677	213	(8)	—	37,882
Other	—	(805)	900	—	—	95
Loss on extinguishment of debt	—	22,225	—	—	—	22,225
Decrease (increase) in working capital						
Receivables	—	1,225	55,662	(12)	380	57,255
Inventories	—	3	(17,123)	—	—	(17,120)
Prepaid expenses	—	4,437	253	—	—	4,690
Accounts payable and accrued liabilities	—	6,760	(13,208)	138	(380)	(6,690)
Current and deferred income taxes	—	7,142	(1,398)	—	—	5,744
Pension payments	—	(25,174)	—	—	—	(25,174)
Other	—	(773)	(2,399)	—	—	(3,172)
Cash provided by (used for) operations	—	(77,858)	367,503	136	—	289,781
Cash provided by (used for) investment						
Acquisitions of businesses and facilities	—	—	—	—	—	—
Expenditures for property and equipment	—	(3,711)	(107,908)	—	—	(111,619)
Purchases of short-term investments	—	(25,336)	—	—	—	(25,336)
Maturities of short-term investments	—	24,744	—	—	—	24,744
Other	—	868	2,073	—	—	2,941
Cash used for investment	—	(3,435)	(105,835)	—	—	(109,270)
Cash provided by (used for) financing						
Issuances of long-term debt	—	300,000	—	—	—	300,000
Payments of long-term debt	—	(334,096)	—	—	—	(334,096)
Payments of financing costs	—	(12,003)	—	—	—	(12,003)
Payments (to) from Boise Inc., net	(31,639)	—	—	—	—	(31,639)
Due to (from) affiliates	31,639	230,064	(261,695)	(8)	—	—
Other	—	(5,333)	—	—	—	(5,333)
Cash provided by (used for) financing	—	178,632	(261,695)	(8)	—	(83,071)
Increase (decrease) in cash and cash equivalents	—	97,339	(27)	128	—	97,440
Balance at beginning of the period	—	69,071	33	289	—	69,393
Balance at end of the period	**$ —**	**$ 166,410**	**$ 6**	**$ 417**	**$ —**	**$ 166,833**

Exhibit 99.3

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Sales				
Trade	$604,821	$618,585	$1,196,142	$1,252,113
Related party	16,843	19,255	32,540	30,573
	621,664	637,840	1,228,682	1,282,686
Costs and expenses				
Materials, labor, and other operating expenses (excluding depreciation)	495,689	507,343	991,958	1,009,642
Fiber costs from related party	5,319	4,466	11,465	9,412
Depreciation, amortization, and depletion	43,891	37,303	87,319	74,859
Selling and distribution expenses	33,764	30,568	62,613	61,210
General and administrative expenses	19,693	20,035	38,616	40,043
Restructuring costs	9,011	—	9,474	—
Other (income) expense, net	1,930	381	1,798	81
	609,297	600,096	1,203,243	1,195,247
Income from operations	12,367	37,744	25,439	87,439
Foreign exchange gain (loss)	(415)	102	(756)	259
Interest expense	(15,456)	(15,433)	(30,875)	(30,798)
Interest income	7	54	34	98
	(15,864)	(15,277)	(31,597)	(30,441)
Income (loss) before income taxes	(3,497)	22,467	(6,158)	56,998
Income tax (provision) benefit	1,289	(8,805)	2,725	(21,998)
Net income (loss)	**$ (2,208)**	**$ 13,662**	**$ (3,433)**	**$ 35,000**
Weighted average common shares outstanding:				
Basic	**100,531**	**100,116**	**100,387**	**99,584**
Diluted	**100,531**	**101,008**	**100,387**	**101,182**
Net income (loss) per common share:				
Basic	**$ (0.02)**	**$ 0.14**	**$ (0.03)**	**$ 0.35**
Diluted	**$ (0.02)**	**$ 0.14**	**$ (0.03)**	**$ 0.35**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income (loss)	$(2,208)	$13,662	$(3,433)	$35,000
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of tax of $69, $0, $29, and $0, respectively	(195)	(2,307)	(423)	(1,452)
Cash flow hedges:				
Change in fair value, net of tax of ($671), $913, $367, and ($475), respectively	(1,069)	1,459	587	(756)
(Gain) loss included in net income, net of tax of $64, $380, $2, and $891, respectively	101	604	3	1,421
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of $845, $993, $1,670, and $2,012, respectively	1,349	1,585	2,665	3,210
Other, net of tax of ($14), ($2), ($29), and ($6), respectively	(24)	(5)	(48)	(10)
	162	1,336	2,784	2,413
Comprehensive income (loss)	**$(2,046)**	**$14,998**	**$ (649)**	**$37,413**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	$ 61,086	$ 49,707
Receivables		
Trade, less allowances of $1,349 and $1,382	254,348	240,459
Other	9,861	8,267
Inventories	288,707	294,484
Deferred income taxes	10,068	17,955
Prepaid and other	14,139	8,828
	638,209	619,700
Property		
Property and equipment, net	1,212,663	1,223,001
Fiber farms	25,113	24,311
	1,237,776	1,247,312
Deferred financing costs	24,380	26,677
Goodwill	160,132	160,130
Intangible assets, net	142,018	147,564
Other assets	6,629	7,029
Total assets	**$ 2,209,144**	**$ 2,208,412**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current		
Current portion of long-term debt	$ 15,000	$ 10,000
Accounts payable	203,202	185,078
Accrued liabilities		
Compensation and benefits	65,386	70,950
Interest payable	10,529	10,516
Other	25,158	20,528
	319,275	297,072
Debt		
Long-term debt, less current portion	760,000	770,000
Other		
Deferred income taxes	189,918	198,370
Compensation and benefits	116,153	121,682
Other long-term liabilities	73,990	73,102
	380,061	393,154
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, $0.0001 par value per share: 1,000 shares authorized; none issued	—	—
Common stock, $0.0001 par value per share: 250,000 shares authorized; 100,884 and 100,503 shares issued and outstanding	12	12
Treasury stock, 21,151 shares held	(121,423)	(121,423)
Additional paid-in capital	871,065	868,840
Accumulated other comprehensive income (loss)	(98,520)	(101,304)
Retained earnings	98,674	102,061
Total stockholders' equity	749,808	748,186
Total liabilities and stockholders' equity	**$ 2,209,144**	**$ 2,208,412**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Six Months Ended June 30	
	2013	2012
Cash provided by (used for) operations		
Net income (loss)	$ (3,433)	$ 35,000
Items in net income (loss) not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	89,793	77,190
Share-based compensation expense	3,076	2,729
Pension expense	3,020	5,474
Deferred income taxes	(2,624)	12,610
Restructuring costs	9,992	—
Other	1,400	(43)
Decrease (increase) in working capital		
Receivables	(15,731)	(12,050)
Inventories	2,566	(20,224)
Prepaid expenses	(2,127)	(4,869)
Accounts payable and accrued liabilities	1,040	(14,061)
Current and deferred income taxes	(689)	7,452
Pension payments	(5,091)	(18,191)
Other	404	2,110
Cash provided by operations	81,596	73,127
Cash provided by (used for) investment		
Expenditures for property and equipment	(64,595)	(52,457)
Other	690	586
Cash used for investment	(63,905)	(51,871)
Cash provided by (used for) financing		
Payments of long-term debt	(5,000)	(5,000)
Payments of special dividend	—	(47,483)
Other	(1,312)	(6,267)
Cash used for financing	(6,312)	(58,750)
Increase (decrease) in cash and cash equivalents	11,379	(37,494)
Balance at beginning of the period	49,707	96,996
Balance at end of the period	**$ 61,086**	**$ 59,502**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Sales				
Trade	$604,821	$618,585	$1,196,142	$1,252,113
Related party	16,843	19,255	32,540	30,573
	621,664	637,840	1,228,682	1,282,686
Costs and expenses				
Materials, labor, and other operating expenses (excluding depreciation)	495,689	507,343	991,958	1,009,642
Fiber costs from related party	5,319	4,466	11,465	9,412
Depreciation, amortization, and depletion	43,891	37,303	87,319	74,859
Selling and distribution expenses	33,764	30,568	62,613	61,210
General and administrative expenses	19,693	20,035	38,616	40,043
Restructuring costs	9,011	—	9,474	—
Other (income) expense, net	1,930	381	1,798	81
	609,297	600,096	1,203,243	1,195,247
Income from operations	12,367	37,744	25,439	87,439
Foreign exchange gain (loss)	(415)	102	(756)	259
Interest expense	(15,456)	(15,433)	(30,875)	(30,798)
Interest income	7	54	34	98
	(15,864)	(15,277)	(31,597)	(30,441)
Income (loss) before income taxes	(3,497)	22,467	(6,158)	56,998
Income tax (provision) benefit	1,289	(8,805)	2,725	(21,998)
Net income (loss)	**$ (2,208)**	**$ 13,662**	**$ (3,433)**	**$ 35,000**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income (loss)	$(2,208)	$13,662	$(3,433)	$35,000
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustment, net of tax of $69, $0, $29, and $0, respectively	(195)	(2,307)	(423)	(1,452)
Cash flow hedges:				
Change in fair value, net of tax of ($671), $913, $367, and ($475), respectively	(1,069)	1,459	587	(756)
(Gain) loss included in net income, net of tax of $64, $380, $2, and $891, respectively	101	604	3	1,421
Amortization of actuarial loss and prior service cost for defined benefit pension plans, net of tax of $845, $993, $1,670, and $2,012, respectively	1,349	1,585	2,665	3,210
Other, net of tax of ($14), ($2), ($29), and ($6), respectively	(24)	(5)	(48)	(10)
	162	1,336	2,784	2,413
Comprehensive income (loss)	**$(2,046)**	**$14,998**	**$ (649)**	**$37,413**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
ASSETS		
Current		
Cash and cash equivalents	$ 61,086	$ 49,707
Receivables		
Trade, less allowances of $1,349 and $1,382	254,348	240,459
Other	9,861	8,267
Inventories	288,707	294,484
Deferred income taxes	11,997	17,955
Prepaid and other	14,139	8,828
	640,138	619,700
Property		
Property and equipment, net	1,212,663	1,223,001
Fiber farms	25,113	24,311
	1,237,776	1,247,312
Deferred financing costs	24,380	26,677
Goodwill	160,132	160,130
Intangible assets, net	142,018	147,564
Other assets	6,629	7,029
Total assets	**$ 2,211,073**	**$ 2,208,412**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	June 30, 2013	December 31, 2012
LIABILITIES AND CAPITAL		
Current		
Current portion of long-term debt	$ 15,000	$ 10,000
Accounts payable	203,202	185,078
Accrued liabilities		
Compensation and benefits	65,386	70,950
Interest payable	10,529	10,516
Other	25,158	20,528
	319,275	297,072
Debt		
Long-term debt, less current portion	760,000	770,000
Other		
Deferred income taxes	183,300	189,823
Compensation and benefits	116,153	121,682
Other long-term liabilities	74,040	73,152
	373,493	384,657
Commitments and contingent liabilities		
Capital		
Business unit equity	856,825	857,987
Accumulated other comprehensive income (loss)	(98,520)	(101,304)
	758,305	756,683
Total liabilities and capital	**$ 2,211,073**	**$ 2,208,412**

See accompanying condensed notes to unaudited quarterly consolidated financial statements.

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

	Six Months Ended June 30	
	2013	2012
Cash provided by (used for) operations		
Net income (loss)	$ (3,433)	$ 35,000
Items in net income (loss) not using (providing) cash		
Depreciation, depletion, and amortization of deferred financing costs and other	89,793	77,190
Share-based compensation expense	3,076	2,729
Pension expense	3,020	5,474
Deferred income taxes	(2,624)	12,610
Restructuring costs	9,992	—
Other	1,400	(43)
Decrease (increase) in working capital		
Receivables	(15,731)	(12,050)
Inventories	2,566	(20,224)
Prepaid expenses	(2,127)	(4,869)
Accounts payable and accrued liabilities	1,040	(14,061)
Current and deferred income taxes	(689)	7,452
Pension payments	(5,091)	(18,191)
Other	404	2,110
Cash provided by operations	81,596	73,127
Cash provided by (used for) investment		
Expenditures for property and equipment	(64,595)	(52,457)
Other	690	586
Cash used for investment	(63,905)	(51,871)
Cash provided by (used for) financing		
Payments of long-term debt	(5,000)	(5,000)
Payments (to) from Boise Inc., net	(1,100)	(52,440)
Other	(212)	(1,310)
Cash used for financing	(6,312)	(58,750)
Increase (decrease) in cash and cash equivalents	11,379	(37,494)
Balance at beginning of the period	49,707	96,996
Balance at end of the period	**$ 61,086**	**$ 59,502**

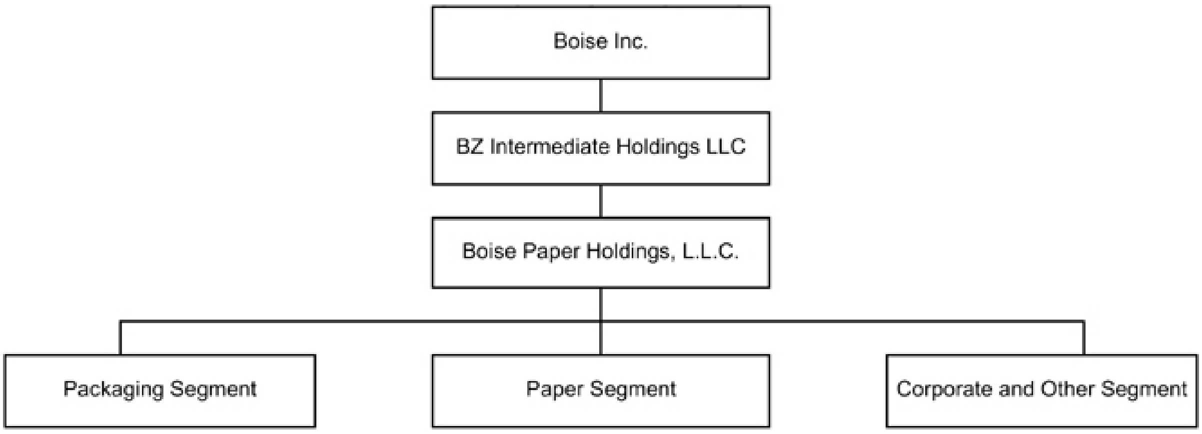
See accompanying condensed notes to unaudited quarterly consolidated financial statements.

Condensed Notes to Unaudited Quarterly Consolidated Financial Statements

1. Nature of Operations and Basis of Presentation

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

Our organizational structure is noted below:



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

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

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

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

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

2. Restructuring Costs

2013 Restructuring Costs

In May 2013, we announced our decision to shut down two paper machines and an off-machine coater at our mill in International Falls, Minnesota. These closures, which we expect to occur in early fourth quarter 2013, will reduce our annual uncoated freesheet capacity by approximately 115,000 tons, or 9%. This decision will result in the loss of approximately 300 jobs. During the three months ended June 30, 2013, we recorded $13.3 million of pretax restructuring costs, of which $12.3 million was recorded in our Paper segment and related primarily to this decision. We recorded $1.0 million of costs in our Packaging segment related to restructuring activities in connection with our recently announced project to convert a machine at our DeRidder, Louisiana, mill to produce lightweight linerboard and corrugating medium. In addition to the amounts recorded in "Restructuring costs" on our Consolidated Statements of Operations, we recorded $4.0 million of other restructuring costs that related primarily to inventory write-downs in "Materials, labor, and other operating expenses (excluding depreciation)", during the three and six months ended June 30, 2013.

During the three and six months ended June 30, 2013, we recognized $5.5 million and $10.8 million, respectively, of incremental depreciation expense related to shortening the useful lives of some of our assets, primarily at International Falls, Minnesota.

An analysis of the restructuring costs for the three and six months ended June 30, 2013, is as follows (in thousands):

	Noncash	Cash (a)	Total Costs
Employee-related and other costs	$ —	$ 7,023	$ 7,023
Inventory write-down	3,960	—	3,960
Asset write-down	2,016	—	2,016
Pension curtailment loss	271	—	271
	$ 6,247	**$ 7,023**	**$ 13,270**

(a) These costs were recorded in "Accrued liabilities, Compensation and benefits" on our Consolidated Balance Sheet. We expect to pay most of these costs in the second half of 2013 and the remainder in the first half of 2014. In addition to the restructuring costs, above, we expect to incur approximately $0.9 million of additional employee-related and other costs in 2013 and 2014 that will be recognized as a period expense when incurred.

2012 Restructuring Costs

In December 2012, we ceased paper production on our one remaining paper machine at our St. Helens, Oregon, paper mill. This reduced our annual uncoated freesheet capacity by almost 60,000 tons and resulted in the loss of approximately 100 jobs, primarily at the mill. During the three and six months ended June 30, 2012, St. Helens sales were $17.5 million and $35.6 million, respectively. The St. Helens operations had an insignificant impact on income during those periods. Accrued severance costs at January 1, 2013, were approximately $5.1 million, and we have paid all but an insignificant amount as of June 30, 2013. For more information, see Note 3, St. Helens Charges, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

3. Net Income (Loss) Per Common Share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net income (loss)	$ (2,208)	$ 13,662	$ (3,433)	$ 35,000
Weighted average number of common shares for basic net income (loss) per common share	100,531	100,116	100,387	99,584
Incremental effect of dilutive common stock equivalents (a):				
Restricted stock and restricted stock units	—	680	—	1,362
RONOA performance awards	—	211	—	235
Total Stockholder Return (TSR) market-condition awards	—	—	—	—
Stock options	—	1	—	1
Weighted average number of common shares for diluted net income (loss) per common share	100,531	101,008	100,387	101,182
Net income (loss) per common share:				
Basic	**$ (0.02)**	**$ 0.14**	**$ (0.03)**	**$ 0.35**
Diluted	**$ (0.02)**	**$ 0.14**	**$ (0.03)**	**$ 0.35**

(a) During the three and six months ended June 30, 2013, we excluded a weighted average 0.8 million and 1.0 million potentially dilutive shares, respectively, from the diluted net income (loss) per share calculation as they would have been antidilutive or were out-of-the-money. During the three and six months ended June 30, 2012, we excluded 0.8 million and 0.3 million potentially dilutive shares, respectively, as they would have been antidilutive or were out-of-the-money.

4. Income Taxes

For the three and six months ended June 30, 2013, we recorded $1.3 million and $2.7 million of income tax benefit and had an effective tax rate of 36.9% and 44.3%, respectively. During the three and six months ended June 30, 2013, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of lower income from operations, discrete items, and the effect of state taxes.

For the three and six months ended June 30, 2012, we recorded $8.8 million and $22.0 million of income tax expense and had an effective tax rate of 39.2% and 38.6%, respectively. During the three and six months ended June 30, 2012, the primary reason for the difference from the federal statutory income tax rate of 35% was the effect of state taxes.

Uncertain Income Tax Positions

We recognize tax liabilities and adjust these liabilities when our judgment changes as a result of the evaluation of new information not previously available or as new uncertainties occur. We recognize interest and penalties related to uncertain tax positions as income tax expense in the Consolidated Statements of Operations. Interest expense and penalties relating to uncertain tax positions were nominal for all periods presented. During the three and six months ended June 30, 2013, there were no significant changes to our uncertain tax positions. For more information, see Note 6, Income Taxes, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

As of June 30, 2013, we had not recognized U.S. deferred income taxes on our cumulative total of undistributed earnings for non-U.S. subsidiaries. Determining the unrecognized deferred tax liability related to investments in these non-U.S. subsidiaries that are indefinitely reinvested is not practicable. We currently intend to indefinitely reinvest those earnings in operations outside the United States.

During the six months ended June 30, 2013, cash paid for taxes, net of refunds received, was $0.2 million. Refunds received, net of cash paid for taxes, were $0.7 million during the six months ended June 30, 2012.

5. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquired business over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. All of our goodwill is recorded in our Packaging segment. At both June 30, 2013, and December 31, 2012, the carrying amount of goodwill was $160.1 million. Goodwill is affected by foreign currency translation.

Intangible Assets

Intangible assets consist of customer relationships, trademarks and trade names, technology, and noncompete agreements. We had $142.0 million and $147.6 million of intangible assets at June 30, 2013, and December 31, 2012, net of $30.8 million and $26.3 million of accumulated amortization, respectively. During the three months ended June 30, 2013 and 2012, we recorded intangible asset amortization of $2.5 million and $3.0 million, respectively. During the six months ended June 30, 2013 and 2012, we recorded intangible asset amortization of $5.3 million and $6.3 million, respectively. Foreign intangible assets are affected by foreign currency translation.

6. Debt

At June 30, 2013, and December 31, 2012, our long-term debt and the interest rates on that debt were as follows (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Amount	Interest Rate	Amount	Interest Rate
Revolving credit facility, due 2016	$ —	— %	$ 5,000	2.21%
Tranche A term loan, due 2016	175,000	2.20	175,000	2.22
9% senior notes, due 2017	300,000	9.00	300,000	9.00
8% senior notes, due 2020	300,000	8.00	300,000	8.00
Long-term debt	775,000	7.08	780,000	7.05
Current portion of long-term debt	(15,000)	2.20	(10,000)	2.22
Long-term debt, less current portion	**$760,000**	7.17%	**$770,000**	7.11%

As of June 30, 2013, our debt consisted of the following:

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

Under our Credit Facilities (the Revolving Credit Facility together with the Term Loan Facility) we elect whether interest on our Term Loan and, separately, interest under any Revolving Credit Facility is based on an alternative base rate or the London Interbank Offered Rate (LIBOR), plus an applicable spread based on our total leverage ratio. Our total leverage ratio is essentially our total net debt divided by our trailing four quarters of Adjusted Consolidated EBITDA (as defined in the Credit Agreement). Based on our current one-month LIBOR election, at June 30, 2013, the interest rate on our Credit Facilities was LIBOR plus 200 basis points, and we pay interest on the Credit Facilities monthly in arrears.

At June 30, 2013, we had no borrowings outstanding under our Revolving Credit Facility and had availability of $493.0 million, which is net of outstanding letters of credit of $7.0 million. The maximum borrowings under our Revolving Credit Facility for the six months ended June 30, 2013, was $5.0 million, and the weighted average was $0.7 million. For the six months ended June 30, 2013, the average interest rate for our outstanding borrowings under our Revolving Credit Facility was 2.21%.

The Credit Facilities and Senior Note indentures contain certain restrictions relating to dividend payments, capital expenditures, financial ratios, guarantees, and the incurrence of additional indebtedness, which are discussed in Note 8, Debt, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K. Under our Credit Facilities and the indentures governing our Senior Notes, a dividend may be paid if it does not exceed our permitted restricted payment amount, which is calculated as the sum of 50% of our net income for distributions, together with other amounts as specified in the Credit Facilities and indentures. At June 30, 2013, the available restricted payment amount under our 8% Senior Notes indenture, which is more restrictive than our Credit Agreement and our 9% Senior Notes indenture, was approximately $108.3 million. To the extent we do not have adequate surplus or net profits, or available restricted payment amounts, we will be prohibited from paying dividends.

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

As of June 30, 2013, required debt principal repayments were as follows (dollars in thousands):

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

For the six months ended June 30, 2013 and 2012, cash payments for interest were $28.4 million and $28.7 million, respectively.

With the exception of the Credit Facilities, our debt is fixed-rate debt. At June 30, 2013, the book value of our fixed-rate debt was $600.0 million, and the fair value was estimated to be $637.9 million. The difference between the book value and fair value is due to the difference between the period-end market interest rate and the stated rate of our fixed-rate, long-term debt. We estimated the fair value of our fixed-rate debt using quoted market prices (Level 1 inputs), discussed further in Note 7, Financial Instruments.

7. Financial Instruments

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

We enter into transactions to hedge the variable cash flow risk of natural gas purchases. At June 30, 2013, these derivatives included caps and call spreads, which we account for as economic hedges, and swaps, which are designated and accounted for as cash flow hedges. As of June 30, 2013, we had entered into derivative instruments related to the following approximate percentages of our forecasted natural gas purchases:

	July 2013 Through October 2013	November 2013 Through March 2014	April 2014 Through October 2014	November 2014 Through March 2015	April 2015 Through October 2015	November 2015 Through March 2016	April 2016 Through October 2016
Approximate percent hedged	79%	58%	50%	43%	37%	15%	21%

Economic Hedges

For derivative instruments that are not designated as cash flow hedges for accounting purposes, the gain or loss on the derivatives is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in the Consolidated Statements of Operations. During the three and six months ended June 30, 2013 and 2012, we recognized an insignificant amount of expense and/or income related to natural gas contracts we account for as economic hedges.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets and is recognized in "Materials, labor, and other operating expenses (excluding depreciation)" in our Consolidated Statements of Operations in the period in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the instruments is reclassified out of accumulated other comprehensive income (loss) to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable. At June 30, 2013, and December 31, 2012, we had $0.6 million and $1.2 million of losses, respectively, net of tax, recorded in "Accumulated other comprehensive income (loss)" on our Consolidated Balance Sheets related to our natural gas contracts.

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

	(Gain) Loss Recognized in Accumulated Other Comprehensive Income				Loss Reclassified From Accumulated Other Comprehensive Income Into Earnings			
	Three Months Ended June 30		Six Months Ended June 30		Three Months Ended June 30		Six Months Ended June 30	
	2013 (a)	2012	2013	2012	2013	2012	2013	2012
Natural gas contracts	$1,740	$ (2,372)	$(954)	$ 1,231	$ 165	$ 984	$ 5	$ 2,312

(a) Based on June 30, 2013, pricing, the estimated income, net of tax, to be recognized in earnings during the next 12 months is $0.6 million.

Fair Value Measurements

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

Fair Values of Derivative Instruments

At June 30, 2013, and December 31, 2012, the fair value of our financial instruments was determined based on New York Mercantile Exchange (NYMEX) price quotations under the terms of the contracts, using current market information as of the reporting date. The derivatives were valued by us using third-party valuations based on quoted prices for similar assets and liabilities. Accordingly, all of our fair value measurements use Level 2 inputs.

We offset asset and liability balances, by counterparty, where legal right of offset exists. Our derivative contracts provide for netting of like transactions in the event a counterparty defaults or upon termination. No collateral was received or pledged in connection with these agreements. The following table presents the fair value of these instruments at June 30, 2013, and December 31, 2012 (dollars in thousands):

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets
		June 30, 2013	
Instruments in a net liability position, by counterparty (a)			
Cash flow hedges	$ (1,510)	$ 103	$ (1,407)
Economic hedges	(2,457)	352	(2,105)
Total	**$ (3,967)**	**$ 455**	**$ (3,512)**
		December 31, 2012	
Instruments in a net liability position, by counterparty (a)			
Cash flow hedges	$ (2,568)	$ 203	$ (2,365)
Economic hedges	(2,582)	385	(2,197)
Total	**$ (5,150)**	**$ 588**	**$ (4,562)**

(a) At June 30, 2013, $1.9 million was recorded in “Accrued liabilities, Other” and $1.6 million was recorded in “Other long-term liabilities.” At December 31, 2012, amounts were $4.1 million and $0.5 million, respectively.

8. Retirement and Benefit Plans

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Service cost	$ 558	$ 705	$ 1,131	$ 1,440
Interest cost	5,957	6,157	11,936	12,325
Expected return on plan assets	(7,308)	(6,803)	(14,653)	(13,579)
Amortization of actuarial loss	2,194	2,576	4,335	5,217
Amortization of prior service costs and other	—	2	—	5
Curtailment loss	271	66	271	66
Net periodic benefit cost	**$ 1,672**	**$ 2,703**	**$ 3,020**	**$ 5,474**

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

9. Share-Based Compensation

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

Shares issued pursuant to awards under the Plan are from our authorized but unissued shares or from treasury shares. The maximum number of shares approved for grant under the Plan is 17.2 million shares. As of June 30, 2013, 7.8 million shares remained available for future issuance under the Plan. Share-based compensation costs in BZ Intermediate’s financial statements represent expenses for restricted stock, restricted stock units, stock options, and performance units of Boise Inc., which have been pushed down to BZ Intermediate for accounting purposes. Additional information regarding the Plan and awards can be found in Note 11, Share-Based Compensation, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

Restricted Stock and Performance Units

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

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

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

The following table presents the range of assumptions used to calculate, using a Monte Carlo simulation, the fair value of the TSR awards granted during the six months ended June 30, 2013:

Expected volatility	43.79% - 44.62%
Stock price on grant date	$8.63 - $8.87
Risk-free interest rate	0.37% - 0.39%
Expected term (years)	2.5 - 2.8
Expected dividend yield	—% - —%

The following table presents restricted stock, RONOA performance award, and TSR award activity for the six months ended June 30, 2013 (shares in thousands):

	Restricted Stock		RONOA Performance Awards		TSR Market-Condition Awards	
	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value	Nonvested Shares	Weighted Average Grant-Date Fair Value
Outstanding at December 31, 2012 (a)	636	$ 6.66	489	$ 7.90	—	$ —
Granted	422	8.61	264	8.69	236	8.54
Vested	(231)	8.52	(93)	8.53	—	—
Forfeited	(8)	8.48	(4)	8.50	—	—
Outstanding at June 30, 2013 (a)	**819**	**$ 7.12**	**656**	**$ 8.13**	**236**	**$ 8.54**

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

Stock Options

In 2012 and 2011, we granted nonqualified stock options to members of management. The stock options generally vest and become exercisable over three years. Our stock options generally have a contractual term of ten years, meaning the option must be exercised by the holder before the tenth anniversary of the grant date. No options were granted during the six months ended June 30, 2013.

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

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2012	841	$ 8.34		
Exercised	—	—		
Forfeited	—	—		
Outstanding at June 30, 2013	**841**	**$ 8.34**	**8.3**	**$ 169**
Exercisable at June 30, 2013	335	$ 8.37	8.2	$ 57
Vested and expected to vest at June 30, 2013	825	$ 8.34	8.3	$ 165

Compensation Expense

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

	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Restricted stock	$ 828	$ 771	$1,277	$1,604
RONOA performance awards	500	462	972	705
TSR market-condition awards	153	—	180	—
Stock options	271	262	647	420
Total share-based compensation expense	**$ 1,752**	**$ 1,495**	**$3,076**	**$2,729**

The unrecognized compensation expense for all share-based awards at June 30, 2013, is as follows (dollars in thousands):

	Unrecognized Compensation Expense	Remaining Weighted Average Recognition Period (in years)
Restricted stock	$ 4,306	2.0
RONOA performance awards	3,140	1.8
TSR market-condition awards	1,685	2.7
Stock options	1,394	1.5
Total unrecognized share-based compensation expense	**$ 10,525**	**2.0**

10. Stockholders' Equity

The following tables detail the changes in accumulated other comprehensive income (loss), net of tax, for the three and six months ended June 30, 2013 and 2012, respectively.

	Changes in Accumulated Other Comprehensive Income (Loss) Three Months Ended June 30, 2013				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$ (530)	$ 328	$ (98,792)	$312	$ (98,682)
Other comprehensive income (loss) before reclassification, net of tax	(195)	(1,069)	—	—	(1,264)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	101	1,349	(24)	1,426
Ending balance	**$ (725)**	**$ (640)**	**$ (97,443)**	**$288**	**$ (98,520)**

	Changes in Accumulated Other Comprehensive Income (Loss) Three Months Ended June 30, 2012				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$ 503	$ (5,100)	$ (116,516)	$228	$(120,885)
Other comprehensive income (loss) before reclassification, net of tax	(2,307)	1,459	—	—	(848)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	604	1,585	(5)	2,184
Ending balance	**$ (1,804)**	**$ (3,037)**	**$ (114,931)**	**$223**	**$(119,549)**

	Changes in Accumulated Other Comprehensive Income (Loss) Six Months Ended June 30, 2013				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$ (302)	$ (1,230)	$ (100,108)	$336	$(101,304)
Other comprehensive income (loss) before reclassification, net of tax	(423)	587	—	—	164
Amounts reclassified from accumulated other comprehensive income, net of tax	—	3	2,665	(48)	2,620
Ending balance	**$ (725)**	**$ (640)**	**$ (97,443)**	**$288**	**$ (98,520)**

	Changes in Accumulated Other Comprehensive Income (Loss) Six Months Ended June 30, 2012				
	Foreign Currency Translation Adjustments	Effective Portion of Cash Flow Hedges	Pension Benefits	Other	Total
Beginning balance	$ (352)	$ (3,702)	$ (118,141)	$233	$(121,962)
Other comprehensive income (loss) before reclassification, net of tax	(1,452)	(756)	—	—	(2,208)
Amounts reclassified from accumulated other comprehensive income, net of tax	—	1,421	3,210	(10)	4,621
Ending balance	**$ (1,804)**	**$ (3,037)**	**$ (114,931)**	**$223**	**$(119,549)**

	Reclassifications Out of Accumulated Other Comprehensive Income			
	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
(Gains) losses on cash flow hedges				
Natural gas contracts (a)	$ 165	$ 984	$ 5	$ 2,312
Tax benefit	(64)	(380)	(2)	(891)
Net of tax	**$ 101**	**$ 604**	**$ 3**	**$ 1,421**
Pension benefits				
Amortization of prior service cost	$ —	$ 2	$ —	$ 5
Amortization of actuarial loss	2,194	2,576	4,335	5,217
Total before tax (b)	2,194	2,578	4,335	5,222
Tax benefit	(845)	(993)	(1,670)	(2,012)
Net of tax	**$ 1,349**	**$ 1,585**	**$ 2,665**	**$ 3,210**
Other	$ (38)	$ (7)	$ (77)	$ (16)
Tax expense	14	2	29	6
Net of tax	**$ (24)**	**$ (5)**	**$ (48)**	**$ (10)**

(a) Amounts are recorded in “Materials, labor and other operating expenses (excluding depreciation)” in our Consolidated Statements of Operations.
(b) Amounts are included in the computation of net periodic pension cost. For additional information, see Note 8, Retirement and Benefit Plans.

11. Inventories

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

Inventories included the following (dollars in thousands):

	June 30, 2013	December 31, 2012
Finished goods	$ 152,829	$ 150,496
Work in process	43,096	41,575
Fiber	27,600	35,840
Other raw materials and supplies	65,182	66,573
	$ 288,707	**$ 294,484**

12. Property and Equipment

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

	June 30, 2013	December 31, 2012
Land	$ 28,842	$ 28,899
Buildings and improvements	266,628	260,607
Machinery and equipment	1,515,468	1,479,212
Construction in progress	68,430	46,538
	1,879,368	1,815,256
Less accumulated depreciation	(666,705)	(592,255)
	$ 1,212,663	**$ 1,223,001**

Depreciation expense for the three months ended June 30, 2013 and 2012, was $39.5 million and $32.8 million, respectively. During the six months ended June 30, 2013 and 2012, depreciation expense was $78.1 million and $65.4 million, respectively. We periodically assess the estimated useful lives of our assets. Changes in circumstances, such as changes to our operational or capital strategy, changes in regulations, or technological advances, may result in the actual useful lives differing from our estimates. Revisions to the estimated useful lives of assets requires judgment and constitutes a change in accounting estimate, which is accounted for prospectively by adjusting or accelerating depreciation and amortization rates. During the three and six months ended June 30, 2013, we recognized $5.5 million and $10.8 million, respectively, of incremental depreciation expense related to shortening the useful lives of some of our assets, primarily at International Falls, Minnesota. See Note 2, Restructuring Costs, for more information.

At June 30, 2013 and December 31, 2012, purchases of property and equipment included in accounts payable were $20.2 million and $10.8 million, respectively.

13. Leases

We lease some of our facilities, as well as other property and equipment, under operating leases. For purposes of determining straight-line rent expense, the lease term is calculated from the date of possession of the facility, including any periods of free rent and any renewal option periods that are reasonably assured of being exercised. Straight-line rent expense is also adjusted to reflect any allowances or reimbursements provided by the lessor. Rental expense for operating leases was $7.3 million and $7.7 million for the three months ended June 30, 2013 and 2012, respectively. During the six months ended June 30, 2013 and 2012, rental expense was $14.2 million and $14.7 million, respectively. Sublease rental income was not material in any of the periods presented.

14. Concentrations of Risk

Business

Our largest customer is OfficeMax Incorporated (OfficeMax). Although we expect our long-term business relationship with OfficeMax to continue, the relationship exposes us to a significant concentration of business and financial risk. Sales to OfficeMax were $117.3 million and $121.9 million, respectively, during the three months ended June 30, 2013 and 2012, representing 19% of total sales for both periods. Sales to OfficeMax were $235.1 million and $251.9 million, respectively, during the six months ended June 30, 2013 and 2012, representing 19% and 20% of total sales for those periods. At June 30, 2013, and December 31, 2012, we had $38.8 million and $39.5 million, respectively, of accounts receivable due from OfficeMax, which represented 15% and 16%, respectively, of our total company receivables.

In July 2013, OfficeMax and Office Depot shareholders voted in favor of merging the two companies. Our paper purchase agreement with OfficeMax provides that it would survive the merger with respect to the office paper requirements of the legacy OfficeMax business. We cannot predict how the merger, if finalized, would affect the financial condition of the combined company, the paper requirements of the legacy OfficeMax business, or the effects the combined company would have on the pricing and competition for office papers. Significant reductions in paper purchases from OfficeMax (or the post-merger entity) would cause us to expand our customer base and could potentially decrease our profitability if new customer sales required either a decrease in our pricing and/or an increase in our cost of sales. Any significant deterioration in the financial condition of OfficeMax (or the post-merger entity) affecting the ability to pay or causing a significant change in the willingness to purchase our products or a significant deterioration in the financial condition of OfficeMax that affects their ability to pay could have a material adverse effect on our business, financial condition, results of operations, and liquidity.

Labor

At June 30, 2013, we had approximately 5,200 employees, and approximately 50% of these employees worked pursuant to collective bargaining agreements. Approximately 1% of our employees work pursuant to collective bargaining agreements that will expire within the next 12 months.

15. Transactions With Related Party

Related-Party Sales

Louisiana Timber Procurement Company, L.L.C. (LTP) is a variable-interest entity that is 50% owned by Boise Inc. and 50% owned by Boise Cascade Holdings, L.L.C. (Boise Cascade). LTP procures sawtimber, pulpwood, residual chips, and other residual wood fiber to meet the wood and fiber requirements of Boise Inc. and Boise Cascade in Louisiana. We are the primary beneficiary of LTP, as we have the power to direct the activities that most significantly affect the economic performance of LTP. Therefore, we consolidate LTP in our financial statements in our Packaging segment. The carrying amounts of LTP's assets and liabilities (which relate primarily to noninventory working capital items) on our Consolidated Balance Sheets were $3.9 million and $4.0 million at June 30, 2013, and December 31, 2012, respectively. During the three months ended June 30, 2013 and 2012, we recorded $16.8 million and $19.3 million, respectively, and during the six months ended June 30, 2013 and 2012, we recorded $32.5 million and $30.6 million, respectively, of LTP sales to Boise Cascade in "Sales, Related party" in the Consolidated Statements of Operations and approximately the same amount of expenses in "Materials, labor, and other operating expenses (excluding depreciation)." The sales were at prices designed to approximate market prices.

Related-Party Costs and Expenses

During the three months ended June 30, 2013 and 2012, fiber purchases from a related party were $5.3 million and $4.5 million, respectively, and during the six months ended June 30, 2013 and 2012, fiber purchases from a related party were $11.5 million and $9.4 million, respectively. Most of these purchases related to log and chip purchases by LTP from Boise Cascade's wood products business. Costs associated with these purchases were recorded as "Fiber costs from related party" in the Consolidated Statements of Operations.

16. Segment Information

We operate and report our business in three reportable segments: Packaging, Paper, and Corporate and Other (support services). These segments represent distinct businesses that are managed separately because of differing products and services. Each of these businesses requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments. There are no differences in our basis of segmentation or in our basis of measurement of segment profit or loss from those disclosed in Note 17, Segment Information, of the Notes to Consolidated Financial Statements in "Part II, Item 8. Financial Statements and Supplementary Data" in our 2012 Form 10-K.

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

Three Months Ended June 30, 2013	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion (c)	EBITDA (d)
	Trade	Related Party	Inter-segment	Total			
Packaging (a)	$ 283.0	$ 16.8	$ 0.8	$ 300.6	$ 31.3	$ 16.8	$ 48.1
Paper (a)	313.8	—	21.0	334.8	(9.9)	25.9	15.9
Corporate and Other (b)	8.1	—	7.7	15.7	(9.4)	1.2	(8.1)
Intersegment eliminations	—	—	(29.5)	(29.5)	—	—	—
	$ 604.8	**$ 16.8**	**$ —**	**$ 621.7**	12.0	**$ 43.9**	**$ 55.8**
Interest expense					(15.5)		
Interest income					—		
					$ (3.5)		

Three Months Ended June 30, 2012	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (d)
	Trade	Related Party	Inter-segment	Total			
Packaging	$ 264.9	$ 19.3	$ 0.6	$ 284.8	$ 24.8	$ 15.1	$ 40.0
Paper	345.5	—	17.7	363.3	19.6	21.3	40.9
Corporate and Other	8.2	—	9.0	17.2	(6.6)	0.8	(5.7)
Intersegment eliminations	—	—	(27.4)	(27.4)	—	—	—
	$ 618.6	**$ 19.3**	**$ —**	**$ 637.8**	37.8	**$ 37.3**	**$ 75.1**
Interest expense					(15.4)		
Interest income					0.1		
					$ 22.5		

Six Months Ended June 30, 2013	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion (c)	EBITDA (d)
	Trade	Related Party	Inter-segment	Total			
Packaging (a)	$ 553.6	$ 32.5	$ 1.4	$ 587.6	$ 32.2	$ 33.1	$ 65.3
Paper (a)	626.7	—	40.9	667.6	9.7	51.8	61.5
Corporate and Other (b)	15.8	—	16.2	32.0	(17.2)	2.4	(14.8)
Intersegment eliminations	—	—	(58.5)	(58.5)	—	—	—
	$1,196.1	**$ 32.5**	**$ —**	**$1,228.7**	24.7	**$ 87.3**	**$ 112.0**
Interest expense					(30.9)		
Interest income					—		
					$ (6.2)		

Six Months Ended June 30, 2012	Sales				Income (Loss) Before Income Taxes	Depreciation, Amortization, and Depletion	EBITDA (d)
	Trade	Related Party	Inter-segment	Total			
Packaging	$ 525.1	$ 30.6	$ 1.4	$ 557.1	$ 47.3	$ 30.6	$ 77.9
Paper	711.1	—	34.6	745.7	53.5	42.5	96.0
Corporate and Other	15.9	—	19.5	35.3	(13.1)	1.7	(11.4)
Intersegment eliminations	—	—	(55.4)	(55.4)	—	—	—
	$1,252.1	**$ 30.6**	**$ —**	**$1,282.7**	87.7	**$ 74.9**	**$ 162.6**
Interest expense					(30.8)		
Interest income					0.1		
					$ 57.0		

(a) During the three months ended June 30, 2013, we recorded $13.3 million of pretax restructuring costs, of which $12.3 million was recorded in our Paper segment, and related primarily to our plan to shut down two paper machines and an off-machine coater at our mill in International Falls, Minnesota, in early fourth quarter 2013. We recorded $1.0 million of costs in our Packaging segment related to restructuring activities due to the conversion of a machine at our mill in DeRidder, Louisiana.

(b) During the three months ended June 30, 2013, we recorded $2.0 million of transaction-related costs in our Corporate and Other segment. Transaction-related costs include expenses associated with transactions, whether consummated or not. We explore strategic transactions to the extent we believe they may improve our competitive position or enhance shareholder value.

(c) During the three and six months ended June 30, 2013, we recognized $5.5 million and $10.8 million, respectively, of incremental depreciation expense related to shortening the useful lives of some of our assets, primarily at International Falls, Minnesota. We recognized $3.8 million and $7.6 million of incremental depreciation expense in our Paper segment during the three and six months ended June 30, 2013, respectively, and $1.7 million and $3.2 million of incremental depreciation expense, respectively, in our Packaging segment.

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

The following is a reconciliation of net income (loss) to EBITDA for Boise Inc. and BZ Intermediate (dollars in millions):

	Three Months Ended June 30		Six Months Ended June 30	
	2013	**2012**	**2013**	**2012**
Net income (loss)	$ (2.2)	$ 13.7	$ (3.4)	$ 35.0
Interest expense	15.5	15.4	30.9	30.8
Interest income	—	(0.1)	—	(0.1)
Income tax provision (benefit)	(1.3)	8.8	(2.7)	22.0
Depreciation, amortization, and depletion (c)	43.9	37.3	87.3	74.9
EBITDA	**$ 55.8**	**$ 75.1**	**$112.0**	**$162.6**

17. New and Recently Adopted Accounting Standards

In July 2013, the FASB issued Accounting Standards Update (ASU) 2013-11, *Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists (Topic 740)*. This ASU requires that liabilities related to unrecognized tax benefits offset deferred tax assets for net operating loss carry forwards, a similar tax loss or a tax credit carry forward (Carryforward), if such settlement is required or expected in the event the uncertain tax position is disallowed. In situations in which a Carryforward cannot be used or the deferred tax asset is not intended to be used for such purpose, the unrecognized tax benefit should be recorded as a liability and should not offset deferred tax assets. We plan to adopt this ASU in our financial statements for the year ended December 31, 2013. We continue to evaluate the impact of the ASU, but expect the adoption to decrease "Other long-term liabilities" and increase the "Deferred income taxes" liability recorded on our Consolidated Balance Sheets. This ASU will have no effect on our financial position and results of operations.

In February 2013, the FASB issued Accounting Standards Update (ASU) 2013-02, Comprehensive Income (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. This ASU requires entities to disclose additional information about changes in and significant items reclassified out of accumulated other comprehensive income. We have adopted the provisions of this guidance, and it had no effect on our financial position and results of operations. See Note 10, Stockholders' Equity, for the additional required disclosures.

In July 2012, the FASB issued Accounting Standards Update (ASU) 2012-02, Intangibles — Goodwill and Other (Topic 350): *Testing Indefinite-Lived Intangible Assets for Impairment.* This ASU gives entities testing indefinite-lived intangible assets for impairment the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If, after assessing the totality of events and circumstances, an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, the entity is not required to take further action. However, if an entity concludes otherwise, a quantitative impairment test is required. We will consider the provisions of this guidance when we test our indefinite-lived intangible assets for impairment in the fourth quarter. This ASU will have no effect on our financial position and results of operations.

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210): *Disclosures about Offsetting Assets and Liabilities*. This ASU improves reporting and transparency of offsetting (netting) assets and liabilities and the related effects on the financial statements. In January 2013, the FASB issued ASU 2013-01, Balance Sheet (Topic 210): *Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities*. This ASU clarifies which instruments and transactions are subject to the offsetting disclosure requirements established by ASU 2011-11. We adopted the provisions of this guidance on January 1, 2013, and it had no effect on our financial position and results of operations. See Note 7, Financial Instruments, for the additional required disclosures.

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

18. Commitments, Guarantees, Indemnifications, and Legal Proceedings

Commitments

We have financial commitments and obligations that arise in the ordinary course of our business. These include long-term debt, lease payments, derivative instruments, and obligations to purchase goods and services that are discussed in Note 8, Debt; Note 9, Financial Instruments; Note 14, Leases; and Note 18, Commitments, Guarantees, Indemnifications, and Legal Proceedings, of the Notes to Consolidated Financial Statements in “Part II, Item 8. Financial Statements and Supplementary Data” in our 2012 Form 10-K. At June 30, 2013, there have been no material changes to commitments outside the normal course of business.

Guarantees and Indemnifications

We provide guarantees, indemnifications, and other assurances to third parties in the normal course of our business. These include tort indemnifications, environmental assurances, and representations and warranties in merger and acquisition agreements. At June 30, 2013, we are not aware of any material liabilities arising from any guarantee, indemnification, or financial assurance we have provided. If we determined such liability was probable and subject to reasonable determination, we would accrue for it at that time.

Legal Proceedings

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

19. Consolidating Guarantor and Nonguarantor Financial Information

Our 9% and 8% Senior Notes were issued by Boise Paper Holdings and co-issuers Boise Co-Issuer Company and Boise Finance Company, respectively. The Senior Notes are jointly and severally guaranteed on a senior unsecured basis by BZ Intermediate and each of its existing and, to the extent they become guarantors under the Credit Facilities, future subsidiaries other than: (i) Boise Paper Holdings and the co-issuers; (ii) Louisiana Timber Procurement Company, L.L.C.; and (iii) our foreign subsidiaries, including those acquired as part of the Hexacomb Acquisition. Each of the co-issuers of the Senior Notes and each of the subsidiaries of BZ Intermediate that is a guarantor thereof is 100% owned, directly or indirectly, by Boise Paper Holdings.

The following consolidating financial statements present the results of operations, comprehensive income, financial position, and cash flows of (i) BZ Intermediate Holdings LLC (parent); (ii) Boise Paper Holdings and co-issuers; (iii) guarantor subsidiaries; (iv) nonguarantor subsidiaries; and (v) eliminations to arrive at the information on a consolidated basis. Other than these consolidated financial statements and footnotes for Boise Inc. and BZ Intermediate, financial statements and other disclosures concerning the guarantors have not been presented. Management believes that such information is not material to investors and because the cancellation provisions of the guarantor subsidiaries’ guarantees are customary and do not permit a guarantor subsidiary to opt out of the obligation prior to or during the term of the debt. Under these cancellation provisions, each guarantor subsidiary is automatically released from its obligations as a guarantor upon the sale of the subsidiary or substantially all of its assets to a third party, the designation of the subsidiary as an unrestricted subsidiary for the purposes of the covenants included in the Senior Notes indentures, the release of the indebtedness under the indentures, or if the issuers exercise their legal defeasance option or discharge their obligations in accordance with the indentures.

In the following consolidating financial statements, the reclassifications to net income (loss) from accumulated other comprehensive income are recorded primarily in our guarantor subsidiaries. See Note 10, Stockholders’ Equity, for additional information related to reclassifications out of accumulated other comprehensive income.

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Operations
For the Three Months Ended June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 3,998	$ 588,133	$ 12,690	$ —	$ 604,821
Intercompany	—	—	2,319	27,417	(29,736)	—
Related party	—	—	—	16,843	—	16,843
	—	3,998	590,452	56,950	(29,736)	621,664
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	3,751	472,833	48,841	(29,736)	495,689
Fiber costs from related party	—	—	—	5,319	—	5,319
Depreciation, amortization, and depletion	—	1,030	42,176	685	—	43,891
Selling and distribution expenses	—	—	33,179	585	—	33,764
General and administrative expenses	—	6,780	11,620	1,293	—	19,693
Restructuring costs	—	—	9,011	—	—	9,011
Other (income) expense, net	—	2,046	(246)	130	—	1,930
	—	13,607	568,573	56,853	(29,736)	609,297
Income (loss) from operations	—	(9,609)	21,879	97	—	12,367
Foreign exchange loss	—	(270)	(32)	(113)	—	(415)
Interest expense	—	(15,435)	—	(21)	—	(15,456)
Interest expense—intercompany	—	(56)	—	(20)	76	—
Interest income	—	1	6	—	—	7
Interest income—intercompany	—	13	63	—	(76)	—
	—	(15,747)	37	(154)	—	(15,864)
Income (loss) before income taxes and equity in net income (loss) of affiliates	—	(25,356)	21,916	(57)	—	(3,497)
Income tax (provision) benefit	—	1,313	(5)	(19)	—	1,289
Income (loss) before equity in net income (loss) of affiliates	—	(24,043)	21,911	(76)	—	(2,208)
Equity in net income (loss) of affiliates	(2,208)	21,835	—	—	(19,627)	—
Net income (loss)	**$ (2,208)**	**$ (2,208)**	**$ 21,911**	**$ (76)**	**$ (19,627)**	**$ (2,208)**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Operations
For the Three Months Ended June 30, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 3,629	$ 602,193	$ 12,763	$ —	$ 618,585
Intercompany	—	—	749	26,293	(27,042)	—
Related party	—	—	—	19,255	—	19,255
	—	3,629	602,942	58,311	(27,042)	637,840
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	3,544	479,689	51,152	(27,042)	507,343
Fiber costs from related party	—	—	—	4,466	—	4,466
Depreciation, amortization, and depletion	—	659	35,976	668	—	37,303
Selling and distribution expenses	—	—	30,627	(59)	—	30,568
General and administrative expenses	—	6,955	11,423	1,657	—	20,035
Other (income) expense, net	—	98	349	(66)	—	381
	—	11,256	558,064	57,818	(27,042)	600,096
Income (loss) from operations	—	(7,627)	44,878	493	—	37,744
Foreign exchange gain (loss)	—	(186)	33	255	—	102
Interest expense	—	(15,440)	—	7	—	(15,433)
Interest expense—intercompany	—	(48)	—	(14)	62	—
Interest income	—	14	40	—	—	54
Interest income—intercompany	—	14	48	—	(62)	—
	—	(15,646)	121	248	—	(15,277)
Income (loss) before income taxes and equity in net income (loss) of affiliates	—	(23,273)	44,999	741	—	22,467
Income tax provision	—	(8,488)	9	(326)	—	(8,805)
Income (loss) before equity in net income (loss) of affiliates	—	(31,761)	45,008	415	—	13,662
Equity in net income of affiliates	13,662	45,423	—	—	(59,085)	—
Net income	**$ 13,662**	**$ 13,662**	**$ 45,008**	**$ 415**	**$ (59,085)**	**$ 13,662**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Operations
For the Six Months Ended June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 7,864	$1,162,844	$ 25,434	$ —	$1,196,142
Intercompany	—	—	4,712	55,407	(60,119)	—
Related party	—	—	—	32,540	—	32,540
	—	7,864	1,167,556	113,381	(60,119)	1,228,682
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	7,487	948,153	96,437	(60,119)	991,958
Fiber costs from related party	—	—	—	11,465	—	11,465
Depreciation, amortization, and depletion	—	1,980	83,993	1,346	—	87,319
Selling and distribution expenses	—	—	61,775	838	—	62,613
General and administrative expenses	—	13,994	22,044	2,578	—	38,616
Restructuring costs	—	—	9,474	—	—	9,474
Other (income) expense, net	—	2,076	(318)	40	—	1,798
	—	25,537	1,125,121	112,704	(60,119)	1,203,243
Income (loss) from operations	—	(17,673)	42,435	677	—	25,439
Foreign exchange loss	—	(434)	(48)	(274)	—	(756)
Interest expense	—	(30,862)	—	(13)	—	(30,875)
Interest expense—intercompany	—	(103)	—	(39)	142	—
Interest income	—	1	13	20	—	34
Interest income—intercompany	—	27	115	—	(142)	—
	—	(31,371)	80	(306)	—	(31,597)
Income (loss) before income taxes and equity in net income (loss) of affiliates	—	(49,044)	42,515	371	—	(6,158)
Income tax (provision) benefit	—	2,947	(33)	(189)	—	2,725
Income (loss) before equity in net income (loss) of affiliates	—	(46,097)	42,482	182	—	(3,433)
Equity in net income (loss) of affiliates	(3,433)	42,664	—	—	(39,231)	—
Net income (loss)	**$ (3,433)**	**$ (3,433)**	**$ 42,482**	**$ 182**	**$ (39,231)**	**$ (3,433)**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Operations
For the Six Months Ended June 30, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Sales						
Trade	$ —	$ 7,300	$1,220,608	$ 24,205	$ —	$1,252,113
Intercompany	—	—	976	52,034	(53,010)	—
Related party	—	—	—	30,573	—	30,573
	—	7,300	1,221,584	106,812	(53,010)	1,282,686
Costs and expenses						
Materials, labor, and other operating expenses (excluding depreciation)	—	7,057	963,719	91,876	(53,010)	1,009,642
Fiber costs from related party	—	—	—	9,412	—	9,412
Depreciation, amortization, and depletion	—	1,322	72,159	1,378	—	74,859
Selling and distribution expenses	—	—	60,847	363	—	61,210
General and administrative expenses	—	14,241	22,777	3,025	—	40,043
Other (income) expense, net	—	152	189	(260)	—	81
	—	22,772	1,119,691	105,794	(53,010)	1,195,247
Income (loss) from operations	—	(15,472)	101,893	1,018	—	87,439
Foreign exchange gain (loss)	—	3	76	180	—	259
Interest expense	—	(30,798)	—	—	—	(30,798)
Interest expense—intercompany	—	(95)	—	(28)	123	—
Interest income	—	48	50	—	—	98
Interest income—intercompany	—	28	95	—	(123)	—
	—	(30,814)	221	152	—	(30,441)
Income (loss) before income taxes and equity in net income (loss) of affiliates	—	(46,286)	102,114	1,170	—	56,998
Income tax provision	—	(21,629)	(23)	(346)	—	(21,998)
Income (loss) before equity in net income (loss) of affiliates	—	(67,915)	102,091	824	—	35,000
Equity in net income of affiliates	35,000	102,915	—	—	(137,915)	—
Net income	**$ 35,000**	**$ 35,000**	**$ 102,091**	**$ 824**	**$ (137,915)**	**$ 35,000**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Three Months Ended June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (2,208)	$(2,208)	$ 21,911	$ (76)	$ (19,627)	$ (2,208)
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	(195)	—	(195)
Cash flow hedges:						
Change in fair value	—	(1,069)	—	—	—	(1,069)
Loss included in net income	—	101	—	—	—	101
Amortization of actuarial loss and prior service cost for defined benefit pension plans	—	1,349	—	—	—	1,349
Other	—	(24)	—	—	—	(24)
Equity in other comprehensive income of affiliates	162	(195)	—	—	33	—
	162	162	—	(195)	33	162
Comprehensive income (loss)	**$ (2,046)**	**$(2,046)**	**$ 21,911**	**$ (271)**	**$ (19,594)**	**$ (2,046)**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Three Months Ended June 30, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 13,662	$13,662	$ 45,008	$ 415	$ (59,085)	$ 13,662
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	(2,307)	—	(2,307)
Cash flow hedges:						
Change in fair value	—	1,459	—	—	—	1,459
Loss included in net income	—	604	—	—	—	604
Amortization of actuarial loss and prior service cost for defined benefit pension plans	—	1,585	—	—	—	1,585
Other	—	(5)	—	—	—	(5)
Equity in other comprehensive income of affiliates	1,336	(2,307)	—	—	971	—
	1,336	1,336	—	(2,307)	971	1,336
Comprehensive income (loss)	**$ 14,998**	**$14,998**	**$ 45,008**	**$ (1,892)**	**$ (58,114)**	**$ 14,998**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Six Months Ended June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income (loss)	$ (3,433)	$(3,433)	$ 42,482	$ 182	$ (39,231)	$ (3,433)
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	(423)	—	(423)
Cash flow hedges:						
Change in fair value	—	587	—	—	—	587
Loss included in net income	—	3	—	—	—	3
Amortization of actuarial loss and prior service cost for defined benefit pension plans	—	2,665	—	—	—	2,665
Other	—	(48)	—	—	—	(48)
Equity in other comprehensive income of affiliates	2,784	(423)	—	—	(2,361)	—
	2,784	2,784	—	(423)	(2,361)	2,784
Comprehensive income (loss)	**$ (649)**	**$ (649)**	**$ 42,482**	**$ (241)**	**$ (41,592)**	**$ (649)**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Comprehensive Income
For the Six Months Ended June 30, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Net income	$ 35,000	$35,000	$ 102,091	$ 824	$ (137,915)	$ 35,000
Other comprehensive income (loss), net of tax						
Foreign currency translation adjustment	—	—	—	(1,452)	—	(1,452)
Cash flow hedges:						
Change in fair value	—	(756)	—	—	—	(756)
Loss included in net income	—	1,421	—	—	—	1,421
Amortization of actuarial loss and prior service cost for defined benefit pension plans	—	3,210	—	—	—	3,210
Other	—	(10)	—	—	—	(10)
Equity in other comprehensive income of affiliates	2,413	(1,452)	—	—	(961)	—
	2,413	2,413	—	(1,452)	(961)	2,413
Comprehensive income (loss)	**$ 37,413**	**$37,413**	**$ 102,091**	**$ (628)**	**$ (138,876)**	**$ 37,413**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current						
Cash and cash equivalents	$ —	$ 54,280	$ 177	$ 6,629	$ —	$ 61,086
Receivables						
Trade, less allowances	—	1,316	243,151	9,881	—	254,348
Intercompany	—	3,265	330	2,149	(5,744)	—
Other	—	2,785	4,439	2,637	—	9,861
Inventories	—	4	284,254	4,449	—	288,707
Deferred income taxes	—	11,997	—	—	—	11,997
Prepaid and other	—	9,144	4,311	684	—	14,139
	—	82,791	536,662	26,429	(5,744)	640,138
Property						
Property and equipment, net	—	9,238	1,192,225	11,200	—	1,212,663
Fiber farms	—	—	25,113	—	—	25,113
	—	9,238	1,217,338	11,200	—	1,237,776
Deferred financing costs	—	24,380	—	—	—	24,380
Goodwill	—	—	153,576	6,556	—	160,132
Intangible assets, net	—	—	128,319	13,699	—	142,018
Investments in affiliates	758,305	1,744,654	—	—	(2,502,959)	—
Intercompany notes receivable	—	3,400	1,524	—	(4,924)	—
Other assets	—	5,945	499	185	—	6,629
Total assets	**$ 758,305**	**$1,870,408**	**$2,037,918**	**$ 58,069**	**$(2,513,627)**	**$2,211,073**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at June 30, 2013 (continued)
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND CAPITAL						
Current						
Current portion of long-term debt	$ —	$ 15,000	$ —	$ —	$ —	$ 15,000
Accounts payable						
Trade	—	11,423	186,106	5,673	—	203,202
Intercompany	—	210	1,934	3,569	(5,713)	—
Accrued liabilities						
Compensation and benefits	—	20,817	43,162	1,407	—	65,386
Interest payable	—	10,529	—	—	—	10,529
Other	—	3,859	17,832	3,498	(31)	25,158
	—	61,838	249,034	14,147	(5,744)	319,275
Debt						
Long-term debt, less current portion	—	760,000	—	—	—	760,000
Intercompany notes payable	—	—	—	4,924	(4,924)	—
	—	760,000	—	4,924	(4,924)	760,000
Other						
Deferred income taxes	—	126,476	53,497	3,327	—	183,300
Compensation and benefits	—	116,077	76	—	—	116,153
Other long-term liabilities	—	47,712	26,102	226	—	74,040
	—	290,265	79,675	3,553	—	373,493
Commitments and contingent liabilities						
Capital						
Business unit equity	856,825	856,825	1,709,209	36,171	(2,602,205)	856,825
Accumulated other comprehensive loss	(98,520)	(98,520)	—	(726)	99,246	(98,520)
	758,305	758,305	1,709,209	35,445	(2,502,959)	758,305
Total liabilities and capital	**$ 758,305**	**$1,870,408**	**$2,037,918**	**$ 58,069**	**$(2,513,627)**	**$2,211,073**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
ASSETS						
Current						
Cash and cash equivalents	$ —	$ 40,801	$ 516	$ 8,390	$ —	$ 49,707
Receivables						
Trade, less allowances	—	1,458	230,178	8,823	—	240,459
Intercompany	—	2,234	1,580	2,670	(6,484)	—
Other	—	2,880	4,266	1,121	—	8,267
Inventories	—	3	291,065	3,416	—	294,484
Deferred income taxes	—	17,955	—	—	—	17,955
Prepaid and other	—	6,952	1,021	855	—	8,828
	—	72,283	528,626	25,275	(6,484)	619,700
Property						
Property and equipment, net	—	7,930	1,203,384	11,687	—	1,223,001
Fiber farms	—	—	24,311	—	—	24,311
	—	7,930	1,227,695	11,687	—	1,247,312
Deferred financing costs	—	26,677	—	—	—	26,677
Goodwill	—	—	153,576	6,554	—	160,130
Intangible assets, net	—	—	133,115	14,449	—	147,564
Investments in affiliates	756,683	1,778,531	—	—	(2,535,214)	—
Intercompany notes receivable	—	3,400	1,524	—	(4,924)	—
Other assets	—	5,992	902	135	—	7,029
Total assets	**$ 756,683**	**$1,894,813**	**$2,045,438**	**$ 58,100**	**$(2,546,622)**	**$2,208,412**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Balance Sheets at December 31, 2012 (continued)
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
LIABILITIES AND CAPITAL						
Current						
Current portion of long-term debt	$ —	$ 10,000	$ —	$ —	$ —	$ 10,000
Accounts payable						
Trade	—	18,547	160,152	6,379	—	185,078
Intercompany	—	571	2,090	3,842	(6,503)	—
Accrued liabilities						
Compensation and benefits	—	22,206	47,605	1,139	—	70,950
Interest payable	—	10,516	—	—	—	10,516
Other	—	3,773	14,033	2,703	19	20,528
	—	65,613	223,880	14,063	(6,484)	297,072
Debt						
Long-term debt, less current portion	—	770,000	—	—	—	770,000
Intercompany notes payable	—	—	—	4,924	(4,924)	—
	—	770,000	—	4,924	(4,924)	770,000
Other						
Deferred income taxes	—	132,841	53,497	3,485	—	189,823
Compensation and benefits	—	121,606	76	—	—	121,682
Other long-term liabilities	—	48,070	24,932	150	—	73,152
	—	302,517	78,505	3,635	—	384,657
Commitments and contingent liabilities						
Capital						
Business unit equity	857,987	857,987	1,743,053	35,779	(2,636,819)	857,987
Accumulated other comprehensive loss	(101,304)	(101,304)	—	(301)	101,605	(101,304)
	756,683	756,683	1,743,053	35,478	(2,535,214)	756,683
Total liabilities and capital	**$ 756,683**	**$1,894,813**	**$2,045,438**	**$ 58,100**	**$(2,546,622)**	**$2,208,412**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2013
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used for) operations						
Net income (loss)	$ (3,433)	$ (3,433)	$ 42,482	$ 182	$ (39,231)	$ (3,433)
Items in net income (loss) not using (providing) cash						
Equity in net income of affiliates	3,433	(42,664)	—	—	39,231	—
Depreciation, depletion, and amortization of deferred financing costs and other	—	4,454	83,993	1,346	—	89,793
Share-based compensation expense	—	3,076	—	—	—	3,076
Pension expense	—	3,020	—	—	—	3,020
Deferred income taxes	—	(2,501)	—	(123)	—	(2,624)
Restructuring costs	—	—	9,992	—	—	9,992
Other	—	434	676	290	—	1,400
Decrease (increase) in working capital						
Receivables	—	(682)	(12,076)	(2,233)	(740)	(15,731)
Inventories	—	(1)	3,691	(1,124)	—	2,566
Prepaid expenses	—	990	(3,290)	173	—	(2,127)
Accounts payable and accrued liabilities	—	(10,294)	9,935	659	740	1,040
Current and deferred income taxes	—	(893)	1	203	—	(689)
Pension payments	—	(5,091)	—	—	—	(5,091)
Other	—	720	(338)	22	—	404
Cash provided by (used for) operations	—	(52,865)	135,066	(605)	—	81,596
Cash provided by (used for) investment						
Expenditures for property and equipment	—	(3,240)	(60,481)	(874)	—	(64,595)
Other	—	(434)	1,402	(278)	—	690
Cash used for investment	—	(3,674)	(59,079)	(1,152)	—	(63,905)
Cash provided by (used for) financing						
Payments of long-term debt	—	(5,000)	—	—	—	(5,000)
Payments (to) from Boise Inc., net	(1,100)	—	—	—	—	(1,100)
Due to (from) affiliates	1,100	75,018	(76,326)	208	—	—
Other	—	—	—	(212)	—	(212)
Cash provided by (used for) financing	—	70,018	(76,326)	(4)	—	(6,312)
Increase (decrease) in cash and cash equivalents	—	13,479	(339)	(1,761)	—	11,379
Balance at beginning of the period	—	40,801	516	8,390	—	49,707
Balance at end of the period	**$ —**	**$ 54,280**	**$ 177**	**$ 6,629**	**$ —**	**$ 61,086**

BZ Intermediate Holdings LLC and Subsidiaries
Consolidating Statements of Cash Flows
For the Six Months Ended June 30, 2012
(unaudited, dollars in thousands)

	BZ Intermediate Holdings LLC (Parent)	Boise Paper Holdings and Co-issuers	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated
Cash provided by (used for) operations						
Net income	$ 35,000	$ 35,000	$ 102,091	$ 824	$ (137,915)	$ 35,000
Items in net income not using (providing) cash						
Equity in net income of affiliates	(35,000)	(102,915)	—	—	137,915	—
Depreciation, depletion, and amortization of deferred financing costs and other	—	3,653	72,159	1,378	—	77,190
Share-based compensation expense	—	2,729	—	—	—	2,729
Pension expense	—	5,474	—	—	—	5,474
Deferred income taxes	—	12,750	—	(140)	—	12,610
Other	—	1	136	(180)	—	(43)
Decrease (increase) in working capital						
Receivables	—	(1,518)	(6,988)	(4,389)	845	(12,050)
Inventories	—	—	(19,888)	(336)	—	(20,224)
Prepaid expenses	—	188	(4,350)	(707)	—	(4,869)
Accounts payable and accrued liabilities	—	(16,116)	(1,025)	3,925	(845)	(14,061)
Current and deferred income taxes	—	7,221	1	230	—	7,452
Pension payments	—	(18,191)	—	—	—	(18,191)
Other	—	2,638	(708)	180	—	2,110
Cash provided by (used for) operations	—	(69,086)	141,428	785	—	73,127
Cash provided by (used for) investment						
Expenditures for property and equipment	—	(2,404)	(49,741)	(312)	—	(52,457)
Other	—	3	140	443	—	586
Cash provided by (used for) investment	—	(2,401)	(49,601)	131	—	(51,871)
Cash provided by (used for) financing						
Payments of long-term debt	—	(5,000)	—	—	—	(5,000)
Payments (to) from Boise Inc., net	(52,440)	—	—	—	—	(52,440)
Due to (from) affiliates	52,440	46,164	(100,312)	1,708	—	—
Other	—	(247)	—	(1,063)	—	(1,310)
Cash provided by (used for) financing	—	40,917	(100,312)	645	—	(58,750)
Increase (decrease) in cash and cash equivalents	—	(30,570)	(8,485)	1,561	—	(37,494)
Balance at beginning of the period	—	82,532	9,737	4,727	—	96,996
Balance at end of the period	**$ —**	**$ 51,962**	**$ 1,252**	**$ 6,288**	**$ —**	**$ 59,502**