

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report: **February 17, 2004**
Date of Earliest Event Reported: **February 17, 2004**

BOISE CASCADE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

1-5057
(Commission File
Number)

82-0100960
(I.R.S. Employer
Identification No.)

1111 West Jefferson Street
P.O. Box 50
Boise, Idaho
(Address of principal executive offices)

83728-0001
(Zip Code)

208/384-6161
(Registrant's telephone number, including area code)

Item 7. Financial Statements and Exhibits
(c) Exhibits.

Exhibit 99 Boise Cascade Corporation Fourth Quarter 2003 Fact Book

Item 12. Results of Operations and Financial Condition.

On February 17, 2004, we issued our Fourth Quarter 2003 Fact Book, a copy of which is attached as Exhibit 99.

We present our consolidated financial statements in accordance with generally accepted accounting principles (GAAP). To supplement the GAAP presentations in this Fact Book, we also present the results of our operations before special items. For example, we present results that exclude items such as asset write-downs, the effect of accounting changes, and other items we believe are not indicative of our ongoing operations. Further, in some instances, we present results that exclude the impact of our recent acquisition of OfficeMax, Inc. We believe this presentation, together with the GAAP presentation, allows investors to compare our core operating results within the period both before and after this acquisition and also to compare our core operations from period to period. We believe our presentation of results before these special items provides useful information to both investors and management by excluding gains and losses that are not indicative of our core operating results.

We have reconciled the non-GAAP financial measures to our reported financial performance in the financial notes that accompany our Fact Book.

SIGNATURE

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

BOISE CASCADE CORPORATION

By /s/ Karen E. Gowland
Karen E. Gowland
Vice President and Corporate Secretary

Date: February 17, 2004

| | |
|----|---|
| 99 | Boise Cascade Corporation Fourth Quarter 2003 Fact Book |
|----|---|



Fourth Quarter 2003 Fact Book

For additional information, contact:

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Visit Boise's website at www.bc.com

Fourth Quarter and Full Year 2003 Operating Highlights

Boise reported net income of \$6.9 million, or 5¢ per diluted share, in fourth quarter 2003. Before a special item for the write-down of impaired assets at our plywood and lumber operations in Yakima, Washington, and the net impact of the OfficeMax acquisition, Boise's net income in the fourth quarter was \$18.3 million, or 24¢ per diluted share. By comparison, Boise reported net income of \$6.2 million, or 5¢ per diluted share, in fourth quarter 2002 and \$30.0 million, or 43¢ per diluted share, in third quarter 2003 before a one-time tax benefit related to a favorable tax ruling, net of changes in other tax items. A schedule in the Notes to Consolidated Financial Statements at the end of this Fact Book reconciles special items and the impact of the OfficeMax acquisition with reported financial results.

For full year 2003, net income was \$8.3 million, or a loss of 8¢ per diluted share. Before special items and the net impact of the OfficeMax acquisition, Boise posted net income of \$31.8 million, or 32¢ per diluted share. In 2002, before a special item, net income was \$7.3 million, or a loss of 10¢ per diluted share.

Sales in fourth quarter 2003 were \$2.4 billion, 31% higher than sales in fourth quarter 2002. Sales for full year 2003 were \$8.2 billion, an 11% increase over sales in 2002. Sales increases were mostly due to strong prices for wood products and growth in Boise Office Solutions, including the OfficeMax acquisition. Excluding the impact of the OfficeMax acquisition, sales increased 14% and 7% for the fourth quarter and full year, respectively.

Boise Office Solutions: On December 9, 2003, Boise acquired OfficeMax, Inc. Following that acquisition, the company began reporting two segments, Contract and Retail, within our Boise Office Solutions business. For fourth quarter 2003, the Boise Office Solutions business reported operating income of \$40.0 million, compared with \$32.4 million in fourth quarter 2002 and \$31.0 million in third quarter 2003. For full year 2003, the business reported operating income of \$115.5 million, compared with \$123.0 million in 2002. Before special items and the net impact of the OfficeMax acquisition, Boise Office Solutions earned \$36.9 million in fourth quarter 2003 and \$121.6 million for full year 2003.

Sales of \$1.2 billion in fourth quarter 2003 were 38% higher than sales in fourth quarter 2002 and 34% higher than in third quarter 2003, primarily due to the OfficeMax acquisition. Full-year sales of \$4.0 billion were 14% higher than in 2002. Sales of Boise's office papers increased 4% to 568,000 tons.

Boise Office Solutions, Contract: Operating income reported for fourth quarter 2003 was \$33.9 million, compared with \$32.4 million in fourth quarter 2002 and \$31.0 million in third quarter 2003. For full year 2003, operating income was \$109.4 million, compared with \$123.0 million in 2002. Before special items and the impact of the OfficeMax acquisition, operating income for fourth quarter 2003 was \$36.9 million and for full year 2003 was \$121.6 million.

Sales of \$965 million in fourth quarter 2003 were 6% higher than sales in fourth quarter 2002 and 3% higher than in third quarter 2003. Full-year sales of \$3.7 billion were 6% higher than 2002 sales. Excluding special items and the impact of the OfficeMax acquisition, the fourth-quarter operating margin was 3.9%, up from 3.6% in the fourth quarter a year ago and 3.3% in the third quarter. The full-year operating margin, before special items and the impact of the OfficeMax acquisition, was 3.3%, compared with 3.5% in 2002.

Boise Office Solutions, Retail: Boise began reporting this segment on December 10, 2003. For 17 selling days in fourth quarter 2003, the segment recorded sales of \$283 million, operating income of \$6.1 million, and an operating margin of 2.2%.

Boise Building Solutions: Operating income of \$37.6 million compares with operating income of \$2.3 million in fourth quarter 2002 and \$56.4 million in third quarter 2003. Operating income for full year 2003 was \$95.4 million, compared with \$39.7 million in 2002. In December 2003, we recorded a \$14.7 million pretax charge for the write-down of impaired assets at our plywood and lumber operations in Yakima, Washington. Before this item, we reported operating income of \$52.3 million in fourth quarter 2003 and \$110.1 million for full year 2003.

Sales of \$776 million in the fourth quarter were 37% higher than in the year-ago fourth quarter. Building materials distribution sales rose 42% from fourth quarter 2002, while sales of engineered wood products increased 31%. Segment sales in the fourth quarter declined 6% from third quarter 2003, reflecting

seasonal volume decreases. Distribution sales fell 9% from third quarter 2003, and sales of engineered wood products declined 17%. Full-year sales rose 16%. Sales increased 21% in building materials distribution and 20% in engineered wood products because of strong demand and high product prices.

Boise Paper Solutions: The segment reported an operating loss of \$14.4 million, compared with operating income of \$23.4 million in fourth quarter 2002 and \$200,000 in third quarter 2003. For full year 2003, the operating loss was \$13.9 million, compared with income of \$38.6 million in 2002. Weak fourth-quarter results were primarily due to lower product prices than in comparison periods. The full-year unfavorable comparison was due to higher unit costs and reduced sales volumes.

Sales decreased 1% in fourth quarter 2003, compared with fourth quarter 2002, and 5% from third quarter 2003 levels. Full year 2003 sales decreased 1% from 2002 sales. Average net selling prices for Boise's paper products declined 6%, compared with the fourth quarter a year ago, and 3%, compared with third quarter 2003. For the full year, average product prices were slightly higher than 2002 levels. Unit volumes rose 6% from the year-ago fourth quarter but declined slightly from third quarter 2003. For the full year, unit sales volumes declined 2% from 2002 volumes. Boise took about 58,000 tons of market-related curtailment, mostly in uncoated free sheet, during the fourth quarter and 197,000 tons of market-related curtailment during full year 2003. Fourth-quarter unit manufacturing costs were flat with those of comparison periods. Full year 2003 costs were 2% higher than in 2002, primarily because of higher fiber and chemical costs.

Summary of Operations Boise and Subsidiaries

| Quarterly Results by Segment (Unaudited)(1) | 2002 | | | | Year |
|---|--------------------------------------|----------------|---------------|----------------|------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | |
| | (millions, except per-share amounts) | | | | |
| Sales by Segment | | | | | |
| Boise Office Solutions, Contract | \$ 884.5 | \$ 855.5 | \$ 899.9 | \$ 905.9 | \$ 3,545.8 |
| Boise Office Solutions, Retail | — | — | — | — | — |
| | 884.5 | 855.5 | 899.9 | 905.9 | 3,545.8 |
| Boise Building Solutions | 560.2 | 669.9 | 671.5 | 568.2 | 2,469.7 |
| Boise Paper Solutions | 456.0 | 481.6 | 485.2 | 455.3 | 1,878.0 |
| Other | 18.3 | 19.4 | 19.4 | 18.9 | 76.0 |
| | 1,919.0 | 2,026.4 | 2,075.9 | 1,948.3 | 7,969.5 |
| Intersegment eliminations | (130.8) | (138.4) | (140.7) | (147.4) | (557.2) |
| Trade sales | \$ 1,788.2 | \$ 1,888.0 | \$ 1,935.3 | \$ 1,800.8 | \$ 7,412.3 |
| Income (Loss) by Segment | | | | | |
| Boise Office Solutions, Contract | \$ 37.4 | \$ 23.4 | \$ 29.8 | \$ 32.4 | \$ 123.0 |
| Boise Office Solutions, Retail | — | — | — | — | — |
| | 37.4 | 23.4 | 29.8 | 32.4 | 123.0 |
| Boise Building Solutions | 8.8 | 14.0 | 14.5 | 2.3 | 39.7 |
| Boise Paper Solutions | (10.8) | 8.8 | 17.2 | 23.4 | 38.6 |
| Corporate and Other | (12.8) | (37.9) | (15.9) | (15.3) | (81.8) |
| | 22.6 | 8.4 | 45.6 | 42.9 | 119.5 |
| Interest expense | (33.3) | (33.3) | (32.1) | (33.0) | (131.7) |
| Income (loss) before income taxes | (10.7) | (24.9) | 13.5 | 9.9 | (12.2) |
| Income tax (provision) benefit | 4.1 | 28.2 | (5.0) | (3.7) | 23.5 |
| Net income (loss) | \$ (6.6) | \$ 3.2 | \$ 8.5 | \$ 6.2 | \$ 11.3 |
| Net income (loss) per common share | | | | | |
| Diluted | \$ (.17) | \$.00 | \$.09 | \$.05 | \$ (.03) |
| | 2003 | | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
| | (millions, except per-share amounts) | | | | |
| Sales by Segment | | | | | |
| Boise Office Solutions, Contract | \$ 938.3 | \$ 904.9 | \$ 934.1 | \$ 964.7 | \$ 3,741.9 |
| Boise Office Solutions, Retail | — | — | — | 283.2 | 283.2 |
| | 938.3 | 904.9 | 934.1 | 1,247.9 | 4,025.1 |
| Boise Building Solutions | 574.6 | 692.8 | 828.1 | 776.3 | 2,871.9 |
| Boise Paper Solutions | 468.2 | 459.4 | 474.2 | 450.9 | 1,852.6 |
| Other | 19.4 | 18.8 | 20.6 | 19.1 | 77.9 |
| | 2,000.5 | 2,075.9 | 2,256.9 | 2,494.2 | 8,827.5 |
| Intersegment eliminations | (147.3) | (146.9) | (146.3) | (141.8) | (582.4) |
| Trade sales | \$ 1,853.2 | \$ 1,929.0 | \$ 2,110.6 | \$ 2,352.3 | \$ 8,245.1 |
| Income (Loss) by Segment | | | | | |
| Boise Office Solutions, Contract | \$ 20.7 | \$ 23.9 | \$ 31.0 | \$ 33.9 | \$ 109.4 |
| Boise Office Solutions, Retail | — | — | — | 6.1 | 6.1 |
| | 20.7 | 23.9 | 31.0 | 40.0 | 115.5 |
| Boise Building Solutions | (8.5) | 9.8 | 56.4 | 37.6 | 95.4 |
| Boise Paper Solutions | (0.7) | 1.0 | 0.2 | (14.4) | (13.9) |
| Corporate and Other | (8.7) | (9.9) | (10.5) | (16.1) | (45.2) |
| | 2.8 | 24.9 | 77.1 | 47.1 | 151.8 |
| Interest expense | (32.2) | (31.1) | (31.7) | (37.6) | (132.5) |
| Income (loss) before income taxes and cumulative effect of accounting changes | (29.4) | (6.2) | 45.4 | 9.5 | 19.3 |
| Income tax (provision) benefit | 10.7 | 2.3 | (12.5) | (2.6) | (2.2) |
| Income (loss) before cumulative effect of accounting | (18.7) | (4.0) | 32.9 | 6.9 | 17.1 |

| | | | | | |
|--|-----------|----------|---------|--------|----------|
| changes | | | | | |
| Cumulative effect of accounting changes, net of income tax | (8.8) | — | — | — | (8.8) |
| Net income (loss) | \$ (27.5) | \$ (4.0) | \$ 32.9 | \$ 6.9 | \$ 8.3 |
| Net income (loss) per common share | | | | | |
| Diluted net income (loss) before cumulative effect of accounting changes | \$ (.38) | \$ (.12) | \$.48 | \$.05 | \$.07 |
| Cumulative effect of accounting changes | (.15) | — | — | — | (.15) |
| Diluted | \$ (.53) | \$ (.12) | \$.48 | \$.05 | \$ (.08) |

(1) Columns may not add due to rounding.

Statistical Review / 2002

| | First Quarter | Second Quarter | 2002 Third Quarter | Fourth Quarter | Year |
|---|---------------|----------------|-----------------------|----------------|----------|
| Boise Office Solutions | | | | | |
| Sales by Product Line (millions) | | | | | |
| Office supplies and paper | \$ 549 | \$ 531 | \$ 545 | \$ 556 | \$ 2,181 |
| Technology products | 250 | 245 | 263 | 264 | 1,022 |
| Office furniture | 85 | 80 | 92 | 86 | 343 |
| Sales by Geography (millions) | | | | | |
| United States | \$ 686 | \$ 665 | \$ 707 | \$ 701 | \$ 2,759 |
| International | 198 | 191 | 193 | 205 | 787 |
| Sales Growth | | | | | |
| Sales growth | (9)% | (1)% | 6% | 6% | 0% |
| Same-location sales growth | (8)% | (1)% | 6% | 5% | 0% |
| Margins (percentage of sales) | | | | | |
| Gross profit margin | 23.6% | 23.1% | 22.4% | 23.5% | 23.1% |
| Operating profit | 4.2% | 2.7% | 3.3% | 3.6% | 3.5% |

Boise Building Solutions

| Sales Volumes | | | | | |
|---|---------|---------|---------|---------|-----------|
| Plywood (thousand square feet) (3/8" basis) | 440,525 | 462,648 | 460,952 | 424,078 | 1,788,203 |
| OSB (thousand square feet) (3/8" basis) (1) | 100,161 | 98,273 | 107,176 | 111,076 | 416,686 |
| Particleboard (thousand square feet) (3/4" basis) | 49,749 | 51,182 | 47,617 | 40,675 | 189,223 |
| Lumber (thousand board feet) | 95,911 | 108,455 | 99,858 | 91,057 | 395,281 |
| LVL (hundred cubic feet) | 17,895 | 20,844 | 20,879 | 17,925 | 77,543 |
| I-joists (thousand equivalent lineal feet) | 34,995 | 47,102 | 46,954 | 36,714 | 165,765 |
| Engineered wood products (millions) | \$ 60 | \$ 76 | \$ 77 | \$ 61 | \$ 274 |
| Building materials distribution (millions) | \$ 375 | \$ 464 | \$ 470 | \$ 387 | \$ 1,696 |

(1) Represents 100% of the sales volume of Voyageur Panel, of which we own 47%.

Selected Prices (average net selling prices)

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Plywood (thousand square feet) (3/8" basis) | \$ 231 | \$ 238 | \$ 227 | \$ 220 | \$ 229 |
| OSB (thousand square feet) (3/8" basis) | 131 | 136 | 127 | 128 | 130 |
| Particleboard (thousand square feet) (3/4" basis) | 230 | 248 | 254 | 223 | 239 |
| Lumber (thousand board feet) | 481 | 465 | 470 | 446 | 466 |
| LVL (hundred cubic feet) | 1,491 | 1,485 | 1,498 | 1,454 | 1,483 |
| I-joists (thousand equivalent lineal feet) | 896 | 886 | 890 | 872 | 886 |

Boise Paper Solutions

| Sales Volumes (thousands of short tons) | | | | | |
|---|-------|-------|-------|-------|-------|
| Uncoated free sheet | 355 | 370 | 364 | 336 | 1,425 |
| Containerboard | 160 | 167 | 168 | 159 | 654 |
| Newsprint | 84 | 111 | 110 | 101 | 406 |
| Other | 49 | 62 | 37 | 31 | 179 |
| | 648 | 710 | 679 | 627 | 2,664 |
| Corrugated containers (millions of square feet) | 1,061 | 1,065 | 1,205 | 1,132 | 4,463 |

Selected Prices (average net selling prices per short ton)

| | | | | | |
|---------------------|--------|--------|--------|--------|--------|
| Uncoated free sheet | \$ 712 | \$ 712 | \$ 722 | \$ 746 | \$ 722 |
| Containerboard | 327 | 332 | 351 | 361 | 343 |
| Newsprint | 368 | 349 | 367 | 371 | 363 |

Statistical Review / 2003

| | 2003 | | | | |
|---|---------------|----------------|---------------|----------------|----------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Year |
| Boise Office Solutions, Contract | | | | | |
| Sales by Product Line (millions) | | | | | |
| Office supplies and paper | \$ 567 | \$ 539 | \$ 555 | \$ 572 | \$ 2,233 |
| Technology products | 277 | 275 | 280 | 293 | 1,125 |
| Office furniture | 94 | 91 | 99 | 100 | 384 |
| Sales by Geography (millions) | | | | | |
| United States | \$ 709 | \$ 682 | \$ 712 | \$ 720 | \$ 2,823 |
| International | 229 | 223 | 222 | 245 | 919 |

| | | | | | |
|----------------------------|----|----|----|----|----|
| Sales Growth | | | | | |
| Sales growth | 6% | 6% | 4% | 6% | 6% |
| Same-location sales growth | 6% | 6% | 4% | 4% | 5% |

| | | | | | |
|--------------------------------------|-------|-------|-------|-------|-------|
| Margins (percentage of sales) | | | | | |
| Gross profit margin | 23.8% | 23.8% | 24.2% | 25.4% | 24.3% |
| Operating profit | 2.2% | 2.6% | 3.3% | 3.5% | 2.9% |

| | | | | | |
|---|------|------|------|--------|--------|
| Boise Office Solutions, Retail | | | | | |
| Sales by Product Line (millions) | | | | | |
| Office supplies and paper | \$ — | \$ — | \$ — | \$ 92 | \$ 92 |
| Technology products | — | — | — | 161 | 161 |
| Office furniture | — | — | — | 30 | 30 |
| Sales by Geography (millions) | | | | | |
| United States | \$ — | \$ — | \$ — | \$ 283 | \$ 283 |
| International | — | — | — | — | — |

| | | | | | |
|--------------------------------------|---|---|---|-------|-------|
| Margins (percentage of sales) | | | | | |
| Gross profit margin | — | — | — | 24.5% | 24.5% |
| Operating profit | — | — | — | 2.2% | 2.2% |

| | | | | | |
|---|---------|---------|---------|---------|-----------|
| Boise Building Solutions | | | | | |
| Sales Volumes | | | | | |
| Plywood (thousand square feet) (3/8" basis) | 466,537 | 476,896 | 499,323 | 447,724 | 1,890,480 |
| OSB (thousand square feet) (3/8" basis) (1) | 106,581 | 112,652 | 111,775 | 101,388 | 432,396 |
| Particleboard (thousand square feet) (3/4" basis) | 41,192 | 38,609 | 36,524 | 36,296 | 152,621 |
| Lumber (thousand board feet) | 93,524 | 93,113 | 90,522 | 86,895 | 364,054 |
| LVL (hundred cubic feet) | 20,685 | 25,063 | 28,431 | 24,115 | 98,294 |
| I-joists (thousand equivalent lineal feet) | 40,534 | 53,271 | 60,275 | 45,869 | 199,949 |
| Engineered wood products (millions) | \$ 68 | \$ 85 | \$ 96 | \$ 80 | \$ 329 |
| Building materials distribution (millions) | \$ 391 | \$ 505 | \$ 603 | \$ 549 | \$ 2,048 |

(1) Represents 100% of the sales volume of Voyageur Panel, of which we own 47%.

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Selected Prices (average net selling prices) | | | | | |
| Plywood (thousand square feet) (3/8" basis) | \$ 220 | \$ 228 | \$ 291 | \$ 334 | \$ 267 |
| OSB (thousand square feet) (3/8" basis) | 141 | 165 | 258 | 309 | 217 |
| Particleboard (thousand square feet) (3/4" basis) | 219 | 230 | 243 | 254 | 236 |
| Lumber (thousand board feet) | 412 | 400 | 446 | 468 | 431 |
| LVL (hundred cubic feet) | 1,453 | 1,447 | 1,440 | 1,516 | 1,463 |
| I-joists (thousand equivalent lineal feet) | 867 | 861 | 865 | 905 | 874 |

| | | | | | |
|---|------------|------------|------------|------------|--------------|
| Boise Paper Solutions | | | | | |
| Sales Volumes (thousands of short tons) | | | | | |
| Uncoated free sheet | 353 | 351 | 353 | 339 | 1,396 |
| Containerboard | 158 | 154 | 170 | 168 | 650 |
| Newsprint | 106 | 89 | 101 | 120 | 416 |
| Other | 33 | 31 | 47 | 35 | 146 |
| | <u>650</u> | <u>625</u> | <u>671</u> | <u>662</u> | <u>2,608</u> |
| Corrugated containers (millions of square feet) | 1,122 | 1,151 | 1,204 | 1,114 | 4,591 |

| | | | | | |
|---|--------|--------|--------|--------|--------|
| Selected Prices (average net selling prices per short ton) | | | | | |
| Uncoated free sheet | \$ 747 | \$ 734 | \$ 713 | \$ 690 | \$ 721 |
| Containerboard | 341 | 347 | 342 | 319 | 337 |

Financial Highlights Boise and Subsidiaries

| | 2000 | 2001 | 2002 | 2003 | | | | Year |
|--|------------|------------|------------|---------------|----------------|---------------|----------------|------------|
| | | | | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | |
| (millions, except per-share amounts) | | | | | | | | |
| Sales and Income | | | | | | | | |
| Sales | \$ 7,806.7 | \$ 7,422.2 | \$ 7,412.3 | \$ 1,853.2 | \$ 1,929.0 | \$ 2,110.6 | \$ 2,352.3 | \$ 8,245.1 |
| Income from operations | 444.0 | 81.1 | 118.3 | 1.7 | 22.7 | 76.7 | 46.7 | 147.8 |
| Net income (loss) before cumulative effect of accounting changes | \$ 178.6 | \$ (42.5) | \$ 11.3 | \$ (18.7) | \$ (4.0) | \$ 32.9 | \$ 6.9 | \$ 17.1 |
| Cumulative effect of accounting changes, net of income tax | — | — | — | (8.8) | — | — | — | (8.8) |
| Net income (loss) | \$ 178.6 | \$ (42.5) | \$ 11.3 | \$ (27.5) | \$ (4.0) | \$ 32.9 | \$ 6.9 | \$ 8.3 |
| Net income (loss) per common share | | | | | | | | |
| Diluted before cumulative effect of accounting changes | \$ 2.73 | \$ (.96) | \$ (.03) | \$ (.38) | \$ (.12) | \$.48 | \$.05 | \$.07 |
| Cumulative effect of accounting changes | — | — | — | (.15) | — | — | — | (.15) |
| Diluted | \$ 2.73 | \$ (.96) | \$ (.03) | \$ (.53) | \$ (.12) | \$.48 | \$.05 | \$ (.08) |
| Cash dividends paid per common share | \$.60 | \$.60 | \$.60 | \$.15 | \$.15 | \$.15 | \$.15 | \$.60 |
| Financial Condition | | | | | | | | |
| Capital expenditures | 485.8 | 380.0 | 266.2 | 48.5 | 69.4 | 44.5 | 1,471.9 | 1,634.3 |
| Total assets | 5,266.9 | 4,934.0 | 4,947.4 | 4,970.9 | 4,989.9 | 5,066.8 | 7,376.2 | |
| Long-term debt, less current portion | \$ 1,714.8 | \$ 1,062.9 | \$ 1,387.4 | \$ 1,472.7 | \$ 1,494.4 | \$ 1,517.1 | \$ 1,999.9 | |
| Current portion of long-term debt and short-term borrowings | 93.3 | 440.0 | 153.7 | 105.5 | 76.5 | 85.1 | 88.2 | |
| Adjustable conversion-rate equity security units | — | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | 172.5 | |
| Guarantee of ESOP debt | 107.9 | 80.9 | 51.4 | 51.4 | 40.5 | 40.5 | 19.1 | |
| Total debt | \$ 1,916.0 | \$ 1,756.3 | \$ 1,765.0 | \$ 1,802.1 | \$ 1,783.9 | \$ 1,815.2 | \$ 2,279.7 | |
| Shareholders' equity | \$ 1,757.0 | \$ 1,578.4 | \$ 1,399.5 | \$ 1,372.1 | \$ 1,384.2 | \$ 1,411.4 | \$ 2,298.3 | |
| Shareholders' equity per common share | \$ 28.85 | \$ 25.10 | \$ 21.59 | \$ 21.17 | \$ 21.23 | \$ 21.26 | \$ 24.47 | |
| Financial Ratios | | | | | | | | |
| Return on sales | 2.3% | (.6)% | .2% | (1.5)% | (.2)% | 1.6% | .3% | .1% |
| Debt to equity | 1.09:1 | 1.11:1 | 1.26:1 | 1.31:1 | 1.29:1 | 1.29:1 | .99:1 | |
| Debt to total capitalization | 52.0% | 52.7% | 55.8% | 56.8% | 56.3% | 56.3% | 49.6% | |
| Other Information | | | | | | | | |
| Effective tax (provision) benefit rate | (39.0)% | 12.1% | 192.8% | 36.2% | 36.6% | (27.6)% | (27.7)% | (11.5)% |
| Number of common shares outstanding at the end of the period (thousands) | 57,337 | 58,062 | 58,284 | 58,292 | 58,314 | 59,549 | 87,137 | |
| Average number of common shares (thousands) | | | | | | | | |
| Basic | 57,288 | 57,680 | 58,216 | 58,289 | 58,300 | 58,411 | 65,313 | 60,093 |
| Diluted(1) | 61,413 | 61,797 | 62,090 | 61,880 | 61,844 | 62,697 | 70,205 | 64,180 |
| Common stock price | | | | | | | | |
| High | \$ 43.94 | \$ 38.00 | \$ 38.81 | \$ 28.15 | \$ 26.30 | \$ 29.20 | \$ 32.89 | |
| Low | \$ 21.75 | \$ 26.99 | \$ 19.61 | \$ 20.72 | \$ 21.48 | \$ 21.48 | \$ 26.96 | |
| Close | \$ 33.63 | \$ 34.01 | \$ 25.22 | \$ 21.85 | \$ 23.90 | \$ 27.60 | \$ 32.86 | |

(1) For the first and second quarters of 2003 and the years ended December 31, 2001, 2002, and 2003, the computation of diluted net loss per share was antidilutive; accordingly, diluted net loss per share was calculated using the average basic shares outstanding.

Consolidated Statements of Income (Unaudited) Boise and Subsidiaries

| | Three Months Ended December 31 | | Year Ended December 31 | |
|--|-----------------------------------|--------------|---------------------------|--------------|
| | 2003 | 2002 | 2003 | 2002 |
| (thousands, except per-share amounts) | | | | |
| Sales | \$ 2,352,318 | \$ 1,800,848 | \$ 8,245,146 | \$ 7,412,329 |
| Costs and expenses | | | | |
| Materials, labor, and other operating expenses | 1,863,666 | 1,438,211 | 6,653,109 | 6,013,613 |
| Depreciation, amortization, and cost of company timber harvested | 81,001 | 77,203 | 308,332 | 306,973 |
| Selling and distribution expenses | 294,090 | 201,976 | 950,129 | 785,883 |
| General and administrative expenses | 49,540 | 39,264 | 158,786 | 154,284 |
| Other (income) expense, net | 21,666 | 1,627 | 35,787 | 30,842 |
| | 2,309,963 | 1,758,281 | 8,106,143 | 7,291,595 |
| Equity in net income (loss) of affiliates | 4,369 | (81) | 8,822 | (2,435) |
| Income from operations | 46,724 | 42,486 | 147,825 | 118,299 |
| Interest expense | (37,634) | (33,016) | (132,545) | (131,713) |

| | | | | |
|--|-----------------|-----------------|-------------------|-------------------|
| Interest income | 533 | 185 | 1,186 | 1,525 |
| Foreign exchange gain (loss) | (118) | 203 | 2,831 | (325) |
| | <u>(37,219)</u> | <u>(32,628)</u> | <u>(128,528)</u> | <u>(130,513)</u> |
| Income (loss) before income taxes and cumulative effect of accounting changes | 9,505 | 9,858 | 19,297 | (12,214) |
| Income tax (provision) benefit | (2,637) | (3,651) | (2,222) | 23,554 |
| Income before cumulative effect of accounting changes | 6,868 | 6,207 | 17,075 | 11,340 |
| Cumulative effect of accounting changes, net of income tax | — | — | (8,803) | — |
| Net income | 6,868 | 6,207 | 8,272 | 11,340 |
| Preferred dividends | (3,317) | (3,289) | (13,061) | (13,101) |
| Net income (loss) applicable to common shareholders | \$ 3,551 | \$ 2,918 | \$ (4,789) | \$ (1,761) |
| Net income (loss) per common share | | | | |
| Diluted before cumulative effect of accounting changes | \$ 0.05 | \$ 0.05 | \$ 0.07 | \$ (0.03) |
| Cumulative effect of accounting changes, net of income tax | — | — | (0.15) | — |
| Diluted | <u>\$ 0.05</u> | <u>\$ 0.05</u> | <u>\$ (0.08)</u> | <u>\$ (0.03)</u> |

Segment Information

Segment sales

| | | | | |
|-------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Boise Office Solutions, Contract | \$ 964,655 | \$ 905,898 | \$ 3,741,913 | \$ 3,545,772 |
| Boise Office Solutions, Retail | 283,153 | — | 283,153 | — |
| | <u>1,247,808</u> | <u>905,898</u> | <u>4,025,066</u> | <u>3,545,772</u> |
| Boise Building Solutions | 776,324 | 568,163 | 2,871,908 | 2,469,683 |
| Boise Paper Solutions | 450,868 | 455,302 | 1,852,624 | 1,878,003 |
| Intersegment eliminations and other | (122,682) | (128,515) | (504,452) | (481,129) |
| | <u>\$ 2,352,318</u> | <u>\$ 1,800,848</u> | <u>\$ 8,245,146</u> | <u>\$ 7,412,329</u> |

Segment income (loss)

| | | | | |
|---|-----------------|-----------------|------------------|--------------------|
| Boise Office Solutions, Contract | \$ 33,857 | \$ 32,401 | \$ 109,373 | \$ 123,004 |
| Boise Office Solutions, Retail | 6,125 | — | 6,125 | — |
| | <u>39,982</u> | <u>32,401</u> | <u>115,498</u> | <u>123,004</u> |
| Boise Building Solutions | 37,630 | 2,328 | 95,442 | 39,669 |
| Boise Paper Solutions | (14,408) | 23,396 | (13,879) | 38,572 |
| Corporate and Other | (16,065) | (15,251) | (45,219) | (81,746) |
| | <u>47,139</u> | <u>42,874</u> | <u>151,842</u> | <u>119,499</u> |
| Interest expense | (37,634) | (33,016) | (132,545) | (131,713) |
| Income (loss) before income taxes and cumulative effect of accounting changes | <u>\$ 9,505</u> | <u>\$ 9,858</u> | <u>\$ 19,297</u> | <u>\$ (12,214)</u> |

Consolidated Balance Sheets (Unaudited) Boise and Subsidiaries

| | December 31 | |
|---|-----------------------------------|---------------------|
| | 2003 | 2002 |
| | (thousands, except share amounts) | |
| Assets | | |
| Current | | |
| Cash and cash equivalents | \$ 124,879 | \$ 65,152 |
| Receivables, less allowances of \$10,865 and \$13,111 | 574,219 | 423,976 |
| Inventories | 1,609,811 | 717,966 |
| Deferred income taxes | 132,235 | 52,131 |
| Other | 60,148 | 36,524 |
| | <u>2,501,292</u> | <u>1,295,749</u> |
| Property | | |
| Property and equipment | | |
| Land and land improvements | 87,703 | 70,731 |
| Buildings and improvements | 890,871 | 709,127 |
| Machinery and equipment | 4,905,012 | 4,678,112 |
| | <u>5,883,586</u> | <u>5,457,970</u> |
| Accumulated depreciation | (3,058,527) | (2,915,940) |
| | <u>2,825,059</u> | <u>2,542,030</u> |
| Timber, timberlands, and timber deposits | 330,667 | 328,720 |
| | <u>3,155,726</u> | <u>2,870,750</u> |
| Goodwill | 1,107,292 | 400,541 |
| Intangible assets, net | 218,196 | 24,629 |
| Investments in equity affiliates | 44,335 | 35,641 |
| Other assets | 349,318 | 320,090 |
| Total assets | \$ 7,376,159 | \$ 4,947,400 |
| Liabilities and Shareholders' Equity | | |
| Current | | |

| | | |
|--|---------------------|---------------------|
| Short-term borrowings | \$ 5,188 | \$ 28,000 |
| Current portion of long-term debt | 83,016 | 125,651 |
| Income taxes payable | 694 | 9,512 |
| Accounts payable | 1,255,303 | 519,596 |
| Accrued liabilities | | |
| Compensation and benefits | 317,934 | 218,085 |
| Interest payable | 34,130 | 29,928 |
| Other | 280,646 | 122,832 |
| | <u>1,976,911</u> | <u>1,053,604</u> |
| Debt | | |
| Long-term debt, less current portion | 1,999,876 | 1,387,398 |
| Adjustable conversion-rate equity security units | 172,500 | 172,500 |
| Guarantee of ESOP debt | 19,087 | 51,448 |
| | <u>2,191,463</u> | <u>1,611,346</u> |
| Other | | |
| Deferred income taxes | 68,631 | 165,357 |
| Compensation and benefits | 564,331 | 667,694 |
| Other long-term liabilities | 256,355 | 49,868 |
| | <u>889,317</u> | <u>882,919</u> |
| Minority interest | <u>20,154</u> | <u>—</u> |
| Commitments and contingent liabilities | | |
| Shareholders' equity | | |
| Preferred stock – no par value; 10,000,000 shares authorized; Series D ESOP: \$.01 stated value; 4,117,827 and 4,280,615 shares outstanding | 185,302 | 192,628 |
| Deferred ESOP benefit | (19,087) | (51,448) |
| Common stock – \$2.50 par value; 200,000,000 shares authorized; 87,137,306 and 58,283,719 shares outstanding | 214,805 | 145,709 |
| Additional paid-in capital | 1,228,694 | 474,533 |
| Retained earnings | 907,738 | 952,215 |
| Accumulated other comprehensive loss | (219,138) | (314,106) |
| Total shareholders' equity | <u>2,298,314</u> | <u>1,399,531</u> |
| Total liabilities and shareholders' equity | <u>\$ 7,376,159</u> | <u>\$ 4,947,400</u> |

Consolidated Statements of Cash Flows (Unaudited) Boise and Subsidiaries

| | Year Ended December 31 | |
|--|---------------------------|------------------|
| | 2003 | 2002 |
| | (thousands) | |
| Cash provided by (used for) operations | | |
| Net income | \$ 8,272 | \$ 11,340 |
| Items in net income not using (providing) cash | | |
| Equity in net (income) loss of affiliates | (8,822) | 2,435 |
| Depreciation, amortization, and cost of company timber harvested | 308,332 | 306,973 |
| Deferred income tax benefit | (19,024) | (34,966) |
| Pension and other postretirement benefits expense | 84,760 | 37,701 |
| Cumulative effect of accounting changes, net of income tax | 8,803 | — |
| Restructuring activities | (806) | (750) |
| Write-down and sale of assets | 14,699 | 23,646 |
| Other | 3,630 | (1,063) |
| Decrease (increase) in working capital, net of acquisitions | | |
| Receivables | (22,170) | 6,909 |
| Inventories | 72,600 | (61,579) |
| Accounts payable and accrued liabilities | (62,481) | 8,951 |
| Current and deferred income taxes | (22,604) | 28,132 |
| Pension and other postretirement benefits payments | (94,811) | (57,775) |
| Other | 65,010 | 38,525 |
| Cash provided by operations | <u>335,388</u> | <u>308,479</u> |
| Cash provided by (used for) investment | | |
| Expenditures for property and equipment | (217,504) | (218,961) |
| Expenditures for timber and timberlands | (10,256) | (18,184) |
| Investments in equity affiliates | 127 | 225 |
| Acquisition of businesses and facilities, net of cash acquired | (432,571) | (7,171) |
| Other | (24,103) | (34,548) |
| Cash used for investment | <u>(684,307)</u> | <u>(278,639)</u> |
| Cash provided by (used for) financing | | |
| Cash dividends paid | | |
| Common stock | (35,001) | (34,917) |
| Preferred stock | (13,864) | (14,548) |

| | | |
|--|-------------------|------------------|
| Short-term borrowings | (48,865) | (49,465) |
| Additions to long-term debt | (22,812) | (20,700) |
| Payments of long-term debt | 735,712 | 232,181 |
| Other | (246,589) | (176,964) |
| | (8,800) | (6,442) |
| Cash provided by (used for) financing | 408,646 | (21,390) |
| Increase in cash and cash equivalents | 59,727 | 8,450 |
| Balance at beginning of year | 65,152 | 56,702 |
| Balance at end of year | \$ 124,879 | \$ 65,152 |

Notes to Quarterly Financial Statements Boise and Subsidiaries

- (1) **Financial Information.** In December 2003, we acquired OfficeMax, Inc. (see Note 2). After the acquisition, we began reporting our office products business as two segments, Contract and Retail, within Boise Office Solutions, our office products distribution business. Taken together, the two segments make up our Boise Office Solutions business. Accordingly, in December 2003, we began operating our business using five (rather than four) reportable segments: Boise Office Solutions, Contract; Boise Office Solutions, Retail; Boise Building Solutions; Boise Paper Solutions; and Corporate and Other.

The consolidated financial statements include the accounts of the company and all subsidiaries after elimination of intercompany balances and transactions. The results of OfficeMax's operations are included after December 9, 2003. Our Boise Office Solutions, Contract; Boise Building Solutions; Boise Paper Solutions; and Corporate and Other segments have a December 31 calendar year-end. Our Boise Office Solutions, Retail, segment maintains a fiscal year that ends on the last Saturday in December, which in 2003 was December 27. We consolidate the fiscal-year results of Boise Office Solutions, Retail, with the calendar-year results of our other segments.

The Consolidated Statements of Income (Loss) and Segment Information are unaudited statements, which do not include all Notes to Consolidated Financial Statements, and should be read in conjunction with the company's 2003 Annual Report on Form 10-K. The 2003 Annual Report on Form 10-K will be available in March 2004. Net income (loss) for all periods presented involved estimates and accruals.

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

- (2) **Acquisition of OfficeMax.** On December 9, 2003, we completed our acquisition of OfficeMax, Inc. OfficeMax is now a wholly owned subsidiary of Boise Cascade Corporation. OfficeMax has operations in the United States, Puerto Rico, the U.S. Virgin Islands, and Mexico. In addition to assuming \$81.6 million of OfficeMax's debt and incurring approximately \$20.0 million of transaction costs, we paid OfficeMax shareholders \$1.3 billion for the acquisition, paying 60% of the purchase price in Boise common stock and 40% in cash. OfficeMax shareholders had the opportunity to elect to receive cash or stock for their OfficeMax shares. Each shareholder's election was subject to proration depending on the elections of all OfficeMax shareholders. As a result of this proration, OfficeMax shareholders electing Boise stock received approximately .230419 share of Boise stock and \$3.1746 in cash for each of their OfficeMax shares. Fractional shares were paid in cash. OfficeMax shareholders who elected cash or had no consideration preference, as well as those shareholders who made no effective election, received \$9.333 in cash for each of their OfficeMax shares. After the proration, the \$1.3 billion paid to OfficeMax shareholders consisted primarily of \$486.7 million in cash and the issuance of 27.3 million of Boise common shares valued at \$808.2 million. The value of the common shares issued was determined based on the average market price of our common shares over a ten-day trading period before the acquisition closed on December 9, 2003.
- (3) **Reconciliation of Net Income (Loss) and Diluted Income (Loss) Per Share Before Special Items, the Impact of the OfficeMax Acquisition, and the Cumulative Effect of Accounting Changes.** We evaluate our results of operations both before and after special gains and losses. We believe our presentation of financial measures before special items enhances our investors' overall understanding of our recurring operational performance. Specifically, we believe the results before special items provide useful information to both investors and management by excluding gains and losses that are not indicative of our core operating results. In addition, in order to provide a meaningful comparison to the prior year and prior quarters, we have excluded the impacts of the OfficeMax acquisition.

There were no special items during the three months ended December 31, 2002. In the following tables, we reconcile our financial measures before special items and the impacts of the OfficeMax acquisition to our reported financial results for the three months ended December 31, 2003, and September 30, 2003, and the years ended December 31, 2003 and 2002 (see Notes 4, 5, and 6).

| | Three Months Ended | | | | | |
|----------------------------------|--------------------------------------|-----------------------------|------------------------------------|--------------------|---------------|----------------------|
| | December 31, 2003 | | | September 30, 2003 | | |
| | As Reported | Special Items and OfficeMax | Before Special Items and OfficeMax | As Reported | Special Items | Before Special Items |
| | (millions, except per-share amounts) | | | | | |
| Boise Office Solutions, Contract | \$ 33.9 | \$ 3.0 | \$ 36.9 | \$ 31.0 | \$ — | \$ 31.0 |
| Boise Office Solutions, Retail | 6.1 | (6.1) | — | — | — | — |
| | 40.0 | (3.1) | 36.9 | 31.0 | — | 31.0 |
| Boise Building Solutions | 37.6 | 14.7 | 52.3 | 56.4 | — | 56.4 |
| Boise Paper Solutions | (14.4) | — | (14.4) | 0.2 | — | 0.2 |
| Corporate and Other | (16.1) | 2.3 | (13.8) | (10.5) | — | (10.5) |
| | 47.1 | 13.9 | 61.0 | 77.1 | — | 77.1 |
| Interest expense | (37.6) | 4.9 | (32.7) | (31.7) | — | (31.7) |

| | | | | | | |
|--|----------------|----------------|----------------|----------------|-----------------|----------------|
| Income before income taxes | 9.5 | 18.8 | 28.3 | 45.4 | — | 45.4 |
| Income tax provision | (2.6) | (7.4) | (10.0) | (12.5) | (2.9) | (15.4) |
| Net income | 6.9 | \$ 11.4 | 18.3 | 32.9 | \$ (2.9) | 30.0 |
| Preferred dividends or supplemental ESOP contribution | (3.0) | | (3.0) | (2.9) | | (2.9) |
| Diluted income | \$ 3.9 | | \$ 15.3 | \$ 30.0 | | \$ 27.1 |
| Average shares used to determine diluted income per common share | 70.2 | | 63.4(a) | 62.7 | | 62.7 |
| Net income per common share | | | | | | |
| Diluted before cumulative effect of accounting changes | \$ 0.05 | | \$ 0.24 | \$ 0.48 | | \$ 0.43 |
| Cumulative effect of accounting changes | — | | — | — | | — |
| Diluted | \$ 0.05 | | \$ 0.24 | \$ 0.48 | | \$ 0.43 |

(a) Adjusted to exclude the weighted-average number of Boise common shares issued to OfficeMax shareholders electing stock (see Note 2).

| | Year Ended December 31 | | | | | |
|--|--------------------------------------|-----------------------------|------------------------------------|------------------|-----------------|----------------------|
| | 2003 | | | 2002 | | |
| | As Reported | Special Items and OfficeMax | Before Special Items and OfficeMax | As Reported | Special Items | Before Special Items |
| | (millions, except per-share amounts) | | | | | |
| Boise Office Solutions, Contract | \$ 109.4 | \$ 12.2 | \$ 121.6 | \$ 123.0 | \$ — | \$ 123.0 |
| Boise Office Solutions, Retail | 6.1 | (6.1) | — | — | — | — |
| | 115.5 | 6.1 | 121.6 | 123.0 | — | 123.0 |
| Boise Building Solutions | 95.4 | 14.7 | 110.1 | 39.7 | — | 39.7 |
| Boise Paper Solutions | (13.9) | 0.2 | (13.7) | 38.6 | — | 38.6 |
| Corporate and Other | (45.2) | 3.0 | (42.2) | (81.8) | 23.6 | (58.2) |
| | 151.8 | 24.0 | 175.8 | 119.5 | 23.6 | 143.1 |
| Interest expense | (132.5) | 4.9 | (127.6) | (131.7) | — | (131.7) |
| Income (loss) before income taxes and cumulative effect of accounting changes | 19.3 | 28.9 | 48.2 | (12.2) | 23.6 | 11.4 |
| Income tax (provision) benefit | (2.2) | (14.2) | (16.4) | 23.5 | (27.6) | (4.1) |
| Income before cumulative effect of accounting changes | 17.1 | 14.7 | 31.8 | 11.3 | (4.0) | 7.3 |
| Cumulative effect of accounting changes, net of income tax | (8.8) | 8.8 | — | — | — | — |
| Net income | 8.3 | \$ 23.5 | 31.8 | 11.3 | \$ (4.0) | 7.3 |
| Preferred dividends or supplemental ESOP contribution | (13.1) | | (11.8) | (13.1) | | (13.1) |
| Diluted income | \$ (4.8) | | \$ 20.0 | \$ (1.8) | | \$ (5.8) |
| Average shares used to determine diluted income (loss) per common share | 60.1 | | 62.5(a) | 58.2 | | 58.2 |
| Net income (loss) per common share | | | | | | |
| Diluted before cumulative effect of accounting changes | \$ 0.07 | | \$ 0.32 | \$ (0.03) | | \$ (0.10) |
| Cumulative effect of accounting changes | (0.15) | | — | — | | — |
| Diluted | \$ (0.08) | | \$ 0.32 | \$ (0.03) | | \$ (0.10) |

(a) Adjusted to exclude the weighted-average number of Boise common shares issued to OfficeMax shareholders electing stock (see Note 2).

(4) 2003 Special Items and Impact of the OfficeMax Acquisition.

First Quarter

In first quarter 2003, we announced the termination of approximately 550 employees and recorded a pretax charge of \$10.1 million for employee-related costs in "Other (income) expense, net" in the Consolidated Statement of Income. We recorded these costs in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 112, Employers' Accounting for Postemployment Benefits. We recorded \$9.2 million in the Boise Office Solutions, Contract, segment, \$0.2 million in the Boise Paper Solutions segment, and \$0.7 million in our Corporate and Other segment. Employee-related costs are primarily for severance payments, most of which were paid in 2003 with the remainder to be paid in 2004. This special item decreased net income \$6.1 million, after taxes, for the year ended December 31, 2003.

Third Quarter

During third quarter 2003, we recorded a net \$2.9 million, one-time tax benefit related to a favorable tax ruling, net of changes in other tax items.

Fourth Quarter

In December 2003, we recorded a \$14.7 million pretax charge for the write-down of impaired assets at our plywood and lumber operations in Yakima, Washington. We also recorded \$5.7 million of tax benefits associated with the write-down. The write-down resulted from our internal review of the operations and indications of current market value. We recorded the write-down in our Boise Building Solutions segment in "Other (income) expense, net," and the tax benefits are included in "Income tax (provision) benefit" in the Consolidated Statements of Income for the three and 12 months ended December 31, 2003. This special item decreased net income \$9.0 million, after taxes, for the three and 12 months ended December 31, 2003.

To present a meaningful comparison to prior periods, we also excluded both the income related to the former OfficeMax operations for the period from December 10, 2003, through December 27, 2003, and costs, including incremental interest expense, directly related to the acquisition. The net impact of these items reduced pretax income \$4.1 million, or \$2.5 million after taxes, for the three and 12 months ended December 31, 2003.

- (5) **2002 Special Items.** In December 2001, we wrote down our 29% investment in IdentityNow by \$54.3 million to its estimated fair value of \$25 million and recorded \$4.6 million of tax benefits associated with the write-down. In May 2002, we sold all of the stock of our wholly owned subsidiary that held our investment in IdentityNow. In second quarter 2002, we recorded a \$23.6 million pretax loss related to this sale in our Corporate and Other segment and in "Other (income) expense, net" in the Statement of Income. We also recorded \$27.6 million of tax benefits associated with this sale and our previous write-down in "Income tax (provision) benefit." For the year ended December 31, 2002, this transaction resulted in a net after-tax gain of \$4 million, or 7 cents per basic and diluted share.
- (6) **Cumulative Effect of Accounting Changes.** Effective January 1, 2003, we adopted the provisions of SFAS No. 143, Accounting for Asset Retirement Obligations, which affects the way we account for landfill closure costs. This statement requires us to record an asset and a liability (discounted) for estimated closure and closed-site monitoring costs and to depreciate the asset over the landfill's expected useful life. Previously, we accrued for the closure costs over the life of the landfill and expensed monitoring costs as incurred. On January 1, 2003, we recorded a one-time after-tax charge of \$4.1 million, or 7 cents per share, as a cumulative-effect adjustment for the difference between the amounts recognized in our consolidated financial statements prior to the adoption of this statement and the amount recognized after adopting the provisions of SFAS No. 143.

Effective January 1, 2003, we adopted an accounting change for vendor allowances to comply with the guidelines issued by the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received From a Vendor. Under EITF 02-16, consideration received from a vendor is presumed to be a reduction of the cost of the vendor's products or services, unless it is for a specific incremental cost to sell the product. As a result, for the three months ended September 30 and December 31, 2003, and the year ended December 31, 2003, approximately \$10 million, \$14 million, and \$45 million of vendor allowances reduced "Materials, labor, and other operating expenses" that would have previously been recognized primarily as a reduction of "Selling and distribution expenses." In accordance with the provisions of EITF 02-16, prior-period financial statements have not been reclassified to conform with the current year's presentation.

In addition, under the new guidance, vendor allowances reside in inventory with the product and are recognized when the product is sold, changing the timing of our recognition of these items. For the year ended December 31, 2003, this change resulted in a one-time, noncash, after-tax charge of \$4.7 million, or 8 cents per share.

- (7) **Income Taxes.** Our effective tax provision rate for the year ended December 31, 2003, was 11.5%, compared with an effective tax benefit rate of 192.8% for the year ended December 31, 2002. Before the special items and the impacts of the OfficeMax acquisition discussed in Notes 2, 4, and 5 above, our estimated tax provision rates for the years ended December 31, 2003 and 2002, were 34% and 36%. The difference between the estimated tax provision rates before special items was due to the sensitivity of the rate to changing income levels and the mix of domestic and foreign sources of income.
- (8) **Net Income (Loss) Per Common Share.** Net income (loss) per common share was determined by dividing net income (loss), as adjusted, by applicable shares outstanding. For the three months ended December 31, 2002, and the years ended December 31, 2003 and 2002, the computation of diluted income (loss) per share was antidilutive; therefore, amounts reported for basic and diluted income (loss) were the same.

| | Three Months Ended | | |
|--|---------------------------------------|----------------------|-----------------------|
| | December 31, 2003 | December 31, 2002 | September 30, 2003 |
| | (thousands, except per-share amounts) | | |
| BASIC | | | |
| Net income | \$ 6,868 | \$ 6,207 | \$ 32,884 |
| Preferred dividends | (3,317) | (3,289) | (3,191) |
| Basic income | <u>\$ 3,551</u> | <u>\$ 2,918</u> | <u>\$ 29,693</u> |
| Average shares used to determine basic income per common share | <u>65,313</u> | <u>58,283</u> | <u>58,411</u> |
| Basic income per common share | <u>\$ 0.05</u> | <u>\$ 0.05</u> | <u>\$ 0.51</u> |
| DILUTED | | | |
| Basic income | \$ 3,551 | \$ 2,918 | \$ 29,693 |
| Preferred dividends eliminated | 3,317 | — | 3,191 |
| Supplemental ESOP contribution | (3,007) | — | (2,891) |
| Diluted income | <u>\$ 3,861</u> | <u>\$ 2,918</u> | <u>\$ 29,993</u> |
| Average shares used to determine basic income per common share | 65,313 | 58,283 | 58,411 |

| | | | |
|--------------------------------------|-------|---|-------|
| Stock options and other | 1,582 | — | 956 |
| Series D Convertible Preferred Stock | 3,310 | — | 3,330 |

| | | | |
|--|---------------|---------------|---------------|
| Average shares used to determine diluted income per common share | 70,205 | 58,283 | 62,697 |
|--|---------------|---------------|---------------|

| | | | |
|---------------------------------|----------------|----------------|----------------|
| Diluted income per common share | \$ 0.05 | \$ 0.05 | \$ 0.48 |
|---------------------------------|----------------|----------------|----------------|

| | | |
|--|--|-------------|
| | Year Ended December 31 | |
| | 2003 | 2002 |
| | (thousands, except per-share amounts) | |

BASIC AND DILUTED

| | | |
|--|-------------------|-------------------|
| Income before cumulative effect of accounting changes | \$ 17,075 | \$ 11,340 |
| Preferred dividends (a) | (13,061) | (13,101) |
| Basic and diluted income (loss) before cumulative effect of accounting changes | 4,014 | (1,761) |
| Cumulative effect of accounting changes, net of income tax | (8,803) | — |
| Basic and diluted loss | \$ (4,789) | \$ (1,761) |

| | | |
|---|---------------|---------------|
| Average shares used to determine basic and diluted income (loss) per common share | 60,093 | 58,216 |
|---|---------------|---------------|

| | | |
|---|------------------|------------------|
| Basic and diluted income (loss) per common share before cumulative effect of accounting changes | \$ 0.07 | \$ (0.03) |
| Cumulative effect of accounting changes | (0.15) | — |
| Basic and diluted loss per common share | \$ (0.08) | \$ (0.03) |

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