OFFICEMAX INC
Form 424B3
June 09, 2011
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PROSPECTUS SUPPLEMENT
(To prospectus dated March 23, 2011)

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-162866

2,771,909 SHARES OF COMMON STOCK, $2.50 PAR VALUE

OFFICEMAX

INCORPORATED

This prospectus supplement supplements the prospectus dated March 23, 2011, relating to the resale of 2,771,909 shares of our common stock to allow our master trust (the Selling Stockholder), which is the funding vehicle for the Company s six tax-qualified employee pension benefit plans (the Plans), to resell, from time to time, shares of our common stock that we contributed as a voluntary, excess contribution to the Selling Stockholder. Since the date that we contributed such shares to the Selling Stockholder, the Selling Stockholder has sold 5,559,813 of the 8,331,722 shares contributed to the Selling Stockholder, and the 2,771,909 shares specified above represents the number of shares remaining to be sold. This prospectus supplement should be read in conjunction with the prospectus dated March 23, 2011, including any supplements thereto, which is to be delivered with this prospectus supplement, and this prospectus supplement is qualified by reference to the prospectus and any supplements thereto, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus and any supplements thereto. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any supplements thereto.

Quarterly Report on Form 10-Q

Current Report on Form 8-K

On April 29, 2011, we filed a Quarterly Report on Form 10-Q for the period ended March 26, 2011 with the Securities and Exchange Commission (SEC). The text of such form 10-Q is attached hereto as Exhibit 99.1.

On June 3, 2011, we filed a Current Report on Form 8-K with the SEC. The text of such Form 8-K is attached hereto as Exhibit 99.2.

Neither the SEC nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is June 9, 2011.

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Exhibit 99.1

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 26, 2011

or

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

For the transition period from to

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**82-0100960**
(State or other jurisdiction of incorporation or organization)	**(I.R.S Employer Identification No.)**
263 Shuman Boulevard	
Naperville, Illinois	**60563**
(Address of principal executive offices)	**(Zip Code)**

(630) 438-7800

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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

Class	**Shares Outstanding as of April 20, 2011**
Common Stock, $2.50 par value	85,968,573

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ITEM 1. FINANCIAL STATEMENTS

OfficeMax Incorporated and Subsidiaries

Consolidated Statements of Operations

(thousands, except per-share amounts)

	Three Months Ended	
	March 26, 2011	March 27, 2010
	(unaudited)	
Sales	$ 1,863,001	$ 1,917,254
Cost of goods sold and occupancy costs	1,388,489	1,411,788
Gross profit	474,512	505,466
Operating expenses		
Operating, selling and general and administrative expenses	445,900	441,925
Other operating expenses		14,188
Operating income	28,612	49,353
Interest expense	(18,767)	(18,316)
Interest income	11,020	10,616
Other income, net	38	51
Pre-tax income	20,903	41,704
Income tax expense	(7,670)	(15,401)
Net income attributable to OfficeMax and noncontrolling interest	13,233	26,303
Joint venture results attributable to noncontrolling interest	(1,330)	(855)
Net income attributable to OfficeMax	$ 11,903	$ 25,448
Preferred dividends	(537)	(669)
Net income available to OfficeMax common shareholders	$ 11,366	$ 24,779
Net income per common share		
Basic	$ 0.13	$ 0.29
Diluted	$ 0.13	$ 0.29

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Balance Sheets

(thousands)

	March 26, 2011 (unaudited)	December 25, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 444,091	$ 462,326
Receivables, net	548,827	546,885
Inventories	750,922	846,463
Deferred income taxes and receivables	98,859	99,613
Other current assets	62,271	58,999
Total current assets	1,904,970	2,014,286
Property and equipment:		
Land and land improvements	41,260	41,317
Buildings and improvements	489,357	487,160
Machinery and equipment	773,424	818,081
Total property and equipment	1,304,041	1,346,558
Accumulated depreciation	(910,017)	(949,269)
Net property and equipment	394,024	397,289
Intangible assets, net	82,649	83,231
Investment in Boise Cascade Holdings, L.L.C.	175,000	175,000
Timber notes receivable	899,250	899,250
Deferred income taxes	277,063	284,529
Other non-current assets	233,597	225,344
Total assets	$ 3,966,553	$ 4,078,929

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Balance Sheets

(thousands, except share and per-share amounts)

	March 26, 2011 (unaudited)	December 25, 2010
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of debt	$ 6,039	$ 4,560
Accounts payable	595,293	686,106
Income tax payable	8,625	11,055
Accrued expenses and other current liabilities:		
Compensation and benefits	106,179	145,911
Other	203,128	196,842
Total current liabilities	919,264	1,044,474
Long-term debt, less current portion	269,694	270,435
Non-recourse debt	1,470,000	1,470,000
Other long-term items:		
Compensation and benefits obligations	250,683	250,756
Deferred gain on sale of assets	179,757	179,757
Other long-term liabilities	205,546	213,496
Noncontrolling interest in joint venture	49,311	49,246
Shareholders equity:		
Preferred stock no par value; 10,000,000 shares authorized; Series D ESOP: $.01 stated value; 680,419 and 686,696 shares outstanding	30,619	30,901
Common stock $2.50 par value; 200,000,000 shares authorized; 85,967,898 and 85,057,710 shares outstanding	214,920	212,644
Additional paid-in capital	989,418	986,579
Accumulated deficit	(522,775)	(533,606)
Accumulated other comprehensive loss	(89,884)	(95,753)
Total OfficeMax shareholders equity	622,298	600,765
Total liabilities and shareholders equity	$ 3,966,553	$ 4,078,929

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

(thousands)

	Three Months Ended March 26, 2011 (unaudited)	Three Months Ended March 27, 2010 (unaudited)
Cash provided by operations:		
Net income attributable to OfficeMax and noncontrolling interest	$ 13,233	$ 26,303
Non-cash items in net income:		
Earnings on investment in Boise Cascade Holdings L.L.C.	(1,897)	(1,754)
Depreciation and amortization	20,918	26,415
Pension and other postretirement benefits expense	1,982	1,546
Other	5,830	2,428
Changes in operating assets and liabilities:		
Receivables	996	964
Inventories	98,538	81,954
Accounts payable and accrued liabilities	(128,296)	(86,455)
Current and deferred income taxes	4,312	18,646
Other	(14,745)	(6,019)
Cash provided by operations	871	64,028
Cash used for investment:		
Expenditures for property and equipment	(17,012)	(9,245)
Proceeds from sales of assets, net	72	415
Cash used for investment	(16,940)	(8,830)
Cash used for financing:		
Cash dividends paid preferred stock	(1,142)	(1,348)
Borrowings (payments) of short-term debt, net	1,336	(174)
Payments of long-term debt	(1,062)	(662)
Purchase of Series D preferred stock	(273)	(1,642)
Proceeds from exercise of stock options	1,803	808
Payments related to other share-based compensation	(4,404)	
Other	11	7
Cash used for financing	(3,731)	(3,011)
Effect of exchange rates on cash and cash equivalents	1,565	987
Increase (decrease) in cash and cash equivalents	(18,235)	53,174
Balance at beginning of the period	462,326	486,570
Balance at end of the period	$ 444,091	$ 539,744

See accompanying notes to quarterly consolidated financial statements

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Notes to Quarterly Consolidated Financial Statements (unaudited)

1. Basis of Presentation

Nature of Operations

OfficeMax Incorporated (OfficeMax, the Company or we) is a leader in both business-to-business and retail office products distribution. The Company provides office supplies and paper, print and document services, technology products and solutions and furniture to large, medium and small businesses, government offices and consumers. OfficeMax customers are served by approximately 30,000 associates through direct sales, catalogs, the Internet and a network of retail stores located throughout the United States, Canada, Australia, New Zealand and Mexico.

The accompanying quarterly consolidated financial statements include the accounts of OfficeMax and all majority-owned subsidiaries, except our 88%-owned subsidiary that formerly owned assets in Cuba that were confiscated by the Cuban government in the 1960s, which is accounted for as an investment due to various asset restrictions. We also consolidate the variable interest entities in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. These financial statements are for the thirteen-week period ended on March 26, 2011 (also referred to as the first quarter of 2011 or the three months ended March 26, 2011) and the thirteen-week period ended on March 27, 2010 (also referred to as the first quarter of 2010 or the three months ended March 27, 2010). The Company s fiscal year ends on the last Saturday in December. Due primarily to statutory reporting requirements, the Company s international businesses maintain December 31 year-ends and end their quarters on the last calendar day of the month, with our majority-owned joint venture in Mexico reporting one month in arrears. Fiscal year 2010 included 52 weeks for all reportable segments and businesses. Fiscal year 2011 will include 53 weeks for our U.S. businesses.

The Company manages its business using three reportable segments: OfficeMax, Contract (Contract segment or Contract); OfficeMax, Retail (Retail segment or Retail); and Corporate and Other. Management reviews the performance of the Company based on these segments. We present information pertaining to our segments in Note 10, Segment Information .

The Company has prepared the quarterly consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. These quarterly consolidated financial statements should be read together with the consolidated financial statements and the accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 25, 2010.

The quarterly consolidated financial statements included herein have not been audited by an independent registered public accounting firm, but in the opinion of management, include all adjustments necessary to present fairly the results for the periods indicated. Except as disclosed within these Notes to Quarterly Consolidated Financial Statements (unaudited), the adjustments made were of a normal, recurring nature. Quarterly results are not necessarily indicative of results which may be expected for a full year.

Recently Issued or Newly Adopted Accounting Standards

There were no recently issued or newly adopted accounting standards that were applicable to the preparation of our consolidated financial statements for 2011 or that may become applicable to the preparation of our consolidated financial statements in the future.

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

2. Facility Closure Reserves

We conduct regular reviews of our real estate portfolio to identify underperforming facilities, and close those facilities that are no longer strategically or economically beneficial. We record a liability for the cost associated with a facility closure at its fair value in the period in which the liability is incurred, primarily the location s cease-use date. Upon closure, unrecoverable costs are included in facility closure reserves and include provisions for the present value of future lease obligations, less contractual or estimated sublease income. Accretion expense is recognized over the life of the required payments.

During the first quarter of 2010, the Company recorded pre-tax charges of $13.4 million in its Retail segment related to facility closure, of which $12.0 million related to the lease liability and other costs associated with closing seven domestic stores prior to the end of their lease terms and $1.4 million was related to other items.

Facility closure reserve account activity during the first three months of 2011 was as follows:

	Total (thousands)
Balance at December 25, 2010	$ 61,673
Changes to estimated costs included in income	696
Cash payments	(6,827)
Accretion	871
Balance at March 26, 2011	$ 56,413

Reserve balances were classified in the Consolidated Balance Sheets as follows:

	March 26, 2011 (thousands)
Other accrued liabilities	$ 16,033
Other long-term liabilities	40,380
Total	$ 56,413

At March 26, 2011, the components of the facilities closure reserve consisted of the following:

	Total (thousands)
Estimated future lease obligations	$ 119,031
Less: anticipated sublease income	(62,618)
Total	$ 56,413

3. Severance and Other Charges

The first quarter of 2010 included a charge recorded in our Contract segment of $0.8 million for severance related to reorganizations in our U.S. Contract operations. This charge was included in other operating expenses in the Consolidated Statements of Operations.

As of March 26, 2011, $0.4 million of severance charges previously recorded remain to be paid and are included in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

4. Timber Notes/Non-Recourse Debt

In October 2004, we sold our timberland assets in exchange for $15 million in cash plus credit-enhanced timber installment notes in the amount of $1,635 million (the Installment Notes). The Installment Notes were issued by single-member limited liability companies formed by affiliates of Boise Cascade, L.L.C. (the Note Issuers). The Installment Notes are 15-year non-amortizing obligations and were issued in two equal $817.5 million tranches bearing interest at 5.11% and 4.98%, respectively. In order to support the issuance of the Installment Notes, the Note Issuers transferred a total of $1,635 million in cash to Lehman Brothers Holdings Inc. (Lehman) and Wachovia Corporation (Wachovia) (which was later purchased by Wells Fargo & Company) ($817.5 million to each of Lehman and Wachovia). Lehman and Wachovia issued collateral notes (the Collateral Notes) to the Note Issuers. Concurrently with the issuance of the Installment and Collateral Notes, Lehman and Wachovia guaranteed the respective Installment Notes and the Note Issuers pledged the Collateral Notes as security for the performance of the Installment Note obligations. The Installment Notes are reported as timber notes receivable in our Consolidated Balance Sheets.

In December 2004, we completed a securitization transaction in which the Company s interests in the Installment Notes and related guarantees were transferred to wholly-owned bankruptcy remote subsidiaries. The subsidiaries pledged the Installment Notes and related guarantees and issued securitized notes (the Securitization Notes) in the amount of $1,470 million ($735 million through the structure supported by the Lehman guaranty and $735 million through the structure supported by the Wachovia guaranty). As a result of these transactions, we received $1,470 million in cash. Recourse on the Securitization Notes is limited to the proceeds of the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty, and therefore there is no recourse against OfficeMax. The Securitization Notes are 15-year non-amortizing, and were issued in two equal $735 million tranches paying interest of 5.54% and 5.42%, respectively. The Securitization Notes are reported as non-recourse debt in the Company s Consolidated Balance Sheets.

On September 15, 2008, Lehman, the guarantor of half of the Installment Notes and the Securitization Notes, filed a petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under chapter 11 of the United States Bankruptcy Code. Lehman s bankruptcy filing constituted an event of default under the $817.5 million Installment Note guaranteed by Lehman (the Lehman Guaranteed Installment Note).

We are required for accounting purposes to assess the carrying value of assets whenever circumstances indicate that a decline in value may have occurred. In 2008, we evaluated the carrying value of the Lehman Guaranteed Installment Note and reduced it to the estimated amount we expect to collect ($81.8 million) by recording a non-cash impairment charge of $735.8 million, pre-tax. The ultimate amount to be realized on the Lehman Guaranteed Installment Note depends entirely on the proceeds from the Lehman bankruptcy estate, which may not be finally determined for several years. Our estimate of the expected proceeds has not changed, and at March 26, 2011, the carrying value of the Lehman Guaranteed Installment Note remained at $81.8 million. On April 14, 2010, Lehman filed its Debtors Disclosure Statement with the United States Bankruptcy Court for the Southern District of New York. The Disclosure Statement indicated a range of estimated recoveries for general unsecured creditors of Lehman. As our estimate is similar to the estimate included in the Disclosure Statement, we have not adjusted our estimated carrying value for the Lehman Guaranteed Installment Note. Going forward, we intend to adjust the carrying value of the Lehman Guaranteed Installment Note as further information regarding our share of the proceeds, if any, from the Lehman bankruptcy estate becomes available.

Recourse on the Securitization Notes is limited to the proceeds from the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty. Accordingly, the Lehman Guaranteed Installment Note and underlying Lehman guaranty will be transferred to the holders of the Securitization Notes guaranteed by Lehman in order to settle and extinguish that liability. However, under current generally accepted accounting principles,

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

we are required to continue to recognize the liability related to the Securitization Notes guaranteed by Lehman until such time as the liability has been extinguished. This will occur when the Lehman Guaranteed Installment Note and the related guaranty are transferred to and accepted by the Securitization Note holders. We expect that this will occur no later than the date when the assets of Lehman are distributed and the bankruptcy is finalized. Accordingly, we expect to recognize a non-cash gain equal to the difference between the carrying amount of the Securitization Notes guaranteed by Lehman ($735.0 million at March 26, 2011) and the carrying value of the Lehman Guaranteed Installment Note ($81.8 million at March 26, 2011) in a later period when the liability is legally extinguished. The actual gain to be recognized in the future will be measured based on the carrying amounts of the Lehman Guaranteed Installment Note and the Securitization Notes guaranteed by Lehman at the date of settlement.

Through March 26, 2011, we have received all payments due under the Installment Notes guaranteed by Wachovia (the Wachovia Guaranteed Installment Notes), which have consisted only of interest due on the notes, and have made all payments due on the related Securitization Notes guaranteed by Wachovia, again consisting only of interest due. As all amounts due on the Wachovia Guaranteed Installment Notes are current and we have no reason to believe that we will not be able to collect all amounts due according to the contractual terms of the Wachovia Guaranteed Installment Notes, the notes are stated in our Consolidated Balance Sheets at their original principal amount of $817.5 million. The Installment Notes and Securitization Notes are scheduled to mature in 2020 and 2019, respectively. The Securitization Notes have an initial term that is approximately three months shorter than the Installment Notes.

At the time of the sale of the timberlands in 2004, we generated a tax gain and recognized the related deferred tax liability. The timber installment notes structure allowed the Company to defer the resulting tax liability of $543 million until 2020, the maturity date for the Installment Notes. Due to the Lehman bankruptcy and note defaults, the recognition of the Lehman portion of the gain will be triggered when the Lehman Guaranteed Installment Note is transferred to the Securitization Note holders as payment and/or when the Lehman bankruptcy is resolved. At that time, we expect to reduce the estimated cash payment due by utilizing our available alternative minimum tax credits.

5. Debt

Credit Agreements

On July 12, 2007, the Company entered into an Amended and Restated Loan and Security Agreement (the U.S. Credit Agreement) with a group of banks. The U.S. Credit Agreement permits the Company to borrow up to a maximum of $700 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The U.S. Credit Agreement may be increased (up to a maximum of $800 million) at the Company s request or reduced from time to time, in each case according to the terms detailed in the U.S. Credit Agreement. Letters of credit, which may be issued under the U.S. Credit Agreement up to a maximum of $250 million, reduce available borrowing capacity. At the end of the first quarter of 2011, the Company was in compliance with all covenants under the U.S. Credit Agreement. The U.S. Credit Agreement expires on July 12, 2012.

During all periods presented, borrowings under the U.S. Credit Agreement were subject to interest at rates based on either the prime rate or the London Interbank Offered Rate (LIBOR). Margins were applied to the applicable borrowing rates and letter of credit fees under the U.S. Credit Agreement depending on the level of average availability. Fees on letters of credit issued under the U.S. Credit Agreement were charged at a weighted average rate of 0.875%. The Company was also charged an unused line fee of 0.25% on the amount by which the maximum available credit exceeded the average daily outstanding borrowings and letters of credit.

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

On September 30, 2009, Grand & Toy Limited, the Company s wholly owned subsidiary in Canada, entered into a Loan and Security Agreement (the Canadian Credit Agreement) with a group of banks. The Canadian Credit Agreement permits Grand & Toy Limited to borrow up to a maximum of C$60 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The Canadian Credit Agreement may be increased (up to a maximum of C$80 million) at Grand & Toy Limited s request or reduced from time to time, in each case according to the terms detailed in the Canadian Credit Agreement. Letters of credit, which may be issued under the Canadian Credit Agreement up to a maximum of C$10 million, reduce available borrowing capacity under the Canadian Credit Agreement. At the end of the first quarter of 2011, Grand & Toy Limited was in compliance with all covenants under the Canadian Credit Agreement. The Canadian Credit Agreement expires on July 12, 2012.

On March 15, 2010, the Company s five wholly-owned subsidiaries based in Australia and New Zealand entered into a Facility Agreement (the Australia/New Zealand Credit Agreement) with a financial institution based in those countries. The Australia/New Zealand Credit Agreement permits the subsidiaries in Australia and New Zealand to borrow up to a maximum of A$80 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of certain owned properties, less certain reserves. At the end of the first quarter of 2011, the subsidiaries in Australia and New Zealand were in compliance with all covenants under the Australia/New Zealand Credit Agreement. The Australia/New Zealand Credit Agreement expires on March 15, 2013.

Availability under the Company s credit agreements at the end of the first quarter of 2011 was as follows:

	U.S. Credit Agreement	Canadian Credit Agreement	Australia/ New Zealand Credit Agreement	Total
		(millions of U.S. dollars)		
Maximum aggregate available borrowing amount	$ 501.0	$ 49.9	$ 58.9	$ 609.8
Less: Stand-by letters of credit	(54.5)			(54.5)
Amount available for borrowing	$ 446.5	$ 49.9	$ 58.9	$ 555.3

There were no borrowings under the Company s credit agreements during 2011.

Other

At the end of the first quarter of 2011, Grupo OfficeMax, our 51%-owned joint venture in Mexico, had total outstanding borrowings of $13.9 million. This included $7.5 million outstanding under a 60-month installment note due in the first quarter of 2014 and $5.1 million outstanding under a 54-month installment note due in the third quarter of 2014. Payments on the installment loans are made monthly. The remaining $1.3 million of borrowings is a simple revolving loan. There is no recourse against the Company on the Grupo OfficeMax loans. The installment loan maturing in the third quarter of 2014 is secured by certain owned property of Grupo OfficeMax. All other Grupo OfficeMax loan facilities are unsecured.

Cash Paid for Interest

Cash payments for interest, net of interest capitalized and including interest payments related to the Securitization Notes, were $5.3 million and $5.7 million for the first three months of 2011 and 2010, respectively. Cash interest payments made on the Securitization Notes are completely offset by interest payments received on the Installment Notes.

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

6. Investment in Boise Cascade Holdings, L.L.C.

In connection with the sale of the paper, forest products and timberland assets in 2004, the Company invested $175 million in affiliates of Boise Cascade, L.L.C. Due to restructurings conducted by those affiliates, our investment is currently in Boise Cascade Holdings, L.L.C. (the Boise Investment), a building products company.

A portion of the securities received in exchange for the Company s investment carry no voting rights. This investment is accounted for under the cost method as Boise Cascade Holdings, L.L.C. does not maintain separate ownership accounts for its affiliate s members, and the Company does not have the ability to significantly influence its operating and financial policies.

The Boise Investment represented a continuing involvement in the operations of the business we sold in 2004. Therefore, approximately $180 million of gain realized from the sale was deferred. This gain is expected to be recognized in earnings as the Company s investment is reduced.

The non-voting securities of Boise Cascade Holdings, L.L.C. accrue dividends daily at the rate of 8% per annum on the liquidation value plus accumulated dividends. Dividends accumulate semiannually to the extent not paid in cash on the last day of June and December. The Company recognized dividend income on this investment of $1.9 million and $1.8 million during the first three months of 2011 and 2010, respectively. The dividend receivable was $32.1 million at March 26, 2011, and was recorded in other non-current assets in the Consolidated Balance Sheets.

7. Financial Instruments, Derivatives and Hedging Activities

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade accounts receivable, other assets (non-derivatives), short-term borrowings and trade accounts payable approximate fair value because of the short maturity of these instruments. The following table presents the carrying amounts and estimated fair values of the Company s other financial instruments at March 26, 2011 and December 25, 2010. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	March 26, 2011				
	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	(thousands)				
Financial assets:					
Timber notes receivable					
Wachovia	$	$ 894,028	$	$ 894,028	$ 817,500
Lehman	$	$	$ 81,750	$ 81,750	$ 81,750
Financial liabilities:					
Recourse debt	$ 11,039	$ 246,859	$	$ 257,898	$ 275,733
Non-recourse debt					
Wachovia	$	$ 815,790	$	$ 815,790	$ 735,000
Lehman	$	$	$ 81,750	$ 81,750	$ 735,000

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

	December 25, 2010				
	Fair Value				Carrying
	Level 1	Level 2	Level 3	Total	Amount
	(thousands)				
Financial assets:					
Timber notes receivable					
Wachovia	$	$ 888,288	$	$ 888,288	$ 817,500
Lehman	$	$	$ 81,750	$ 81,750	$ 81,750
Financial liabilities:					
Recourse debt	$	$ 255,519	$	$ 255,519	$ 274,995
Non-recourse debt					
Wachovia	$	$ 811,093	$	$ 811,093	$ 735,000
Lehman	$	$	$ 81,750	$ 81,750	$ 735,000

In establishing a fair value, there is a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The basis of the fair value measurement is categorized in three levels, in order of priority, described as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or financial instruments for which all significant inputs are observable; either directly or indirectly.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable; thus reflecting assumptions about the market participants.

The carrying amounts shown in the table are included in the Consolidated Balance Sheets under the indicated captions. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Timber notes receivable: The fair value of the Wachovia Guaranteed Installment Notes is determined as the present value of expected future cash flows discounted at the current interest rate for loans of similar terms with comparable credit risk (Level 2 inputs). The fair value of the Lehman Guaranteed Installment Note reflects the estimated future cash flows of the note considering the estimated effects of the Lehman bankruptcy (Level 3 inputs).

Recourse debt: The Company s debt instruments are not widely traded. Recourse debt for which there were trades on the last day of the period (the measurement date) was valued using the unadjusted quoted price from the last trade on the measurement date. (Level 1 input), Recourse debt for which there were no transactions on the measurement date was valued based on quoted market prices near the measurement date when available or by discounting the future cash flows of each instrument using rates based on the most recently observable trade or using rates currently offered to the Company for similar debt instruments of comparable maturities (Level 2 inputs).

Non-recourse debt: The fair value of the Securitization Notes supported by Wachovia is estimated by discounting the future cash flows of the instrument at rates currently available to the Company for similar instruments of comparable maturities (Level 2 inputs). The Securitization Notes supported by Lehman is estimated based on the future cash flows of the Lehman Guaranteed Installment Note (the proceeds from which are the sole source of payment of this note) in a bankruptcy proceeding (Level 3 inputs).

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

During the first three months of 2011, there was no change in assets and liabilities measured at estimated fair value using Level 3 inputs.

Derivatives and Hedging Activities

Changes in foreign currency exchange rates expose the Company to financial market risk. The Company occasionally uses derivative financial instruments, such as forward exchange contracts, to manage its exposure associated with commercial transactions and certain liabilities that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction. The Company does not enter into derivative instruments for any other purpose. The Company does not speculate using derivative instruments. The fair values of derivative financial instruments were not material at the end of the first quarter of 2011 or at the end of fiscal year 2010.

8. Income Taxes

The Company or its subsidiaries file income tax returns in the U.S. Federal jurisdiction, and multiple state and foreign jurisdictions. Years prior to 2006 are no longer subject to U.S. Federal income tax examination. The Company is no longer subject to state income tax examinations by tax authorities in its major state jurisdictions for years before 2003, and the Company is no longer subject to income tax examinations prior to 2005 for its major foreign jurisdictions.

As discussed in Note 4, Timber Notes/Non-Recourse Debt, at the time of the sale of the timberlands in 2004, we generated a tax gain and recognized the related deferred tax liability. The timber installment notes structure allowed the Company to defer the resulting tax liability of $543 million until 2020, the maturity date for the Installment Notes. Due to the Lehman bankruptcy and note defaults, the recognition of the Lehman portion of the gain will be triggered when the Lehman Guaranteed Installment Note is transferred to the Securitization Note holders as payment and/or when the Lehman bankruptcy is resolved. At that time, we expect to reduce the estimated cash payment due by utilizing our available alternative minimum tax credits.

As of March 26, 2011, the Company had $20.9 million of total gross unrecognized tax benefits, $6.7 million of which would affect the Company s effective tax rate if recognized and would result from the effective settlement of tax positions with various tax authorities. The Company does not anticipate any tax settlements to occur within the next twelve months.

A reconciliation of the beginning and ending gross unrecognized tax benefits is as follows:

	Amount (thousands)
Balance at December 25, 2010	$ 20,863
Increase related to prior year tax positions	45
Settlement	(10)
Balance at March 26, 2011	$ 20,898

During the first three months of 2011 and 2010, the Company made cash payments for income taxes, net of refunds received, as follows:

	2011	2010
	(thousands)	
Cash tax payments (refunds), net	$ 3,358	$ (3,245)

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

9. Retirement and Benefit Plans

Components of Net Periodic Benefit Cost (Income)

The following represents the components of net periodic pension and other postretirement benefit costs (income) which are recorded in operating, selling and general and administrative expense in the Consolidated Statements of Operations:

	Three Months Ended			
	Pension Benefits		Other Benefits	
	March 26, 2011	March 27, 2010	March 26, 2011	March 27, 2010
	(thousands)			
Service cost	$ 639	$ 676	$ 96	$ 65
Interest cost	17,542	18,613	301	295
Expected return on plan assets	(20,105)	(20,876)		
Recognized actuarial loss	4,427	3,346	84	48
Amortization of prior service costs and other		380	(1,002)	(1,001)
Net periodic benefit cost (income)	$ 2,503	$ 2,139	$ (521)	$ (593)

Cash Flows

The Company expects to fund the minimum pension contribution requirement for 2011 of approximately $3.7 million, with cash. As of March 26, 2011, $0.9 million in cash has been contributed.

10. Segment Information

The Company manages its business using three reportable segments: Contract, Retail, and Corporate and Other. Management reviews the performance of the Company based on these segments.

Contract distributes a broad line of items for the office, including office supplies and paper, technology products and solutions, print and document services and office furniture. Contract sells directly to large corporate and government offices, as well as to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and in some markets, including Canada, Australia and New Zealand, through office products stores. Substantially all products sold by Contract are purchased from third-party manufacturers or industry wholesalers, except office papers. Contract purchases office papers primarily from Boise White Paper, L.L.C., under a 12-year paper supply contract which has an initial term that expires in 2012 followed by a four-year-phase down period.

Retail is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. In addition, this segment contracts with large national retail chains to supply office and school supplies to be sold in their stores. Retail office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Retail has operations in the United States, Puerto Rico and the U.S. Virgin Islands. The retail segment also operates office products stores in Mexico through a 51%-owned joint venture. Substantially all products sold by Retail are purchased from third-party manufacturers or industry wholesalers, except office papers. Retail purchases office papers primarily from Boise White Paper, L.L.C., under the paper supply contract described above.

Corporate and Other includes corporate support staff services and certain other legacy expenses as well as the related assets and liabilities. The income and expense related to certain assets and liabilities that are reported in the Corporate and Other segment have been allocated to the Contract and Retail segments.

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Notes to Quarterly Consolidated Financial Statements (unaudited) (Continued)

Management evaluates the segments performances using segment income (loss) which is based on operating income (loss) after eliminating the effect of certain operating items that are not indicative of our core operations such as severances, facility closures and adjustments, and asset impairments. These certain operating items are reported on the other operating expenses line in the Consolidated Statements of Operations.

The following tables contain details of the Company s operations by segment:

	Sales	Segment income (loss)	Other operating, income (expense)	Operating income (loss)
		(thousands)		
Three months ended March 26, 2011				
Contract	$ 925,672	$ 9,005	$	$ 9,005
Retail	937,329	25,620		25,620
Corporate and Other		(6,013)		(6,013)
Total	$ 1,863,001	$ 28,612	$	$ 28,612
Three months ended March 27, 2010				
Contract	$ 963,000	$ 33,758	$ (861)	$ 32,897
Retail	954,254	38,783	(13,352)	25,431