BUCKEYE TECHNOLOGIES INC
Form 10-Q
October 29, 2004

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 September 30, 2004

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

For the Transition Period From ____ to ____

Commission file number: 33-60032

Buckeye Technologies Inc.
incorporated pursuant to the Laws of Delaware

Internal Revenue Service -- Employer Identification No. 62-1518973

1001 Tillman Street, Memphis, TN 38112
901-320-8100

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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes |X| No ____

As of October 29, 2004, there were outstanding 37,337,729 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

ITEM

PART I - FINANCIAL INFORMATION

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Item 1. Financial Statements

PART I - FINANCIAL INFORMATION

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(In thousands, except per share data)

	Three Month Septembe 2004
Net sales	$167,323
Cost of goods sold	137,694
Gross margin	29,629
Selling, research and administrative expenses	9,726
Restructuring costs	1,196
Amortization of intangibles and other	603
Operating income	18,104
Net interest expense and amortization of debt costs	11,278
Loss on early extinguishment of debt	-
Foreign exchange and other	33
Income (loss) before income taxes	6,793
Income tax expense (benefit)	2,378
Income (loss) before cumulative effect of change in accounting	4,415
Cumulative effect of change in accounting (net of tax of $3,359)	-
Net income	$4,415
Earnings (loss) per share before cumulative effect of change in accounting	
Basic earnings per share	$ 0.12
Diluted earnings per share	$ 0.12
Cumulative effect of change in accounting	
Basic earnings per share	$ -
Diluted earnings per share	$ -
Earnings per share	
Basic earnings per share	$ 0.12
Diluted earnings per share	$ 0.12
Weighted average shares for basic earnings per share	37,312
Adjusted weighted average shares of diluted earnings per share	37,458

(1) Restated based on change in accounting.

See accompanying notes.

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BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	September 30 2004 (Unaudited)	June 30 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 23,836	$27,235
Accounts receivable-net	111,306	112,367
Inventories	114,552	107,439
Deferred income taxes and other	14,521	10,207
Total current assets	264,215	257,248
Property, plant and equipment	890,290	883,613
Less accumulated depreciation	(360,089)	(345,981)
	530,201	537,632
Goodwill	135,450	130,172
Intellectual property and other, net	40,265	41,023
Total assets	$970,131	$966,075
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$27,253	$27,130
Accrued expenses	51,970	45,337
Current portion of capital lease obligation	652	632
Current portion of long-term debt	1,500	16,972
Total current liabilities	81,375	90,071
Long-term debt	582,434	587,076
Accrued post retirement benefits	19,149	18,931
Deferred income taxes	39,924	37,956
Capital lease obligation	1,818	2,068
Other liabilities	193	628
Stockholders' equity	245,238	229,345
Total liabilities and stockholders' equity	$970,131	$966,075

See accompanying notes.

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BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Three Months September	
	2004	2

Operating activities		
Net income	$ 4,415	$3
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of change in accounting	-	(5
Depreciation	11,393	11
Amortization	922	1
Loss on early extinguishment of debt	-	3
Deferred income taxes and other	1,813	1
Changes in operating assets and liabilities:		
Accounts receivable	2,059	16
Inventories	(6,093)	(1
Other assets	837	(3
Accounts payable and other current liabilities	5,651	
Net cash provided by operating activities	20,997	25
Investing activities		
Purchases of property, plant and equipment	(4,970)	(9
Other	84	
Net cash used in investing activities	(4,886)	(10
Financing activities		
Proceeds from exercise of options	248	
Net payments under revolving line of credit	-	(55
Issuance of long term debt	-	200
Payments for debt issuance costs	(4)	(6
Payments related to early extinguishment of debt	-	(2
Payments on long term debt and other	(20,230)	(175
Net cash used in financing activities	(19,986)	(38
Effect of foreign currency rate fluctuations on cash	476	
Decrease in cash and cash equivalents	(3,399)	(23
Cash and cash equivalents at beginning of period	27,235	49
Cash and cash equivalents at end of period	$23,836	$26

(1) Restated based on change in accounting.

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(In thousands)

NOTE A -- BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending June 30, 2005. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of our significant accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2004. Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2005 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year. Certain amounts for the three months ended September 30, 2003 have been restated based on the application of the change in accounting made in the third quarter of fiscal 2004 which was effective as of July 1, 2003.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. In fiscal 2005, amortization of intangibles is included in operating income. Previously, these expenses were in foreign exchange and other. Amortization of intangibles was $603 for the three months ended September 30, 2004 and $560 for the same period in 2003.

Translation adjustment

Management has determined that the local currency of our German, Irish, Canadian, and Brazilian subsidiaries is the functional currency, and accordingly European euro, Canadian dollar, and Brazilian real denominated balance sheet accounts are translated into United States dollars at the rate of exchange in effect at September 30, 2004. Income and expense activity for the period is translated at the weighted average exchange rate during the period. Translation adjustments are included as a separate component of stockholders' equity.

Use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from the estimates and assumptions used.

Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: impairment assessments on long-lived assets (including goodwill), allowance for doubtful accounts, inventory reserves, assets held for sale, income tax liabilities, and contingent liabilities.

NOTE B -- CHANGE IN ACCOUNTING

Through June 30, 2003, we accounted for major planned maintenance activities at our specialty fibers plant in Perry, Florida by accruing the cost of the maintenance activities over the period between each planned maintenance activity (the accrue in advance method), which ranged from two to five year intervals. All other facilities expensed maintenance costs as incurred.

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During the third quarter of fiscal 2004, we re-evaluated this critical accounting policy and, effective July 1, 2003, changed our method of accounting from the accrue in advance method to the direct expense method. Under the new accounting method, maintenance costs are expensed as incurred. We believe the new method is preferable in this circumstance because the maintenance liability is not recorded until there is an obligating event (when the maintenance event is actually being performed). The direct expense method eliminates significant estimates and judgments inherent under the accrual method, and it is the predominant method used in the industry.

The following table reflects the restated net income and earnings per share as if the change in accounting for planned maintenance activities were handled retroactively.

	Three Months Ended 2004
Net income as reported	$4,415
Deduct: Cumulative effect of change in accounting for planned maintenance costs, net of tax	-
Proforma net income (loss)	$4,415
Earnings (loss) per share as reported	
Basic	$ 0.12
Diluted	$ 0.12
Proforma earnings (loss) per share	
Basic	$ 0.12
Diluted	$ 0.12

NOTE C -- SEGMENT INFORMATION

We report results for two segments, specialty fibers and nonwoven materials. The specialty fibers segment is an aggregation of cellulosic fibers based on both wood and cotton. Management makes financial decisions and allocates resources based on the sales and operating income of each segment. We allocate selling, research, and administration expenses to each segment and management uses the resulting operating income to measure the performance of the segments. The financial information attributed to these segments is included in the following table:

Three Months Ended September 30		Specialty Fibers	Nonwoven Materials	Corporate
Net sales	2004	$118,046	$55,922	$(6,645)
	2003	107,318	53,210	(4,697)
Operating income (loss)	2004	16,898	3,568	(2,362)
	2003	9,921	2,487	(2,007)
Depreciation and amortization of intangibles	2004	6,961	4,223	866
	2003	6,704	4,268	825

Capital expenditures	2004	3,914	976	80
	2003	9,089	599	37

Management evaluates operating performance of the specialty fibers and nonwoven materials segments excluding amortization of intangibles, the impact of impairment of long-lived assets and charges related to restructuring. Therefore, the corporate segment includes operating elements such as segment eliminations, amortization of intangibles, impairment of long-lived assets and charges related to restructuring. Corporate net sales represent the elimination of intersegment sales included in the specialty fibers reporting segment. We account for intersegment sales as if the sales were made to third parties, that is, at current market prices.

NOTE D -- ASSETS HELD FOR SALE

In July 2004, we ceased production of nonwoven materials at our Cork, Ireland facility. See Note E - Restructuring costs for more information on this closure. Subsequent to the July 2004 closure of the facility, we began to actively market the building and equipment with carrying values of $4,028 and $1,349, respectively. Current markets and third party interest for the building and equipment indicate we should be able to meet or exceed these values through the sales process. We anticipate the sale of the building and equipment will be completed during fiscal 2005. During the three months ended September 30, 2004, management determined that the plan of sale criteria in SFAS No. 144, Accounting for Impairment or Disposal of Long-lived Assets, had been met. Accordingly, management reevaluated its estimate of fair value less the cost to sell the assets and determined no additional gain or loss should be recognized. Although we believe the current carrying value less cost to sell best represent the fair value of the building and equipment, it is reasonably possible the actual results could materially differ from amounts estimated.

The carrying value of the building and equipment was classified in property, plant and equipment as of June 30, 2004 and has been reclassified to current assets and are presented under the "Deferred income taxes and other" caption in the balance sheet as of September 30, 2004.

NOTE E -- RESTRUCTURING COSTS

During fiscal 2003 we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across our company. The main component of this phase was the partial closure of our Lumberton, North Carolina facility resulting in the consolidation of our U.S. cotton linter pulp production at our Memphis, Tennessee facility and included the elimination of approximately 100 positions within the specialty fibers segment. We expect this phase will be completed this fiscal year.

During the first quarter of fiscal 2004, we entered into a second phase of our restructuring program. This program was a continuation of the program initiated in the fourth quarter of fiscal 2003 and will enable us to improve our operating results through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 65 positions have been eliminated and approximately 13 additional positions will be eliminated over the next year. These positions include manufacturing, sales, product development and administrative functions throughout the organization. We expect payments related to this phase of the restructuring program to continue into calendar 2005 and expect costs to total approximately $3,500.

During the fourth quarter of fiscal 2004, we announced the cessation of production of nonwoven materials at our Cork, Ireland facility. We have continued to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt, Germany; and Gaston County, North Carolina. We expect this consolidation will enable us to improve our overall nonwoven materials operating results by about $7,000 annually and reduce working capital needs by $4,000. The closure of the Cork facility and related reorganization of the nonwoven materials organization resulted in the termination of 81 employees as of September 30, 2004 and will include the termination of an additional eight employees during the second quarter of fiscal 2005. We expect total restructuring expenses and payments related to the closure to be approximately $3,000 and completed by the end of calendar 2004.

Restructuring expenses are included in "Restructuring costs" in our condensed consolidated statements of operations. Accrual balances are included in "Accrued expenses" in the balance sheet. The following table summarizes the expenses and accrual balances by reporting segments for the three months ended September 30, 2004.

		Three Months Ended September 30, 2004			
2003 Restructuring Program-Phase 1	Accrual Balance as of June 30, 2004	Additional Charges	Impact Of Foreign Currency	Payments	Accrua Balance of Septemb 30, 20
Severance and employee benefits					
Specialty fibers...............	-	-	-	-	-
Nonwoven materials.............	-	-	-	-	-
Other miscellaneous expenses					
Specialty fibers...............	-	64	(64)	-	-
Nonwoven materials.............	-	-	-	-	-
Total 2003 Program-Phase 1	-	64	(64)	-	-
2003 Restructuring Program-Phase 2					
Severance and employee benefits					
Specialty fibers.................	263	169	4	(216)	220
Nonwoven materials...............	-	-	-	-	-
Corporate........................	121	-		(121)	-
Total 2003 Program-Phase 2	384	169	4	(337)	220
2004 Restructuring Program					
Nonwoven materials					
Severance and employee benefits......................	1,750	734	(2)	(2,332)	150

Other miscellaneous expenses.....	-	229	-	(229)	-
Total 2004 Program.................	1,750	963	(2)	(2,561)	150
Total All Programs.................	$2,134	$1,196	$(2)	$(2,962)	$370

NOTE F -- INVENTORIES

The components of inventory consist of the following:

	September 30 2004	June 30 2004
Raw materials.......................	$27,986	$28,073
Finished goods......................	63,864	57,118
Storeroom and other.................	22,702	22,248
	$114,552	$107,439

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NOTE G -- DEBT

The components of long-term debt consist of the following:

	September 30 2004	June 30 2004
Senior Notes due:		
2013............................	$200,000	$200,000
Senior Subordinated Notes due:		
2008............................	99,750	99,737
2010............................	152,934	153,061
Credit facilities....................	124,250	144,250
Other................................	7,000	7,000
	583,934	604,048
Less current portion..................	1,500	16,972
	$582,434	$587,076

Senior notes - On September 22, 2003, we placed privately $200,000 in aggregate principal amount of 8.5% senior notes due October 1, 2013. The notes are unsecured obligations and are senior to any of our subordinated debt. The notes are guaranteed by our direct and indirect domestic subsidiaries that are also guarantors on our senior secured indebtedness. The senior notes are redeemable at our option, in whole or part, at any time on or after October 1, 2008, at redemption prices varying from 104.25% of principal amount to 100% of principal amount on or after October 1, 2011, together with accrued and unpaid interest to the date of redemption. We used the net proceeds from the private placement to redeem our $150,000 senior subordinated notes due 2005, make a permanent reduction of $40,000 to our revolving credit facility and pay the related transaction costs. Total costs for the issuance of these notes was $5,274 and will be amortized over the life of the senior notes using the effective interest method. On September 22, 2003, we called the senior subordinated notes due in 2005. These notes were redeemed on October 22, 2003. On December 18, 2003, we completed our offer to exchange the privately placed unregistered senior notes for debt securities of like principal amount of senior notes that have been registered under the Securities Act of 1933, as amended.

During the three months ended September 30, 2003, $3,300 was expensed related to the early extinguishment of the $150,000 senior subordinated notes due 2005. These expenses included a $2,115 call premium and $1,185 related to the write-off of deferred financing costs.

Senior subordinated notes - During July 1996, we completed a public offering of $100,000 principal amount of 9.25% unsecured Senior Subordinated Notes due September 15, 2008. These notes are redeemable at our option, in whole or in part, at any time after September 15, 2002, at redemption prices varying from 103.8% of principal amount to 100% of principal amount on or after September 15, 2004, together with accrued and unpaid interest to the date of redemption.

During June 1998, we completed a private placement of $150,000 principal amount of 8% unsecured Senior Subordinated Notes due October 15, 2010. In fiscal 1999, we exchanged these outstanding notes for public notes with the same terms. These notes are redeemable at our option, in whole or in part, at any time on or after October 15, 2003, at redemption prices varying from 104% of principal amount to 100% of principal amount on or after October 15, 2006, together with accrued and unpaid interest to the date of redemption.

Under the indentures governing our senior subordinated notes, as well as the indenture that governs the senior notes, our ability to incur additional debt is limited. Under these indentures, additional debt must be incurred as so-called "ratio debt" or, alternatively, must be permitted in form and amount as "Permitted Indebtedness." In order to incur ratio debt, a specified consolidated fixed charge coverage ratio (as defined in the indentures) must equal or exceed 2:1 (measured on a rolling four-quarter basis). At March 31, 2002, our fixed charge coverage ratio fell below 2:1. This development did not

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breach any covenant or constitute an event of default under any of our debt agreements. However, until such time as the ratio again equals or exceeds 2:1, we can only incur debt that is Permitted Indebtedness.

On October 16, 2003, we successfully completed a solicitation of consents from holders of our notes due in 2008 (2008 notes) to amend this indenture to conform certain provisions of the 2008 notes to the provisions in our notes due in 2010 and to current market practice. This amendment allowed us to refinance our revolving credit facility (discussed later in this note), while we are still limited to Permitted Indebtedness as defined in the indentures.

Under each of these indentures, the fixed charge coverage ratio test is measured on a rolling four-quarter basis. While we can offer no assurance in this regard, we believe that our operating results will improve over the next several quarters and that such improved results together with recent reductions in our outstanding debt, will enable us to exceed the required 2:1 ratio necessary to incur ratio debt under indentures governing the senior notes and the senior subordinated notes.

Interest rate swap - In May 2001, we entered into an interest rate swap on $100,000 of 8% fixed rate notes maturing in October 2010. The swap converted interest payments from a fixed rate to a floating rate of LIBOR plus 1.97%. This arrangement qualified as a fair value hedge under SFAS No. 133, Accounting for

Derivative Instruments and Hedging Activities. As such, the net effect from the interest rate swap was recorded as part of interest expense. On October 15, 2003, the swap counter party exercised its right to change the termination date of the swap from October 15, 2010 to October 15, 2003. By exercising this right, the swap counter party paid us $4,000 as an early termination fee, which is being amortized as a reduction to interest expense through October 15, 2010. At September 30, 2004 the unamortized portion of the termination fee was recorded as an increase in debt of $3,452. During the three months ended September 30, 2004 and 2003, the swap reduced our interest expense by $143 and $1,238, respectively and will continue to reduce interest expense through the amortization period of the termination fee.

Revolving credit facility - On November 5, 2003, we established a $220,000 senior secured credit facility, comprised of a $70,000 revolving credit facility (the revolver) maturing on September 15, 2008 and a $150,000 term loan (the term loan) with serial maturities of $375 quarterly through September 2008, $71,250 maturing March 31, 2009 and final maturity on October 15, 2010. The term loan also requires an annual excess cash flow payment (as defined under the credit agreement). During the first quarter of fiscal 2005, we made an excess cash flow payment of $15,472 based on fiscal 2004 performance and an additional payment of $4,528 for total payments of $20,000 during the quarter. Due to many contingent variables that effect this payment, we are currently unable to estimate an excess cash flow payment for the current fiscal year. We had $124,250 outstanding on this facility at an average variable interest rate of 4.4% as of September 30, 2004. This facility amended and restated our then existing $215,000 revolving credit facility. We used the proceeds of the new credit facility to pay the outstanding balance on the former revolving credit facility plus transaction fees and expenses. The interest rate applicable to borrowings under the revolver is the agent's prime rate plus 1.50% to 1.75% or a LIBOR-based rate ranging from LIBOR plus 2.50% to LIBOR plus 3.25%. The interest rate applicable to the term loan is the agent's prime rate plus 1.50% or a LIBOR-based rate plus 2.50%. The credit facility is secured by substantially all of our assets located in the United States.

The credit facility contains covenants customary for financing of this type. The financial covenants include: maximum ratio of consolidated net senior secured debt to consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), minimum ratio of consolidated EBITDA to consolidated interest expense and minimum ratio of consolidated EBITDA minus capital expenditures and taxes to consolidated fixed charges; as well as limitations on capital expenditures. At September 30, 2004, we were in compliance with these financial covenants.

As of September 30, 2004, we had $67,692 borrowing capacity on our revolving credit facility. The portion of this capacity that we could borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. The commitment fee on the unused portion of the revolving credit facility is 0.40% - 0.50% per annum. As of September 30, 2004, we had approximately $75 million of liquidity including available borrowings and cash and cash equivalents. Total costs for the issuance of the new facility were approximately $3,300 and are being amortized using the effective interest method over the life of the facility.

Other credit facilities - On December 5, 2003, we paid off the remaining balance on our receivables-based credit facility. We used cash on hand and the restricted cash held as collateral for the facility to make the final payment.

On September 30, 2003, we renewed our Canadian credit facility. The renewal extended the maturity to November 30, 2004 and required a 20% reduction of the principal to Canadian $16,000 (U.S. $12,614 equivalent based on exchange rates in effect at September 30, 2004). As of September 30, 2004, we had $0 outstanding on this facility. Effective October 1, 2004 we cancelled this facility.

NOTE H -- COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended September 3	
	2004	2003
Net income..	$ 4,415	$3,0
Foreign currency translation adjustments - net.......	11,192	3,
Comprehensive income..............................	$15,607	$6,9

For the three months ended September 30, 2004, the change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US dollar and the euro of $2,164, the Brazilian real of $1,856 and the Canadian dollar of $7,172.

For the three months ended September 30, 2003, the change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US dollar and the euro of $4,197, the Brazilian real of $(425) and the Canadian dollar of $135.

NOTE I - STOCK-BASED COMPENSATION

At September 30, 2004, the Company has stock-based compensation plans which we account for under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based compensation.

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	Three Months Ended September 3	
	2004	2003
Net income as reported..........................	$4,415	$ 3,05
Deduct: Total stock-based compensation expense determined under fair value based method , net of related tax effects....................................	(538)	(52
Pro forma net income........................	$3,890	$ 2,51
Basic earnings per share:		

As reported................................	$ 0.12	$ 0.0
Pro forma..................................	$ 0.10	$ 0.0
Diluted earnings per share:		
As reported................................	$ 0.12	$ 0.0
Pro forma..................................	$ 0.10	$ 0.0

NOTE J - EMPLOYEE BENEFIT PLANS

We provide medical, dental and life insurance postretirement plans covering certain U.S. employees who meet specified age and service requirements. The components of net periodic benefit costs are as follows:

	Three Months Ended September 30	
	2004	2003
Service cost for benefits earned.................	$ 176	$ 188
Interest cost on benefit obligation..............	358	313
Amortization of unrecognized prior service cost...	(281)	(281)
(Gain)/loss......................................	97	84
Total cost.......................................	$ 350	$ 304

In accordance with Financial Staff Position No. FAS 160-1 (FSP 106-1), the impact, of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) has been evaluated and has not been recognized in the condensed consolidated financial statements as of September 30, 2004 due to its immateriality.

NOTE K - CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The guarantor subsidiaries presented below represent our subsidiaries that are subject to the terms and conditions outlined in the indenture governing the senior notes and that guarantee the notes, jointly and severally, on a senior unsecured basis. The non-guarantor subsidiaries presented below represent the foreign subsidiaries and the receivables subsidiary which do not guarantee the senior notes. Each subsidiary guarantor is 100% owned directly or indirectly by Buckeye Technologies Inc. and all guarantees are full and unconditional.

Supplemental financial information for Buckeye Technologies Inc. and our guarantor subsidiaries and non-guarantor subsidiaries for the senior notes is presented in the following tables.

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended September 30, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries

Net sales	$ 23,282	$99,989	$51,311
Cost of goods sold	18,611	80,670	45,510
Gross margin	4,671	19,319	5,801
Selling, research and administrative expenses, and other	3,095	5,336	1,898
Restructuring costs	1	120	1,075
Operating income (loss)	1,575	13,863	2,828
Other income (expense):			
Interest income/(expense) and amortization of debt costs	(11,331)	(39)	92
Other income/(expense), including equity income in affiliates	8,916	154	(119
Intercompany interest income/(expense)	7,848	(6,148)	(1,701
Income/(loss) before income taxes	7,008	7,830	1,100
Income tax expense/(benefit)	2,593	2,659	509
Net income (loss)	$4,415	$ 5,171	$ 591

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS (1)
Three Months Ended September 30, 2003

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiarie
Net sales	$18,741	$90,104	$54,533
Cost of goods sold	14,778	77,767	49,168
Gross margin	3,963	12,337	5,365
Selling, research and administrative expenses, and other	2,594	5,311	2,247
Restructuring costs	214	592	232
Operating income (loss)	1,155	6,434	2,886
Other income (expense):			
Interest income/(expense) and amortization of debt costs	(10,517)	(72)	(588
Other income/(expense), including equity income in affiliates	7,053	47	131
Intercompany interest income/(expense)	7,281	(4,922)	(2,359
Intercompany miscellaneous income/(expense)	(320)	(686)	1,006

Income/(loss) before income taxes and cumulative effect of change in accounting..........	4,652	801	1,076
Income tax expense/(benefit).........................	1,596	275	441
Income/(loss) before cumulative effect of change in accounting..........................	3,056	526	635
Cumulative effect of change in accounting............	-	5,720	-
Net income (loss).................................	$ 3,056	$6,246	$ 635

(1) Restated based on change in accounting.

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of September 30, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents.................	$12,354	$ 144	$11,338
Accounts receivable, net of allowance.....	13,313	62,409	35,584
Inventories...............................	22,327	59,213	33,730
Other current assets......................	3,965	4,253	6,303
Intercompany accounts receivable..........	-	26,731	6,109
Total current assets........................	51,959	152,750	93,064
Property, plant and equipment, net..........	53,391	344,237	132,573
Goodwill and intangibles, net...............	21,000	54,865	88,363
Intercompany notes receivable...............	364,279	-	-
Other assets, including investment in subsidiaries............................	311,300	321,704	116,605
Total assets................................	$801,929	$873,556	$430,605
Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable....................	$ 5,588	$15,960	$ 5,705
Other current liabilities.................	23,557	20,195	10,370
Intercompany accounts payable.............	21,379	-	11,461
Total current liabilities...................	50,524	36,155	27,536

Long-term debt............................	580,434	2,000	-
Deferred income taxes.....................	(39,862)	62,135	17,651
Other long-term liabilities................	5,415	14,512	1,233
Intercompany notes payable.................	-	233,073	131,206
Stockholders'/invested equity..............	205,418	525,681	252,979
Total liabilities and stockholders' equity..	$801,929	$873,556	$430,605

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents.................	$14,746	$ 103	$12,386
Accounts receivable, net..................	15,502	58,631	38,234
Inventories...............................	21,770	51,722	34,503
Other current assets......................	9,408	5,008	(4,209)
Intercompany accounts receivable..........	-	22,604	6,109
Total current assets	61,426	138,068	87,023
Property, plant and equipment, net..........	54,042	347,782	135,808
Goodwill and intangibles, net...............	21,012	55,241	83,114
Intercompany notes receivable...............	369,279	-	-
Other assets, including investment in subsidiaries............................	290,493	330,210	114,164
Total assets...............................	$796,252	$871,301	$420,109
Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable....................	$ 5,860	$16,118	$ 5,152
Other current liabilities.................	34,493	17,390	11,058
Intercompany accounts payable.............	17,063	-	11,650
Total current liabilities..................	57,416	33,508	27,860
Long-term debt............................	585,076	2,000	-
Deferred income taxes.....................	(40,480)	61,732	16,704
Other long-term liabilities................	5,385	14,657	1,585
Intercompany notes payable.................	-	236,883	132,396
Stockholders'/invested equity..............	188,855	522,521	241,564
Total liabilities and stockholders' equity..	$796,252	$871,301	$420,109

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Three Months Ended September 30, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by operations...............	$ 12,775	$ 7,778	$ 444
Investing activities:			
Purchases of property, plant and equipment....	(411)	(3,558)	(1,001)
Other...	-	(139)	223
Net cash used in investing activities.........	(411)	(3,697)	(778)
Financing activities			
Net borrowings (payments on) long-term debt and other...........................	(14,756)	(4,040)	(1,190)
Net cash used in financing activities.........	(14,756)	(4,040)	(1,190)
Effect of foreign currency rate fluctuations on cash................................	-	-	476
Increase (decrease) in cash and cash equivalents.............................	(2,392)	41	(1,048)
Cash and cash equivalents at beginning of period..............................	14,746	103	12,386
Cash and cash equivalents at end of period....	$ 12,354	$ 144	$11,338

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Three Months Ended September 30, 2003

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in)operations......	$25,636	$(19,126)	$19,045

Investing activities:			
Purchases of property, plant and equipment....	(2,319)	(6,774)	(632)
Other...	-	(303)	-
Net cash used in investing activities.........	(2,319)	(7,077)	(632)
Financing activities			
Net borrowings (payments) under revolving line of credit...........................	(55,250)	-	-
Payments for debt issuance and extinguishment...........................	(8,144)	-	-
Net issuance of (payments on) long-term debt and other...........................	15,012	24,816	(14,829)
Net cash provided by (used in) financing activities....................	(48,382)	24,816	(14,829)
Effect of foreign currency rate fluctuations on cash................................	-	-	(827)
Increase (decrease) in cash and cash equivalents............................	(25,065)	(1,387)	2,757
Cash and cash equivalents at beginning of period..............................	26,075	4,349	19,553
Cash and cash equivalents at end of period....	$1,010	$ 2,962	$22,310

NOTE L - SUBSEQUENT EVENT

On October 22, 2004, the President signed H.R. 4520, the American Jobs Creation Act of 2004, thereby setting the date of enactment and the effective date for many of the provisions in the Act. The centerpiece of the Act is a repeal of the extraterritorial income (ETI) exclusion and the replacement of ETI with a domestic manufacturing deduction. We are currently assessing the impact this legislation may have on our effective tax rate, cash flows and financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") summarizes the significant factors affecting our results of operations, liquidity, capital resources and contractual obligations, as well as discussing our critical accounting policies. This discussion should be read in conjunction with the accompanying unaudited financial statements and our Annual Report on Form 10-K for the year ended June

30, 2004 ("Annual Report"), which include additional information about our significant accounting policies, practices and transactions that underlie our financial results. Our MD&A is composed of four major sections: Executive Summary, Results of Operations, Financial Condition, and Critical Accounting Policies.

Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2005 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year. The following discussion includes a comparison of the results of operations for the three months ended September 30, 2004 to the three months ended September 30, 2003.

Executive Summary

Buckeye manufactures and distributes value-added cellulose-based specialty products used in numerous applications, including disposable diapers, personal hygiene products, engine, air and oil filters, food casings, rayon filaments, acetate plastics, thickeners and papers. Our products are produced in the United States, Canada, Germany and Brazil, and we sell these products in approximately 60 countries worldwide. We generate revenues, operating income and cash flows from two reporting segments: specialty fibers and nonwoven materials. Specialty fibers are derived from wood and cotton cellulose materials using wetlaid technologies. Our nonwoven materials are derived from wood pulps, synthetic fibers and other materials using an airlaid process.

Our strategy is to continue to strengthen our position as a leading supplier of cellulose-based specialty products. We believe that we can continue to expand market share, improve profitability and decrease our exposure to cyclical downturns by pursuing the following strategic objectives: focus on technically demanding niche markets, develop and commercialize innovative proprietary products, strengthen long-term alliances with customers, provide our products at an attractive value, and significantly reduce our debt. While we are still not satisfied with our current financial performance, we made progress during the three months ended September 30, 2004 in improving the financial results of our business. Revenue and profitability increased in both our specialty fibers and nonwoven materials segments. The changes we made to improve our operations are having a positive impact.

We ceased producing airlaid nonwoven materials at our Cork, Ireland facility in late July and successfully transitioned the majority of the product previously produced at Cork to our larger dual-line plants in Europe and North America. This has increased the capacity utilization at our other airlaid nonwovens facilities.

Over the last year, we have improved the product mix of our wood-based specialty fibers by transferring a portion of our wood cellulose production away from fluff pulp into higher value chemical applications. Our overall wood-based specialty volume increased during the first quarter of fiscal 2005, even as we reduced external fluff pulp shipments by 10% versus the same period in fiscal 2004. Although the price of commodity pulps are reported to have recently declined, the price of fluff pulp has remained steady. While we cannot rule out the possibility that we will experience some short-term deterioration in fluff pulp prices, we have not experienced any weakness during the quarter. We continue to believe that over the long run we will be better served by having more of our production in high value specialty grades and a smaller exposure to the more volatile fluff pulp market.

We are encouraged by favorable trends in our markets. Demand for our products remains strong. However, we are concerned about the sizeable price increases that are currently impacting both fuel and chemicals. Both of these areas have the potential to negatively impact our short term financial results. On July 1, 2004 we increased the prices of our cotton-based specialty fibers, and we are currently implementing price increases averaging about 5% on nonwoven materials not under contract. Although contractual obligations limit our ability

to increase the prices of our specialty wood pulps until after January 1, 2005, we are hopeful that our other price increases, combined with continued strong demand, will offset rising chemical and energy prices.

We continued to make debt reductions during the first quarter of fiscal 2005 as we believe strengthening our balance sheet is important to our business. We made $20 million of debt payments on our senior secured credit facility during the period.

Results of Operations
Consolidated results

The following table compares components of operating income for the three months ended September 30, 2004 and 2003.

(millions)	Three Months Ended Septembe		
	2004	2003	Change
Net sales	$167.3	$155.8	$11.5
Cost of goods sold	137.7	134.2	3.5
Gross margin	29.6	21.6	8.0
Selling, research and administrative expenses	9.7	9.6	0.1
Restructuring costs	1.2	1.0	0.2
Amortization of intangibles and other	0.6	0.6	-
Operating income	$ 18.1	$ 10.4	$ 7.7

Net sales improved during the three months ended September 30, 2004 versus the same period in 2003 due to increased sales in both specialty fibers and nonwoven materials. Increases in both shipments and pricing during the period contributed to the improvement. Overall, our gross margin percentage improved to 18% during the period, an increase of 400 basis points over the prior year primarily a result of improved pricing and mix.

We continued to incur restructuring charges related to programs that we began in fiscal 2003 and 2004. The costs incurred during the three months ended September 30, 2004 were primarily related to the program initiated as part of the closure of our Cork, Ireland facility.

Further discussion on revenue, operating trends, and restructuring costs are discussed later in this MD&A. Additional information on the restructuring programs and charges taken may also be found in Note E of the accompanying interim financial statements.

Segment results

Although nonwoven materials, processes, customers, distribution methods and regulatory environment are very similar to specialty fibers, we believe it is appropriate for nonwoven materials to be disclosed as a separate reporting segment from specialty fibers. The specialty fibers segment is an aggregation of cellulosic fibers based on both wood and cotton. We make financial decisions and allocate resources based on the sales and operating income of each segment. We allocate selling, research, and administrative expenses to each segment and we use the resulting operating income to measure the performance of the segments. We exclude items that are not included in measuring business performance, such as amortization of intangibles, restructuring costs, asset impairment and certain financing and investing costs.

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Specialty fibers

The following table compares specialty fibers net sales and operating income for the three months ended September 30, 2004 and 2003.

($ millions)	Three Months Ended September 30			
	2004	2003	Change	% Change
Net sales	$118.0	$107.3	$10.7	10%
Operating income	16.9	9.9	7.0	71%

Net sales increased during the three months ended September 30, 2004 versus 2003 due to improved mix and volume for wood-based specialty products and increased pricing for both wood and cotton-based specialty products. These improvements were partially offset by decreases in the volume of cotton-based specialty products.

Improvements in selling prices and mix of our wood-based products were driven by several factors. Overall strengthening of the economy increased the demand for pulp and paper products, driving up commodity pulp prices. While our average fluff pulp price increased by 11% year over year, we can offer no assurances that this increase in fluff pulp pricing will continue or that this trend will not reverse direction during fiscal 2005. Also the weakening of the U.S. dollar year over year made our products more attractive to export customers helping to increase overall specialty wood volume by 10%.

Sales price increases and decreases for cotton-based products are influenced by, among other things, the variability in the cost and supply of cotton fibers. As the cost of these fibers increased, we increased our sales prices. Pricing has increased on average, approximately 6% on most of our cotton-based specialty products. Although these price increases had a positive impact on revenue and operating income during the first quarter, they were offset by the higher fiber costs and the weaker U.S. dollar which negatively impacts manufacturing costs at our Glueckstadt, Germany cotton-based specialty fibers facility.

The overall improvement in cotton-based specialty pricing was also offset by a decline in volume based on the year over year impact of the partial closure of our Lumberton, North Carolina facility. Although a majority of products manufactured at Lumberton were transitioned to our Memphis, Tennessee, plant there was still an overall decrease in volume due to the partial closure of the facility. In a continuation of our strategy to manage inventories, our

Glueckstadt, Germany cotton facility operates at approximately 55% of capacity using a reduced shift system.

Operating income substantially improved during the quarter based on the strong improvement in sales. Although manufacturing costs edged higher for the three months ended September 30, 2004 for both wood and cotton-based specialty products, they did not increase enough to offset the strong gains from increased pricing and volume.

A record four hurricanes that hit Florida and the southeastern United States during the first quarter challenged the operating environment at our wood-based specialty fibers facility in Perry, Florida. Although our operations were subjected to extensive rainfall and high winds, none of the storms caused major interruptions at our facilities. We did experience some short-term curtailment due to power outages, but our technicians quickly restored services, and we were able to achieve production targets. The extensive rainfall has threatened our wood supply, but we are confident that our production will not be limited by wood shortages during the coming quarters.

We are moving forward with the important step of further developing our capability to supply a wide range of products based on cotton cellulose to customers worldwide by upgrading the capability of our Americana, Brazil manufacturing facility. Because Brazil benefits from low manufacturing costs and a large and increasing raw material supply, we are confident that, when this conversion is completed in the fall of 2005, it will be a significant contributor to our profitability. We expect to spend approximately $10 million during the remainder of fiscal 2005 and an additional $8 million in fiscal 2006 on this project.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three months ended September 30, 2004 and 2003.

($ millions)	Three Months Ended September 30			
	2004	2003	Change	% Change
Net sales	$55.9	$53.2	$2.7	5%
Operating income	3.6	2.5	1.1	44%

The increase in net sales during the three months ended September 30, 2004 was primarily due to an increase in shipment volume and the strengthening of the euro versus the U.S. dollar. These improvements were partially offset by minor mix and price changes. Although we ceased production at our Cork, Ireland facility in July, we continued shipping inventory from Cork through the remainder of the period and began transitioning sales to our other nonwoven materials facilities.

Operating income for the three months ended September 30, 2004 was our best quarterly performance in more than four years. The improvement was primarily due to the closure of our Cork, Ireland plant. While Cork's shipments were only down 18% compared to the same quarter a year ago, labor and overhead costs were down 49%. Overall, our nonwoven materials business was able to support increased shipment and production volume with one less manufacturing location for most of the quarter, and we successfully transitioned more than half of Cork's business to other manufacturing sites. Our Gaston, North Carolina facility continued to show improvement in its operating performance compared to the prior year due to a significant increase in shipment volume and the resulting improvement in capacity utilization.

Restructuring activities

During fiscal years 2004 and 2003, we entered into various restructuring programs, which resulted in restructuring and impairment charges. In order to continue to provide both specialty fibers and nonwoven materials at attractive values, we will continue to look for ways to reduce costs and optimize our operating structure. The following table summarizes restructuring expense by program for the three-month periods ended September 30, 2004 and 2003.

(millions)	Three months ended September 30 2004	2003	Total Estimated Charges	Estim Com at Sept 2
Restructuring costs				
2004 Restructuring program...............	$ 0.9	$ -	$ 3.0	$
2003 Restructuring program - phase 2.....	0.2	0.8	3.5	
2003 Restructuring program - phase 1.....	0.1	0.2	2.8	
Total restructuring costs	$ 1.2	$ 1.0	$ 9.3	$

2004 Restructuring program

During March 2004, our Board of Directors approved the discontinuation of production of nonwoven materials at our Cork, Ireland facility. While the demand for nonwoven products is growing in the low to mid-single digits, the growth in demand has not been sufficient to fully utilize existing capacity. As such, industry participants have been rationalizing production by taking down time, reducing operating shifts and closing facilities.

Due to excess production capacity around the globe, we have operated Cork below its productive capacity since the plant started up in 1998. Because of its location and small size, our cost to produce at Cork is higher than it is at our other locations. After careful consideration of all the options available, management reached the decision to close the Cork facility and consolidate production at our three other manufacturing facilities. Production at Cork ceased in July 2004. Closing our Cork facility reduced our nonwovens capacity by about 10%. Subsequent to the July closure of the facility, we began

to actively market the building and equipment with carrying values of $4.0 million and $1.3 million, respectively. Current markets and third party interest for the building and equipment indicate we should be able to meet or exceed these values through the sales process.

We will continue to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt, Germany; and Gaston County, North Carolina. We expect this consolidation will enable us to improve our overall nonwoven materials operating results by about $7 million annually and reduce working capital needs by $4 million. The closure of the Cork facility and related reorganization of the nonwoven materials organization resulted in the termination of 81 employees and will include the termination of an additional eight employees by the end of calendar year 2004. We expect restructuring expenses and payments related to the closure to be approximately $3 million of which $2.8 million has been incurred and with the remaining $0.2 million to occur over the remainder of calendar 2004.

2003 Restructuring programs (phase 1 and phase 2)

In April 2003, we announced the discontinuation of production of cotton linter pulp at our specialty fibers Lumberton, North Carolina facility due to the decline in demand for cotton content paper. We completed this partial closure in August 2003 and continue to produce cosmetic cotton products at the Lumberton site. This decision reflects a steady decline in demand in the cotton fiber paper industry, which has contracted by about one-third since the late 1990's. While cotton linter pulp is one of our core businesses, current demand did not economically justify operating a facility that could only produce products for paper applications.

To better meet our customers' needs, we consolidated our U.S. cotton linter pulp production at our larger Memphis, Tennessee and Glueckstadt, Germany facilities. In conjunction with the consolidation, we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across the company, the main component of which was the partial closure of our Lumberton, North Carolina facility. This phase of restructuring resulted in the elimination of approximately 100 positions within the specialty fibers segment. The resulting increase in facility utilization is enabling us to improve our operating results by over $6 million annually. This more efficient operating configuration began to reduce our cost of goods sold beginning in January 2004. This closure reduced our working capital needs by approximately $10 million. We expect this phase to be completed this fiscal year.

During the first quarter of fiscal 2004, we entered into a second phase of this restructuring program. This phase of the program will enable us to improve our operating results by approximately $6 million annually through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 65 positions have been eliminated and approximately 13 additional positions will be eliminated over the next year. These positions include manufacturing, sales, product development and administrative functions throughout the organization. The full benefit of this restructuring will not be realized until the end of calendar 2005. We expect payments related to this phase of the restructuring program to continue into calendar 2005 and expect costs to total approximately $3.5 million.

Net interest expense and amortization of debt costs

We incurred net interest expense and amortization of debt costs of $11.3 million in the three months ended September 30, 2004 compared to $11.2 million for the prior year. The consistency is the result of several offsetting factors. Our decrease in outstanding debt of $45.3 million since September 30, 2003 had a positive impact on interest expense, but was offset by the conversion of $50 million of variable rate debt to higher fixed rate debt. We were also able to offset the impact of the increase in variable market interest rates during the year through the restructuring of our senior secured credit facility in November 2003. For further information regarding our debt restructuring, see Note G of the accompanying interim financial statements.

Income tax expense

Our effective tax rate for the three months ended September 30, 2004 was 35.0% versus 32.5% for the same period in 2003. The higher tax rate was due primarily to the source of income shifting to higher tax jurisdictions. Our effective tax rate may vary in future quarters due to the amount and source of income, results of tax audits and changes in tax legislation.

Loss on early extinguishment of debt costs

On September 22, 2003, we placed privately $200 million in aggregate principal amount of 8.5% senior notes due October 1, 2013. The notes are unsecured obligations and are senior to any of our subordinated debt. The notes are guaranteed by our direct and indirect domestic subsidiaries that are also guarantors on our senior secured indebtedness. We used the net proceeds from the private placement to redeem our $150 million senior subordinated notes due 2005. As a result of the extinguishment, $3.3 million was expensed during the three months ended September 30, 2003. These expenses included a $2.1 million call premium and $1.2 million related to the write-off of deferred financing costs.

Cumulative effect of change in accounting

Historically, we accrued expenses related to extended maintenance shutdowns at our Perry, Florida facility. However, as of July 1, 2003, we changed our method of accounting from the accrue in advance method to the direct expense method. Based on this change, during the three months ended September 30, 2003 we reversed the planned maintenance shutdown accrual of $9.1 million and recorded a cumulative effect of change in accounting adjustment of $5.7 million (net-of-taxes of $3.4 million). See Note B of the accompanying interim financial statements for further discussion of this change in accounting.

Financial Condition

Cash flow

Net cash provided by operating activities

We generated cash from operating activities of $21.0 million and $25.6 million during the three months ended September 30, 2004 and 2003, respectively. During the three months ended September 30, 2004, improved earnings and timing of interest payments were partially offset by an increase in inventories of $6.1 million during the period. During the three months ended September 30, 2003, cash from operating activities benefited from a change in our cash management strategy. We began discounting large letters of credit, enabling us to reduce our debt and interest costs, resulting in a permanent decrease in account receivables of approximately $10 million.

Net cash used in investing activities

During the three months ended September 30, 2004, we used $4.9 million cash in investing activities, as compared to $10.0 million in the same period of 2003. The higher expenditures during 2003 were the result of our expenditure for a planned maintenance shutdown at our Perry, Florida specialty fibers facility and capital expenditures at our Memphis, Tennessee specialty fibers facility to provide the capability to manufacture cotton cellulose products previously manufactured at our Lumberton, North Carolina facility. In addition to our normal level of capital expenditures to construct, purchase, modernize, and upgrade our production equipment and facilities, we expect to incur about $10 million of capital expenditures in the remaining nine months of fiscal 2005 and

$8 million during fiscal 2006 primarily related to the upgrade of our Americana, Brazil specialty fibers facility.

Net cash provided by (used in) financing activities

Under our senior secured credit facility, during the first quarter of fiscal 2005 we were required to make a payment on our term loan for our excess cash flow (as defined under the credit agreement), based on fiscal 2004

performance. Payments totaling approximately $15.4 million were made during July and August of 2004. The total reduction of our senior secured credit facility during the three months ended September 30, 2004 was $20.0 million.

During the first quarter of fiscal 2004, we began the restructuring of our debt position by redeeming our $150 million senior subordinated notes due 2005 and making a permanent reduction on our revolving credit facility by issuing $200 million of senior notes due 2013. See Note G- Debt for further information on this issuance.

Our board of directors has authorized the repurchase of up to 6.0 million shares of our common stock. Under this authorization, we will hold the repurchased shares as treasury stock and such shares will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. We repurchased no shares of our common stock during the first three months of fiscal 2005. Through September 30, 2004, we had repurchased a total of 5,009,300 shares under the current board authority. At September 30, 2004, we were prohibited from repurchasing our common stock under the terms of our senior secured credit facility.

Contractual obligations

There have been no material changes to our contractual obligations discussed in our Annual Report. The following table summarizes our significant contractual cash obligations as of September 30, 2004. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

(In millions)	Payments Due by Period			
Contractual Obligations	Total	Fiscal 2005 (1)	Fiscal 2006 and 2007	Fiscal 2008 and 2009
Long-term obligations (2)......	$891.6	$ 39.5	$ 98.8	$ 256.2
Capital lease obligations (3)..	3.0	0.6	1.6	0.8
Operating leases	4.7	2.1	2.2	0.4
Timber commitments	81.8	11.6	24.6	25.4
Lint commitments	22.8	22.8	-	-
Other purchase commitments (4)	12.5	9.3	3.2	-
Total contractual cash obligations.................	$1,016.4	$ 85.9	$ 130.4	$ 282.8

(1) Cash obligations for the remainder of fiscal 2005.

(2) Amounts include related interest payments. Interest payments for variable debt of $125.3 million are based on the effective rate as of September 30, 2004 of 4.4%.

(3) Capital lease obligations represent principal and interest payments.

(4) The majority of other purchase commitments are take-or-pay contracts made in the ordinary course of business related to utilities and raw material purchases.

Liquidity and capital resources

We have the following major sources of financing: senior secured credit facility, senior notes and senior subordinated notes. Our senior secured credit facility, senior notes and senior subordinated notes contain various covenants. We were in compliance with these covenants as of September 30, 2004 and believe we will remain in compliance. These sources of financing are described in detail in Note G of the accompanying interim financial statements.

On September 30, 2004, we had $67.7 million borrowing capacity on our revolving credit facility. The portion of this capacity that we could borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. As of September 30,

2004, our liquidity, including available borrowings and cash and cash equivalents was approximately $75 million. Management believes this is sufficient liquidity to meet the needs of the business. While we can offer no assurances, we believe that our cash flow from operations, together with current cash and cash equivalents, will be sufficient to fund necessary capital expenditures, meet operating expenses and service our debt obligations for the foreseeable future.

Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. Management bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information they believe are reasonable. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

The five critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our financial statements are those relating to allowance for doubtful accounts, deferred income taxes, depreciation, inventory valuation, and long-lived assets. Further information regarding our "Critical Accounting Policies" can be found in the "Management's

Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note 1 to the financial statements in our Annual Report contains a summary of our significant accounting policies.

Forward-Looking Statements

This document contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect management's current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will" or other similar words or phrases. Similarly, statements that describe management's objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause the actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important factors, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements: pricing fluctuations and worldwide economic conditions; dependence on a single customer; fluctuation in the costs of raw materials; competition; inability to predict the scope of future environmental compliance costs or liabilities; and the ability to obtain additional capital, maintain adequate cash flow to service debt as well as meet operating needs. The forward-looking statements included in this document are only made as of the date of this document and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances. For additional factors that could impact future results, please see our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2004, there have been no material changes in our market risk since the disclosure in our Annual Report. While we have global operations, the majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by foreign currency gains of equal magnitude in other areas of the world. The principal foreign currency exchange rate risks to which we are exposed are in the Canadian dollar, Brazilian real and European euro. Foreign currency fluctuations during the three-month period ended September 30, 2004 did not have a material effect on our results of operations.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of September 30, 2004 of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the

Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective.

No changes in our internal control over financial reporting occurred during the quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Items 1, 2, 3, 4, and 5 are not applicable and have been omitted.

Item 6. Exhibits and Reports on Form 8-K

(a) Listing of Exhibits

31.1 Certification of the Chief Executive Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by David B. Ferraro, Chief Executive Officer of Buckeye Technologies Inc. on October 29, 2004.

31.2 Certification of the Chief Financial Officer, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, signed by Kristopher J. Matula, Chief Financial Officer of Buckeye Technologies Inc. on October 29, 2004.

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by David B. Ferraro, Chief Executive Officer of Buckeye Technologies Inc. on October 29, 2004.

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, signed by Kristopher J. Matula, Chief Financial Officer of Buckeye Technologies Inc. on October 29, 2004.

(b) Reports on Form 8-K

During the three months ended September 30, 2004, the following reports were filed or furnished on Form 8-K:

- Report dated July 13, 2004 announcing the conference call regarding operating results for the year ended June 30, 2004.
- Report dated August 3, 2004 announcing the press release regarding the results of operations for the year ended June 30, 2004.
- Report dated August 17, 2004 announcing the election of new board members.

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

Buckeye Tchnologies Inc.

By: /S/ DAVID B. FERRARO

David B. Ferraro, Chief Executive Officer

Date: October 29, 2004

By: /S/ KRISTOPHER J. MATULA

Kristopher J. Matula, Executive Vice President and Chief Financial Officer

Date: October 29, 2004