BUCKEYE TECHNOLOGIES INC
Form 10-Q
January 25, 2006

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 December 31, 2005

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

For the Transition Period From ____ to ____

Commission file number: 33-60032

Buckeye Technologies Inc.
Delaware
(state or other jurisdiction of incorporation)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of "accelerated filer" or large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer ___ Accelerated filer X   Non-accelerated filer ___

As of January 20, 2006, there were outstanding 37,597,664 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

ITEM

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PART I - FINANCIAL INFORMATION

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

(In thousands, except per share data)

	Three Months Ended December 31	
	2005	2004

Net sales	$188,254	$180,622
Cost of goods sold	162,546	149,475
Gross margin	25,708	31,147
Selling, research and administrative expenses	11,354	10,748
Amortization of intangibles and other	477	603
Impairment of long-lived assets	-	12,010
Restructuring costs	1,141	363
Operating income	12,736	7,423
Net interest expense and amortization of debt costs	(10,574)	(11,279)
Gain on sale of assets held for sale	-	7,173
Loss on early extinguishment of debt	-	-
Foreign exchange and other	(22)	267
Income before income taxes	2,140	3,584
Income tax expense	286	671
Net income	$ 1,854	$2,913
Earnings per share		
Basic	$ 0.05	$ 0.08
Diluted	$ 0.05	$ 0.08
Weighted average shares for basic earnings per share	37,592	37,390
Adjusted weighted average shares for diluted earnings per share	37,630	37,605

See accompanying notes.

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BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31 2005	June 30 2005
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$10,477	$ 9,926
Accounts receivable, net	121,338	118,215
Inventories	120,488	107,895
Deferred income taxes and other	7,152	10,468
Total current assets	259,455	246,504

Property, plant and equipment	940,020	902,970
Less accumulated depreciation	(401,003)	(377,039)
	539,017	525,931
Goodwill	142,615	139,430
Intellectual property and other, net	40,571	37,872
Total assets	$981,658	$949,737
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 35,984	$ 37,226
Accrued expenses	51,800	48,401
Current portion of capital lease obligation	789	685
Current portion of long-term debt	998	1,376
Total current liabilities	89,571	87,688
Long-term debt	562,336	535,539
Accrued postretirement benefits	19,434	19,206
Deferred income taxes	31,919	34,660
Capital lease obligation	943	1,382
Other liabilities	1,916	1,673
Stockholders' equity	275,539	269,589
Total liabilities and stockholders' equity	$981,658	$949,737

See accompanying notes.

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

	Six Months Ended December 31	
	2005	2004
Operating activities		
Net income	$ 1,565	$7,328
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of long-lived assets	-	12,010
Depreciation	23,385	23,136
Amortization	1,599	1,674
Deferred income taxes and other	(1,675)	3,196
Gain on sale of assets held for sale	-	(7,173)
Changes in operating assets and liabilities:		
Accounts receivable	(3,130)	(2,048)
Inventories	(12,387)	(336)
Other assets	(2,798)	(245)

Accounts payable and other current liabilities.....	2,336	(7,977)
Net cash provided by operating activities....................	8,895	29,565
Investing activities		
Purchases of property, plant and equipment................	(34,358)	(11,779)
Proceeds from sale of assets............................	-	13,811
Other..	(276)	(236)
Net cash provided by (used in) investing activities..........	(34,634)	1,796
Financing activities		
Net borrowings under lines of credit.....................	42,250	-
Payments for debt issuance costs.........................	-	(5)
Payments on long-term debt and other.....................	(15,963)	(33,585)
Net proceeds from sale of equity interests and other	66	1,250
Net cash provided by (used in) financing activities..........	26,353	(32,340)
Effect of foreign currency rate fluctuations on cash..........	(63)	1,859
Increase in cash and cash equivalents........................	551	880
Cash and cash equivalents at beginning of period.............	9,926	27,235
Cash and cash equivalents at end of period...................	$10,477	$28,115

See accompanying notes.

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

NOTE 1: BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months and six months ended December 31, 2005 are not necessarily indicative of the results that may be expected for the year ending June 30, 2006. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of our significant accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2005. Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2006 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year.

Translation adjustment

Management has determined that the local currency of our German, Canadian, and Brazilian subsidiaries is the functional currency, and accordingly European euro, Canadian dollar, and Brazilian real denominated balance sheet accounts are translated into U.S. dollars at the rate of exchange in effect at

December 31, 2005. Income and expense activity for the period is translated at the weighted average exchange rate during the period. Translation adjustments are included as a separate component of stockholders' equity.

Use of estimates

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

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

NOTE 2: COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share was as follows:

	Three Months Ended December 31		Six
	2005	2004	2005
Net income applicable to common shareholders	$1,854	$2,913	$ 1
Weighted-average shares of common stock outstanding..................................	37,592	37,390	37
Effect of diluted shares..........................	38	215	
Weighted-average common and common equivalent shares outstanding..........................	37,630	37,605	37
Earnings per share			
Basic....................................	$0.05	$0.08	$
Diluted..................................	$0.05	$0.08	$

NOTE 3: SEGMENT INFORMATION

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

Three Months Ended December 31		Specialty Fibers	Nonwoven Materials	Corporate
Net sales	2005	$137,898	$58,460	$ (8,104)
	2004	129,854	58,065	(7,297)
Operating income (loss)	2005	11,559	2,739	(1,562)
	2004	17,050	3,448	(13,075)
Depreciation and amortization of intangibles	2005	7,406	4,062	842
	2004	7,123	4,403	877
Capital expenditures	2005	13,262	406	410
	2004	6,288	261	260

Six Months Ended December 31		Specialty Fibers	Nonwoven Materials	Corporate
Net sales	2005	$252,459	$115,786	$(14,535)
	2004	247,900	113,987	(13,942)
Operating income (loss)	2005	21,722	5,299	(3,980)
	2004	33,948	7,016	(15,437)
Depreciation and amortization of intangibles	2005	14,680	8,100	1,687
	2004	14,084	8,626	1,743
Capital expenditures	2005	32,592	1,005	761
	2004	10,202	1,237	340

Management evaluates operating performance of the specialty fibers and nonwoven materials segments excluding amortization of intangibles, the impact of impairment of long-lived assets and charges related to restructuring. Therefore, the corporate segment includes operating elements such as segment eliminations, amortization of intangibles, impairment of long-lived assets and charges related

to restructuring. Corporate net sales represent the elimination of intersegment sales included in the specialty fibers reporting segment. We account for intersegment sales as if the sales were made to third parties, that is, at current market prices.

NOTE 4: RESTRUCTURING COSTS

During fiscal year 2003, we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across our company. During fiscal year 2004, we entered into a second phase of that restructuring program. This program was a continuation of the program initiated in fiscal year 2003 and enabled us to improve our operating results through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 78 positions were eliminated. These positions included manufacturing, sales, product development and administrative functions throughout the organization. We do not expect any further expenses related to this program.

During fiscal 2005, we entered into another restructuring program. As part of this program, we discontinued production of cotton-based specialty fibers at our Glueckstadt, Germany facility during December 2005. The closure of the Glueckstadt facility resulted in the termination of 98 employees as of December 31, 2005 and will result in an additional 5 terminations during the remainder of fiscal year 2006. We expect restructuring expenses related to the closure to be approximately $6,500 and payments related to the restructuring program to extend through the end of fiscal year 2006.

Restructuring expenses are included in "Restructuring costs" in our condensed consolidated statements of operations. The additional charges below reflect severance and employee benefits accrued over the retention period, and other miscellaneous expenses which are expensed as incurred. Accrual balances are included in "Accrued expenses" in the balance sheet. The following table summarizes the expenses and accrual balances by reporting segments for the six months ended December 31, 2005.

	Six Months Ended December 31, 2005				
	Accrual Balance as of June 30, 2005	Additional Charges	Impact Of Foreign Currency	Payments	Accrua Balance of Decemb 31, 20
2003 Restructuring Program-Phase 2					
Severance and employee benefits					
Specialty fibers.................	$ 13	$ 10	$ (1)	$ (22)	$ -
Nonwoven materials..............	-	-	-	-	-
Corporate.......................	-	-	-	-	-
Total 2003 Program-Phase 2	13	10	(1)	(22)	-
2005 Restructuring Program					
Specialty fibers					
Severance and employee benefits......................	2,311	2,583	(78)	(1,424)	3,39
Other miscellaneous expenses.....	147	499	(4)	(524)	11
Total 2005 Program.................	2,458	3,082	(82)	(1,948)	3,51
Total All Programs.................	$2,471	$3,092	$(83)	$ (1,970)	$3,51

NOTE 5: INVENTORIES

Inventories are valued at the lower of cost or market. The costs of manufactured cotton-based specialty fibers and costs for nonwoven raw materials are generally determined on the first-in, first-out basis. Other manufactured products and raw materials are generally valued on an average cost basis. Manufactured inventory costs include material, labor and manufacturing overhead. Slash pine timber, cotton fibers and chemicals are the principal raw materials used in the manufacture of our specialty fiber products. Fluff pulp is the principal raw material used in our nonwoven materials products. We take physical counts of inventories at least annually, and we review periodically the provision for potential losses from obsolete, excess or slow-moving inventories.

The components of inventory consist of the following:

	December 31 2005	June 30 2005
Raw materials..........................	$32,036	$33,433
Finished goods.........................	66,737	53,353
Storeroom and other supplies...........	21,715	21,109
	$120,488	$107,895

NOTE 6: DEBT

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

	December 31 2005	June 30 2005
Senior Notes due:		
2013..............................	$200,000	$200,000
Senior Subordinated Notes due:		
2008..............................	64,879	79,832
2010..............................	152,308	152,558
Credit facility........................	141,147	99,525
Other..................................	5,000	5,000
	563,334	536,915
Less current portion...................	998	1,376
	$562,336	$535,539

Senior Notes - During September 2003, we placed privately $200,000 in aggregate principal amount of 8.5% Senior Notes due October 1, 2013. The notes are unsecured obligations and are senior to any of our subordinated debt. The notes are guaranteed by our direct and indirect domestic subsidiaries that are also guarantors on our senior secured indebtedness.

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

During fiscal year 2005, we redeemed $20,000 of the 2008 Notes. Also during the six months ended December 31, 2005, we called and redeemed an additional $15,000 of the 2008 Notes. As a result of these redemptions, we wrote off a portion of the deferred financing costs and unamortized discount related to the redeemed bonds. During the six months ended December 31, 2005, we recorded non-cash expenses of $151 related to the early extinguishment of debt.

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

Under the indentures governing our senior subordinated notes, as well as the indenture that governs our senior notes, our ability to incur additional debt is limited. Under these indentures, additional debt must be incurred as so-called "ratio debt" or, alternatively, must be permitted in form and amount as "Permitted Indebtedness." In order to incur ratio debt, a specified consolidated fixed charge coverage ratio (as defined in the indentures) must equal or exceed 2:1 (measured on a rolling four-quarter basis). Falling below the 2:1 ratio does not breach any covenant or constitute an event of default under any of our debt agreements. Currently, we exceed the required 2:1 ratio and as a result, are not limited to the "ratio debt" restrictions under the indentures governing the senior notes and the senior subordinated notes to the extent that any future incurrence of debt would not cause us to exceed the 2:1 threshold.

Revolving credit facility - On November 5, 2003, we established a $220,000 senior secured credit facility (the "credit facility"), comprised of a $70,000 revolving credit facility (the "revolver") maturing on September 15, 2008 and a $150,000 term loan (the "term loan") with serial maturities of $249 quarterly through March 31, 2010 with final maturity remaining on April 15, 2010.

The term loan also requires an annual excess cash flow payment (as defined under the credit agreement). During the six months ending December 31, 2005, we made an excess cash flow payment of $378 based on fiscal 2005 operating and cash flow performance.

We had $141,147 outstanding on this facility ($98,247 on the term loan and $42,900 on the revolver) at an average variable interest rate of 6.6% as of December 31, 2005. The interest rate applicable to borrowings under the revolver is the agent's prime rate plus 1.50% to 1.75%, or a LIBOR-based rate ranging from LIBOR plus 2.50% to LIBOR plus 3.25%. The interest rate applicable to the term loan is the agent's prime rate plus 1.00% or a LIBOR-based rate plus 2.00%. The credit facility is secured by substantially all of our assets located in the United States.

The credit facility contains covenants customary for financing of this type. The financial covenants include: maximum ratio of consolidated net senior secured debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), minimum ratio of consolidated EBITDA to consolidated interest expense and minimum ratio of consolidated EBITDA minus capital expenditures and taxes to consolidated fixed charges; as well as limitations on capital expenditures, share repurchases and dividend payments. During the six months ended December 31, 2005, we were in compliance with these financial covenants.

As of December 31, 2005, we had $22,725 of borrowing capacity on our revolving credit facility. The portion of this capacity that we could borrow on a particular date will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility.

Other long-term debt - On March 1, 2000, we purchased certain technology from Stac-Pac Technologies Inc. In connection with the purchase, we entered into an unsecured promissory note with Stac-Pac Technologies Inc. The principal amount of the note is $5,000 and bears interest at a rate of 7%. In accordance with the purchase agreement, we are entitled to withhold or retain the final installment of the purchase price until and unless there is final resolution of patent rights and to cancel the final installment of the purchase price if the patent rights in certain jurisdictions are not resolved according to the terms of the purchase agreement. As of December 31, 2005, resolution of these patent rights was not completed. Therefore, the principal amount of the note remains unpaid and has been classified as long-term debt. As of December 31, 2005, we have accrued interest on the note of $1,692.

NOTE 7: COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended December 31		Six D
	2005	2004	2005
Net income	$ 1,854	$ 2,913	$1,5
Foreign currency translation adjustments - net	(4,032)	15,562	4,1
Comprehensive income (loss)	$(2,178)	$ 18,475	$5,7

For the three and six months ended December 31, 2005, the change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the U.S. dollar against the euro of $(1,649) and $(2,201), the Brazilian real of $(2,888) and $(1,617) and the Canadian dollar of $505 and $7,961.

For the three and six months ended December 31, 2004, the change in the foreign currency translation adjustment was primarily due to fluctuations in the exchange rate of the U.S. dollar against the euro of $7,235 and $9,399, the Brazilian real of $1,604 and $3,460 and the Canadian dollar of $6,723 and $13,895.

NOTE 8: INCOME TAXES

Our effective tax rates for the three and six month periods ended December 31, 2005 were 13% and 10%, respectively. Our effective tax rates for the same periods of 2004 were 19% and 29%, respectively. Our tax rate is impacted by several factors including operations in jurisdictions with varying tax rates and the extraterritorial income tax exclusion. During the three months ended December 31, 2005, we analyzed and corrected the rates and methodology used to value our state deferred taxes. The resulting adjustment was a $595 net tax benefit. Our income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes due to the following:

	Three Months Ended December 31		Six Months E December 3
	2005	2004	2005
Expected tax expense at 35%................	$ 748	$1,254	$ 609
Effect of foreign operations...............	494	(360)	801
Extraterritorial income benefit............	(104)	(271)	(256)
Adjustment of state deferred taxes.........	(595)	-	(595)
Other......................................	(257)	48	(382)
Income tax expense.........................	$ 286	$ 671	$ 177

NOTE 9: STOCK-BASED COMPENSATION

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS") 123 (revised 2004), Share-Based Payments ("SFAS 123(R)"), which is a revision of SFAS 123, Accounting for Stock Based Compensation ("SFAS 123"). SFAS 123(R) supersedes Accounting Principles Bulletin 25 ("APB 25"), Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. SFAS 123(R) eliminates the alternative to use the intrinsic value method of accounting that was provided in SFAS 123, which generally resulted in

no compensation expense recorded in the financial statements related to the issuance of share-based awards to employees. SFAS 123(R) requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS 123(R) establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all companies to apply a fair-value-based measurement method in accounting for generally all share-based payment transactions with employees.

On July 1, 2005 (the first day of our 2006 fiscal year), we adopted SFAS 123(R). The provisions of SFAS 123(R) became effective the first annual reporting period beginning after June 15, 2005. We adopted SFAS 123(R) using a modified prospective application, as permitted under SFAS 123(R). Accordingly, prior period amounts have not been restated. Under this application, we are required to record compensation expense for all share-based awards granted after the date of adoption and for the unvested portion of previously granted stock-based awards that remain outstanding at the date of adoption.

On June 7, 2005, prior to the adoption FSAS 123(R), the Compensation Committee of our Board of Directors approved the acceleration of vesting of out-of-the-money options with an exercise price greater than $8.32 to purchase shares of our common stock that remained unvested at June 30, 2005. We estimate the compensation expense, before tax, would have totaled approximately $4,900 (approximately $2,100 in 2006, $1,400 in 2007, $800 in 2008 and $600 in 2009) based on fair value calculations using the Black-Scholes methodology.

The following table illustrates the effect on net income and earnings per share had compensation expense for the employee stock-based awards been recorded in the three and six months ended December 31, 2004 based on the fair value method under SFAS 123(R).

	December 31, 200	
	Three Months Ended	Si
Net income as reported	$2,913	
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(449)	
Pro forma net income	$2,464	
Basic earnings per share:		
As reported	$0.08	
Pro forma	$0.07	
Diluted earnings per share:		
As reported	$0.08	
Pro forma	$0.07	

Prior to the adoption of SFAS 123(R), we applied APB 25 to account for our stock-based awards. Beginning with our 2006 fiscal year, with the adoption of SFAS 123(R), we recorded stock-based compensation expense for the cost of stock options. Stock-based compensation expense for the three and six months ended December 31, 2005 was $132 ($86 after tax) and $166 ($108 after tax), respectively.

Stock Compensation Plans

Our stock option plans provide for the granting of either incentive or nonqualified stock options to employees and non-employee directors. Options are subject to terms and conditions determined by the Compensation Committee of our Board of Directors, and generally are exercisable in increments of 20% per year beginning one year from date of grant and expire ten years from date of grant.

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During the three months ended December 31, 2005, our employee stock option plans expired and no further options can be granted under these plans. We are evaluating a new employee stock compensation plan, but no decision has been reached.

We use the Black-Scholes option-pricing model to calculate the fair value of options for our disclosures. The key assumptions for this valuation method include the expected life of the option, stock price volatility, risk-free interest rate, dividend yield, exercise price and forfeiture rate. Many of these assumptions are judgmental and highly sensitive in the determination of compensation expense. The table below indicates the key assumptions used in the option valuation calculations for options granted in the three and six months ended December 31, 2005 and a discussion of our methodology for developing each of the assumptions used in the valuation model:

Expected lives..................................	6.3 years
Expected volatility............................	54.8%
Risk-free interest rate........................	4.4%
Forfeiture rate................................	12%

Expected Lives - This is the period of time over which the options granted are expected to remain outstanding. Options granted have a maximum term of ten years. An increase in the expected life will increase compensation expense.

Expected Volatility - This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. We use actual changes in the market value of our stock to calculate the volatility assumption. We calculate daily market value changes from the date of grant over a past period representative of the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-Free Interest Rate - This is the U.S. Treasury rate for the week of the grant having a term approximating the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Dividend Yield - We did not make any dividend payments during the last five fiscal years and we have no plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

Forfeiture Rate - This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. An increase in the forfeiture rate will decrease compensation expense. The forfeiture rate is based on our historic forfeiture experience.

The following table summarizes information about our stock option plans for the three and six months ended December 31, 2005.

	Three Months Ended December 31, 2005		Six Dec
	Number of Options	Weighted Average Exercise Price	Number o Options
Options outstanding, beginning of period...	4,659,150	$13.38	4,765,15
Granted....................................	338,000	7.61	348,00
Exercised..................................	(10,000)	6.64	(10,00
Forfeited..................................	(507,250)	10.62	(623,25
Options outstanding, end of period..........	4,479,900	$13.27	4,479,90
Options exercisable, end of period..........	4,083,100	$13.82	4,083,10

Using the Black-Scholes valuation method calculated under the assumptions indicated above, the weighted-average fair value of the grants at market was $4.37 for a total expense, net of estimated forfeitures, of $1,343 that will be expensed over the options respective vesting period.

NOTE 10: EMPLOYEE BENEFIT PLANS

We provide medical, dental and life insurance postretirement plans covering certain U.S. employees who meet specified age and service requirements. Pursuant to an amendment, effective January 1, 2006, Medicare eligible retirees age 65 or older will not continue coverage under the self-funded plan. Instead they will be provided a subsidy towards the purchase of supplemental insurance. This amendment reduces the accumulated postretirement benefit obligation by $4,089. The benefit will be amortized over 7.75 years. The components of net periodic benefit costs are as follows:

	Three Months Ended December 31		S
	2005	2004	20
Service cost for benefits earned..................	$ 157	$175	$ 3
Interest cost on benefit obligation..............	314	358	6
Amortization of unrecognized prior service cost..........................	(264)	(281)	(5
Loss..	150	98	3
Total cost.......................................	$ 357	$350	$ 7

The Medicare Modernization Act provides prescription drug benefits to Medicare eligible participants effective January 1, 2006. Since our plan only provides a subsidy toward supplemental Medicare insurance coverage, the Medicare Modernization Act does not impact our plan.

NOTE 12: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

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

Our supplemental financial information and our guarantor subsidiaries and non-guarantor subsidiaries for the senior notes is presented in the following tables.

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CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended December 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net sales..................................	$ 27,604	$118,965	$50,181
Cost of goods sold.........................	23,793	101,621	45,722
Gross margin...............................	3,811	17,344	4,459
Selling, research and administrative expenses, and other.....................	3,063	7,188	1,580
Restructuring and impairment costs..........	-	-	1,141
Operating income...........................	748	10,156	1,738
Other income (expense):			
Net interest income (expense) and amortization of debt..................	(11,388)	117	697
Other income (expense), including equity income (loss) in affiliates..........	6,376	(5)	(127)
Intercompany interest income (expense)..	7,263	(5,117)	(2,146)
Income (loss) before income taxes..........	2,999	5,151	162
Income tax expense (benefit)...............	1,145	1,116	185
Net income (loss)..........................	$ 1,854	$4,035	$ (23)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Six Months Ended December 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net sales..................................	$50,063	$218,961	$100,216
Cost of goods sold.........................	43,004	186,631	89,912
Gross margin...............................	7,059	32,330	10,304
Selling, research and administrative expenses, and other....................	6,020	14,226	3,522
Restructuring and impairment costs..........	-	-	3,092
Operating income...........................	1,039	18,104	3,690
Other income (expense):			
Net interest income (expense) and amortization of debt..................	(22,305)	184	1,363

Other income (expense), including equity income in affiliates.................	9,482	37	(554)
Intercompany interest income (expense)..	14,389	(10,400)	(3,989)
Income (loss) before income taxes...........	2,605	7,925	510
Income tax expense (benefit)................	1,040	2,047	344
Net income (loss)..........................	$ 1,565	$ 5,878	$ 166

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended December 31, 2004

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net sales..................................	$29,129	$108,060	$51,366
Cost of goods sold.........................	23,189	87,550	46,551
Gross margin...............................	5,940	20,510	4,815
Selling, research and administrative expenses, and other......................	4,034	5,075	2,242
Restructuring and impairment costs..........	-	1	12,372
Operating income (loss)....................	1,906	15,434	(9,799)
Other income (expense):			
Net interest income (expense) and amortization of debt..................	(11,526)	63	184
Other income (expense), including equity income (loss) in affiliates..........	6,962	20	7,322
Intercompany interest income (expense)..	7,663	(5,824)	(1,838)
Income (loss) before income taxes...........	5,005	9,693	(4,131)
Income tax expense (benefit)................	2,092	4,086	(2,601)
Net income (loss)..........................	$2,913	$5,607	$ (1,530)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Six Months Ended December 31, 2004

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net sales..................................	$52,411	$208,049	$102,677
Cost of goods sold.........................	41,800	168,220	92,061
Gross margin...............................	10,611	39,829	10,616
Selling, research and administrative expenses, and other.....................	7,129	10,411	4,140
Restructuring and impairment costs..........	1	121	13,447
Operating income (loss)....................	3,481	29,297	(6,971)
Other income (expense):			
Net interest income (expense) and amortization of debt..................	(22,857)	24	276
Other income (expense), including equity income in affiliates.................	15,878	174	7,203
Intercompany interest income (expense)..	15,511	(11,972)	(3,539)
Income (loss) before income taxes...........	12,013	17,523	(3,031)
Income tax expense (benefit)................	4,685	6,745	(2,091)
Net income (loss)..........................	$ 7,328	$ 10,778	$ (940)

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents.................	$ 1,031	$ 191	$ 9,255
Accounts receivable, net of allowance.....	18,985	73,152	29,201
Inventories...............................	30,855	68,117	22,086
Other current assets......................	3,042	3,410	700
Intercompany accounts receivable..........	-	19,339	-

Total current assets	53,913	164,209	61,242
Property, plant and equipment, net	57,056	338,263	143,698
Goodwill and intangibles, net	20,937	52,683	95,316
Intercompany notes receivable	343,956	-	-
Other assets, including investment in subsidiaries	315,620	342,037	115,918
Total assets	$791,482	$897,192	$416,174
Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable	$ 6,390	$ 19,890	$ 9,704
Other current liabilities	20,657	18,229	14,701
Intercompany accounts payable	15,921	-	3,418
Total current liabilities	42,968	38,119	27,823
Long-term debt	562,336	-	-
Deferred income taxes	(43,370)	61,736	13,553
Other long-term liabilities	7,212	13,740	1,341
Intercompany notes payable	-	208,189	135,767
Stockholders'/invested equity	222,336	575,408	237,690
Total liabilities and stockholders' equity	$791,482	$897,192	$416,174

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CONDENSED CONSOLIDATING BALANCE SHEETS
BALANCE SHEETS
As of June 30, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents	$ 860	$ 151	$ 8,915
Accounts receivable, net	16,147	70,636	31,432
Inventories	21,745	57,932	28,997
Other current assets	4,521	3,995	1,952
Intercompany accounts receivable	-	22,741	-
Total current assets	43,273	155,455	71,296
Property, plant and equipment, net	55,720	342,455	127,756
Goodwill and intangibles, net	20,962	53,827	92,217
Intercompany notes receivable	333,295	-	-
Other assets, including investment in Subsidiaries	301,239	323,095	113,840
Total assets	$754,489	$874,832	$405,109

Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable....................	$ 7,213	$ 20,841	$ 9,172
Other current liabilities.................	20,450	18,094	11,918
Intercompany accounts payable.............	20,179	-	2,562
Total current liabilities	47,842	38,935	23,652
Long-term debt............................	535,539	-	-
Deferred income taxes.....................	(43,918)	62,764	15,814
Other long-term liabilities...............	6,822	14,081	1,358
Intercompany notes payable................	-	212,620	120,675
Stockholders'/invested equity.............	208,204	546,432	243,610
Total liabilities and stockholders' equity..	$754,489	$874,832	$405,109

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Six Months Ended December 31, 2005

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) operations	$(11,971)	$ 15,857	$5,009
Investing activities:			
Purchases of property, plant and equipment..	(3,885)	(10,775)	(19,698)
Other.....................................	-	(276)	-
Net cash used in investing activities.......	(3,885)	(11,051)	(19,698)
Financing activities			
Net borrowings under revolving line of credit......................	42,250	-	-
Net borrowings (payments) on long-term debt and other........................	(26,223)	(4,766)	15,092
Net cash provided by (used in) financing activities............................	16,027	(4,766)	15,092
Effect of foreign currency rate fluctuations on cash..............................	-	-	(63)
Increase in cash and cash equivalents.......	171	40	340
Cash and cash equivalents at beginning of period............................	860	151	8,915
Cash and cash equivalents at end of period	$ 1,031	$ 191	$9,255

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Six Months Ended December 31, 2004

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) operations	$(8,413)	$33,761	$4,217
Investing activities:			
Purchases of property, plant and equipment..	(1,361)	(8,989)	(1,429)
Proceeds from sale of assets and other......	-	(219)	13,794
Net cash provided by (used in) investing activities............................	(1,361)	(9,208)	12,365
Financing activities			
Payments for debt issuance..................	(5)	-	-
Net payments on long-term debt and other....	(4,263)	(24,403)	(3,669)
Net cash used in financing activities.......	(4,268)	(24,403)	(3,669)
Effect of foreign currency rate fluctuations on cash..............................	-	-	1,859
Increase (decrease) in cash and cash equivalents.......................	(14,042)	150	14,772
Cash and cash equivalents at beginning of period............................	14,746	103	12,386
Cash and cash equivalents at end of period	$ 704	$ 253	$27,158

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the significant factors affecting our results of operations, liquidity, capital resources and contractual obligations, as well as discussing our critical accounting policies. This discussion should be read in conjunction with the accompanying unaudited financial statements and our Annual Report on Form 10-K for the year ended June 30, 2005 ("Annual Report"), which include additional information about our significant accounting policies, practices and transactions that underlie our financial results. Our MD&A is composed of four major sections: Executive Summary, Results of Operations, Financial Condition, and Critical Accounting Policies.

Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2006 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year. The following discussion includes a comparison of the results of operations for the three and six months ended December 31, 2005 to the three and six months ended December 31, 2004.

Executive Summary

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

Our strategy is to continue to strengthen our position as a leading supplier of cellulose-based specialty products. We believe that we can continue to expand market share, improve profitability and decrease our exposure to cyclical downturns by pursuing the following strategic objectives: focus on technically demanding niche markets, develop and commercialize innovative proprietary products, strengthen long-term alliances with customers, provide our products at an attractive value, and significantly reduce our debt.

The three and six months ended December 31, 2005 were challenging periods for us. While none of our operations suffered serious physical damage from Hurricane Katrina, the disruptions caused by the storm and the impact of already high energy, chemical and transportation costs caused our earnings to fall significantly below those earned during the same periods in 2004. Net income was $1.9 million and $1.6 million for the three and six months ended December 31, 2005 versus net income of $2.9 million and $7.3 million during the same periods of 2004.

Hurricane Katrina followed by Hurricane Rita drove already high energy and chemical costs even higher and forced transportation providers to increase their pricing. Our energy, chemical, and transportation costs increased by approximately $10 million and $18 million during the three and six months ended December 31, 2005 versus the same periods of the prior year. This major change in pricing for these items had a significant adverse impact on our earnings. In addition, the demand for domestic transportation, especially in the southeastern United States, remains very tight as trucks and railcars are being diverted to supply the hurricane-ravaged Gulf Coast with needed supplies for cleanup and rebuilding. Although to date this has not had a significant impact on our sales, the limited supply of transportation vehicles has put additional pressure on our operations.

As a result of the extraordinary and unprecedented high costs, we announced the implementation of product price surcharges of up to 5% on our products. This surcharge was effective over most of our products manufactured in the United States (excluding fluff pulp) starting October 1, 2005. The product price surcharge improved revenues by $2.4 million for the three months ended December 31, 2005. The surcharge will remain in place for the quarter ending March 31, 2006 and we will continue to evaluate the product price surcharge on a quarterly basis.

The positive events in our markets and our ability to strengthen our balance sheet are being dampened by higher costs for energy, chemicals and other materials. High costs in these areas are impacting our operating margins. Since demand for our high-end specialty fibers is sufficiently strong, we have implemented price increases as our sales contracts renewed. A majority of our annual sales agreements are renewed on a calendar year basis; therefore, we have implemented price increases beginning January 1, 2006.

In spite of the higher costs, we are encouraged by progress on several fronts:

- In January 2006, we established a new organization within Buckeye whose mission is to bring new products to the market on an accelerated schedule. The new organization will be focused on improving our marketing capability and increasing the speed at which we commercialize new products.

- We are continuing to establish our sales and distribution network for UltraFiber 500TM, a revolutionary concrete-reinforcing fiber. UltraFiber 500TM is a niche product for the building industry and a great example of the new product initiatives we are undertaking to reduce our dependency on fluff pulp. Each sale of UltraFiber 500(TM) advances us toward our goal of reducing our dependency on fluff pulp.

- Our plan to transition the specialty fibers production currently supplied by Glueckstadt, Germany to our lower-cost manufacturing facilities in Memphis, Tennessee and Americana, Brazil is proceeding. During November 2005, we ceased tolling production at our Americana, Brazil facility in order to complete the upgrade of the facility. In December, we permanently ceased production at our Glueckstadt facility. In January 2006, we began the process of qualifying products produced at our Americana facility with our customers. We believe we are well-positioned to supply cotton-based specialty fiber products from our facilities in Memphis, Tennessee and Americana, Brazil with a significantly more favorable cost structure once we reach full production at the Americana facility.

The combination of new product initiatives, strong demand in important markets, and an improved manufacturing configuration gives us optimism that we can generate future growth in sales and profitability. Like other manufacturing firms, we are currently being negatively impacted by high costs for energy, chemicals, transportation and other materials. These issues will slow progress in the short-term, but our longer-term outlook continues to be favorable.

Results of Operations

Consolidated results

The following table compares components of operating income for the three and six months ended December 31, 2005 and 2004.

(millions)	Three Months Ended December 31				Six Months	
	2005	2004	Change	% Change	2005	2004
Net sales	$188.3	$180.6	$ 7.7	4%	$353.7	$347
Cost of goods sold	162.6	149.6	13.0	9%	303.8	287
Gross margin	25.7	31.0	(5.3)	(17%)	49.9	60

Selling, research and administrative expenses	11.4	10.7	0.7	7%	22.8	20
Impairment costs	-	12.0	(12.0)	*	-	12
Restructuring costs	1.1	0.3	0.8	*	3.1	1
Amortization of intangibles and other	0.5	0.6	(0.1)	(17%)	1.0	1
Operating income	$12.7	$ 7.4	$ 5.3	72%	$23.0	$ 25

* Percent change not meaningful

Net sales increased primarily due to improved pricing on our products during the three and six months ended December 31, 2005. Demand for high-end specialty fibers helped drive prices higher throughout the year. Additionally, the implementation of the product price surcharge effective October 1, 2005 had a positive impact on revenues.

As mentioned in the executive summary, margins were negatively impacted by high costs related to increases in the pricing of energy, chemicals and transportation. During the three and six months ended December 31, 2005, these costs were higher by approximately 32% and 31%, respectively, versus the same periods in 2004.

Increases in selling, research and administrative expenses also had a negative impact on our operating margins. Expenses related to the establishment of an UltraFiber 500TM sales force and distribution network, the expensing of share-based payments and the expensing of previously capitalized patent costs contributed to the increased costs.

As part of the announced closure of the Glueckstadt, Germany specialty fibers facility, we continued to incur restructuring related expenses in the three months ended December 31, 2005. We incurred $1.1 million and $3.1 million of expenses during the three and six months ended December 31, 2005, respectively, and expect to incur an additional $0.5 million related to this restructuring during the remainder of fiscal year 2006. As of December 31, 2005, we have incurred $6.0 million of restructuring costs as part of this planned closure.

Further discussion of revenue, operating trends and restructuring costs are discussed later in this MD&A. Additional information on the restructuring programs and charges may also be found in Note 4 of the accompanying interim financial statements.

Segment results

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

Specialty fibers

The following table compares specialty fibers net sales and operating income for the three and six months ended December 31, 2005 and 2004.

(millions)	Three Months Ended December 31				Six Months En	
	2005	2004	Change	% Change	2005	2004
Net sales	$137.9	$129.9	$ 8.0	6%	$252.5	$247.9
Operating income	11.6	17.1	(5.5)	(32%)	21.7	33.9

Demand for our high-end specialty fibers products and the implementation of a product price surcharge pushed pricing and net sales higher during the three and six months ended December 31, 2005 versus 2004. The quarter ended December 31, 2005 was also positively impacted by a 21% increase in fluff pulp sales versus the same quarter in 2004. This additional quarterly increase was primarily related to the timing of fluff pulp shipments during the six months ended December 31, 2005. For the six months ended December 31, 2005, fluff pulp sales were about equal to the same period in 2004. Our average fluff pulp price increased by 2% year over year for the six month period ending December 31, 2005 and fluff pulp sales accounted for 16.1% of our sales for the period.

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Higher costs for energy, chemicals and transportation combined with strong demand in our high-end markets allowed us to raise prices during the year. However, due to the rapid and continued increase in costs we were unable to maintain our margins at the same level as those realized during the three and six months ended December 31, 2004.

Our specialty fibers manufacturing costs for chemicals, energy and transportation increased by approximately $9 million for the three months and $16 million for the six months ended December 31, 2005 as compared to the same periods in 2004, respectively. While we have made some progress to recover a portion of these costs through reductions in usage, increased pricing for our products and the implementation of a product price surcharge that went into effect on October 1, 2005, we expect that these abnormally high energy, chemical and transportation prices will continue to put pressure on our margins during the upcoming quarters.

In addition to recovering margins through increased pricing, we are also working on ways to reduce manufacturing costs. Where possible, we transitioned our energy supply from natural gas to fuel oil. Although natural gas is a very efficient energy source, the current market prices make it more economical to purchase lower cost fuel oil. We continue to look for alternatives to reduce costs and recover margins.

Overall, our specialty fibers inventories increased during the six months ended December 31, 2005. However, our inventories for high-end specialty wood products remain at very low levels. A portion of the increase in our high-end specialty cotton inventories was in preparation for the final transition of production from Glueckstadt, Germany to our Memphis, Tennessee and Americana, Brazil facilities. We ceased production at our Glueckstadt, Germany facility in December of 2005.

We continue to move forward with developing our capability to supply a wide range of products based on cotton cellulose to customers worldwide by upgrading the capability of our Americana, Brazil manufacturing facility. Because Brazil benefits from low manufacturing costs and a large and increasing raw material supply, we anticipate that, when we reach full capacity, this facility will be a significant contributor to our profitability. We completed the upgrade and began the process of qualifying our facility with our customers during January of 2006. With the cessation of tolling production in late November to facilitate the upgrade, we continued incurring pre-production expenses without offsetting revenue. During the three months ended December 31, 2005, the net impact of these pre-production expenses without offsetting revenues decreased earnings by approximately $2.4 million versus the same period in 2004. We expect to continue to incur startup and transition costs during the remainder of the fiscal year as we qualify the plant and ramp up volume.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three and six months ended December 31, 2005 and 2004.

(millions)	Three Months Ended December 31				Six Months End	
	2005	2004	Change	% Change	2005	2004
Net sales	$58.5	$58.1	$ 0.4	1%	$115.8	$114.0
Operating income	2.7	3.4	(0.7)	(21%)	5.3	7.0

Improvements in the mix and selling prices for our nonwoven materials resulted in an increase in net sales during the three and six months ended December 31, 2005 versus the same periods in 2004. In an effort to offset rising prices for raw materials and other manufacturing costs, sales price increases were implemented during the year. Effective October 1, 2005 a product pricing surcharge for most of our products manufactured in the United States was implemented to offset higher energy related costs. Increased demand for tabletop products in our European markets contributed to an improved mix. These improvements were offset by the 13% weakening of the euro since December 31, 2004. A majority of our products produced and sold at our Steinfurt, Germany facility are priced in euros and the weakening of the euro had a negative impact on the translation of these revenues.

Operating income declined during the three and six months ended December 31, 2005 versus the same period in 2004. Declining operating margins were caused by the continued escalation of prices for raw materials and other manufacturing costs. Impacts from Hurricane Katrina exacerbated the problem and drove energy-related costs even higher. Energy, chemical and transportation costs were approximately $1 million and $2 million higher for the three and six months ended December 31, 2005 versus the same periods in 2004. Additionally, the continued strengthening of the Canadian dollar created further pressure on operating costs at our nonwoven materials facility in Delta, British Columbia.

Restructuring and impairment activities

During fiscal years 2005, 2004 and 2003, we entered into various restructuring programs, which resulted in restructuring and impairment charges. In order to continue to provide both specialty fibers and nonwoven materials at attractive values, we will continue to look for ways to reduce costs and optimize our operating structure. The following table summarizes restructuring expense by program for the six month period ended December 31, 2005 and 2004.

(millions)	Six Months Ended December 31 2005	2004	Total Program Charges To Date	Est Com Dec
Restructuring costs				
2005 Restructuring program...............	$3.1	$ -	$ 6.0	
2004 Restructuring program...............	-	1.2	3.0	
2003 Restructuring program - phase 2.....	-	0.3	3.4	
2003 Restructuring program - phase 1.....	-	0.1	2.7	
Total restructuring costs	$3.1	$1.6	$15.1	

2005 Restructuring program

In January 2005, we announced our decision to discontinue producing cotton linter pulp at our Glueckstadt, Germany facility. Our decision was due to a combination of factors that had increased the plant's costs to a level at which it was uneconomical to continue operations. The most significant factor impacting cost at the site was the substantial strengthening of the euro over calendar year 2003 and 2004. Specialty fibers are normally priced and sold in U.S. dollars around the world. As a majority of Glueckstadt's costs were denominated in euros, this substantial strengthening had a negative impact on Glueckstadt's cost position and margin. Additionally, Glueckstadt's process water, waste treatment and energy costs were more than twice the cost of these utilities at our Memphis, Tennessee cotton-based specialty fibers facility. Faced with these difficulties, we reduced the number of employees at the facility from approximately 150 to approximately 100 and operated at 55% of capacity during calendar year 2004.

After careful consideration of all the options available, we decided to close the Glueckstadt facility and consolidate production at our two other specialty fibers manufacturing facilities. Production at Glueckstadt ceased in December 2005. We expect the closure of our Glueckstadt facility and the transfer of the cotton-based specialty fiber production to our Memphis, Tennessee and Americana, Brazil facilities will ultimately yield a superior cost structure and improve margins.

The closure of the Glueckstadt facility resulted in the termination of 98 employees as of December 31, 2005 and will result in an additional five terminations during the remainder of fiscal 2006. We expect restructuring expenses related to the closure to total approximately $6.5 million and payments will extend through the end of fiscal year 2006. We expect this consolidation to enable us to improve our overall specialty fibers operating results by approximately $9 million annually and to reduce working capital needs by approximately $6 million.

In anticipation of the closure of the facility, customers increased their inventories to ensure a smooth transition as they qualified material supplied from our Memphis, Tennessee facility. Due to the increased demand, we were able to increase pricing and make incremental sales from inventory. Additionally, as a result of the impairment of the Glueckstadt plant and equipment, our depreciation expense decreased during the period. Although we are recognizing some of the benefit of the closure, and will recognize further benefit subsequent to the cessation of production, we do not expect to realize the full on-going benefit of the closure until fiscal year 2007.

2004 Restructuring program

Due to excess production capacity around the globe, we operated our Cork, Ireland nonwoven materials facility below its productive capacity from its inception in 1998. Because of its location and small size, our cost to produce at Cork was higher than at our other locations. Due to these issues, we decided to close the Cork facility and consolidate production at our three other nonwoven manufacturing facilities. Production at Cork ceased in July 2004. Closing our Cork facility reduced our nonwovens capacity by about 10%.

We continued to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt, Germany; and Gaston County, North Carolina. This consolidation reduced working capital needs, and we began to realize fully the on-going cost benefit from operating one less facility during the third quarter of fiscal year 2005. The closure of the Cork facility and related reorganization of the nonwoven materials segment resulted in the termination of 89 employees and resulted in restructuring expenses totaling $3.0 million. We do not expect additional expenses related to this program.

2003 Restructuring programs (phase 1 and phase 2)

In April 2003, we announced the discontinuation of production of cotton linter pulp at our specialty fibers facility in Lumberton, North Carolina. To better meet our customers' needs, we consolidated our U.S. cotton linter pulp production at our larger Memphis, Tennessee and Glueckstadt, Germany facilities. In conjunction with the consolidation, we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across the company, the main component of which was the partial closure of our Lumberton, North Carolina facility. This phase of restructuring resulted in the elimination of approximately 100 positions within the specialty fibers segment. The resulting increase in facility utilization enabled us to improve our operating results by approximately $6 million annually.

During the first quarter of fiscal year 2004, we entered into a second phase of this restructuring program. This phase of the program enabled us to improve our operating results by approximately $6 million annually through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 78 positions were eliminated. These positions include manufacturing, sales, product development and administrative functions throughout the organization. We do not expect any further expenses related to this restructuring.

Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased $0.7 million and $1.8 million for the three and six month periods ending December 31, 2005 versus the same periods in the prior year. Our decrease in average outstanding debt had a positive impact on interest expense during the periods. Also contributing to the improvement was the impact of capitalizing interest for the Americana facility capital improvements. The total amount of interest capitalized during the period, related to the Americana project, was $0.6 million and $1.1 million for the three and six months ended December 31, 2005. These improvements were partially offset by higher variable interest rates. The weighted average effective interest rate on our variable rate debt increased from 4.8% at December 31, 2004 to 6.6% at December 31, 2005.

Income tax expense

Our effective tax rates for the three and six months ended December 31, 2005 were 13% and 10% versus 19% and 29% for the same periods in 2004. Our effective tax rate may vary in future quarters due to the amount and source of income, results of tax audits and changes in tax legislation. During the three months ended December 31, 2005, we analyzed and corrected the rates and methodology used to value our state deferred taxes. The resulting adjustment was a $0.6 million net tax benefit. We currently expect the effective tax rate for the remainder of the fiscal year to be 35%, resulting in an overall estimated tax rate of 31% for fiscal year 2006.

Loss on early extinguishment of debt costs

On September 26, 2005 we used borrowings on our revolving credit facility to redeem $15 million of our 9.25% 2008 Notes. As a result of this partial extinguishment, we wrote-off a portion of deferred financing costs, resulting in non-cash expense of $0.2 million during the six months ended December 31, 2005.

Foreign exchange and other

The Canadian dollar strengthened against the U.S. dollar during the six months ended December 31, 2005, increasing 6% during the period. We incurred foreign exchange losses and other expense of $0.4 million, due primarily to this strengthening.

Financial Condition

Liquidity and capital resources

We have the following major sources of financing: credit facility, senior notes and senior subordinated notes. Our senior secured credit facility, senior notes and senior subordinated notes contain various covenants. We were in compliance with these covenants as of December 31, 2005 and believe we will continue to remain in compliance.

On December 31, 2005, we had $10.5 million of cash and cash equivalents and $22.7 million borrowing capacity on our revolver as defined in Note 6. The portion of this capacity that we could borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. As of December 31, 2005, our liquidity, including available borrowings and cash and cash equivalents was approximately $33.2 million.

While we can offer no assurances, we believe that our cash flow from operations, together with current cash and cash equivalents, will be sufficient to fund necessary capital expenditures, meet operating expenses and service our debt obligations for the foreseeable future.

Cash Flow

The following table provides a summary of cash flows for the six month periods ended December 31, 2005 and December 31, 2004.

	Six Months Ended December 31	
(millions)	2005	2004
Operating activities:		
Net income..	$ 1.6	$ 7.3
Noncash charges and credits, net..................	23.3	32.9
Changes in operating assets and liabilities, net..	(16.0)	(10.6)
Net cash provided by operating activities...........	8.9	29.6
Investing activities:		
Purchases of property, plant and equipment........	(34.4)	(11.8)
Other investing activities........................	(0.3)	13.6
Net cash provided by (used in) investing activities..	(34.7)	1.8
Financing activities:		
Net borrowings under lines of credit..............	42.3	-
Payments on long-term debt and other..............	(15.8)	(32.3)
Net cash provided by (used in) financing activities..	26.5	(32.3)
Effect of foreign currency rate fluctuations on cash	(0.1)	1.8
Net increase in cash and cash equivalents	$ 0.6	$0.9

Cash provided by operating activities

The $20.6 million decrease in cash flows from operating activities during the six months ended December 31, 2005 was partially the result of a decrease in earnings. Additionally, net income for the six months ended December 31, 2004 included non-cash impairment expenses of $12.0 million that were not repeated for the six months ended December 31, 2005. The combination of decrease in net earnings and absence on the non-cash impairment charges account for $17.7 million of the decrease.

Additionally, changes in operating assets and liabilities had a more significant negative impact on operating cash flows due to the $12.4 million increase in inventories during the six months ended December 31, 2005. Although the closure of our Glueckstadt, Germany cotton cellulose facility will improve working capital in fiscal year 2006, this improvement will be largely offset by the increased working capital requirements at our Americana, Brazil specialty fibers facility as we move away from the current tolling arrangement to market production during calendar year 2006. Overall, we do not expect changes in operating assets and liabilities will be significant contributors to operating cash flow in fiscal year 2006.

Net cash provided by (used in) investing activities

Purchases of property, plant and equipment increased during the six months ended December 31, 2005 versus the same period in 2004 primarily due to expenditures related to the project to add full market capability to our Americana, Brazil cotton cellulose facility. We estimate the total cost of this facility improvement to be approximately $31 million, of which approximately $7.0 million and $18.2 million was spent during the six months ended December 31, 2005. This increase of $5 million over our previous estimate was primarily driven by higher than expected construction and installation costs and the continued strength of the Brazilian real. We expect the remaining $1.5 million related to the Americana facility upgrade will be spent during the remainder of fiscal 2006. We expect that our total capital expenditures will be approximately $45 million for fiscal 2006.

The generation of cash through investing activities during the six months ended December 31, 2004 was the result of selling the Cork, Ireland building and equipment during December 2004 for net proceeds of $13.2 million.

We expect to incur significant capital expenditures in the future to comply with remaining environmental obligations at our Perry, Florida specialty fibers facility. Based on current estimates we expect expenditures of approximately $60 million over several years possibly beginning as early as fiscal year 2007. See Note 20, Contingencies, to the Consolidated Financial Statements in our fiscal 2005 Annual Report filed on Form 10-K.

Net cash provided by (used in) financing activities

During the six months ended December 31, 2005, we used net borrowings on our revolving credit facility to finance the capital investments we are making in our Americana, Brazil facility. We also used net borrowings on the revolver to redeem, at par, $15 million principal amount of our high interest rate, 9.25%, senior subordinated notes due in 2008. We intend to continue to call portions of the remaining $65 million of these notes over the next several years ahead of their maturity in the fall of 2008. These partial calls will be limited by available cash and our capacity to make restricted cash payments under our other debt instruments. We are focused on debt reduction with a target of a 50/50 debt to equity balance in our capital structure.

Treasury stock

Our board of directors has authorized the repurchase of up to 6 million shares of our common stock. Under this authorization, we will hold the repurchased shares as treasury stock and such shares will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. We repurchased no shares of our common stock during the three months ended December 31, 2005. Through December 31, 2005, we had repurchased a total of 5,009,300 shares under the current board authority.

Contractual obligations

There have been no material changes to our contractual obligations since our disclosure in our Annual Report. The following table summarizes our significant contractual cash obligations as of December 31, 2005. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

(millions) Payments Due by Period

Contractual Obligations	Total	Fiscal 2006 (1)	Fiscal 2007 and 2008	Fiscal 2009 and 2010
Long-term obligations (2)......	$816.4	$22.7	$97.7	$280.5
Capital lease obligations (3)..	2.0	0.4	1.2	0.4
Operating leases	4.0	1.2	2.6	0.2
Timber commitments	73.5	14.2	25.1	27.2
Lint commitments	17.0	17.0	-	-
Other purchase commitments (4)	12.8	10.1	2.7	-
Total contractual cash obligations.................	$925.7	$65.6	$129.3	$308.3

(1) Cash obligations for the remainder of fiscal 2006.

(2) Amounts include related interest payments. Interest payments for variable debt of $141.1 million are based on the effective rate as of December 31, 2005 of 6.6%.

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

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

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Critical Accounting Policies

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

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

Condition and Results of Operations" in our Annual Report. Further information regarding inventories may be found in Note 5 to the financial statements of this quarterly report. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note 1 to the financial statements in our Annual Report contains a summary of our significant accounting policies.

Forward-Looking Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2005, there have been no material changes in our market risk since the disclosure in our Annual Report. While we have global operations, the majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by foreign currency gains of equal magnitude in other areas of the world. The principal foreign currency exchange rate risks to which we are exposed are in the Canadian dollar, Brazilian real and European euro.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of December 31, 2005 of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective.

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

PART II - OTHER INFORMATION

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

Item 4. Submission of Matters to a Vote of Security Holders

On November 3, 2005, we held our Annual Meeting of Stockholders. At the meeting, George W. Bryan, R. Howard Cannon and Katherine Buckman Gibson were each re-elected as Class I directors to hold office for a three-year term or until their successors are elected and qualified. For Mr. Bryan, 34,878,024 votes were cast in favor and 581,339 votes were withheld. For Mr. Cannon, 30,359,983 votes were cast in favor and 5,099,380 were withheld. For Ms. Gibson, 35,267,792 votes were cast in favor and 191,571 were withheld.

Following the election, our Board of Directors consisted of George W. Bryan, R. Howard Cannon, Robert E. Cannon, Red Cavaney, John B. Crowe, Kathy Buckman Gibson, David B. Ferraro, Henry F. Frigon, and Lewis E. Holland.

The stockholders also ratified the appointment of Ernst & Young LLP as our independent auditors. 35,152,203 votes were cast in favor of the ratification, 303,053 were cast against and 4,107 votes abstained.

Item 6. Exhibits

31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer

SIGNATURES

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

BUCKEYE TECHNOLOGIES INC.

By: /S/ DAVID B. FERRARO

David B. Ferraro, Chief Executive Officer

Date: January 24, 2006

By: /S/ KRISTOPHER J. MATULA

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

Date: January 24, 2006