OFFICEMAX INC
Form 424B3
November 01, 2010
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PROSPECTUS SUPPLEMENT **Filed Pursuant to Rule 424(b)(3)**
(To prospectus dated March 16, 2010) **Registration No. 333-162866**

5,363,073 SHARES OF COMMON STOCK, $2.50 PAR VALUE

OFFICEMAX

INCORPORATED

This prospectus supplement supplements the prospectus dated March 16, 2010, relating to the resale of 7,481,722 shares of our common stock to allow our master trust (the Selling Stockholder), which is the funding vehicle for the Company s six tax-qualified employee pension benefit plans (the Plans), to resell, from time to time, shares of our common stock that we contributed as a voluntary, excess contribution to the Selling Stockholder. Since the date that we contributed such shares to the Selling Stockholder, the Selling Stockholder has sold 2,968,649 of the 8,331,722 shares contributed to the Selling Stockholder, and the 5,363,073 shares specified above represents the number of shares remaining to be sold. This prospectus supplement should be read in conjunction with the prospectus dated March 16, 2010, including any supplements thereto, which is to be delivered with this prospectus supplement, and this prospectus supplement is qualified by reference to the prospectus and any supplements thereto, except to the extent that the information in this prospectus supplement supersedes the information contained in the prospectus and any supplements thereto. This prospectus supplement is not complete without, and may not be delivered or utilized except in connection with, the prospectus, including any supplements thereto.

Quarterly Report on Form 10-Q

On October 29, 2010, we filed a Quarterly Report on Form 10-Q with the Securities and Exchange Commission. The text of such Form 10-Q is attached hereto.

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

The date of this prospectus supplement is November 1, 2010.

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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 25, 2010

or

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

For the transition period from to

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

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

(630) 438-7800

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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

Class	**Shares Outstanding as of October 26, 2010**
Common Stock, $2.50 par value	85,027,278

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

OfficeMax Incorporated and Subsidiaries

Consolidated Statements of Operations

(thousands, except per-share amounts)

	Three Months Ended	
	September 25, 2010	September 26, 2009
	(unaudited)	
Sales	$ 1,813,366	$ 1,831,947
Cost of goods sold and occupancy costs	1,342,944	1,397,215
Gross profit	470,422	434,732
Operating expenses:		
Operating and selling	341,748	339,043
General and administrative	87,750	69,019
Other operating expenses		1,473
Total operating expenses	429,498	409,535
Operating income	40,924	25,197
Interest expense	(18,444)	(19,289)
Interest income	10,646	10,873
Other expense, net	(23)	(3)
Pre-tax income	33,103	16,778
Income tax expense	(11,678)	(9,942)
Net income attributable to OfficeMax and noncontrolling interest	21,425	6,836
Joint venture results attributable to noncontrolling interest	(886)	(558)
Net income attributable to OfficeMax	20,539	6,278
Preferred dividends	(573)	(622)
Net income available to OfficeMax common shareholders	$ 19,966	$ 5,656
Net income per common share:		
Basic	$ 0.23	$ 0.07
Diluted	$ 0.23	$ 0.07

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Statements of Operations

(thousands, except per-share amounts)

	Nine Months Ended September 25, 2010	Nine Months Ended September 26, 2009
	(unaudited)	
Sales	$ 5,383,794	$ 5,401,549
Cost of goods sold and occupancy costs	3,980,171	4,106,346
Gross profit	1,403,623	1,295,203
Operating expenses:		
Operating and selling	1,026,667	1,021,343
General and administrative	247,219	208,917
Other operating expenses	11,348	39,710
Total operating expenses	1,285,234	1,269,970
Operating income	118,389	25,233
Interest expense	(55,132)	(57,956)
Interest income	31,850	36,449
Other income (expense), net	(57)	2,837
Pre-tax income	95,050	6,563
Income tax expense	(34,374)	(4,425)
Net income attributable to OfficeMax and noncontrolling interest	60,676	2,138
Joint venture results attributable to noncontrolling interest	(2,249)	1,111
Net income attributable to OfficeMax	58,427	3,249
Preferred dividends	(1,921)	(2,159)
Net income available to OfficeMax common shareholders	$ 56,506	$ 1,090
Net income per common share:		
Basic	$ 0.67	$ 0.01
Diluted	$ 0.65	$ 0.01

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Balance Sheets

(thousands, except share and per-share amounts)

	September 25, 2010 (unaudited)	December 26, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 587,936	$ 486,570
Receivables, net	540,842	539,350
Inventories	764,047	805,646
Deferred income taxes and tax receivables	106,299	133,836
Other current assets	55,459	55,934
Total current assets	2,054,583	2,021,336
Property and equipment:		
Land and land improvements	41,302	41,072
Buildings and improvements	487,694	483,133
Machinery and equipment	801,280	792,650
Total property and equipment	1,330,276	1,316,855
Accumulated depreciation	(934,586)	(894,707)
Net property and equipment	395,690	422,148
Intangible assets, net	82,942	83,806
Investment in affiliates	175,000	175,000
Timber notes receivable	899,250	899,250
Deferred income taxes	299,374	300,900
Other non-current assets	172,469	167,091
Total assets	$ 4,079,308	$ 4,069,531

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Balance Sheets

(thousands, except share and per-share amounts)

	September 25, 2010 (unaudited)	December 26, 2009
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	$ 22,638	$ 22,430
Accounts payable	639,479	687,340
Income tax payable	6,094	3,389
Accrued expenses and other current liabilities:		
Compensation and benefits	151,456	153,408
Other	236,470	225,125
Total current liabilities	1,056,137	1,091,692
Long-term debt, less current portion	271,337	274,622
Non-recourse debt	1,470,000	1,470,000
Other long-term obligations:		
Compensation and benefits	267,074	277,247
Deferred gain on sale of assets	179,757	179,757
Other long-term obligations	224,476	244,958
Total other long-term obligations	671,307	701,962
Noncontrolling interest in joint venture	38,075	28,059
Shareholders equity:		
Preferred stock no par value; 10,000,000 shares authorized; Series D ESOP: $.01 stated value; 724,779 and 810,654 shares outstanding	32,615	36,479
Common stock $2.50 par value; 200,000,000 shares authorized; 85,026,130 and 84,624,726 shares outstanding	212,565	211,562
Additional paid-in capital	992,024	989,912
Accumulated deficit	(546,286)	(602,242)
Accumulated other comprehensive loss	(118,466)	(132,515)
Total OfficeMax shareholders equity	572,452	503,196
Total liabilities and shareholders equity	$ 4,079,308	$ 4,069,531

See accompanying notes to quarterly consolidated financial statements

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OfficeMax Incorporated and Subsidiaries

Consolidated Statements of Cash Flows

(thousands)

	Nine Months Ended September 25, 2010	Nine Months Ended September 26, 2009
	(unaudited)	
Cash provided by operations:		
Net income attributable to OfficeMax and noncontrolling interest	$ 60,676	$ 2,138
Non-cash items in net income :		
Earnings from affiliates	(5,391)	(4,984)
Depreciation and amortization	76,586	88,693
Pension and other postretirement expense	3,688	9,391
Other	8,747	5,595
Changes in operating assets and liabilities:		
Receivables	4,002	30,926
Inventories	48,227	224,294
Accounts payable and accrued liabilities	(50,850)	(94,038)
Current and deferred income taxes	28,433	59,077
Other	(18,140)	48,044
Cash provided by operations	155,978	369,136
Cash provided by (used for) investment:		
Expenditures for property and equipment	(50,153)	(23,946)
Distribution from escrow account		25,142
Withdrawal from insurance policies		14,977
Proceeds from sale of assets	1,607	697
Cash provided by (used for) investment	(48,546)	16,870
Cash used for financing:		
Cash dividends paid preferred stock	(2,575)	(3,052)
Payments of short-term debt, net	(626)	(11,480)
Payments of long-term debt	(2,715)	(10,330)
Purchase of Series D preferred stock	(3,595)	(4,877)
Other	1,839	6,330
Cash used for financing	(7,672)	(23,409)
Effect of exchange rates on cash and cash equivalents	1,606	13,570
Increase in cash and cash equivalents	101,366	376,167
Cash and cash equivalents at beginning of period	486,570	170,779
Cash and cash equivalents at end of period	$ 587,936	$ 546,946

See accompanying notes to quarterly consolidated financial statements

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Notes to Quarterly Consolidated Financial Statements (unaudited)

1. Basis of Presentation

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

The accompanying quarterly consolidated financial statements include the accounts of OfficeMax and all majority-owned subsidiaries, except our 88%-owned subsidiary that formerly owned assets in Cuba that were confiscated by the Cuban government in the 1960s, which is accounted for as an investment due to various asset restrictions. We also consolidate the variable interest entities in which the Company is the primary beneficiary. All significant intercompany balances and transactions have been eliminated in consolidation. These financial statements are for the thirteen-week and thirty-nine-week periods ended on September 25, 2010 (also referred to as the third quarter of 2010 or the three months ended September 25, 2010 and the first nine months of 2010 or the the nine months ended September 25, 2010 , respectively) and the thirteen-week and thirty-nine-week periods ended on September 26, 2009 (also referred to as the third quarter of 2009 or the three months ended September 26, 2009 and first nine months of 2009 or the the nine months ended September 26, 2009 , respectively). The Company s fiscal year ends on the last Saturday in December. Due primarily to statutory reporting requirements, the Company s international businesses maintain December 31 year-ends and end their quarters on the last calendar day of the month, with our majority-owned joint venture in Mexico reporting one month in arrears.

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

The Company has prepared the quarterly consolidated financial statements included herein pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Some information and note disclosures, which would normally be included in comprehensive annual financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. These quarterly consolidated financial statements should be read together with the consolidated financial statements and the accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 26, 2009.

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

2. Facility Closure Reserves

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

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

During the first nine months of 2010, the Company recorded charges of $14.4 million in its Retail segment related to facility closures, of which $13.0 million was related to the lease liability and other costs associated with closing eight domestic stores prior to the end of their lease terms and $1.4 million was related to asset impairments and other items. None of these charges were recorded in the third quarter of 2010.

During the first nine months of 2009, the Company recorded charges of $31.2 million (all in the first six months) related to the closing of 21 stores prior to the end of their lease terms, of which 17 were in the U.S. and four were in Mexico. These charges were included in other operating expenses in the Consolidated Statements of Operations.

Facility closure reserve account activity during the first nine months of 2010 was as follows:

	Nine Months Ended 2010		
	Lease\Contract Terminations	Other (thousands)	Total
Balance at December 26, 2009	$ 61,559	$ 13	$ 61,572
Charges related to stores closed in 2010	12,947	122	13,069
Transfer of deferred rent and other balances	6,659		6,659
Cash payments	(16,237)	(135)	(16,372)
Accretion	2,696		2,696
Balance at September 25, 2010	$ 67,624	$	$ 67,624

At September 25, 2010, the lease termination component of the facilities closure reserve consisted of the following:

	September 25, 2010 (thousands)
Estimated future lease obligations	$ 138,109
Less: anticipated sublease income	(70,485)
Total	$ 67,624

In addition, we were the lessee of a legacy, building materials manufacturing facility near Elma, Washington. During 2006, we ceased operations at the facility, fully impaired the assets and recorded a reserve, which is separate from the facility closure reserve above, for the related lease payments and other contract termination and closure costs. During the second quarter of 2010, we signed an agreement with the lessor to terminate the lease and recorded income of $3.9 million to adjust the associated reserve. This income is reported in other operating (income) expense in our Consolidated Statements of Operations. Also during the second quarter of 2010, we contracted with a third party for the sale of the equipment, subject to a financing contingency. Subsequent to the third quarter, we closed on the sale of the equipment to the third party and completed the lease termination. As a result of the equipment sale and lease termination, we will record income of approximately $5.5 million in the fourth quarter to adjust the associated reserve.

3. Severance and Other Charges

The first nine months of 2010 included a charge recorded in our Contract segment of $0.8 million (all in the first six months) for severance related to a reorganization of our U.S. Contract customer service centers. During the first nine months of 2009, we recorded $8.4 million of severance and other charges in the Contract segment,

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

$1.5 million of which was recorded in the third quarter related to the reorganization of our customer service centers and $6.9 million of which was recorded in the second quarter, principally related to U.S. and Canadian sales force reorganizations. These charges are included in other operating expenses in the Consolidated Statements of Operations.

As of September 25, 2010, $1.0 million of severance charges recorded in 2010 and 2009 remain to be paid and are included in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

4. Timber Notes Receivable/Non-Recourse Debt

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

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

On September 15, 2008, Lehman, the guarantor of half of the Installment Notes and the Securitization Notes, filed a petition in the United States Bankruptcy Court for the Southern District of New York seeking relief under chapter 11 of the United States Bankruptcy Code. Lehman s bankruptcy filing constituted an event of default under the $817.5 million Installment Note guaranteed by Lehman (the Lehman Guaranteed Installment Note). We evaluated the carrying value of the Lehman Guaranteed Installment Note and reduced it to the estimated amount we expect to collect, $81.8 million. On April 14, 2010, Lehman filed its Debtors Disclosure Statement with the United States Bankruptcy Court for the Southern District of New York. The Disclosure Statement indicated a range of estimated recoveries for general unsecured creditors of Lehman. As our estimate is similar to the estimate included in the Disclosure Statement, we have not adjusted our estimated carrying value for the Lehman Guaranteed Installment Note.

Since recourse on the Securitization Notes is limited to the proceeds from the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty, the Lehman Guaranteed Installment Note and the underlying Lehman guaranty will be transferred to the holders of the Securitization Notes guaranteed by Lehman in order to settle and extinguish that liability. However, under current generally accepted accounting principles, we are required to continue to recognize the liability related to the Securitization Notes guaranteed by Lehman until such time as the liability has been extinguished. This will occur when the Lehman Guaranteed Installment

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

Note and the guaranty are transferred to and accepted by the Securitization Note holders. We expect that this will occur no later than the date when the assets of Lehman are distributed and the bankruptcy is finalized. Accordingly, we expect to recognize a non-cash gain equal to the difference between the carrying amount of the Securitization Notes guaranteed by Lehman and the carrying value of the Lehman Guaranteed Installment Note in a later period when the liability is legally extinguished. The actual gain to be recognized in the future will be measured based on the carrying amounts of the Lehman Guaranteed Installment Note and the Securitization Notes guaranteed by Lehman at the date of settlement.

5. Debt

Credit Agreements

On July 12, 2007, the Company entered into an Amended and Restated Loan and Security Agreement (the U.S. Credit Agreement) with a group of banks. The U.S. Credit Agreement permits the Company to borrow up to a maximum of $700 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory, less certain reserves. Letters of credit, which may be issued under the U.S. Credit Agreement up to a maximum of $250 million, reduce available borrowing capacity. At the end of the third quarter of 2010, the Company was in compliance with all covenants under the U.S. Credit Agreement. The U.S. Credit Agreement expires on July 12, 2012.

On September 30, 2009, Grand & Toy Limited, the Company s wholly-owned subsidiary in Canada, entered into a Loan and Security Agreement (the Canadian Credit Agreement) with a group of banks. The Canadian Credit Agreement permits Grand & Toy Limited to borrow up to a maximum of C$60 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory, less certain reserves. Letters of credit, which may be issued under the Canadian Credit Agreement up to a maximum of C$10 million, reduce available borrowing capacity. Grand & Toy Limited was in compliance with all covenants under the Canadian Credit Agreement at the end of the third quarter of 2010. The Canadian Credit Agreement expires on July 12, 2012.

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

Borrowings and availability under the Company s credit agreements at the end of the third quarter of 2010 were as follows:

	U.S. Credit Agreement	Canadian Credit Agreement	Australasian Credit Agreement	Total
		(millions of U.S. dollars)		
Maximum aggregate available borrowing amount	$ 516.2	$ 46.4	$ 63.9	$ 626.5
Less: Stand-by letters of credit	(56.5)			(56.5)
Amount available for borrowing at the end of the third quarter of 2010	$ 459.7	$ 46.4	$ 63.9	$ 570.0
Maximum borrowings outstanding during first nine months of 2010	$	$	$	$

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

Cash Paid for Interest

Cash payments for interest, excluding payments related to the timber notes, were $20.3 million and $21.6 million for the first nine months of 2010 and 2009, respectively. Cash interest payments made on the Securitization Notes are completely offset by interest payments received on the Installment Notes.

6. Investments in Affiliates

In connection with the sale of the paper, forest products and timberland assets in 2004, the Company invested $175 million in the securities of affiliates of Boise Cascade, L.L.C. Due to the restructuring conducted by those affiliates, the investment is currently in Boise Cascade Holdings, L.L.C. (the Boise Investment). A portion of the securities received in exchange for the Company s investment carry no voting rights. This investment is accounted for under the cost method as the Company does not have the ability to significantly influence its operating and financial policies. This investment is included in investment in affiliates in the Consolidated Balance Sheets.

Through its investment in Boise Inc., Boise Cascade Holdings, L.L.C. indirectly owned an interest in Boise White Paper, L.L.C. OfficeMax is obligated by contract to purchase its North American requirements for cut-size office paper from Boise White Paper, L.L.C. During the first quarter of 2010, Boise Cascade Holdings, L.L.C. sold its remaining investment in Boise Inc. As a result of the sale, the Company estimated the fair value of its investment in Boise Cascade Holdings, L.L.C. and concluded that there was no impairment to the carrying value of the investment. The Company continues to monitor and assess this investment and industry. Also as a result of the sale, Boise White Paper, L.L.C. is no longer a related party to the Company, and as such, amounts previously presented as related party receivables of $6.5 million and related party payables of $37.1 million at December 26, 2009 have been reclassified to Receivables, net and Accounts Payable , respectively.

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

The non-voting securities of Boise Cascade Holdings, L.L.C. accrue dividends daily at the rate of 8% per annum on the liquidation value plus accumulated dividends. Dividends accumulate semiannually to the extent not paid in cash on the last day of June and December. The Company recognized dividend income on this investment of $1.9 million and $1.7 million in the third quarter of 2010 and 2009, respectively, and $5.4 million and $5.0 million in the first nine months of 2010 and 2009, respectively.

The Company receives distributions on the Boise Investment for the income tax liability associated with its share of allocated earnings. The Company did not receive any tax-related distributions in the first nine months of 2010 and received $2.6 million in the first nine months of 2009.

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

7. Financial Instruments

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade accounts receivable, other assets (non-derivatives), short-term borrowings and trade accounts payable approximate fair value because of the short maturity of these instruments. The following table presents the carrying amounts and estimated fair values of the Company s other financial instruments at September 25, 2010 and December 26, 2009. The fair value of a financial instrument is the estimated amount at which the instrument could be exchanged in a current transaction between willing parties.

	September 25, 2010		December 26, 2009	
	Carrying Amount	Fair value	Carrying Amount	Fair value
		(millions)		
Debt:				
Fixed-rate debt	$ 280.1	$ 268.4	$ 280.9	$ 190.8
Variable-rate debt	13.9	13.6	16.7	16.4
Non-recourse debt:				
Wachovia	$ 735.0	$ 837.8	$ 735.0	$ 754.8
Lehman	735.0	81.8	735.0	81.8
Financial assets:				
Timber notes receivable				
Wachovia	$ 817.5	$ 917.7	$ 817.5	$ 823.6
Lehman	81.8	81.8	81.8	81.8

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

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

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

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

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

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

Fixed-rate and variable debt: The fair value of the Company s debt is estimated based on recent quoted market prices when available or by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities (Level 2 inputs).

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

Non-recourse debt: The fair value of the Securitization Notes supported by Wachovia is estimated by discounting the future cash flows of the instruments at rates currently available to the Company for similar instruments of comparable maturities (Level 2 inputs). The fair value of the Securitization Notes supported by Lehman is estimated based on the future cash flows of the instruments in a bankruptcy proceeding (Level 3 inputs).

For the nine months ended September 25, 2010, there was no change in assets and liabilities measured at estimated fair value using Level 3 inputs.

8. Income Taxes

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

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

As of September 25, 2010, the Company had $20.7 million of total gross unrecognized tax benefits. During the first nine months of 2010, the Company increased the unrecognized tax benefit as we derecognized amounts for positions relating to temporary differences. Of the total gross unrecognized benefits, approximately $6.5 million represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the Company s effective income tax rate in future periods. The Company does not anticipate any income tax settlements to occur within the next twelve months.

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

	Amount (thousands)
Balance at December 26, 2009	$ 8,247
Increase related to prior year tax positions	12,793
Settlement	(329)
Balance at September 25, 2010	$ 20,711

During the first nine months of 2010 and 2009, the Company made cash payments for income taxes, net of refunds received, as follows:

	2010	2009
	(millions)	
Cash tax payments (refunds), net	$ 5.9	$ (62.3)

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

9. Postretirement Benefit Plans

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

	Pension Benefits Three Months Ended		Other Benefits Three Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
	(thousands)			
Service cost	$ 691	$ 1,126	$ 65	$ 47
Interest cost	18,553	18,965	301	288
Expected return on plan assets	(20,873)	(18,943)		
Recognized actuarial loss	3,310	1,646	56	13
Amortization of prior service costs and other			(1,001)	(1,003)
Net periodic benefit cost (income)	$ 1,681	$ 2,794	$ (579)	$ (655)

	Pension Benefits Nine Months Ended		Other Benefits Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
	(thousands)			
Service cost	$ 2,074	$ 3,379	$ 196	$ 141
Interest cost	55,660	56,893	906	864
Expected return on plan assets	(62,620)	(57,680)		
Recognized actuarial loss	9,929	8,684	168	109
Amortization of prior service costs and other	379		(3,004)	(2,999)
Net periodic benefit cost (income)	$ 5,422	$ 11,276	$ (1,734)	$ (1,885)

The Company expects to fund the minimum pension contribution requirement for 2010 of approximately $3.8 million, with cash. As of September 25, 2010, $2.6 million in cash has been contributed.

10. Segment Information

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

Contract distributes a broad line of items for the office, including office supplies and paper, technology products and solutions, print and document services and office furniture. Contract sells directly to large corporate and government offices, as well as to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and in some markets, including Canada, Australia and New Zealand, through office products stores. All products sold by Contract are purchased from third-party manufacturers or industry wholesalers. Contract purchases office papers primarily from Boise White Paper, L.L.C., under a paper supply contract with an initial term that expires in 2016.

Retail is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. In addition, this segment contracts with large national retail chains to supply

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

office and school supplies to be sold in their stores. Retail office products stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Retail has operations in the United States, Puerto Rico and the U.S. Virgin Islands. The Retail segment also operates office products stores in Mexico through a 51%-owned joint venture. All products sold by Retail are purchased from third-party manufacturers or industry wholesalers. Retail purchases office papers primarily from Boise White Paper, L.L.C., under the paper supply contract described above.

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

Management evaluates the segments performances based on segment income which represents operating income excluding the effect of certain operating matters such as severance, facility closures (including adjustments to legacy closures), and asset impairments, that are not indicative of our core operations. There were no such matters in the third quarter of 2010.

An analysis of our operations by segment is as follows:

	Sales	Segment income (loss)	Other operating expense, net	Operating income (loss)	Interest and other, net	Pre-tax income
			(millions)			
Three months ended September 25, 2010						
Contract	$ 877.3	$ 19.5	$	$ 19.5		
Retail	936.1	32.4		32.4		
Corporate and Other		(11.0)		(11.0)		
	$ 1,813.4	$ 40.9	$	$ 40.9	$ (7.8)	$ 33.1
Three months ended September 26, 2009						
Contract	$ 899.6	$ 10.1	$ (1.5)	$ 8.6		
Retail	932.3	28.4		28.4		
Corporate and Other		(11.8)		(11.8)		
	$ 1,831.9	$ 26.7	$ (1.5)	$ 25.2	$ (8.4)	$ 16.8

	Sales	Segment income (loss)	Other operating income (expense), net	Operating income (loss)	Interest and other, net	Pre-tax income
			(millions)			
Nine months ended September 25, 2010						
Contract	$ 2,720.8	$ 72.6	$ (0.8)	$ 71.8		
Retail	2,663.0	85.1	(14.4)	70.7		
Corporate and Other		(28.0)	3.9	(24.1)		
	$ 5,383.8	$ 129.7	$ (11.3)	$ 118.4	$ (23.3)	$ 95.1
Nine months ended September 26, 2009						

Contract	$ 2,708.8	$ 44.0	$ (8.4)	$ 35.6		
Retail	2,692.7	51.7	(31.2)	20.5		
Corporate and Other		(30.8)	(0.1)	(30.9)		
	$ 5,401.5	$ 64.9	$ (39.7)	$ 25.2	$ (18.6)	$ 6.6

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

11. Share Based Payments

The Company sponsors several share-based compensation plans, which are described below. The Company recognizes compensation expense from all share-based payment transactions with employees in the consolidated financial statements based on grant date fair value, with the offset recorded to additional paid-in capital. Pre-tax compensation expense related to the Company s share-based plans was $2.5 million and $2.2 million for the third quarters of 2010 and 2009, respectively and $8.4 million and $6.0 million for the first nine months of 2010 and 2009, respectively. Compensation expense is generally recognized on a straight-line basis over the vesting period of grants. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $1.0 million and $0.9 million for the third quarters of 2010 and 2009, respectively and $3.3 million and $2.3 million for the first nine months of 2010 and 2009, respectively.

Restricted Stock and Restricted Stock Units

Pre-tax compensation expense related to restricted stock and Restricted Stock Units (RSUs) awards was $1.7 million and $1.4 million for the third quarters of 2010 and 2009, respectively and $5.1 million and $4.3 million for the first nine months of 2010 and 2009, respectively. The grant date fair value used to calculate compensation expense related to restricted stock and RSUs is based on the closing price of the Company s common stock on the grant date. The remaining compensation expense to be recognized related to outstanding restricted stock and RSUs, net of estimated forfeitures, is approximately $10.0 million. The remaining compensation expense is to be recognized through the first quarter of 2013.

A summary of restricted stock and RSU activity for the first nine months of 2010 and 2009 is presented in the following table:

	2010		2009	
	Shares	Weighted-Average Grant Date Fair Value Per Share	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, balance at beginning of period	1,929,945	$ 16.24	2,258,961	$ 31.07
Granted	705,979	12.92	800,828	5.08
Vested	(1,309)	33.69	(493,840)	27.13
Forfeited	(680,497)	20.40	(595,113)	48.62
Nonvested, balance at end of period	1,954,118	$ 13.58	1,970,836	$ 16.20

Stock Options

Pre-tax compensation expense related to stock option awards was $0.8 million for each of the third quarters of 2010 and 2009, and $3.3 million and $1.7 million for the first nine months of 2010 and 2009, respectively. The grant date fair value used to calculate compensation expense related to stock option awards is based on the Black-Scholes option pricing model. The grant date fair value for stock options granted in the first nine months of 2010 was calculated using the following weighted-average assumptions: risk-free interest rate of 3.15% (based on the applicable Treasury note rate for the time period options may be exercised); expected life of 3.0 years (based on the time period options are expected to be outstanding based on historical experience); and expected stock price volatility of 69.0% (based on a combination of the historical and expected future volatility of the Company s common stock). The remaining compensation expense to be recognized related to outstanding stock options net of estimated forfeitures, is approximately $5.3 million. The majority of the remaining compensation expense is to be recognized through the first quarter of 2013.

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

A summary of stock option activity for the nine months ended September 25, 2010 and September 26, 2009 is presented in the table below:

	2010		2009	
	Shares	Weighted Avg. Exercise Price	Shares	Weighted Avg. Exercise Price
Balance at beginning of period	3,249,773	$ 15.14	1,495,795	$ 31.95
Options granted	1,077,802	14.51	2,071,360	4.77
Options exercised	(381,720)	4.80		
Options forfeited and expired	(548,547)	15.84	(213,282)	33.49
Balance at end of period	3,397,308	$ 15.99	3,353,873	$ 15.07
Exercisable at end of period	1,344,190		1,252,446	

The following table provides summarized information about stock options outstanding at September 25, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Contractual Life (Years)	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$2.50	11,171		$ 2.50	11,171	$ 2.50
$4.00 $5.00	1,393,802	5.4	4.76	260,725	4.72
$14.00 $15.00	920,041	6.4	14.51		
$18.00 $28.00	377,100	1.8	27.71	377,100	27.71
$28.01 $39.00	695,194	2.2	34.33	695,194	34.33

At September 25, 2010, the aggregate intrinsic value was $12.2 million for outstanding stock options, including $2.4 million for exercisable stock options. The aggregate intrinsic value represents the total pre-tax intrinsic value which is calculated by multiplying the number of shares underlying each stock option at the end of the quarter by the difference between the Company s closing per-share stock price on the last trading day of the third quarter of 2010 and the per-share exercise price for each option. When the exercise price of an option exceeds the closing per-share stock price, the aggregate intrinsic value of the shares underlying the option is zero.

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

12. Shareholders Equity and Noncontrolling Interest

The following table reflects changes in shareholders equity and noncontrolling interest for the first nine months of 2010.

	Shareholders Equity	Noncontrolling Interest
	(thousands)	
Balance at December 26, 2009	$ 503,196	$ 28,059
Comprehensive income:		
Net income attributable to OfficeMax and noncontrolling interest	58,427	2,249
Other comprehensive income:		
Foreign currency translation adjustments	9,717	400
Amortization of unrecognized retirement and benefit costs, net of tax	4,330	
Comprehensive income attributable to OfficeMax and noncontrolling interest	72,474	2,649
Preferred stock dividends	(2,480)	
Stock-based compensation	8,440	
Non-controlling interest fair value adjustment	(7,437)	7,437
Other	(1,741)	(70)
Balance at September 25, 2010	$ 572,452	$ 38,075

In accordance with an amended and restated joint venture agreement, the minority owner of Grupo OfficeMax, our joint-venture in Mexico, can elect to require OfficeMax to purchase the minority owner s 49% interest in the joint venture if certain earnings targets are achieved. Earnings targets are calculated quarterly on a rolling four-quarter basis. Accordingly, the targets may be achieved in one quarter but not in the next. If the earnings targets are achieved and the minority owner elects to require OfficeMax to purchase the minority owner s interest, the purchase price is based on the joint venture s earnings and the current market multiples of similar companies. At the end of the third quarter of 2010, Grupo OfficeMax met the earnings targets and the estimated purchase price of the minority owner s interest was $37.6 million. As the estimated purchase price was greater at the end of the third quarter of 2010 than the carrying value of the noncontrolling interest, the Company recorded an adjustment to state the noncontrolling interest at the estimated purchase price, and, as the estimated purchase price approximates fair value, the offset was recorded to additional paid-in capital.

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

13. Comprehensive Income

Comprehensive income includes the following:

	Three Months Ended September 25, 2010	Three Months Ended September 26, 2009	Nine Months Ended September 25, 2010	Nine Months Ended September 26, 2009
	(thousands)		(thousands)	
Net income attributable to OfficeMax and noncontrolling interest	$ 21,425	$ 6,836	$ 60,676	$ 2,138
Other comprehensive income:				
Foreign currency translation adjustments	16,494	18,335	10,117	44,207
Amortization of unrecognized retirement and benefit costs, net of tax	1,212	348	4,330	3,471
Comprehensive income attributable to OfficeMax and noncontrolling interest	39,131	25,519	75,123	49,816
Less: Comprehensive income (loss) attributable to noncontrolling interest	1,114	3	2,649	(880)
Comprehensive income available to OfficeMax	$ 38,017	$ 25,516	$ 72,474	$ 50,696

14. Net Income Available to OfficeMax Common Shareholders

The computation of basic and diluted income per common share for the third quarter and the first nine months of 2010 and 2009 is as follows:

	Three Months Ended September 25, 2010	Three Months Ended September 26, 2009	Nine Months Ended September 25, 2010	Nine Months Ended September 26, 2009
	(thousands, except per-share amounts)		(thousands, except per-share amounts)	
Net income available to OfficeMax common shareholders	$ 19,966	$ 5,656	$ 56,506	$ 1,090
Average shares basic	85,014	76,285	84,865	76,233
Restricted stock, stock options and other	1,529	867	1,577	613
Average shares diluted(a)(b)(c)	86,543	77,152	86,442	76,846
Income per common share:				
Basic	$ 0.23	$ 0.07	$ 0.67	$ 0.01
Diluted	$ 0.23	$ 0.07	$ 0.65	$ 0.01

(a) The assumed conversion of outstanding preferred stock was anti-dilutive in all periods presented, and therefore no adjustment was required to determine diluted income or average shares-diluted.

(b) Outstanding options to purchase 2.1 million and 1.6 million shares of common stock for the third quarter and first nine months of 2010, respectively, were excluded from the computation of diluted income per common share, because the impact would have been anti-dilutive as such options exercise prices were higher than the average market price during those periods.

(c) Outstanding options to purchase 1.4 million and 1.9 million shares of common stock for the third quarter and first nine months of 2009, respectively, were excluded from the computation of diluted income per common share, because the impact would have been anti-dilutive as such options exercise prices were higher than the average market price during those periods.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains statements about our future financial performance. These statements are only predictions. Our actual results may differ materially from these predictions. In evaluating these statements, you should review Item 1A. Risk Factors of our annual report on Form 10-K for the year ended December 26, 2009, including Cautionary and Forward-Looking Statements.

Overall Summary

Sales for the third quarter of 2010 decreased 1.0% year-over-year to $1,813.4 million, while sales of $5,383.8 million for the first nine months of 2010 declined 0.3% compared to the first nine months of 2009. In local currency, sales for the third quarter of 2010 declined 2.0% compared to the third quarter of 2009 and sales for the first nine months of 2010 declined 2.7% compared to the first nine months of 2009. Retail sales increased for the third quarter of 2010 year-over-year, but declined for the first nine months of 2010 compared to the prior year same period. Contract sales declined for the third quarter of 2010 year-over-year, but increased for the first nine months of 2010 compared to the prior year same period. In local currencies, Contract sales declined for both time periods of 2010 compared to the prior year same periods. Gross profit margin increased 2.2% of sales (220 basis points) to 25.9% of sales in the third quarter of 2010 year-over-year and 2.1% of sales (210 basis points) to 26.1% of sales in the first nine months of 2010 compared to the prior year same period, due in part to improved product margins and reduced occupancy costs in both our Contract and Retail segments. Gross profit margin in the first nine months of 2010 also benefited from the reversal of inventory shrinkage reserves due to favorable results from our annual physical inventory counts of $15.0 million. Total operating expenses were negatively impacted by higher compensation expense of $23.0 million for the third quarter of 2010 and $55.9 million for the first nine months of 2010, compared to $12.2 million for the third quarter of 2009 and $17.0 million for the first nine months of 2009. This increase was primarily due to timing, as we did not anticipate the favorable payout under our incentive plans for the full year of 2009 until the fourth quarter of 2009. Total operating expenses were also negatively impacted by increased expenses related to our growth and profitability initiatives. We reported operating income of $40.9 million and $118.4 million in the third quarter and first nine months of 2010, respectively, compared to operating income of $25.2 million for both the third quarter of 2009 and the first nine months of 2009. The net income available to OfficeMax common shareholders was $20.0 million, or $0.23 per diluted share, in the third quarter of 2010 compared to $5.7 million, or $0.07 per diluted share, in the third quarter of 2009. The net income available to OfficeMax common shareholders was $56.5 million, or $0.65 per diluted share, in the first nine months of 2010 compared to $1.1 million, or $0.01 per diluted share, in the first nine months of 2009.

As noted in the discussion and analysis that follows, our operating results were impacted by significant items in both years. These items included charges for store closures and severance, and favorable adjustments to legacy reserves as well as gains from non-operating legacy activities. Excluding the impact of these items, of which there were none in the third quarter of 2010, our adjusted operating income was $40.9 million and $129.7 million for the third quarter and first nine months of 2010, respectively, and was $26.7 million and $64.9 million for the third quarter and first nine months of 2009, respectively. Excluding the impact of these items, of which there were none in the third quarter of 2010, our adjusted net income available to OfficeMax common shareholders was $20.0 million, or $0.23 per diluted share, and $63.5 million, or $0.73 per diluted share, for the third quarter and first nine months of 2010, respectively, compared to $6.6 million, or $0.08 per diluted share, and $20.9 million, or $0.27 per diluted share, for the third quarter and first nine months of 2009, respectively.

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Results of Operations, Consolidated

($ in millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 25, 2010	**September 26, 2009**	**September 25, 2010**	**September 26, 2009**
Sales	$ 1,813.4	$ 1,831.9	$ 5,383.8	$ 5,401.5
Gross profit	470.4	434.7	1,403.6	1,295.2
Operating and selling expenses	341.7	339.0	1,026.7	1,021.4
General and administrative expenses	87.8	69.0	247.2	208.9
Other operating expenses		1.5	11.3	39.7
Total operating expenses	429.5	409.5	1,285.2	1,270.0
Operating income	$ 40.9	$ 25.2	$ 118.4	$ 25.2
Net income available to OfficeMax common shareholders	$ 20.0	$ 5.7	$ 56.5	$ 1.1
Gross profit margin	25.9%	23.7%	26.1%	24.0%
Operating and selling expenses	18.8%	18.5%	19.1%	18.9%
General and administrative expenses	4.8%	3.7%	4.6%	3.9%

In addition to assessing our operating performance as reported under U.S. generally accepted accounting principles (GAAP), we evaluate our results of operations before non-operating legacy items and operating items that are not indicative of our core operating activities such as severance, facility closure (including adjustments to legacy closures), and asset impairments. We believe our presentation of financial measures before, or excluding, these items, which are non-GAAP measures, enhances our investors overall understanding of our recurring operational performance and provides useful information to both investors and management to evaluate the ongoing operations and prospects of OfficeMax by providing better comparisons. Whenever we use non-GAAP financial measures, we designate these measures as adjusted and provide a reconciliation of the non-GAAP financial measures to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of these non-GAAP financial measures to their most directly comparable GAAP financial measure. In the following tables, we reconcile our non-GAAP financial measures to our reported GAAP financial results for both 2010 and 2009.

Although we believe the non-GAAP financial measures enhance an investor s understanding of our performance, our management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The non-GAAP financial measures we use may not be consistent with the presentation of similar companies in our industry. However, we present such non-GAAP financial measures in reporting our financial results to provide investors with an additional tool to evaluate our operating results in a manner that focuses on what we believe to be our ongoing business operations.

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For the third quarter of 2010, there were no reconciling items.

OfficeMax Incorporated and Subsidiaries
Non-GAAP Reconciliation-Impact of Special Items on Income

	Three Months Ended September 25, 2010			Nine Months Ended September 25, 2010		
	Operating income	Net income available to OfficeMax common shareholders	Diluted income per common share	Operating income	Net income available to OfficeMax common shareholders	Diluted income per common share
	(millions, except per-share amounts)			(millions, except per-share amounts)		
As reported	$ 40.9	$ 20.0	$ 0.23	$ 118.4	$ 56.5	$ 0.65
Store and facility closure charges and other adjustments				11.3	7.0	0.08
As adjusted	$ 40.9	$ 20.0	$ 0.23	$ 129.7	$ 63.5	$ 0.73

	Three Months Ended September 26, 2009			Nine Months Ended September 26, 2009		
	Operating income	Net income available to OfficeMax common shareholders	Diluted income per common share	Operating income	Net income (loss) available to OfficeMax common shareholders	Diluted income (loss) per common share
	(millions, except per-share amounts)			(millions, except per-share amounts)		
As reported	$ 25.2	$ 5.7	$ 0.07	$ 25.2	$ 1.1	$ 0.01
Store and facility closure charges and other adjustments	1.5	0.9	0.01	39.7	24.1	0.32
Boise Cascade Holdings, L.L.C. distribution					(1.6)	(0.02)
Voyageur Panel					(2.7)	(0.04)
As adjusted	$ 26.7	$ 6.6	$ 0.08	$ 64.9	$ 20.9	$ 0.27

These reconciling items are described in more detail in this Management s Discussion and Analysis.

At the end of the third quarter of 2010, we had $587.9 million in cash and cash equivalents and $570.0 million in available (unused) borrowing capacity under our credit facilities. The combination of cash and cash equivalents and estimated available borrowing capacity yields $1,157.9 million of overall liquidity. We had outstanding recourse debt of $294.0 million (both current and long-term) and non-recourse obligations of $1,470.0 million related to the timber securitization notes. There is no recourse against OfficeMax on the securitized timber notes payable as recourse is limited to proceeds from the applicable pledged installment notes receivable and underlying guarantees. There were no borrowings on our credit facilities during the first nine months of 2010.

For the first nine months of 2010, we generated $156.0 million of cash from operations reflecting net income, significant reductions in inventory levels and good working capital management. In the first quarter of 2010, a significant amount of incentive compensation payments were made reflecting the achievement of the 2009 incentive plan performance targets.

We invested $50.2 million for capital expenditures in the first nine months of 2010 and expect capital expenditures for the full year 2010 to be in the range of $80 million to $90 million.

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Outlook

Looking forward, we expect the macroeconomic environment through year-end to remain muted. Based on this assumption, we anticipate that for the fourth quarter, total company sales will be slightly lower than the prior year s fourth quarter, including the favorable impact of foreign currency translation, and the adjusted operating income margin rate will be significantly higher than the prior year s fourth quarter, primarily due to an unusually large amount of incentive compensation expense recorded in the fourth quarter of 2009. For the full year 2010, we anticipate that total company sales will be slightly lower than 2009, including the favorable impact of foreign currency translation, and the year-over-year adjusted operating income margin rate improvement will be in line with to slightly greater than the 1.2% (120 basis points) year-over-year margin improvement in the first nine months of 2010.

Operating Results

Sales for the third quarter of 2010 of $1,813.4 million decreased 1.0% compared to sales of $1,831.9 million for the third quarter of 2009, while sales for the first nine months of 2010 of $5,383.8 million decreased 0.3% compared to sales of $5,401.5 million for the first nine months of 2009. Sales for the third quarter and first nine months of 2010 benefited from the favorable impact of foreign currency exchange rate changes, with the impact being less favorable in the third quarter of 2010 than in the first half of 2010. In local currency, the year-over-year sales decline for the third quarter of 2010 was 2.0% compared to a year-over-year sales decline of 3.1% for the first half of 2010. Retail sales increased for the third quarter of 2010 year-over-year, but declined for the first nine months of 2010 compared to the prior year same period. Contract sales, including the favorable impact of foreign currency changes, declined for the third quarter of 2010 year-over-year, but increased for the first nine months of 2010 compared to the prior year same period. In local currencies, Contract sales declined for both time periods of 2010 compared to the prior year same periods. The decreases in both segments resulted primarily from the continued weak economic environment.

Gross profit margin increased 2.2% of sales (220 basis points) to 25.9% of sales in the third quarter of 2010 year-over-year and 2.1% of sales (210 basis points) to 26.1% of sales in the first nine months of 2010 year-over-year. The gross profit margins increased in both our Contract and Retail segments, reflecting improved product margins, and reduced occupancy costs. Gross profit margin in the first nine months of 2010 also benefited from the reversal of inventory shrinkage reserves due to favorable results from our annual physical inventory counts of $15.0 million.

Operating and selling expenses of 18.8% of sales in the third quarter of 2010 increased 0.3% of sales compared to 18.5% of sales in the third quarter of 2009 and increased 0.2% of sales to 19.1% of sales for the first nine months of 2010 from 18.9% of sales in the first nine months of 2009. The percent of sales increases for operating and selling expenses for both periods of 2010 were due to increased incentive compensation, promotional expenses and costs associated with our growth and profitability initiatives and were partially offset by favorable sales/use tax settlements ($5.7 million), favorable trends in benefit-related items and reduced salaries resulting from reorganizations in 2009. Incentive compensation expense increased $3.2 million and $13.9 million for the third quarter and the first nine months of 2010, respectively. This increase was primarily due to timing, as we did not anticipate the favorable payout under our incentive plans for the full year of 2009 until the fourth quarter of 2009. The first nine months of 2010 also benefited from favorable legal settlements.

General and administrative expenses increased 1.1% of sales to 4.8% of sales in the third quarter of 2010, and 0.7% to 4.6% for the first nine months of 2010. The increase primarily reflected higher incentive compensation expenses (as noted above) and increased payroll and other expenses resulting from our growth and profitability initiatives, and the impact of favorable property tax settlements in the third quarter of 2009 ($5.5 million), partially offset by lower pension expense. Incentive compensation expense increased $7.6 million and $25.0 million in the third quarter and first nine months of 2010, respectively. This increase was primarily due to timing, as we did not anticipate the favorable payout under our incentive plans for the full year of 2009 until the fourth quarter of 2009.

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As noted above, our results for the first nine months of 2010 and 2009 include several significant items, as follows:

Other operating expenses for the first nine months of 2010 and 2009 include charges recorded in our Retail segment (all in the first six months) related to store closures in the U.S. and Mexico (2009 only) of $14.4 million and $31.2 million, respectively, which reduced net income available to OfficeMax common shareholders by $8.9 million and $18.8 million, or $0.10 and $0.25 per diluted share, for 2010 and 2009, respectively.

Other operating expenses for the first nine months of 2010 and 2009 include severance charges recorded in our Contract segment. Charges in 2010 consisted of $0.8 million in the first quarter of 2010 related to a reorganization of U.S. customer service operations, while total charges of $8.4 million in 2009 consisted of $6.9 million in the second quarter principally related to U.S. and Canadian sales force reorganizations and $1.5 million in the third quarter related to the reorganization of customer service centers. The effect of these items reduced net income by $0.9 million, or $0.01 per diluted share, for the third quarter of 2009 and by $0.5 million and $5.3 million, or $0.01 and $0.07 per diluted share, for the first nine months of 2010 and 2009, respectively.

Other operating expenses for the first nine months of 2010 include income of $3.9 million (all recorded in the second quarter) related to the adjustment of a reserve associated with our legacy building materials manufacturing facility near Elma, Washington due to an agreement with the lessor to terminate the lease. This item increased net income by $2.4 million, or $0.03 per diluted share for the first nine months of 2010.

Interest income for the first nine months of 2009 includes $4.4 million (all recorded in the second quarter) related to a tax escrow balance established in a prior period in connection with our legacy Voyager Panel business sold in 2004. This item increased net income by $2.7 million, or $0.04 per diluted share.

Other income, net for the first nine months of 2009 includes $2.6 million of income (all recorded in the first quarter) for tax distributions related to our investment in Boise Cascade Holdings, L.L.C. This item increased net income $1.6 million, or $0.02 per diluted share.

Interest income was $10.6 million and $10.9 million for the third quarters of 2010 and 2009, respectively. For the first nine months of 2010 and 2009, interest income was $31.9 and $36.4 million, respectively. The decrease was due primarily to the $4.4 million of interest income recorded in 2009 related to the tax escrow balance discussed above. As a result of the September 2008 bankruptcy filing by Lehman Brothers Holdings Inc. (Lehman), we recorded no interest income on the Lehman portion of the timber notes receivable in 2010 or 2009. Interest expense decreased to $18.4 million in the third quarter of 2010 from $19.3 million in the third quarter of 2009 and to $55.1 million in the first nine months of 2010 from $58.0 million in the first nine months of 2009. The decrease in interest expense was due primarily to reduced debt resulting from debt repayments made in 2009.

For the third quarter of 2010, we recognized income tax expense of $11.7 million on pre-tax income of $33.1 million (effective tax rate of 35.3%) compared to income tax expense of $9.9 million on pre-tax income of $16.8 million (effective tax rate of 59.3%) for the third quarter of 2009. For the first nine months of 2010, we recognized income tax expense of $34.4 million on pre-tax income of $95.1 million (effective tax rate of 36.2%) compared to income tax expense of $4.4 million on pre-tax income of $6.6 million (effective tax rate of 67.4%) for the first nine months of 2009. The effective tax rate in both years was impacted by the effects of state income taxes, income items not subject to tax, non-deductible expenses, the mix of domestic and foreign sources of income as well as low levels of profitability in 2009.

We reported net income attributable to OfficeMax and noncontrolling interest of $21.4 million and $60.7 million for the third quarter and first nine months of 2010, respectively. After adjusting for joint venture earnings attributable to noncontrolling interest and preferred dividends, we reported net income available to OfficeMax

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common shareholders of $20.0 million, or $0.23 per diluted share, and $56.5 million, or $0.65 per diluted share, for the third quarter and first nine months of 2010, respectively. Adjusted net income available to OfficeMax common shareholders, as discussed above, was $20.0 million, or $0.23 per diluted share, for the third quarter of 2010 compared to $6.6 million, or $0.08 per diluted share, for the third quarter of 2009. There were no adjustments to net income available to OfficeMax common shareholders in the third quarter of 2010. For the first nine months of 2010 and 2009, adjusted net income available to OfficeMax common shareholders was $63.5 million, or $0.73 per diluted share, for 2010 compared to $20.9 million, or $0.27 per diluted share, for 2009.

Segment Discussion

We manage our business using three reportable segments: OfficeMax, Contract; OfficeMax, Retail; and Corporate and Other.

OfficeMax, Contract (Contract segment or Contract) distributes a broad line of items for the office, including office supplies and paper, technology products and solutions, office furniture, and print and document services. Contract sells directly to large corporate and government offices, as well as to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and in some markets, including Canada, Australia and New Zealand, through office products stores.

OfficeMax, Retail (Retail segment or Retail) is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. In addition, this segment contracts with large national retail chains to supply office and school supplies to be sold in their stores. Our Retail office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Our Retail segment has operations in the United States, Puerto Rico and the U.S. Virgin Islands. Our Retail segment also operates office products stores in Mexico through a 51%-owned joint venture.

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

Management evaluates the segments performances based on segment income which represents operating income (loss) excluding the effect of certain operating matters such as severances, facility closures (including adjustments to legacy closures) and asset impairments, that are not indicative of our core operations.

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OfficeMax, Contract

($ in millions)

	Three Months Ended		Nine Months Ended	
	September 25, 2010	September 26, 2009	September 25, 2010	September 26, 2009
Sales	$ 877.3	$ 899.6	$ 2,720.8	$ 2,708.8
Gross profit	199.9	179.7	618.3	555.8
Gross profit margin	22.8%	20.0%	22.7%	20.5%
Operating, selling and general and administrative expenses	180.4	169.6	545.7	511.8
Percentage of sales	20.6%	18.9%	20.0%	18.9%
Segment income	**$ 19.5**	**$ 10.1**	**$ 72.6**	**$ 44.0**
Percentage of sales	2.2%	1.1%	2.7%	1.6%
Sales by Product Line				
Office supplies and paper	$ 504.2	$ 519.9	$ 1,563.5	$ 1,589.2
Technology products	283.9	292.2	892.2	868.0
Office furniture	89.2	87.5	265.1	251.6
Sales by Geography				
United States	$ 611.0	$ 629.5	$ 1,863.0	$ 1,930.4
International	266.3	270.1	857.8	778.4
Sales Growth				
Total sales growth	(2.5)%	(14.3)%	0.4%	(19.3)%

Contract segment sales for the third quarter of 2010 of $877.3 million declined 2.5% from $899.6 million for the third quarter of 2009. A favorable impact from changes in foreign currency exchange rates partially offset the 4.3% decline in sales in local currencies. The U.S. Contract sales decline of 2.9% in the third quarter of 2010 was improved from the 3.6% decline in the second quarter of 2010. Sales to existing customers declined 5.0% in the third quarter of 2010, improved from the 6.8% decline in the second quarter of 2010. However, increased sales to newly acquired customers were offset by reduced sales due to lost customers in the third quarter of 2010, compared to the second quarter of 2010 when increased sales to newly acquired customers outpaced reduced sales due to lost customers. International sales declined 7.4% in local currencies in the third quarter of 2010 compared to a 5.2% decline in local currencies in the second quarter of 2010, primarily as a result of decreased sales to existing customers and continued international economic weakness.

Contract segment gross profit margin increased 2.8% of sales (280 basis points) to 22.8% of sales for the third quarter of 2010 and 2.2% of sales (220 basis points) to 22.7% of sales for the first nine months of 2010 compared to the corresponding periods of 2009. The increases in gross profit margins occurred both in the U.S. and internationally. U.S. gross profit margins increased due to profitability initiatives and lower customer retention and acquisition costs, as well as reduced delivery costs as a result of cost controls. The first nine months of 2010 also benefited from the reversal of inventory shrinkage reserves due to favorable results from our annual physical inventory counts of $3.5 million. International margin improvements resulted from improved product margins resulting from profitability initiatives.

Contract segment operating, selling and general and administrative expenses increased 1.7% of sales to 20.6% of sales for the third quarter and 1.1% of sales to 20.0% of sales for the first nine months of 2010. The increases were primarily due to increased incentive compensation expense and costs associated with our growth and profitability initiatives, partially offset by favorable trends in benefit-related items and lower payroll costs from the reorganization of our U.S. and Canadian sales forces and U.S. customer service operations, as well as from favorable sales/use tax settlements. Incentive compensation expense increased $2.8 million and $14.4 million for the third quarter and the first nine months of 2010, respectively, compared to the same periods in 2009.

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Contract segment income was $19.5 million, or 2.2% of sales, and $10.1 million, or 1.1% of sales, for the third quarters of 2010 and 2009, respectively, and $72.6 million, or 2.7% of sales, and $44.0 million, or 1.6% of sales, for the first nine months of 2010 and 2009, respectively. The increase in segment income for both periods was primarily attributable to the gross margin rate improvements which were partially offset in each period by the higher incentive compensation expense and higher costs associated with our new long-term growth initiatives. The first nine months of 2010 also benefited $6.0 million from changes in foreign currency exchange rates.

OfficeMax, Retail

($ in millions)