
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 25, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

263 Shuman Boulevard

Naperville, Illinois

(Address of principal executive offices)

82-0100960

(I.R.S Employer
Identification No.)

60563

(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 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

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

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

<u>Class</u>	<u>Shares Outstanding as of July 28, 2011</u>
Common Stock, \$2.50 par value	86,004,319

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ITEM 1. FINANCIAL STATEMENTS

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Operations
(thousands, except per-share amounts)

	Three Months Ended	
	June 25, 2011	June 26, 2010
	(unaudited)	
Sales	\$1,647,616	\$ 1,653,173
Cost of goods sold and occupancy costs	1,222,553	1,225,439
Gross profit	425,063	427,734
Operating expenses		
Operating, selling and general and administrative expenses	407,126	402,463
Other operating expenses (income), net	13,916	(2,841)
Operating income	4,021	28,112
Interest expense	(18,128)	(18,372)
Interest income	10,909	10,588
Other income (expense), net	96	(86)
Pre-tax income (loss)	(3,102)	20,242
Income tax benefit (expense)	1,001	(7,293)
Net income (loss) attributable to OfficeMax and noncontrolling interest	(2,101)	12,949
Joint venture results attributable to noncontrolling interest	(357)	(509)
Net income (loss) attributable to OfficeMax	\$ (2,458)	\$ 12,440
Preferred dividends	(563)	(679)
Net income (loss) available to OfficeMax common shareholders	\$ (3,021)	\$ 11,761
Net income (loss) per common share		
Basic	\$ (0.04)	\$ 0.14
Diluted	\$ (0.04)	\$ 0.14

See accompanying notes to quarterly consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Operations
(thousands, except per-share amounts)

	Six Months Ended	
	June 25, 2011	June 26, 2010
	(unaudited)	
Sales	\$3,510,617	\$3,570,428
Cost of goods sold and occupancy costs	2,611,042	2,637,227
Gross profit	899,575	933,201
Operating expenses		
Operating, selling and general and administrative expenses	853,026	844,387
Other operating expenses, net	13,916	11,348
Operating income	32,633	77,466
Interest expense	(36,895)	(36,688)
Interest income	21,929	21,204
Other income (expense), net	134	(35)
Pre-tax income	17,801	61,947
Income tax expense	(6,669)	(22,695)
Net income attributable to OfficeMax and noncontrolling interest	11,132	39,252
Joint venture results attributable to noncontrolling interest	(1,687)	(1,364)
Net income attributable to OfficeMax	\$ 9,445	\$ 37,888
Preferred dividends	(1,100)	(1,348)
Net income available to OfficeMax common shareholders	\$ 8,345	\$ 36,540
Net income per common share		
Basic	\$ 0.10	\$ 0.43
Diluted	\$ 0.10	\$ 0.43

See accompanying notes to quarterly consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands)

	<u>June 25, 2011</u> (unaudited)	<u>December 25, 2010</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 458,292	\$ 462,326
Receivables, net	548,923	546,885
Inventories	789,267	846,463
Deferred income taxes and receivables	101,828	99,613
Other current assets	62,226	58,999
Total current assets	<u>1,960,536</u>	<u>2,014,286</u>
Property and equipment:		
Land and land improvements	41,635	41,317
Buildings and improvements	494,664	487,160
Machinery and equipment	778,678	818,081
Total property and equipment	<u>1,314,977</u>	<u>1,346,558</u>
Accumulated depreciation	<u>(925,107)</u>	<u>(949,269)</u>
Net property and equipment	389,870	397,289
Intangible assets, net	83,429	83,231
Investment in Boise Cascade Holdings, L.L.C.	175,000	175,000
Timber notes receivable	899,250	899,250
Deferred income taxes	274,099	284,529
Other non-current assets	232,136	225,344
Total assets	<u>\$4,014,320</u>	<u>\$4,078,929</u>

See accompanying notes to quarterly consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands, except share and per-share amounts)

	June 25, 2011 (unaudited)	December 25, 2010
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Current portion of debt	\$ 41,611	\$ 4,560
Accounts payable	649,017	686,106
Income tax payable	4,084	11,055
Accrued expenses and other current liabilities:		
Compensation and benefits	102,905	145,911
Other	199,695	196,842
Total current liabilities	997,312	1,044,474
Long-term debt, less current portion	232,467	270,435
Non-recourse debt	1,470,000	1,470,000
Other long-term items:		
Compensation and benefits obligations	243,026	250,756
Deferred gain on sale of assets	179,757	179,757
Other long-term liabilities	199,936	213,496
Noncontrolling interest in joint venture	40,707	49,246
Shareholders' equity:		
Preferred stock—no par value; 10,000,000 shares authorized; Series D ESOP: \$.01 stated value; 652,277 and 686,696 shares outstanding	29,352	30,901
Common stock—\$2.50 par value; 200,000,000 shares authorized; 86,004,280 and 85,057,710 shares outstanding	215,011	212,644
Additional paid-in capital	1,003,183	986,579
Accumulated deficit	(525,266)	(533,606)
Accumulated other comprehensive loss	(71,165)	(95,753)
Total OfficeMax shareholders' equity	651,115	600,765
Total liabilities and shareholders' equity	<u>\$4,014,320</u>	<u>\$ 4,078,929</u>

See accompanying notes to quarterly consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
(thousands)

	Six Months Ended	
	June 25, 2011	June 26, 2010
	(unaudited)	
Cash provided by operations:		
Net income attributable to OfficeMax and noncontrolling interest	\$ 11,132	\$ 39,252
Non-cash items in net income:		
Earnings on investment in Boise Cascade Holdings L.L.C.	(3,815)	(3,527)
Depreciation and amortization	42,555	51,938
Pension and other postretirement benefits expense	3,638	2,586
Other	9,358	6,627
Changes in operating assets and liabilities:		
Receivables	6,864	32,134
Inventories	68,337	40,949
Accounts payable and accrued liabilities	(87,788)	(110,245)
Current and deferred income taxes	(2,911)	18,880
Other	(20,719)	(10,606)
Cash provided by operations	<u>26,651</u>	<u>67,988</u>
Cash used for investment:		
Expenditures for property and equipment	(28,192)	(28,589)
Proceeds from sales of assets, net	138	613
Cash used for investment	<u>(28,054)</u>	<u>(27,976)</u>
Cash used for financing:		
Cash dividends paid—preferred stock	(1,142)	(1,348)
Borrowings of short-term debt, net	1,643	—
Payments of long-term debt	(3,662)	(1,697)
Purchase of Series D preferred stock	(1,536)	(3,165)
Proceeds from exercise of stock options	1,949	1,776
Payments related to other share-based compensation	(4,404)	—
Other	12	10
Cash used for financing	<u>(7,140)</u>	<u>(4,424)</u>
Effect of exchange rates on cash and cash equivalents	4,509	(955)
Increase (decrease) in cash and cash equivalents	<u>(4,034)</u>	<u>34,633</u>
Balance at beginning of the period	462,326	486,570
Balance at end of the period	<u>\$458,292</u>	<u>\$ 521,203</u>

See accompanying notes to quarterly consolidated financial statements

Notes to Quarterly Consolidated Financial Statements (unaudited)

1. Basis of Presentation

Nature of Operations

OfficeMax Incorporated (“OfficeMax,” the “Company” or “we”) is a leader in both business-to-business and retail office products distribution. The Company provides office supplies and paper, print and document services, technology products and solutions and furniture to large, medium and small businesses, government offices and consumers. OfficeMax customers are served by approximately 30,000 associates through direct sales, catalogs, the Internet and a network of retail stores 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 twenty-six-week periods ended on June 25, 2011 (also referred to as the “second quarter of 2011” or the “three months ended June 25, 2011” and the “first six months of 2011” or the “six months ended June 25, 2011,” respectively) and the thirteen-week and twenty-six-week periods ended on June 26, 2010 (also referred to as the “second quarter of 2010” or the “three months ended June 26, 2010” and “first six months of 2010” or the “six months ended June 26, 2010,” 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. Fiscal year 2010 included 52 weeks for all reportable segments and businesses. Fiscal year 2011 will include 53 weeks for our U.S. businesses.

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

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

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

Recently Issued or Newly Adopted Accounting Standards

In June 2011, the FASB issued guidance which establishes disclosure requirements for other comprehensive income. The guidance requires the reporting of components of other comprehensive income and components of net income together as components of total comprehensive income, and is effective for periods beginning on or

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

after December 15, 2011. The guidance requires retrospective application and earlier application is permitted. The Company anticipates that adoption of this guidance will affect the presentation of certain elements of the Company's financial statements, but these changes in presentation will not have a material impact on our financial statements.

2. Facility Closure Reserves

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

During the first six months of 2011, the Company recorded facility closure charges of \$5.6 million (all in the second quarter) in its Retail segment associated with closing six underperforming domestic stores prior to the end of their lease terms, of which \$5.4 million was related to the lease liability and \$0.2 million was related to asset impairments.

During the first six months of 2010, the Company recorded facility closure charges of \$14.4 million in its Retail segment associated with closing eight underperforming domestic stores prior to the end of their lease terms of which \$13.0 million was related to the lease liability and other costs and \$1.4 million was related to asset impairments and other items. Of these charges, \$1.1 million was recorded in the second quarter of 2010.

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

	(thousands)
Balance at December 25, 2010	\$ 61,673
Charges related to stores closed in 2011	5,421
Transfer of deferred rent balance	928
Changes to estimated costs included in income	696
Cash payments	(11,170)
Accretion	1,657
Balance at June 25, 2011	<u>\$ 59,205</u>

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

	June 25, 2011 (thousands)
Other accrued liabilities	\$ 17,366
Other long-term liabilities	41,839
Total	<u>\$ 59,205</u>

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

The components of the facilities closure reserve consisted of the following:

	<u>June 25,</u> <u>2011</u> <u>(thousands)</u>
Estimated future lease obligations	\$ 123,526
Less: anticipated sublease income	<u>(64,321)</u>
Total	<u>\$ 59,205</u>

In addition, we were the lessee of a legacy building materials manufacturing facility near Elma, Washington until the fourth quarter of 2010. During 2006, we ceased operations at the facility, fully impaired the assets and recorded a reserve for the related lease payments and other contract termination and closure costs. This reserve balance was not included in the facilities closure reserve described above. During the second quarter of 2010, the Company signed an agreement with the lessor to terminate the lease and recorded income of \$3.9 million to adjust the associated reserve. During the fourth quarter of 2010, we sold the facility's equipment and recorded a final adjustment of \$5.5 million to reduce the reserve balance. This income was reported in other operating expense (income), net in our Consolidated Statements of Operations.

3. Severance and Other Charges

The first six months of 2011 included severance charges recorded in the second quarter of \$8.3 million (\$8.0 million in Contract and \$0.3 million in Retail), related to reorganizations in Canada (\$3.6 million), Australia (\$1.4 million) and the U.S. sales and supply chain organizations (\$3.3 million). The first six months of 2010 included a severance charge recorded in the first quarter in our Contract segment of \$0.8 million related to a reorganization of our U.S. Contract customer service centers. These charges were included in other operating expenses (income), net in the Consolidated Statements of Operations.

As of June 25, 2011, \$7.9 million of severance charges remain to be paid and are included in accrued expenses and other current liabilities in the Consolidated Balance Sheets.

4. Timber Notes/Non-Recourse Debt

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

In December 2004, we completed a securitization transaction in which the Company's interests in the Installment Notes and related guarantees were transferred to wholly-owned bankruptcy remote subsidiaries. The subsidiaries pledged the Installment Notes and related guarantees and issued securitized notes (the "Securitization Notes") in the amount of \$1,470 million (\$735 million through the structure supported by the Lehman guaranty and \$735 million through the structure supported by the Wachovia guaranty). As a result of

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

these transactions, we received \$1,470 million in cash. Recourse on the Securitization Notes is limited to the proceeds of the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty, and therefore there is no recourse against OfficeMax. The Securitization Notes are 15-year non-amortizing, and were issued in two equal \$735 million tranches paying interest of 5.54% and 5.42%, respectively. The Securitization Notes are reported as non-recourse debt in the Company's Consolidated Balance Sheets.

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

We are required for accounting purposes to assess the carrying value of assets whenever circumstances indicate that a decline in value may have occurred. In 2008, we evaluated the carrying value of the Lehman Guaranteed Installment Note and reduced it to the estimated amount we expect to collect (\$81.8 million) by recording a non-cash impairment charge of \$735.8 million, pre-tax. The ultimate amount to be realized on the Lehman Guaranteed Installment Note depends entirely on the proceeds from the Lehman bankruptcy estate, which may not be finally determined for several years. On June 30, 2011, Lehman filed an amended chapter 11 Disclosure Statement with the United States Bankruptcy Court for the Southern District of New York. The Disclosure Statement provides a range of estimated recoveries for various classes of 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 of \$81.8 million for the Lehman Guaranteed Installment Note. Going forward, we intend to adjust the carrying value of the Lehman Guaranteed Installment Note as further information regarding our share of the proceeds, if any, from the Lehman bankruptcy estate becomes available.

Recourse on the Securitization Notes is limited to the proceeds from the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty. Accordingly, the Lehman Guaranteed Installment Note and underlying Lehman guaranty will be transferred to the holders of the Securitization Notes guaranteed by Lehman in order to settle and extinguish that liability. However, under current generally accepted accounting principles, we are required to continue to recognize the liability related to the Securitization Notes guaranteed by Lehman until such time as the liability has been extinguished. This will occur when the Lehman Guaranteed Installment Note and the related guaranty are transferred to and accepted by the Securitization Note holders. We expect that this will occur no later than the date when the assets of Lehman are distributed and the bankruptcy is finalized. Accordingly, we expect to recognize a non-cash gain equal to the difference between the carrying amount of the Securitization Notes guaranteed by Lehman (\$735.0 million at June 25, 2011) and the carrying value of the Lehman Guaranteed Installment Note (\$81.8 million at June 25, 2011) in a later period when the liability is legally extinguished. The actual gain to be recognized in the future will be measured based on the carrying amounts of the Lehman Guaranteed Installment Note and the Securitization Notes guaranteed by Lehman at the date of settlement.

Through June 25, 2011, we have received all payments due under the Installment Notes guaranteed by Wachovia (the "Wachovia Guaranteed Installment Notes"), which have consisted only of interest due on the notes, and have made all payments due on the related Securitization Notes guaranteed by Wachovia, again consisting only of interest due. As all amounts due on the Wachovia Guaranteed Installment Notes are current and we have no reason to believe that we will not be able to collect all amounts due according to the contractual terms of the Wachovia Guaranteed Installment Notes, the notes are stated in our Consolidated Balance Sheets at their original principal amount of \$817.5 million. The Installment Notes and Securitization Notes are scheduled to mature in 2020 and 2019, respectively. The Securitization Notes have an initial term that is approximately three months shorter than the Installment Notes.

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

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

5. Debt

Credit Agreements

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

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

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

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

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

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

	U.S. Credit Agreement	Canadian Credit Agreement	Australia/ New Zealand Credit Agreement	Total
	(millions of U.S. dollars)			
Maximum aggregate available borrowing amount	\$ 515.0	\$ 47.3	\$ 57.9	\$620.2
Less: Stand-by letters of credit	(54.5)	—	—	(54.5)
Amount available for borrowing	<u>\$ 460.5</u>	<u>\$ 47.3</u>	<u>\$ 57.9</u>	<u>\$565.7</u>

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

Other

At the end of the first six months of 2011, Grupo OfficeMax, our 51%-owned joint venture in Mexico, had total outstanding borrowings of \$13.8 million. This included \$7.1 million outstanding under a 60-month installment note due in the first quarter of 2014 and \$5.0 million outstanding under a 54-month installment note due in the third quarter of 2014. Payments on the installment loans are made monthly. The remaining \$1.7 million of borrowings is a simple revolving loan. Recourse on the Grupo OfficeMax loans is limited to Grupo OfficeMax. The installment loan maturing in the third quarter of 2014 is secured by certain owned property of Grupo OfficeMax. All other Grupo OfficeMax loan facilities are unsecured.

Cash Paid for Interest

Cash payments for interest, net of interest capitalized and including interest payments related to the Securitization Notes, were \$15.3 million and \$16.7 million for the first six months of 2011 and 2010, respectively. Cash interest payments made on the Securitization Notes are completely offset by interest payments received on the Installment Notes.

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

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

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

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

The non-voting securities of Boise Cascade Holdings, L.L.C. accrue dividends daily at the rate of 8% per annum on the liquidation value plus accumulated dividends. Dividends accumulate semiannually to the extent not paid in cash on the last day of June and December. The Company recognized dividend income on this investment of \$1.9 million and \$1.8 million in the second quarters of 2011 and 2010, respectively, and \$3.8 million and \$3.5 million in the first six months of 2011 and 2010, respectively. The dividend receivable was \$34.0 million at June 25, 2011, and was recorded in other non-current assets in the Consolidated Balance Sheets.

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

7. Financial Instruments, Derivatives and Hedging Activities

Fair Value of Financial Instruments

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

	June 25, 2011				Carrying Amount
	Fair Value			Total	
	Level 1	Level 2	Level 3		
	(thousands)				
Financial assets:					
Timber notes receivable					
Wachovia	\$ —	\$912,460	\$ —	\$912,460	\$817,500
Lehman	\$ —	\$ —	\$81,750	\$ 81,750	\$ 81,750
Financial liabilities:					
Recourse debt	\$13,788	\$232,250	\$ —	\$246,038	\$274,078
Non-recourse debt					
Wachovia	\$ —	\$832,148	\$ —	\$832,148	\$735,000
Lehman	\$ —	\$ —	\$81,750	\$ 81,750	\$735,000

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

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

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

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

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

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

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

- **Timber notes receivable:** The fair value of the Wachovia Guaranteed Installment Notes is determined as the present value of expected future cash flows discounted at the current interest rate for loans of similar terms with comparable credit risk (Level 2 inputs). The fair value of the Lehman Guaranteed Installment Note reflects the estimated future cash flows of the note considering the estimated effects of the Lehman bankruptcy (Level 3 inputs).
- **Recourse debt:** The Company's debt instruments are not widely traded. Recourse debt for which there were trades on the last day of the period (the "measurement date") was valued using the unadjusted quoted price from the last trade on the measurement date (Level 1 input). Recourse debt for which there were no transactions on the measurement date was valued based on quoted market prices near the measurement date when available or by discounting the future cash flows of each instrument using rates based on the most recently observable trade or using rates currently offered to the Company for similar debt instruments of comparable maturities (Level 2 inputs).
- **Non-recourse debt:** The fair value of the Securitization Notes supported by Wachovia is estimated by discounting the future cash flows of the instrument at rates currently available to the Company for similar instruments of comparable maturities (Level 2 inputs). The Securitization Notes supported by Lehman is estimated based on the future cash flows of the Lehman Guaranteed Installment Note (the proceeds from which are the sole source of payment of this note) in a bankruptcy proceeding (Level 3 inputs).

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

Derivatives and Hedging Activities

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

8. Income Taxes

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

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

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

As of June 25, 2011, the Company had \$21.3 million of total gross unrecognized tax benefits, \$6.8 million of which would affect the Company's effective tax rate if recognized and would result from the effective settlement of tax positions with various tax authorities. The Company does not anticipate the settlement of these items to occur within the next twelve months.

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

	(thousands)
Balance at December 25, 2010	\$ 20,863
Increase related to prior year tax positions	472
Settlement	(10)
Balance at June 25, 2011	<u>\$ 21,325</u>

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

	2011	2010
	(thousands)	
Cash tax payments, net	\$9,580	\$3,815

9. Retirement and Benefit Plans

Components of Net Periodic Benefit Cost (Income)

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

	Three Months Ended			
	Pension Benefits		Other Benefits	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(thousands)			
Service cost	\$ 634	\$ 707	\$ 18	\$ 66
Interest cost	17,546	18,494	207	310
Expected return on plan assets	(20,098)	(20,872)	—	—
Recognized actuarial loss	4,325	3,273	26	64
Amortization of prior service costs	—	—	(1,002)	(1,002)
Net periodic benefit cost (income)	<u>\$ 2,407</u>	<u>\$ 1,602</u>	<u>\$ (751)</u>	<u>\$ (562)</u>

	Six Months Ended			
	Pension Benefits		Other Benefits	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(thousands)			
Service cost	\$ 1,273	\$ 1,383	\$ 115	\$ 131
Interest cost	35,088	37,107	507	605
Expected return on plan assets	(40,203)	(41,747)	—	—
Recognized actuarial loss	8,752	6,619	110	112
Amortization of prior service costs and other	—	379	(2,004)	(2,003)
Net periodic benefit cost (income)	<u>\$ 4,910</u>	<u>\$ 3,741</u>	<u>\$ (1,272)</u>	<u>\$ (1,155)</u>

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

Cash Flows

The Company expects to fund the minimum pension contribution requirement for 2011 of approximately \$3.7 million with cash. As of June 25, 2011, \$1.7 million in cash has been contributed.

10. Segment Information

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

Contract distributes a broad line of items for the office, including office supplies and paper, technology products and solutions, print and document services and office furniture. Contract sells directly to large corporate and government offices, as well as to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and in some markets, including Canada, Australia and New Zealand, through office products stores. Substantially all products sold by Contract are purchased from third-party manufacturers or industry wholesalers. Contract purchases office papers primarily from Boise White Paper, L.L.C., under a paper supply contract. See Note 15, "Commitments", for information regarding the paper supply contract.

Retail is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. In addition, this segment contracts with large national retail chains to supply office and school supplies to be sold in their stores. Retail office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Retail has operations in the United States, Puerto Rico and the U.S. Virgin Islands. The retail segment also operates office products stores in Mexico through a 51%-owned joint venture. Substantially all products sold by Retail are purchased from third-party manufacturers or industry wholesalers. 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 using segment income (loss) which is based on operating income (loss) after eliminating the effect of certain operating items that are not indicative of our core operations such as severances, facility closures and adjustments, and asset impairments. These certain operating items are reported on the other operating expenses (income), net line in the Consolidated Statements of Operations.

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

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

	Sales	Segment income (loss)	Other operating, income (expense)	Operating income (loss)
	(thousands)			
Three months ended June 25, 2011				
Contract	\$ 880,333	\$ 17,425	\$ (8,058)	\$ 9,367
Retail	767,283	7,969	(5,858)	2,111
Corporate and Other	—	(7,457)	—	(7,457)
Total	<u>\$1,647,616</u>	<u>\$ 17,937</u>	<u>\$(13,916)</u>	<u>\$ 4,021</u>
Three months ended June 26, 2010				
Contract	\$ 880,526	\$ 19,401	\$ —	\$ 19,401
Retail	772,647	13,866	(1,097)	12,769
Corporate and Other	—	(7,996)	3,938	(4,058)
Total	<u>\$1,653,173</u>	<u>\$ 25,271</u>	<u>\$ 2,841</u>	<u>\$ 28,112</u>
	Sales	Segment income (loss)	Other operating, income (expense)	Operating income (loss)
	(thousands)			
Six months ended June 25, 2011				
Contract	\$1,806,005	\$ 26,430	\$ (8,058)	\$ 18,372
Retail	1,704,612	33,589	(5,858)	27,731
Corporate and Other	—	(13,470)	—	(13,470)
Total	<u>\$3,510,617</u>	<u>\$ 46,549</u>	<u>\$(13,916)</u>	<u>\$ 32,633</u>
Six months ended June 26, 2010				
Contract	\$1,843,527	\$ 53,160	\$ (861)	\$ 52,299
Retail	1,726,901	52,650	(14,450)	38,200
Corporate and Other	—	(16,996)	3,963	(13,033)
Total	<u>\$3,570,428</u>	<u>\$ 88,814</u>	<u>\$(11,348)</u>	<u>\$ 77,466</u>

Interest expense, interest income, and other expense (income), net are not recorded by segments.

11. Share-Based Compensation

The Company sponsors several share-based compensation plans. The Company recognizes compensation expense from all share-based payment transactions with employees in the consolidated financial statements based on grant date fair value. Pre-tax compensation expense related to the Company's share-based plans was \$3.3 million for the second quarters of both 2011 and 2010, and \$8.7 million and \$5.9 million for the first six months of 2011 and 2010, 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 consolidated statement of operations for share-based compensation arrangements was \$1.3 million for the second quarters of both 2011 and 2010, and \$3.4 million and \$2.3 million for the first six months of 2011 and 2010, respectively.

Notes to Quarterly Consolidated Financial Statements (unaudited)—(Continued)**Restricted Stock and Restricted Stock Units**

The Company recognizes compensation expense related to restricted stock and Restricted Stock Unit (“RSU”) awards over the vesting periods based on the closing price of the Company’s common stock on the grant dates. The Company calculates the grant date fair value of the RSU awards by multiplying the number of RSU awards by the closing price of the Company’s common stock on the grant date. If these awards contain performance criteria, the grant date fair value is estimated assuming performance at target, and management periodically reviews actual performance against the criteria and adjusts compensation expense accordingly. Pre-tax compensation expense related to restricted stock and RSU awards was \$0.7 million and \$2.0 million for the second quarters of 2011 and 2010, respectively, and \$3.2 million and \$3.5 million for the first six months of 2011 and 2010, respectively. The remaining compensation expense to be recognized related to outstanding restricted stock and RSUs, net of estimated forfeitures, is approximately \$5.2 million. The remaining compensation expense will be recognized through the second quarter of 2014.

A summary of restricted stock and RSU activity for the first six months of 2011 is presented in the following table:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested, December 25, 2010	2,111,135	\$ 13.89
Granted	457,188	14.55
Vested	(820,771)	15.24
Forfeited	(129,480)	12.43
Nonvested, June 25, 2011	<u>1,618,072</u>	<u>\$ 13.50</u>

Stock Options

The Company’s stock options are issued at a price equal to fair market value on the grant date and typically expire within seven years of the grant date. Stock options granted under the OfficeMax Incentive and Performance Plan generally vest over a three year period. The grant date fair value used to calculate compensation expense related to stock option awards is based on the Black-Scholes option pricing model. Pre-tax compensation expense related to stock option awards was \$2.6 million and \$1.3 million for the second quarters of 2011 and 2010, respectively, and \$5.5 million and \$2.4 million for the first six months of 2011 and 2010, respectively. The remaining compensation expense to be recognized related to outstanding stock options net of estimated forfeitures is approximately \$14.4 million. The majority of the remaining compensation expense will be recognized through the second quarter of 2014.

A summary of stock option activity for the first six months of 2011 is presented in the following table:

	Shares	Wtd. Avg. Ex. Price
Balance at December 25, 2010	4,313,290	\$ 16.52
Options granted	1,034,300	16.41
Options exercised	(405,988)	4.80
Options forfeited and expired	(220,818)	13.44
Balance at June 25, 2011	<u>4,720,784</u>	<u>\$ 17.65</u>
Exercisable at June 25, 2011	1,868,023	
Weighted average fair value of options granted (Black-Scholes)	\$ 8.69	

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

The following table provides summarized information about stock options outstanding at June 25, 2011:

<u>Range of Exercise Prices</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Options Outstanding</u>	<u>Weighted Average Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Options Exercisable</u>	<u>Weighted Average Exercise Price</u>
\$2.00 – \$3.00	11,171	—	\$ 2.50	11,171	\$ 2.50
\$4.00 – \$5.00	902,779	4.6	4.73	506,227	4.72
\$10.00 – \$16.00	900,734	5.7	14.17	294,465	14.52
\$16.00 – \$17.00	874,940	6.6	16.86	—	16.86
\$18.00 – \$19.00	975,000	6.4	18.15	—	18.15
\$24.00 – \$37.00	1,056,160	1.4	32.01	1,056,160	32.01

At June 25, 2011, the aggregate intrinsic value was \$2.7 million for outstanding stock options and \$1.6 million for exercisable stock options. The aggregate intrinsic value represents the total pre-tax intrinsic value (i.e., the difference between the Company's closing stock price on the last trading day of the second quarter of 2011 and the exercise price, multiplied by the number of in-the-money stock options at the end of the quarter).

During the first six months of 2011, the Company granted stock options for 1,034,300 shares of our common stock and estimated the fair value of each stock option award on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: risk-free interest rate of 2.03%, expected life of 4.5 years and expected stock price volatility of 64.74%. The risk-free interest rate assumptions are based on the applicable Treasury bill rates over the stock options' expected lives; the expected life assumptions are based on the time period stock options are expected to be outstanding based on historical experience; and the expected stock price volatility assumptions are based on the historical and implied volatility of the Company's common stock.

12. Shareholders' Equity and Noncontrolling Interest

The following table reflects changes in shareholders' equity and noncontrolling interest for the first six months of 2011.

	<u>Shareholders' Equity</u>	<u>Noncontrolling Interest</u>
	(thousands)	
Balance at December 25, 2010	\$ 600,765	\$ 49,246
Comprehensive income:		
Net income attributable to OfficeMax and noncontrolling interest	9,445	1,687
Other comprehensive income:		
Foreign currency translation adjustments	17,437	2,498
Amortization of unrecognized retirement and benefit costs, net of tax	7,067	—
Unrealized hedge loss adjustment, net of tax	85	—
Comprehensive income attributable to OfficeMax and noncontrolling interest	34,034	4,185
Preferred stock dividends	(1,100)	—
Stock-based compensation	8,677	—
Non-controlling interest fair value adjustment	12,724	(12,724)
Other	(3,985)	—
Balance at June 25, 2011	<u>\$ 651,115</u>	<u>\$ 40,707</u>

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

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

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 second quarter of 2011, Grupo OfficeMax met the earnings targets and the estimated purchase price of the minority owner's interest was \$40.2 million. At the end of the second quarter of 2011, the noncontrolling interest was recorded at the estimated purchase price, which was in excess of the carrying value. As the estimated purchase price approximates fair value, the offset was recorded to additional paid-in capital.

13. Comprehensive Income

Comprehensive income includes the following:

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(thousands)		(thousands)	
Net income (loss) attributable to OfficeMax and noncontrolling interest	\$ (2,101)	\$ 12,949	\$ 11,132	\$ 39,252
Other comprehensive income:				
Foreign currency translation adjustments	14,805	(10,920)	19,935	(6,378)
Amortization of unrecognized retirement and benefit costs, net of tax	4,953	2,321	7,067	3,118
Unrealized hedge loss adjustment, net of tax	395	—	85	—
Comprehensive income attributable to OfficeMax and noncontrolling interest	18,052	4,350	38,219	35,992
Less: Comprehensive income attributable to noncontrolling interest	1,790	455	4,185	1,535
Comprehensive income available to OfficeMax	<u>\$ 16,262</u>	<u>\$ 3,895</u>	<u>\$ 34,034</u>	<u>\$ 34,457</u>

14. Net Income (Loss) Per Common Share

Basic net income (loss) per share is calculated using net income (loss) available to holders of our common stock divided by the weighted average number of shares of common stock outstanding during the year. Diluted net income (loss) per share is similar to basic net income (loss) per share except that the weighted average number of shares of common stock outstanding is increased to include, if their inclusion is dilutive, the number of additional shares of common stock that would have been outstanding assuming the issuance of all potentially dilutive shares, such as common stock to be issued upon exercise of options and the vesting of non-vested restricted shares, and the conversion of outstanding preferred stock. Net income (loss) per common share was determined by dividing net income (loss), as adjusted, by weighted average shares outstanding as follows:

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
	(thousands, except per- share amounts)		(thousands, except per- share amounts)	
Net income (loss) available to OfficeMax common shareholders	\$ (3,021)	\$ 11,761	\$ 8,345	\$ 36,540
Average shares—basic(a)	85,978	84,928	85,673	84,791
Restricted stock, stock options and other(b)(c)	—	1,173	1,101	1,177
Average shares—diluted	85,978	86,101	86,774	85,968
Net income (loss) available to OfficeMax common shareholders per common share:				
Basic	\$ (0.04)	\$ 0.14	\$ 0.10	\$ 0.43
Diluted	\$ (0.04)	\$ 0.14	\$ 0.10	\$ 0.43

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

- (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 from continuing operations or average shares-diluted.
- (b) Outstanding options to purchase 4.8 million shares of common stock and RSUs for 1.1 million shares of common stock were excluded from the computation of diluted income (loss) per common share, because the impact would have been anti-dilutive due to the loss reported for the second quarter of 2011. Outstanding options to purchase 3.4 million shares of common stock for the first six months of 2011 were excluded from the computation of diluted income (loss) per common share for the second quarter of 2011, 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 1.2 million and 1.4 million shares of common stock for the second quarter and the first six months of 2010, respectively were excluded from the computation of diluted income (loss) 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.

15. Commitments

During the second quarter of 2011, we entered into a new paper supply contract with Boise White Paper, L.L.C. ("Boise"), under which we have agreed to purchase office papers from Boise, and Boise has agreed to supply office papers to us, subject to the terms and conditions of the paper supply contract. The new paper supply contract replaces the previous supply contract executed in 2004 with Boise.

The paper supply contract requires us to purchase from Boise and Boise to sell to us virtually all of our North American requirements for office paper, subject to certain conditions. After 2012, the paper supply contract provides us more flexibility to purchase paper from paper producers other than Boise. The paper supply contract's term will expire on December 31, 2017, followed by a gradual reduction of the Company's purchase requirements over a two year period thereafter. However, if certain circumstances occur, the term may be terminated earlier, beginning as early as December 31, 2012. If the term ends December 31, 2012, it will be followed by a gradual reduction of the Company's purchase requirements over a four year period. If the term ends on a later date, the gradual reduction period will last two years.

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 25, 2010, including "Cautionary and Forward-Looking Statements."

Overall Summary

Sales for the second quarter of 2011 decreased 0.3% year-over-year to \$1,647.6 million, while sales of \$3,510.6 million for the first six months of 2011 decreased 1.7% year-over-year. On a local currency basis, sales for the second quarter of 2011 declined 2.4% compared to the second quarter of 2010 and sales for the first six months of 2011 declined 3.3% compared to the first six months of 2010. In our segments, for the second quarter of 2011 compared to the second quarter of 2010, Retail sales declined while Contract sales were flat (Contract sales declined on a local currency basis). Compared to the same periods of 2010, gross profit margin decreased 0.1% of sales (10 basis points) to 25.8% of sales in the second quarter of 2011 and 0.5% of sales (50 basis points) to 25.6% of sales in the first six months of 2011. Both the second quarter and first six months of 2011 were adversely impacted by less favorable inventory shrinkage reserve adjustments in the current year than in the prior year periods (2011 reserve adjustments were lower than in 2010 by \$9.0 million for the second quarter and \$11.0 million for the first six months). Operating, selling and general and administrative expenses increased \$4.8 million and \$8.7 million for the second quarter and the first six months of 2011, respectively. These increases were the result of the impact of foreign currency exchange rates in our international operations, as well as spending on long-term growth initiatives and the impact of unfavorable trends in health and workers' compensation benefits, which were partially offset by lower incentive compensation expense. We reported operating income of \$4.0 million and \$32.6 million in the second quarter and first six months of 2011, respectively, compared to operating income of \$28.1 million and \$77.5 million for the second quarter of 2010 and the first six months of 2010, respectively. As noted in the discussion and analysis that follows, our operating results in the applicable periods were impacted by significant items such as charges for store closures and severance, as well as favorable adjustments to legacy reserves. These items were recorded in other operating expense (income), net. If we eliminate these items, our adjusted operating income was \$17.9 million and \$46.5 million for the second quarter and first six months of 2011, respectively, and \$25.3 million and \$88.8 million for the second quarter and first six months of 2010, respectively.

The reported net income (loss) available to OfficeMax common shareholders was a loss of \$3.0 million, or \$(0.04) per diluted share, in the second quarter of 2011 compared to income of \$11.8 million, or \$0.14 per diluted share, in the second quarter of 2010. The reported net income available to OfficeMax common shareholders was \$8.3 million, or \$0.10 per diluted share, in the first six months of 2011 compared to \$36.5 million, or \$0.43 per diluted share, in the first six months of 2010. If we eliminate the impact of significant items from all periods, our adjusted net income available to OfficeMax common shareholders was \$6.0 million, or \$0.07 per diluted share, and \$17.3 million, or \$0.20 per diluted share, for the second quarter and first six months of 2011, respectively, and \$10.0 million, or \$0.12 per diluted share, and \$43.5 million, or \$0.51 per diluted share, for the second quarter and first six months of 2010, respectively.

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Results of Operations, Consolidated (\$ in millions)

	Three months ended		Six months ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Sales	\$1,647.6	\$1,653.2	\$3,510.6	\$3,570.4
Gross profit	425.1	427.7	899.6	933.2
Operating, selling and general and administrative expenses	407.2	402.4	853.1	844.4
Other operating expenses (income), net	13.9	(2.8)	13.9	11.3
Total operating expenses	421.1	399.6	867.0	855.7
Operating income	\$ 4.0	\$ 28.1	\$ 32.6	\$ 77.5
Net income (loss) available to OfficeMax common shareholders	\$ (3.0)	\$ 11.8	\$ 8.3	\$ 36.5
Gross profit margin	25.8%	25.9%	25.6%	26.1%
Operating, selling and general and administrative expenses Percentage of sales	24.7%	24.4%	24.3%	23.6%

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 certain operating items that are not indicative of our core operating activities such as severance, facility closures and adjustments, 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.

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.

	Non-GAAP Reconciliation					
	Three Months Ended June 25, 2011			Six Months Ended June 25, 2011		
	Operating income	Net income (loss) available to OfficeMax common shareholders	Diluted income (loss) 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	\$ 4.0	\$ (3.0)	\$ (0.04)	\$ 32.6	\$ 8.3	\$ 0.10
Store closure charges	5.6	3.4	0.04	5.6	3.4	0.04
Severance charges	8.3	5.6	0.07	8.3	5.6	0.06
As adjusted	<u>\$ 17.9</u>	<u>\$ 6.0</u>	<u>\$ 0.07</u>	<u>\$ 46.5</u>	<u>\$ 17.3</u>	<u>\$ 0.20</u>

	Non-GAAP Reconciliation					
	Three Months Ended June 26, 2010			Six Months Ended June 26, 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	\$ 28.1	\$ 11.8	\$ 0.14	\$ 77.5	\$ 36.5	\$ 0.43
Store closure charges	1.1	0.6	0.01	14.4	8.9	0.10
Severance charges	—	—	—	0.8	0.5	0.01
Reserve adjustment related to legacy facility	(3.9)	(2.4)	(0.03)	(3.9)	(2.4)	(0.03)
As adjusted	<u>\$ 25.3</u>	<u>\$ 10.0</u>	<u>\$ 0.12</u>	<u>\$ 88.8</u>	<u>\$ 43.5</u>	<u>\$ 0.51</u>

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

At the end of the second quarter of 2011, we had \$458.3 million in cash and cash equivalents and \$565.7 million in available (unused) borrowing capacity under our revolving credit facilities. The combination of cash and cash equivalents and available borrowing capacity yields \$1,024.0 million of overall liquidity. At the end of the second quarter of 2011, we had outstanding recourse debt of \$274.1 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 revolving credit facilities during the first six months in 2011.

For the first six months of 2011, operations provided \$26.7 million of cash with the majority realized in the second quarter. Capital expenditures for the first six months of 2011 totaled \$28.2 million and included systems and infrastructure investments.

Outlook

We continue to experience lower sales as a result of the difficult macroeconomic environment but have made progress on gross margin initiatives. Based on these trends, we anticipate that total company sales for the third quarter will be in line with the third quarter of 2010, including the favorable impact of foreign currency translation, and total company sales for the second half of 2011 will be slightly higher than the respective prior-year period, including the favorable impact of foreign currency translation and the benefit of the additional fiscal week in the fourth quarter. Additionally, OfficeMax anticipates that for both the third quarter and second half of 2011, the adjusted operating income margin rate will be flat to slightly higher than the respective prior-year periods. We anticipate capital expenditures for the full year of 2011 to be approximately \$75 million, primarily related to technology, ecommerce and infrastructure investments and upgrades. In addition, we expect cash flow from operations to be in excess of capital expenditures for the full year of 2011.

Operating Results

Sales for the second quarter of 2011 decreased 0.3% year-over-year to \$1,647.6 million, while sales of \$3,510.6 million for the first six months of 2011 decreased 1.7% year-over-year. On a local currency basis, sales for the second quarter of 2011 declined 2.4% compared to the second quarter of 2010 and sales for the first six months of 2011 declined 3.3% compared to the first six months of 2010. On a local currency basis, sales for both our Retail and Contract businesses declined in both the second quarter and the first six months of 2011 compared to the same periods of 2010. These declines are the result of spending reductions by our customers resulting from

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the continued challenging economic environment and have occurred simultaneously with increased competitive intensity. The sales declines for the first six months of 2011 also included an unfavorable impact from inclement weather in the U.S. during the first quarter of 2011.

Gross profit margin decreased 0.1% of sales (10 basis points) to 25.8% of sales in the second quarter of 2011 and 0.5% of sales (50 basis points) to 25.6% of sales in the first six months of 2011. For the second quarter of 2011, the Company experienced less favorable inventory shrinkage reserve adjustments in the current year than those in the prior year. Mitigating the negative gross profit margin impact from this inventory shrinkage reserve adjustment was improved margins from customer sales in Retail and U.S. Contract, continued favorable trends in inventory shrinkage expense and lower occupancy costs, all of which were partially offset by higher delivery costs relating to fuel prices. Gross profit margin for the first six months of 2011 also declined as a result of lower Retail margins from the customer sales due to an unfavorable product mix shift and higher import duties associated with purchases in prior periods experienced in the first quarter.

Operating, selling and general and administrative expenses increased \$4.8 million and \$8.7 million for the second quarter and the first six months of 2011, respectively. As a percentage of sales, operating, selling and general and administrative expenses increased 0.3% of sales to 24.7% of sales in the second quarter of 2011 from 24.4% of sales in the second quarter of 2010 and increased 0.7% of sales to 24.3% of sales in the first six months of 2011 from 23.6% of sales in the first six months of 2010. Increases in the operating, selling and general and administrative expenses as a percentage of sales occurred in both our Retail and Contract segments for both periods of 2011 and were the result of spending on long-term growth initiatives and the impact of unfavorable trends in health and workers' compensation benefits, which were partially offset by lower incentive compensation expense. Expenses for the second quarter of 2011 were higher than for the second quarter of 2010 due to the impact of foreign currency exchange rates in our international operations (approximately \$8 million), increased spending on long-term growth and profitability initiatives, unfavorable trends in health and workers' compensation benefits and the impact of a favorable legal settlement (\$3.7 million) recorded in the second quarter of 2010. Incentive compensation expense was \$19.0 million lower in the second quarter of 2011 than the second quarter of 2010 and \$18.5 million lower in the first six months of 2011 than in the first six months of 2010.

As noted above, our results for the first six months of 2011 and 2010 include several significant items, as follows:

- The first six months of 2011 and 2010 include charges recorded in our Retail segment related to store closures in the U.S. of \$5.6 million (second quarter only) and \$14.4 million, respectively, which reduced net income available to OfficeMax common shareholders by \$3.4 million and \$8.9 million, or \$0.04 and \$0.10 per diluted share, for the first six months of 2011 and 2010, respectively. Store closure charges recorded in the second quarters of 2011 and 2010 were \$5.6 million and \$1.1 million, respectively, which increased net loss available to OfficeMax common shareholders by \$3.4 million and \$0.6 million, or \$0.04 and \$0.01 per diluted share, for the second quarters of 2011 and 2010, respectively.
- The first six months of 2011 and 2010 include severance charges of \$8.3 million recorded in the second quarter of 2011 (\$8.0 million in Contract and \$0.3 million in Retail) related to reorganizations in Canada, Australia, and the U.S. sales and supply chain organizations and \$0.8 million recorded in the first quarter of 2010 in our Contract segment related to a reorganization of U.S. customer service operations. The effect of these items increased net loss by \$5.6 million, or \$0.07 per diluted share, for the second quarter of 2011, and reduced net income by \$5.6 million and \$0.5 million, or \$0.06 and \$0.01 per diluted share, for the first six months of 2011 and 2010, respectively.
- The first six 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 both the quarter and six month period.

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Interest income was \$10.9 million and \$10.6 million for the second quarters of 2011 and 2010, respectively. For the first six months of 2011 and 2010, interest income was \$21.9 million and \$21.2 million, respectively.

Interest expense was \$18.1 million in the second quarter of 2011 compared to \$18.4 million in the second quarter of 2010 and was \$36.9 million in the first six months of 2011 compared to \$36.7 million in the first six months of 2010.

For the second quarter of 2011, we recognized income tax benefit of \$1.0 million on a pre-tax loss of \$3.1 million (effective tax benefit rate of 32.3%) compared to income tax expense of \$7.3 million on pre-tax income of \$20.2 million (effective tax expense rate of 36.0%) for the second quarter of 2010. For the first six months of 2011, we recognized income tax expense of \$6.7 million on pre-tax income of \$17.8 million (effective tax expense rate of 37.5%) compared to income tax expense of \$22.7 million on pre-tax income of \$61.9 million (effective tax expense rate of 36.6%) for the first six months of 2010. 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 and the mix of domestic and foreign sources of income.

We reported net loss attributable to OfficeMax and noncontrolling interest of \$2.1 million for the second quarter of 2011 and net income attributable to OfficeMax and noncontrolling interest of \$11.1 million for the first six months of 2011, respectively. After adjusting for joint venture earnings attributable to noncontrolling interest and preferred dividends, we reported net loss available to OfficeMax common shareholders of \$3.0 million, or \$(0.04) per diluted share, for the second quarter of 2011, and net income available to OfficeMax common shareholders of \$8.3 million, or \$0.10 per diluted share, for the first six months of 2011. Adjusted net income (loss) available to OfficeMax common shareholders, as discussed above, was income of \$6.0 million, or \$0.07 per diluted share, for the second quarter of 2011 compared to income of \$10.0 million, or \$0.12 per diluted share, for the second quarter of 2010. For the first six months of 2011 and 2010, adjusted net income (loss) available to OfficeMax common shareholders was income of \$17.3 million, or \$0.20 per diluted share, for 2011 compared to income of \$43.5 million, or \$0.51 per diluted share, for 2010.

Segment Discussion

We report our results using three reportable segments: Contract; Retail; and Corporate and Other.

Our Contract segment 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.

Our Retail segment 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. Retail has operations in the United States, Puerto Rico and the U.S. Virgin Islands. Retail also operates office products stores in Mexico through a 51%-owned joint venture.

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

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Contract **(\$ in millions)**

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Sales	\$880.3	\$880.5	\$1,806.0	\$1,843.5
Gross profit	195.9	199.9	401.4	418.3
<i>Gross profit margin</i>	22.3%	22.7%	22.2%	22.7%
Operating, selling and general and administrative expenses	178.5	180.5	375.0	365.2
<i>Percentage of sales</i>	20.3%	20.5%	20.7%	19.8%
Segment income	\$ 17.4	\$ 19.4	\$ 26.4	\$ 53.1
<i>Percentage of sales</i>	2.0%	2.2%	1.5%	2.9%
Sales by Product Line				
Office supplies and paper	\$502.2	\$496.2	\$1,043.7	\$1,059.3
Technology products	281.3	296.3	572.3	608.3
Office furniture	96.8	88.0	190.0	175.9
Sales by Geography				
United States	\$592.2	\$607.9	\$1,200.4	\$1,252.0
International	288.1	272.6	605.6	591.5
Sales Growth (Decline)	0.0%	(0.1)%	(2.0)%	1.9%

Contract segment sales for the second quarter of 2011 of \$880.3 million were flat compared to sales of \$880.5 million for the second quarter of 2010. For the first six months of 2011, sales decreased 2.0% to \$1,806.0 million from \$1,843.5 million for the first six months of 2010. In the second quarter of 2011, on a local currency basis, there was a 3.5% decline for the segment, with U.S. Contract sales declining 2.6%. This U.S. Contract sales decline was improved from the 5.6% decline in the first quarter of 2011, as the rate of sales decline related to existing customers improved from the first quarter of 2011, and sales to newly acquired customers outpaced the reduction in sales due to lost customers. International sales declined 5.5% on a local currency basis in the second quarter of 2011 compared to a 7.4% decline on a local currency basis in the first quarter of 2011, primarily as a result of decreased sales to existing customers and several large customers that were not retained.

Contract segment gross profit margin decreased 0.4% of sales (40 basis points) to 22.3% of sales for the second quarter of 2011 and 0.5% of sales (50 basis points) to 22.2% for the first six months of 2011 compared to the same periods of 2010. The decreases in gross profit margins occurred in both our U.S. and international Contract businesses for both the second quarter and first six months of 2011, as higher delivery expense and the impact of less favorable inventory shrinkage reserve adjustments recorded in the current year than in the prior year (2011 reserve adjustments were lower than in 2010 by \$2.6 million for the second quarter and \$4.0 million for the first six months) were partially offset by lower occupancy costs and increased margins from customer sales in the U.S. International margins for the second quarter and the first six months of 2011 declined compared to the same periods of 2010 due to lower margins from customer sales as a result of increased competitive market conditions in Canada.

As a percentage of sales, Contract segment operating, selling and general and administrative expenses decreased 0.2% of sales to 20.3% of sales for the second quarter of 2011 from 20.5% of sales in the second quarter of 2010. Contract segment operating, selling and general and administrative expenses for the second quarter of 2011 decreased \$2.0 million from the second quarter of 2010, primarily due to lower incentive compensation expense of \$9.4 million, which was partially offset by the unfavorable impact of foreign currency exchange rates (approximately \$7 million). For the first six months of 2011, Contract segment operating, selling and general and administrative expenses increased 0.9% of sales to 20.7% of sales from 19.8% of sales for the first six months of 2010 due to increased costs associated with long-term growth and profitability initiatives associated with our managed-print-services, customer service centers and business-to-business website, which were partially offset by lower incentive compensation expense.

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Contract segment income was \$17.4 million, or 2.0% of sales, and \$19.4 million, or 2.2% of sales, for the second quarters of 2011 and 2010, respectively, and \$26.4 million, or 1.5% of sales, and \$53.1 million, or 2.9% of sales, for the first six months of 2011 and 2010, respectively. The decrease in segment income for both periods was attributable to the lower sales and lower gross margin rates, and higher operating, selling and general and administrative expenses from the impact of foreign currency rates, all of which were partially offset by the lower incentive compensation expense.

Retail **(\$ in millions)**

	Three Months Ended		Six Months Ended	
	June 25, 2011	June 26, 2010	June 25, 2011	June 26, 2010
Sales	\$767.3	\$772.7	\$1,704.6	\$1,726.9
Gross profit	229.2	227.8	498.2	514.9
<i>Gross profit margin</i>	29.9%	29.5%	29.2%	29.8%
Operating, selling and general and administrative expenses	221.2	213.9	464.6	462.3
<i>Percentage of sales</i>	28.9%	27.7%	27.2%	26.8%
Segment income	\$ 8.0	\$ 13.9	\$ 33.6	\$ 52.6
<i>Percentage of sales</i>	1.0%	1.8%	2.0%	3.0%
Sales by Product Line				
Office supplies and paper	\$319.5	\$314.0	\$ 720.1	\$ 709.1
Technology products	400.3	413.4	882.5	916.9
Office furniture	47.5	45.3	102.0	100.9
Sales by Geography				
United States	\$702.5	\$721.3	\$1,572.2	\$1,624.2
International	64.8	51.4	132.4	102.7
Sales Decline				
Segment sales decline	(0.7)%	(0.5)%	(1.3)%	(1.9)%
Same-location sales decline	(0.5)%	(0.3)%	(0.9)%	(1.6)%

Retail segment sales decreased by 0.7% (1.2% on a local currency basis) to \$767.3 million for the second quarter of 2011 and decreased 1.3% (1.7% on a local currency basis) to \$1,704.6 million for the first six months of 2011 reflecting challenging economic conditions and an increased competitive environment. Same-location sales declined by 0.5% in the second quarter of 2011 which included a U.S. same-store sales decline of 2.3% and strong growth in Mexico. The U.S. decline was primarily due to continued weaker consumer and small business spending and reduced technology sales, as the impact of increased average ticket amounts was offset by lower store traffic. U.S. same-store sales year-over-year declines in the second quarter of 2011 were improved from those realized in the first quarter of 2011. We ended the second quarter of 2011 with 983 stores. In the U.S., we closed eight retail stores during the second quarter of 2011 and fourteen during the first six months of 2011, and opened none, ending the quarter with 904 retail stores, while Grupo OfficeMax, our majority-owned joint venture in Mexico, had no change, ending the quarter with 79 retail stores.

Retail segment gross profit margin increased 0.4% of sales (40 basis points) to 29.9% of sales for the second quarter of 2011 compared to 29.5% of sales for the previous year. This increase was primarily due to improved margins from the customer sales in the U.S. and lower occupancy expenses, which were partially offset by the impact of less favorable inventory shrinkage reserve adjustments recorded in the current year than in the prior year (2011 reserve adjustments were lower than in 2010 by \$6.4 million for the second quarter and \$7.0 million for the first six months). Inventory shrinkage expense continues to trend favorably for the first six months of 2011. The gross profit margin declined 0.6% of sales (60 basis points) to 29.2% of sales from 29.8% of sales for the first six months of 2010, reflecting the lower margin rate achieved in the first quarter of 2011.

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Retail segment operating, selling and general and administrative expenses increased 1.2% of sales to 28.9% of sales for the second quarter of 2011 and increased 0.4% to 27.2% of sales for the first six months of 2011. Retail segment operating, selling and general and administrative expenses increased \$7.3 million and \$2.3 million for the second quarter and first six months of 2011, respectively, compared to the same periods of the prior year, despite incentive compensation expense that was \$8.2 million lower than the prior year. The increase in operating, selling and general and administrative expenses was due to the impact of a favorable legal settlement (\$3.7 million) in the second quarter of 2010, increased spending associated with long-term growth and profitability initiatives, unfavorable trends in health and workers' compensation benefits for the second quarter of 2011 compared to the second quarter of 2010 and higher marketing expenses as well as increased spending in Mexico due to sales volume increases.

Retail segment income was \$8.0 million, or 1.0% of sales, for the second quarter of 2011, compared to \$13.9 million, or 1.8% of sales, for the second quarter of 2010. Retail segment income was \$33.6 million, or 2.0% of sales, for the first six months of 2011 compared to \$52.6 million, or 3.0% of sales, for the first six months of 2010. The decrease in segment income for both periods was attributable to the lower sales and higher operating, selling and general and administrative expenses, which were partially offset by the lower incentive compensation expense. Gross profit margins improved in the second quarter of 2011 compared to the second quarter of 2010, but declined for the first six months of 2011 compared to the first six months of 2010, as the second quarter improvement was not enough to offset the decline in the first quarter. Sales and income from our Mexican joint venture were improved for the first six months of 2011 compared to the first six months of 2010.

Corporate and Other

Corporate and Other segment loss was \$7.5 million and \$13.5 million for the second quarter and first six months of 2011, respectively, compared to \$8.0 million and \$16.9 million for the second quarter and first six months of 2010, respectively. For both periods of 2011, reduced incentive compensation expense was partially offset by increased pension expense. In addition, the first six months of 2011 included \$3.8 million of income related to a non-recurring, favorable adjustment in the cash surrender value of our company-owned life insurance policies recorded in the first quarter of 2011.

Liquidity and Capital Resources

At the end of the second quarter of 2011, the total liquidity available for OfficeMax was \$1,024.0 million. This includes cash and cash equivalents of \$458.3 million and borrowing availability of \$565.7 million. The borrowing availability included \$460.5 million and \$47.3 million relating to our U.S. and Canadian revolving credit agreements, respectively, as well as \$57.9 million relating to our credit agreement associated with our subsidiaries in Australia and New Zealand. At the end of the second quarter of 2011, the Company was in compliance with all covenants under the three credit agreements. The U.S. and Canadian credit agreements expire on July 12, 2012 and the credit agreement associated with our subsidiaries in Australia and New Zealand expires on March 15, 2013. At the end of the second quarter of 2011, we had \$274.1 million of short-term and long-term debt and \$1,470.0 million of non-recourse timber securitization notes outstanding.

Our primary ongoing cash requirements relate to working capital, expenditures for property and equipment, technology enhancements and upgrades, lease obligations, pension funding and debt service. We expect to fund these requirements through a combination of available cash balance and cash flow from operations. We also have revolving credit facilities as additional liquidity if needed. The following sections of this Management's Discussion and Analysis of Financial Condition and Results of Operations discuss in more detail our operating, investing, and financing activities, as well as our financing arrangements.

Operating Activities

Our operating activities provided cash of \$26.7 million in the first six months of 2011 compared to \$68.0 million in the first six months of 2010. Cash from operations for the first six months of 2011 was lower than for the first six months of the prior year reflecting a lower level of earnings. Receivables and inventory levels were

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reduced from year end and our ratio of accounts payable to inventory improved from both year end and the end of the prior year second quarter. In addition, cash from operations in the first six months of 2011 and 2010 included the impact of approximately \$54 million and \$58 million, respectively, of incentive compensation payments made associated with the achievement of incentive plan performance targets for 2010 and 2009, respectively.

We sponsor noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active employees, primarily in Contract. Pension expense was \$2.4 million and \$1.6 million for the second quarters of 2011 and 2010, respectively and \$4.9 million and \$3.7 million for the first six months of 2011 and 2010, respectively. In the first six months of 2011 and 2010, we made contributions to our pension plans totaling \$1.7 million and \$1.8 million, respectively. For the full year, the estimated minimum required funding contribution is approximately \$3.7 million and the expense is projected to be approximately \$10.8 million. We intend to fully fund our qualified defined benefit plans over the next several years.

Investing Activities

Capital spending for the first six months of 2011 was \$28.2 million, compared to \$28.6 million for the first six months of 2010, and consisted of information systems software enhancements, leasehold improvements and replacement maintenance as well as spending on new stores to be opened later in the year in Mexico. We expect our capital investments in 2011 to be approximately \$75.0 million primarily for maintenance and investment in our systems, infrastructure and growth and profitability initiatives.

Financing Activities

Our financing activities used cash of \$7.1 million in the first six months of 2011 compared to \$4.4 million in the first six months of 2010, primarily associated with share-based compensation awards.

Financing Arrangements

Our debt structure consists of credit agreements, note agreements, and other borrowings as described below. For more information, see the “Contractual Obligations” and “Disclosures of Financial Market Risks” sections of this Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Credit Agreements

On July 12, 2007, we 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 us to borrow up to a maximum of \$700 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The U.S. Credit Agreement may be increased (up to a maximum of \$800 million) at our request or reduced from time to time, in each case according to the terms detailed in the U.S. Credit Agreement. There were no borrowings outstanding under our U.S. Credit Agreement at the end of the second quarter of 2011, and there were no borrowings outstanding under this facility during the first six months of 2011. Letters of credit, which may be issued under the U.S. Credit Agreement up to a maximum of \$250 million, reduce available borrowing capacity. Stand-by letters of credit issued under the U.S. Credit Agreement totaled \$54.5 million at the end of the second quarter of 2011. At the end of the second quarter of 2011, the maximum aggregate borrowing amount available under the U.S. Credit Agreement was \$515.0 million and availability under the U.S. Credit Agreement totaled \$460.5 million. The U.S. Credit Agreement allows the payment of dividends, subject to availability restrictions and if no default has occurred. At the end of the second quarter of 2011, we were in compliance with all covenants under the U.S. Credit Agreement. The U.S. Credit Agreement expires on July 12, 2012. We intend to enter into a new agreement prior to the expiration of the existing agreement.

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On September 30, 2009, Grand & Toy Limited, the Company's wholly owned subsidiary based in Canada, entered into a Loan and Security Agreement (the "Canadian Credit Agreement") with a group of banks. The Canadian Credit Agreement permits Grand & Toy Limited to borrow up to a maximum of C\$60 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The Canadian Credit Agreement may be increased (up to a maximum of C\$80 million) at Grand & Toy Limited's request or reduced from time to time, in each case according to the terms detailed in the Canadian Credit Agreement. There were no borrowings outstanding under the facility at the end of the second quarter of 2011, and there were no borrowings outstanding under this facility during the first six months of 2011. Letters of credit, which may be issued under the Canadian Credit Agreement up to a maximum of C\$10 million, reduce available borrowing capacity. There were no letters of credit outstanding under the Canadian Credit Agreement at the end of the second quarter of 2011. The maximum aggregate borrowing amount available under the Canadian Credit Agreement was \$47.3 million (C\$45.8 million) at the end of the second quarter of 2011. Grand & Toy Limited was in compliance with all covenants under the Canadian Credit Agreement at the end of the second quarter of 2011. The Canadian Credit Agreement expires on July 12, 2012. We intend to enter into a new agreement prior to the expiration of the existing agreement.

On March 15, 2010, the Company's five wholly-owned subsidiaries based in Australia and New Zealand entered into a Facility Agreement (the "Australia/New Zealand Credit Agreement") with a financial institution based in those countries. The Australia/New Zealand Credit Agreement permits the subsidiaries in Australia and New Zealand to borrow up to a maximum of A\$80 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of certain owned properties, less certain reserves. There were no borrowings outstanding under the facility at the end of the second quarter of 2011, and there were no borrowings outstanding under this facility during the first six months of 2011. The maximum aggregate borrowing amount available under the Australia/New Zealand Credit Agreement was \$57.9 million (A\$54.1 million) at the end of the second quarter of 2011. At the end of the second quarter of 2011, the subsidiaries in Australia and New Zealand were in compliance with all covenants under the Australia/New Zealand Credit Agreement. The Australia/New Zealand Credit Agreement expires on March 15, 2013.

Timber Notes/Non-recourse debt

In October 2004, we sold our timberland assets in exchange for \$15 million in cash plus credit-enhanced timber installment notes in the amount of \$1,635 million (the "Installment Notes"). The Installment Notes were issued by single-member limited liability companies formed by affiliates of Boise Cascade, L.L.C (the "Note Issuers"). In order to support the Installment Notes, the Note Issuers transferred \$1,635 million in cash to Lehman and Wachovia Corporation ("Wachovia") (\$817.5 million to each of Lehman and Wachovia) who issued collateral notes to the Note Issuers and guarantees on the performance of the Installment Notes. 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. Recourse on the Securitization Notes is limited to the proceeds from the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty. **As a result, there is no recourse against OfficeMax, and the Securitization Notes have been reported as non-recourse debt in our Consolidated Balance Sheets.**

On September 15, 2008, Lehman filed for bankruptcy. Lehman's bankruptcy filing constituted an event of default under the \$817.5 million Installment Note guaranteed by Lehman (the "Lehman Guaranteed Installment Note"). We are required for accounting purposes to assess the carrying value of assets whenever circumstances indicate that a decline in value may have occurred. After evaluating the situation, we concluded in late October 2008 that as a result of the Lehman bankruptcy, it was probable that we would be unable to collect all amounts due according to the contractual terms of the Lehman Guaranteed Installment Note. Accordingly, we evaluated

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the carrying value of the Lehman Guaranteed Installment Note and reduced it to the estimated amount we expect to collect (\$81.8 million) by recording a non-cash impairment charge of \$735.8 million, pre-tax, in the third quarter of 2008.

Measuring impairment of a loan requires judgment and estimates, and the eventual outcome may differ from our estimate by a material amount. The Lehman Guaranteed Installment Note has been pledged as collateral for the related Securitization Notes, and therefore it may not freely be transferred to any party other than the indenture trustee for the Securitization Note holders. Accordingly, the ultimate amount to be realized on the Lehman Guaranteed Installment Note depends entirely on the proceeds from the Lehman bankruptcy estate, which may not be finally determined for several years. Our estimate of the expected proceeds has not changed, and at June 25, 2011, the carrying value of the Lehman Guaranteed Installment Note remained at \$81.8 million. Going forward, we intend to adjust the carrying value of the Lehman Guaranteed Installment Note as further information regarding our share of the proceeds, if any, from the Lehman bankruptcy estate becomes available.

Recourse on the Securitization Notes is limited to the proceeds from the applicable pledged Installment Notes and underlying Lehman or Wachovia guaranty. Accordingly, the Lehman Guaranteed Installment Note and underlying Lehman guaranty will be transferred to the holders of the Securitization Notes guaranteed by Lehman in order to settle and extinguish that liability. However, under current generally accepted accounting principles, 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, which will occur when the Lehman Guaranteed Installment Note and the related guaranty are transferred to and accepted by the Securitization Note holders. We expect that this will occur no later than the date when the assets of Lehman are distributed and the bankruptcy is finalized. Accordingly, we expect to recognize a non-cash gain equal to the difference between the carrying amount of the Securitization Notes guaranteed by Lehman (\$735.0 million at June 25, 2011) and the carrying value of the Lehman Guaranteed Installment Note (\$81.8 million at June 25, 2011) in a later period when the liability is legally extinguished. The actual gain to be recognized in the future will be measured based on the carrying amounts of the Lehman Guaranteed Installment Note and the Securitization Notes guaranteed by Lehman at the date of settlement.

At the time of the sale of our timberland assets in 2004, we generated a significant tax gain. As the timber installment notes structure allowed the Company to defer the resulting tax liability of \$543 million until 2020, the maturity date for the Installment Notes, we recognized a deferred tax liability related to this gain in connection with the sale. The recognition of the Lehman portion of the tax 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. In estimating the cash taxes, we will consider our available alternative minimum tax credits to reduce the net tax payments.

Through June 25, 2011, we have received all payments due under the Installment Notes guaranteed by Wachovia (the "Wachovia Guaranteed Installment Notes"), which have consisted only of interest due on the notes, and have made all payments due on the related Securitization Notes guaranteed by Wachovia, again consisting only of interest due. As all amounts due on the Wachovia Guaranteed Installment Notes are current, and we have no reason to believe that we will not collect all amounts due according to the contractual terms of the Wachovia Guaranteed Installment Notes, the notes are stated in our Consolidated Balance Sheet at their original principal amount of \$817.5 million. Wachovia was acquired by Wells Fargo & Company in a stock transaction in 2008. An additional adverse impact on our financial results presentation could occur if Wells Fargo became unable to perform its obligations under the Wachovia Guaranteed Installment Notes, thereby resulting in a significant impairment impact.

The pledged Installment Notes and Securitization Notes are scheduled to mature in 2020 and 2019, respectively. The Securitization Notes have an initial term that is approximately three months shorter than the Installment Notes. We expect that if the Securitization Notes are still outstanding in 2019, we will refinance them with a short-term borrowing to bridge the period from initial maturity of the Securitization Notes to the maturity of the Installment Notes.

Contractual Obligations

For information regarding contractual obligations, see the caption “Contractual Obligations” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 25, 2010. At June 25, 2011, there had not been a material change to the information regarding contractual obligations disclosed in our Annual Report on Form 10-K for the year ended December 25, 2010.

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 second quarter of 2011, Grupo OfficeMax met the earnings targets and the estimated purchase price of the minority owner’s interest was \$40.2 million. At the end of the second quarter of 2011, the noncontrolling interest was recorded at the estimated purchase price, which was in excess of the carrying value. As the estimated purchase price approximates fair value, the offset was recorded to additional paid-in capital.

Off-Balance-Sheet Activities and Guarantees

For information regarding off-balance-sheet activities and guarantees, see “Off-Balance-Sheet Activities and Guarantees” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 25, 2010. At June 25, 2011, there had not been a material change to the information regarding off-balance-sheet activities and guarantees disclosed in our Annual Report on Form 10-K for the year ended December 25, 2010.

Seasonal Influences

Our business is seasonal, with Retail showing a more pronounced seasonal trend than Contract. Sales in the second quarter are historically the slowest of the year. Sales are stronger during the first, third and fourth quarters that include the important new-year office supply restocking month of January, the back-to-school period and the holiday selling season, respectively.

Disclosures of Financial Market Risks

Financial Instruments

Our debt is predominantly fixed-rate. At June 25, 2011, the estimated current fair value of our debt, based on quoted market prices when available or then-current interest rates for similar obligations with like maturities, including the timber notes, was approximately \$584.1 million less than the amount of debt reported in the Consolidated Balance Sheets. As previously discussed, 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. The debt and receivable related to the timber notes have fixed interest rates and the estimated fair values of the timber notes are reflected in the table below.

The following table provides information about our financial instruments outstanding at June 25, 2011. The following table does not include our obligations for pension plans and other post retirement benefits, although market risk also arises within our defined benefit pension plans to the extent that the obligations of the pension plans are not fully matched by assets with determinable cash flows. We sponsor noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active OfficeMax employees. As our plans were frozen in 2003, our active employees and all inactive participants who are covered

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by the plans are no longer accruing additional benefits. However, the pension plan obligations are still subject to change due to fluctuations in long-term interest rates as well as factors impacting actuarial valuations, such as retirement rates and pension plan participants' increased life expectancies. In addition to changes in pension plan obligations, the amount of plan assets available to pay benefits, contribution levels and expense are also impacted by the return on the pension plan assets. The pension plan assets include OfficeMax common stock, U.S. equities, international equities, global equities and fixed-income securities, the cash flows of which change as equity prices and interest rates vary. The risk is that market movements in equity prices and interest rates could result in assets that are insufficient over time to cover the level of projected obligations. This in turn could result in significant changes in pension expense and funded status, further impacting future required contributions. Management, together with the trustees who act on behalf of the pension plan beneficiaries, assess the level of this risk using reports prepared by independent external actuaries and take action, where appropriate, in terms of setting investment strategy and agreed contribution levels.

	June 25, 2011		December 25, 2010	
	Carrying amount	Fair value	Carrying amount	Fair value
(thousands)				
Financial assets:				
Timber notes receivable				
Wachovia	\$ 817,500	\$ 912,460	\$ 817,500	\$ 888,288
Lehman	\$ 81,750	\$ 81,750	\$ 81,750	\$ 81,750
Financial liabilities:				
Recourse debt	\$ 274,078	\$ 246,038	\$ 274,995	\$ 255,519
Non-recourse debt				
Wachovia	\$ 735,000	\$ 832,148	\$ 735,000	\$ 811,093
Lehman	\$ 735,000	\$ 81,750	\$ 735,000	\$ 81,750

Changes in foreign currency exchange rates expose us to financial market risk. We occasionally use derivative financial instruments, such as forward exchange contracts, to manage our exposure associated with commercial transactions and certain liabilities that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction. We do not enter into derivative instruments for any other purpose. We do not speculate using derivative instruments. We were not a party to any material derivative financial instruments during 2011.

Facility Closure Reserves

We conduct regular reviews of our real estate portfolio to identify underperforming facilities, and close those facilities that are no longer strategically or economically beneficial. We record a liability for the cost associated with a facility closure at its estimated 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 payments.

During the first six months of 2011, we recorded pre-tax charges of \$5.6 (all in the second quarter) in our Retail segment related to the closing of six underperforming domestic stores prior to the end of their lease term. During the first six months of 2010, we recorded pre-tax charges of \$14.4 million (\$1.1 million in the second quarter) in our Retail segment related to the closing of eight underperforming domestic stores prior to the end of their lease terms.

At June 25, 2011, the facility closure reserve was \$59.2 million with \$17.4 million included in current liabilities, and \$41.8 million included in long-term liabilities. The reserve represents future lease obligations of \$123.5 million, net of anticipated sublease income of approximately \$64.3 million. Cash payments relating to the facility closures were \$11.2 million and \$11.6 million in the first six months of 2011 and 2010, respectively.

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Environmental

For information regarding environmental issues, see the caption “Environmental” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 25, 2010. At June 25, 2011, there has not been a material change to the information regarding environmental issues disclosed in the company’s annual report on Form 10-K for the year ending December 25, 2010.

Critical Accounting Estimates

For information regarding critical accounting estimates, see the caption “Critical Accounting Estimates” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 25, 2010. There have been no significant changes to the Company’s critical accounting estimates during the first six months of 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding market risk see the caption “Disclosures of Financial Market Risks” herein and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 25, 2010. At June 25, 2011, except as disclosed herein in “Disclosures of Financial Market Risks,” there had not been a material change to the information regarding market risk disclosed in the Company’s Annual Report on Form 10-K for the year ended December 25, 2010.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the chief executive officer and chief financial officer directed and supervised an evaluation of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The evaluation was conducted to determine whether the Company’s disclosure controls and procedures were effective in bringing material information about the Company to the attention of senior management. Based on this evaluation, our chief executive officer and chief financial officer concluded that as of the end of the period covered by this report, the Company’s disclosure controls and procedures were effective in alerting them in a timely manner to material information that the Company is required to disclose in its filings with the Securities and Exchange Commission.

(b) Changes in Internal Control Over Financial Reporting

There was no change in the Company’s internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II—OTHER INFORMATION**ITEM 1. LEGAL PROCEEDINGS**

We are involved in litigation and administrative proceedings arising in the normal course of our business. In the opinion of management, our recovery, if any, or our liability, if any, under pending litigation or administrative proceedings would not materially affect our financial position, results of operations or cash flows. For information concerning legal proceedings, see Note 16, “Legal Proceedings and Contingencies,” of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” in the Company’s Annual Report on Form 10-K for the year ended December 25, 2010.

ITEM 1A. RISK FACTORS

For information regarding risk factors, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 25, 2010. There have been no material changes to the Company’s risk factors during the first six months of 2011, except as set forth below:

Our obligation to purchase paper from Boise White Paper L.L.C. concentrates our supply of an important product primarily with a single supplier until the agreement provides for greater flexibility at the end of 2012.

When we sold our paper, forest products and timberland assets, we agreed to purchase substantially all of our requirements of paper for resale from Boise Cascade, L.L.C., or its affiliates or assigns, currently Boise White Paper L.L.C., on a long term basis. Under the new Paper Purchase Agreement which we entered into on June 25, 2011 and which has an initial term that expires at the end of 2017, this restriction continues to apply until the end of 2012, after which we will have greater flexibility to purchase paper from other paper suppliers. The price we pay for this paper is market based and therefore subject to fluctuations in the supply and demand for the products. In addition, until the restriction period ends, our purchase obligation limits our ability to take advantage of spot purchase opportunities and exposes us to potential interruptions in supply, which could impact our ability to compete effectively with our competitors, who would not typically be restricted in this way.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Information concerning our stock repurchases during the three months ended June 25, 2011 is below. All stock was withheld to satisfy tax withholding obligations upon vesting of restricted stock awards.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price Paid Per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
March 27 – April 23, 2011	22	\$ 13.23	—	—
April 24 – May 21, 2011	22	9.96	—	—
May 22 – June 25, 2011	22	7.86	—	—
Total	66	\$ 10.35	—	—

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. (REMOVED AND RESERVED)**ITEM 5. OTHER INFORMATION**

None

ITEM 6. EXHIBITS

Required exhibits are listed in the Index to Exhibits and are incorporated by reference.

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.

OFFICEMAX INCORPORATED

/s/ BRUCE BESANKO

Bruce Besanko
*Executive Vice President, Chief Financial Officer and Chief Administrative
Officer*
*(As Duly Authorized Officer and Principal
Financial Officer)*

Date: August 4, 2011

OFFICEMAX INCORPORATED
INDEX TO EXHIBITS

Filed with the Quarterly Report on Form 10-Q for the Quarter Ended June 25, 2011

<u>Exhibit Number</u>	<u>Exhibit Description</u>
3.1(1)	Conformed Restated Certificate of Incorporation, reflecting all amendments to date.
3.2(2)	Amended and Restated Bylaws, as amended February 12, 2009.
10.1(3)	Change in Control Agreement dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis.
10.2(4)	Restricted Stock Unit Award Agreement—Time Based dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis.
10.3(5)	Restricted Stock Unit Award Agreement—Performance Based dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis (first).
10.4(6)	Restricted Stock Unit Award Agreement—Performance Based dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis (second).
10.5(7)	Nonqualified Stock Option Award Agreement dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis.
10.6(8)	Nondisclosure and Fair Competition Agreement dated as of May 2, 2011 between OfficeMax Incorporated and Mr. Michael Lewis.
10.7(9)	Letter Agreement dated as of May 24, 2011 issued by OfficeMax Incorporated to Mr. Michael Lewis.
10.8(10)*	Paper Purchase Agreement dated June 25, 2011 between Boise White Paper, L.L.C. and OfficeMax Incorporated
31.1*	CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32*	Section 906 Certifications of Chief Executive Officer and Chief Financial Officer of OfficeMax Incorporated.
101.INS(11)*	XBRL Instance Document.
101.SCH(11)*	XBRL Taxonomy Extension Schema Document.
101.CAL(11)*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF(11)*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB(11)*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE(11)*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Submitted with this Form 10-Q.

- (1) Exhibit 3.1 was filed under the exhibit 3.1.1 in our Registration Statement on Form S-1 dated November 4, 2009, and is incorporated herein by reference.
- (2) Exhibit 3.2 was filed under the exhibit 3.2 in our Current Report on Form 8-K dated February 18, 2009, and is incorporated herein by reference.
- (3) Exhibit 10.1 was filed under the exhibit 99.1 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (4) Exhibit 10.2 was filed under the exhibit 99.2 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.

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- (5) Exhibit 10.3 was filed under the exhibit 99.3 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (6) Exhibit 10.4 was filed under the exhibit 99.4 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (7) Exhibit 10.5 was filed under the exhibit 99.5 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (8) Exhibit 10.6 was filed under the exhibit 99.6 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (9) Exhibit 10.7 was filed under the exhibit 99.7 in our Current Report on Form 8-K dated June 3, 2011, and is incorporated herein by reference.
- (10) Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a confidential treatment request under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.
- (11) These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

PAPER PURCHASE AGREEMENT

1. **Parties:**

- 1.1 **Boise:** Boise White Paper, L.L.C., a Delaware limited liability company (“Boise”).
- 1.2 **OfficeMax:** OfficeMax Incorporated and all of its current and future affiliates and majority and wholly-owned subsidiaries (collectively, “OfficeMax”).

2. **Purchase and Sale Agreement:**

- 2.1 OfficeMax agrees to purchase office papers from Boise and Boise agrees to supply office papers to OfficeMax, subject to the terms and conditions set forth herein. References to OfficeMax’s purchase volume shall only include requirements for its operations in the U.S., Canada, and Puerto Rico. OfficeMax has the ability to add or delete any brand or item to their volume assortment and to market to all channels and media as determined in their sole discretion, subject to the terms and conditions set forth herein.

3. **Products – Commodity Papers**

- 3.1 “Commodity Papers” shall include all products listed on Exhibit B (under the heading “Commodity Papers.” Boise shall update Exhibit B periodically to reflect the products sold by Boise to OfficeMax.
- 3.2 Pricing and terms for Commodity Papers are set forth on Exhibits A and B.
- 3.3 In both 2011 and 2012, OfficeMax will purchase from Boise no less than the share of Commodity Papers and Non-Commodity Papers (defined below) that OfficeMax purchased from Boise in 2010. For purposes of the Agreement, “share” shall mean the percentage derived by dividing the tons of paper supplied by Boise and sold by OfficeMax to its customers as compared to the total tons of paper (defined as cut sheet paper including copy, multipurpose, laser, inkjet, recycled and colors) sold by OfficeMax as sourced from all paper suppliers.
- 3.4 From January 1, 2013 until such time as this Agreement is terminated (excluding any Phase-Down period), OfficeMax will purchase from Boise at least an 80% share of its Commodity Paper purchases, subject to the provisions below.

3.5 Beginning in 2012 (for calendar years 2013 and beyond), OfficeMax may obtain quotes from other paper producers to supply ***** volume (in tons) of office papers equivalent to ***** then being purchased by OfficeMax from Boise. If OfficeMax receives a bona fide bid that is at least ***** better than the net price (including all terms and promotional funding) OfficeMax is currently paying Boise for papers of comparable quality and quantity, it may purchase such papers from the other producer, if the following conditions are met: *****

If Boise chooses not to meet the bid pricing, the relationship will enter Phase-Down (as described in Section 5) ***** beginning January 1 of the following year, unless the parties mutually agree in writing to continue the purchase/supply relationship for all or part of the subject volume.

3.6 Within the 90 days after Boise has announced a price increase, unless Boise otherwise agrees, OfficeMax shall not purchase more than ***** of the average monthly volume purchased for Commodity Papers during the prior three months. To the extent Boise accepts orders for greater than the ***** limitation, Boise may charge OfficeMax the post-increase price for the incremental volume.

4. **Products – Non-Commodity Papers**

4.1 “Non-Commodity Papers” shall include all paper products listed on Exhibit B, other than those defined as “Commodity Papers” above. Pricing and terms for Non-Commodity Papers are set forth on Exhibit A and B.

4.2 For the term of this Agreement (including any Phase-Down) OfficeMax will continue to buy its full requirements of Non-Commodity Papers from Boise, subject to the terms and pricing parameters set forth herein, and except as provided below. Notwithstanding the foregoing, OfficeMax shall be permitted to purchase Non-Commodity Papers produced by other paper manufacturers provided, however, that if Boise produces a competing Non-Commodity Paper, OfficeMax shall purchase the paper from Boise unless a customer specifies the other competing brand; it being understood that OfficeMax will encourage and promote the sale of Boise’s products.

4.2.1 In addition, the restrictions set forth in this Section 4.2 shall not apply to OfficeMax’s current and future assortment of Non-Commodity Papers sold in its retail business (including Reliable and officemax.com) and new channel (store within a

* Confidential treatment is requested; filed separately with the Securities and Exchange Commission.

store) business. If OfficeMax offers a Non-Commodity Paper produced by another paper manufacturer on its e-commerce site(s), it agrees to offer the equivalent Boise-branded Non-Commodity Paper on the site(s) as well.

4.2.2 Notwithstanding anything above, nothing in this Section 4.2 shall permit OfficeMax to include any Non-Commodity Paper manufactured from a paper manufacturer other than Boise in the contract catalog, without Boise's express written permission.

4.3 For contract catalog, OfficeMax may purchase branded paper products of non-paper producers that can be produced by Boise ("OEM Products", such as HP), so long as the purchases of OEM paper shall not exceed 110% of the volume purchased in the prior year by brand.

4.3.1 OfficeMax shall use its best efforts to cause the sellers of OEM Products to use paper produced by Boise when Boise can produce such paper and wishes to make such paper for the OEM. OfficeMax shall obtain a copy of the quotes of the other paper producers for such OEM products and shall share a copy with Boise. Boise shall have the opportunity to meet the price of the other producer and if Boise chooses to do so, OfficeMax shall cause the OEM to use Boise's paper. OfficeMax and Boise shall closely cooperate with respect to such opportunities but OfficeMax shall not be required to pay more for the OEM product with Boise produced paper.

5. **Term of Agreement:**

5.1 Initial Term – July 1, 2011 to December 31, 2017.

5.2 Renewal Term – This Agreement shall renew automatically for additional one-year terms subject to a notice of termination pursuant to Section 5.3 of this Agreement.

5.3 Termination – To terminate this agreement, a party must deliver a written notice of termination prior to July 1 in the last year of the then current term and such termination shall be effective on the last day of such Initial Term or any renewal term. Notwithstanding the effective date of termination, OfficeMax will continue to purchase and Boise will continue to supply product during the Phase-Down period as set forth in Section 5.5 below. The Phase-Down will begin on January 1 following the effective date of termination.

5.4 Phase-Down (2013) – If Phase-Down is triggered under Section 3.5 on January 1, 2013, OfficeMax may reduce its volume of Commodity Papers and Non-Commodity Papers over a four year period, as follows:

- 5.4.1 In 2013, OfficeMax will continue to purchase a minimum of 80% of the total tons of Boise supplied Commodity Papers and Non-Commodity Papers sold by OfficeMax in 2012;
- 5.4.2 In 2014, OfficeMax will continue to purchase a minimum of 60% of the total tons of Boise supplied Commodity Papers and Non-Commodity Papers sold by OfficeMax in 2012;
- 5.4.3 In 2015, OfficeMax will continue to purchase a minimum of 40% of the total tons of Boise supplied Commodity Papers and Non-Commodity Papers sold by OfficeMax in 2012; and
- 5.4.4 In 2016, OfficeMax will continue to purchase a minimum of 20% of the total tons of Boise supplied Commodity Papers sold by OfficeMax in 2012.

5.5 Phase-Down (2014 and beyond) – If Phase-Down is triggered under Section 3.5 on January 1, 2014 or thereafter, OfficeMax may reduce its volume of Commodity Papers and Non-Commodity Papers over a two year period, as follows:

- 5.5.1 In the first 90 days after Phase-Down begins, OfficeMax will purchase on a prorated basis at least 90% of the total tons Boise supplied papers sold by OfficeMax in the year preceding Phase-Down;
- 5.5.2 In the first year of Phase-Down (calculated to include the 90 day period referenced above), OfficeMax will continue to purchase 66% of the total unit volume of Boise supplied paper sold by OfficeMax in the year preceding Phase-Down; and
- 5.5.3 In the second year of Phase-Down, OfficeMax will continue to purchase 33% of the total unit volume of Boise supplied paper sold by OfficeMax in the year preceding Phase-Down.

6. **Other Terms:**

6.1. OfficeMax shall not be placed on allocation unless and until the effective date of termination pursuant to Section 5.3 hereof in which event such allocation shall be on a ratable basis with Boise's other customers. If OfficeMax orders more paper than Boise can produce, Boise shall either purchase paper for resale to OfficeMax at the then current prices (including Boise's charge for its actual cost in handling such paper) or allow OfficeMax to obtain an alternate source of supply for the requirements in excess of Boise's capacity.

6.2 General terms and conditions are attached as Exhibit C.

6.3 The parties shall keep the pricing terms of this agreement strictly confidential. Pricing for products shall not be disclosed within the parties' respective organizations except on a strict need-to-know basis and in no case shall any sales representatives of any party be told of the pricing under this Agreement.

7. **Agreement:**

7.1 This Agreement will supersede all prior agreements between Boise and OfficeMax, including, but not limited to the following:

7.1.1 Paper Sales Agreement effective October 29, 2004, between Boise and OfficeMax; and

7.1.2 Any domestic Vendor Profile between Boise and OfficeMax.

This Agreement has been agreed upon and executed by the parties as of June 25, 2011.

OFFICEMAX INCORPORATED

By: /s/ Ryan T. Vero

Name: Ryan T. Vero

Title: EVP/CMO

BOISE WHITE PAPER, L.L.C.

By: /s/ Robert A. Warren

Name: Robert A. Warren

Title: EVP & Chief Operating Officer

EXHIBIT A
PRODUCTS LIST AND PRODUCT PRICING

Commodity Papers Pricing: Net pricing for each product identified on Exhibit B as a “Commodity Paper” shall be as set forth in this exhibit. *****

2. **Non-Commodity Papers Pricing:** Net pricing for each product identified herein as a “Non-Commodity Papers” shall be priced as follows:
 - 2.1 Pricing for products on Exhibit B ***** , shall be determined using the pricing rule for Commodity Papers, described above.
 - 2.2 Pricing for products identified on Exhibit B with the designation of “Boise Brand” in the pricing rule column shall be determined by the price at which Boise sells products of like kind, quality, and quantity to other unrelated purchasers and OfficeMax’ price for such products shall be the lowest net price at which Boise sells to similar third party purchasers.
 - 2.3 For products produced by Boise solely for OfficeMax and identified on Exhibit B with the designation “OMX Brand,” Boise and OfficeMax shall negotiate a price. If the parties can’t agree on a price, OfficeMax may solicit prices for comparable products and quantities from other producers provided that Boise shall have the right to meet any such prices.
 - 2.4 Several of the products in Exhibit B are purchased from other producers and the name of the current producer is noted in the “producer” column. Such products shall be sold to OfficeMax at the prices noted in the pricing rule column, as may be adjusted from time to time Boise will provide at least thirty (30) days prior written notice of any adjustments.
3. **Promotional Pricing**
 - 3.1 Boise will pay OfficeMax the following amounts for mutually agreed upon promotional opportunities: *****
4. **Miscellaneous Pricing Terms:**
 - 4.1 Prices for Grand & Toy products shall be determined by converting the prices set forth in this exhibit to Canadian dollars using the exchange rate set forth in the *Wall Street Journal* on the last business day of the previous month. Payments shall be made in Canadian currency.
 - 4.2 All products shall be priced and invoiced at time of shipment, F.O.B. Boise’s dock (Mill, RSC, or Warehouse), freight prepaid and allowed.

* Confidential treatment is requested; filed separately with the Securities and Exchange Commission.

Boise shall be responsible for product quality or transit damage that may be incurred during shipment from the mill to an OfficeMax facility. OfficeMax shall be responsible for any damages incurred after the shipment has been delivered.

- 4.3 Terms are ***** from date of invoice. Payments shall be made via electronic funds transfers. OfficeMax shall be entitled to a ***** prompt pay discount for payments made within ***** days. The prompt pay discount will be based on *****.
- 4.4 All discounts under this agreement shall be calculated on the fifth day of each month based on share purchased within the preceding month. At the end of each year, the parties will true-up any discounts based on annual volumes purchased.
- 4.5 To preserve the confidentiality of the pricing hereunder, *****.
- 4.6 In lieu of any other "Return to Vendor" program instituted at OfficeMax, Boise will pay OfficeMax *****.
- 4.7 Boise and OfficeMax may agree on a different price for truckload drop shipments. Truckload drop shipments are defined as customers who commit to purchasing at least *****. In all other cases, Boise and OfficeMax will agree on pricing for drop shipments.
- 4.8 For purposes of the Agreement, Boise may implement a fuel surcharge *****.
- 4.9 All pricing to OfficeMax takes into account all of the commercial customs and practices (including mode of shipping and freight) in effect prior to the effective date of this Agreement. It is the intent of the parties that they will continue to work under the same commercial customs and practices currently in place on the date of this Agreement, unless specifically addressed herein.

* Confidential treatment is requested; filed separately with the Securities and Exchange Commission.

Exhibit B (Price List)

This Exhibit has been redacted pursuant to a Confidential Treatment Request.

* Confidential treatment is requested; filed separately with the Securities and Exchange Commission.

EXHIBIT C
GENERAL TERMS AND CONDITIONS

These General Terms and Conditions were prepared for incorporation into the Paper Purchase Agreement to which this Exhibit C is appended (the "Agreement"). They are intended to apply as if fully set forth in the Agreement; provided that if anything in this Exhibit C is inconsistent with the express terms of the Agreement, the terms of the Agreement shall control.

1. Safety and Security Requirements. Whenever the provision of goods or services under the Agreement requires a party to be on the property of the other party, each party shall observe all reasonable security and safety procedures or requirements imposed by the other party on third parties providing like goods or services.

2. Standards of Performance.

2.1 In Respect of Goods. The quality of all goods supplied by Boise to OfficeMax shall be at least commercially equal to the quality of that grade of goods that Boise is selling to others.

2.2 In Respect of Services. All services supplied by either party to the other shall be performed in accordance with the same standard of care that the supplying party observes in providing similar services to other customers.

2.3 Disclaimer of Implied Warranties. EACH PARTY DISCLAIMS ALL WARRANTIES IN RESPECT OF GOODS OR SERVICES SUPPLIED BY IT UNDER THIS AGREEMENT THAT ARE IMPLIED BY LAW OR BY THE TERMS OF THE AGREEMENT, EXCEPT FOR THE WARRANTIES SET FORTH IN SECTION 2.1. THIS DISCLAIMER SHALL NOT BE CONSTRUED TO NEGATE OR LIMIT ANY WARRANTY OF TITLE OR RIGHT TO SELL IMPLIED BY LAW OR CUSTOM OF TRADE AND EACH PARTY EXPRESSLY WARRANTS, IN RESPECT OF ALL GOODS TO BE SOLD, THAT IT WILL HAVE AND WILL CONVEY TO OFFICEMAX GOOD AND MERCHANTABLE TITLE TO SUCH GOODS AND THAT IT WILL WARRANT AND DEFEND SUCH TITLE AGAINST THE CLAIMS OF ALL PERSONS WHATSOEVER.

2.4 Limitation of Liability. Neither party shall be liable for any incidental, indirect, special, collateral, consequential, exemplary, or punitive damages, or lost profits arising from a breach of warranty or any other part of this Agreement. In respect of services, the remedy for failure to meet the standards of service shall be that the party providing the service shall be required to reperform the service without charge. In respect of goods, without limiting the provisions of the first sentence of this Section

2.4, the remedy for failure of the goods to conform to the quality specifications set forth in the Agreement shall be as provided in the Uniform Commercial Code as in force from time to time in the state of Delaware and as specifically set forth in the Agreement.

3. Dispute Resolution. The Dispute Resolution Process set forth in Section 5 shall apply to all disputes which may arise between the parties or their respective subsidiaries or affiliates with regard to course-of-performance disputes arising in the ordinary course of business. Such disputes are referred to as "Covered Disputes." In case of other disputes, the parties may pursue any and all remedies under applicable law or equity.

4. Dispute Resolution Process.

4.1 Limitation. The procedures provided for by this Agreement shall not apply to any Covered Dispute unless and until either party shall have given written notice to the other party invoking this Agreement. Such notice shall specify, in reasonable detail, the dispute to which it is intended to apply. Such dispute is referred to as the "Noticed Dispute." The effective date of delivery of such notice is referred to as the "Notice Date."

4.2 Negotiation. Within 5 days after the Notice Date, each party shall designate, in writing to the other party, the name of one of its senior executive officers who shall be its "Designated Representative" in the dispute resolution process. Designation by either party of its Designated Representative shall constitute a representation by such party that its Designated Representative has full power and authority to resolve the Noticed Dispute. Within 15 days after the Notice Date, each party shall have delivered to the Designated Representative of the other party a written statement of its position. Between 30 and 45 days after the Notice Date, the Designated Representatives shall meet, discuss, and negotiate with respect to the Noticed Dispute for a period not to exceed 10 days.

If the parties are unable to settle the Noticed Dispute through negotiations by the 45th day following the Notice Date, they shall mutually appoint a neutral third-party arbitrator. If the parties are unable to agree upon the neutral third-party arbitrator by the 50th day following the Notice Date, either party may obtain the appointment of a neutral third-party arbitrator by the Chief Judge of the United States District Court for the District of Delaware.

4.3 Arbitration. Within 10 days after appointment of the neutral arbitrator, each party shall submit a written statement to the neutral arbitrator and to the other party advocating its position, and each party may, within ten days after receipt of the other party's statement, submit to the neutral arbitrator and the opposing party one rebuttal statement. Opening statements shall be no longer than 30 pages of 8 1/2" by 11" paper, and rebuttal statements shall be limited to 15 pages of 8 1/2" by 11" paper unless otherwise mutually agreed. Within 20 days after submission of the rebuttal statement, on a date and at a place set by the neutral arbitrator, the Designated Representatives

shall meet with the neutral arbitrator to negotiate and resolve the Noticed Dispute. Each Designated Representative may make an oral presentation to the neutral arbitrator. The Designated Representatives of both parties shall be present for such presentations and shall be available at the same location on the following day for arbitrator-sponsored negotiations. If the parties are unable to reach a settlement of the Noticed Dispute, the neutral arbitrator shall, within 20 days thereafter, deliver in writing to each party his or her recommended settlement of the Noticed Dispute. Within ten days after receipt of the neutral arbitrator's recommended settlement, the parties' Designated Representatives shall meet at a time and place set by the neutral arbitrator and make a final attempt to resolve the Noticed Dispute. If they are unable to do so, the arbitrator shall make a final decision which shall be final and binding upon the parties.

4.4 Confidentiality.

4.4.1 Each party shall treat all statements, written submissions, and other disclosures made by the other in the course of efforts to resolve the Noticed Dispute (collectively, "Settlement Information") as confidential information and shall make no disclosure of the Settlement Information to any third party (other than its employees and officers involved in the Noticed Dispute and its counsel and other consultants providing advice in respect of the Noticed Dispute), and it shall require all persons to whom it is permitted to disclose such information to make a similar nondisclosure commitment for the benefit of and enforceable by the party providing such information. Such nondisclosure obligation shall remain in effect for a period of five years from the date of disclosure.

4.4.2 Prior to commencing the arbitration process, the parties shall require the neutral arbitrator to sign a confidentiality agreement in which he or she commits, for the benefit of and on a basis which is enforceable by each party and its respective Affiliates, that he or she will hold the Settlement Information confidential and not disclose it to any party other than the parties, their respective Affiliates, counsel, and advisors and agents involved in the Noticed Dispute, except under order of disclosure by a court of competent jurisdiction or pursuant to a written authorization signed by the party or parties providing the Settlement Information which is to be disclosed.

4.5 Fees and Expenses. The parties shall each cover their own costs and fees associated with the dispute resolution process provided for in this Agreement. The fees and expenses of the neutral arbitrator shall be divided equally by the parties.

4.6 Scope of Obligation; Specific Performance. The parties agree to utilize the settlement procedures outlined above in a good-faith effort to provide for a speedy and economical means of resolving disputes. However, the parties agree that neither party shall be in default or in breach hereof for failure to adhere to any of the procedures outlined above except that (i) compliance with the procedures hereof, in full, when and as required shall be a condition precedent to the other party's obligation to continue its participation in the negotiation and arbitration process; and (ii) either party

may obtain an order of specific performance in respect of the other party's obligations hereunder.

5. Force Majeure. The term "Force Majeure" shall mean any flood, storm, earthquake, or other act of God, fire, explosion, labor dispute, civil disturbance, military action, shortage of labor or stores, issuance of directive by any legal authority asserting jurisdiction over either of the parties which directive purports to prohibit the performance of any material part of the duties of that party, or other event beyond the control of the party claiming Force Majeure, which event or directive prevents performance by a party or makes performance commercially impracticable.

Each party shall promptly notify the other if there is Force Majeure. Such notice shall describe the Force Majeure, the corrective action to be taken, if any, and the estimated time of the Force Majeure interruption. If either party is prevented from performing any of its obligations hereunder, in whole or in part by reason of Force Majeure, it shall be excused from performance for so long as and to the extent that Force Majeure shall so prevent its performance.

6. Events of Default.

6.1 Payment Defaults. If either party fails to pay any amount owed by it when due, such sum shall earn interest from the date on which it is due at a rate equal to ten percent per annum. Such interest shall be payable on demand. If either party fails to pay any amount owed (including interest accruing under the preceding sentence) within 30 days after its receipt of written demand therefore, the other party shall have the right, in addition to any other right provided under applicable law or this Agreement for such breach, to terminate this Agreement, or to suspend its performance until payment of such delinquent sum is made in full. Complaints or claims by a party under this Agreement regarding standards of performance or quality will be subject to the dispute resolution provisions hereunder, but in no event will excuse a party from paying the purchase price for delivered goods in full when due.

6.2 Nonpayment Defaults. If either party commits any breach of this Agreement, other than those described in Section 6.1 above, or if either party commits any of the breaches described in such section on a repeated basis so as to materially frustrate the reasonable business expectations of the other party in respect of this Agreement, the other party may, if such breach is not cured within 60 days after the complaining party gives notice of such breach to the party in breach, terminate this Agreement. Such remedy shall be in addition to any other remedy which may be available under applicable law or the terms hereof for such breach. Notwithstanding the foregoing, if the nature of the breach complained of is such that its cure may be reasonably expected to take more than 60 days to execute, no right to terminate shall accrue so long as the party in breach shall have commenced its efforts to effect a cure and shall be diligently pursuing such efforts.

To OfficeMax: OfficeMax Incorporated
Attention President and Chief Executive Officer
263 Shuman Blvd.
Naperville, IL 60563

With a copy to: OfficeMax Incorporated
Attention General Counsel
263 Shuman Blvd.
Naperville, IL 60563

8.2 Sent to the above address via an established national overnight delivery service (such as Federal Express), charges prepaid; or

8.3 Sent via any electronic communications method, provided the sender obtains written confirmation of receipt of the communication by the electronic communication equipment at the office of the addressee listed above; provided also that, if this method is used, the party shall immediately follow such notice with a second notice in one of the methods set forth in subsections 10.1 or 10.2 above.

Notices shall be effective on the day sent if sent in accordance with Section 8.3, on the first business day after the day sent, if sent, in accordance with Section 8.2 and on the seventh business day after the day sent, if sent in accordance with Section 8.1.

9. Insurance and Indemnity. At all times while Boise continues to be a vendor to OfficeMax, Boise shall purchase and maintain a commercial general liability (occurrence) policy, which policy shall include coverage for premises and operations; products and completed operations; contractual liability; broad form property damage, and personal injury liability. The policy shall have a combined single limit for bodily injury and property damage of \$5,000,000 each occurrence; \$5,000,000 aggregate for products/completed operations; and \$5,000,000 general aggregate. Umbrella/Excess limits may be used to comply with the general liability limit requirements. Boise's insurance company must have a minimum A.M. best Rating of A-VII or better. Insurance carried by Boise will be primary to any insurance carried by OfficeMax. Any other insurance or self-insurance maintained by Boise shall be in excess of and not contribute to Boise's insurance.

As soon as possible (January 1 for all succeeding years), Boise shall deliver to OfficeMax, or OfficeMax's designee per written instruction, a certificate from Boise's insurer evidencing the required coverage and naming OfficeMax Incorporated, its subsidiaries, affiliates, corporate parent, directors, officers, and employees as additional insured's with respect to liability or any claims of liability arising out of the sale of products to OfficeMax, including the design and manufacture thereof. The certificate shall provide on its face that the policies it represents will not be terminated, amended, or allowed to expire without 30 days' prior written notice to OfficeMax; and such

certificate shall further provide on its face that the policies it represents contains a severability of interests clause, generally providing, "the insurance afforded applies separately to each insured against whom claim is made or suit is brought, except with respect to the limits of the company's liability". Failure of OfficeMax to demand such certificate or other evidence of full compliance with these insurance requirements or failure of OfficeMax to identify a deficiency from evidence that is provided shall not be construed as a waiver of Vendor's obligation to maintain such insurance.

Boise further agrees to defend, indemnify and hold harmless OfficeMax, its subsidiaries, affiliates, corporate parent, directors, officers, and employees from and against all causes of action, claims, liabilities, costs, and expenses of any kind, whether actual or alleged, including court costs and attorneys fees, arising out of or related to any products or goods sold by Boise to OfficeMax, except where such claim is wholly attributable to the fault of OfficeMax.

10. Waiver of Subrogation. Each party waives all rights that each might now or hereafter have against the other, its subsidiaries, or affiliates or against the officers, directors, or employees of any of the foregoing to the extent that the loss so waived is compensated by the property damage insurance required hereby or in fact carried by the party suffering such loss (without regard to any deductible or risk retention feature of such insurance).

11. Assignment. This Agreement shall be binding upon the parties and their successors and assigns, but no party shall make any sale, assignment, or other transfer of all or any portion of its rights hereunder without the prior written consent of the other party, which consent shall not be unreasonably withheld, provided, however, that Boise may assign this Agreement without OfficeMax' consent upon the sale of all, or substantially all, of its paper manufacturing assets provided that the party purchasing such assets expressly agrees in writing to assume and fully perform all of Boise's obligations hereunder. In the event of any restructuring or reorganization of OfficeMax, or sale of all or a substantial portion of the assets or the business of OfficeMax, this Agreement will continue to be binding upon OfficeMax and will also become binding on any additional entity which acquires all or a substantial portion of OfficeMax's business (but, in the case of such additional entity, only with respect to the portion of the OfficeMax business it acquires).

12. Severability and Renegotiation. If any part of this Agreement is found to be illegal, void, or unenforceable, such illegality, invalidity, or unenforceability shall not extend beyond the part affected, and unaffected parts of this Agreement will continue in full force and will be binding on the parties. Should any term or provision of this Agreement be found invalid by any court or regulatory body having jurisdiction thereover, the parties shall immediately use their best efforts to renegotiate such term or provision of the Agreement to eliminate such invalidity.

13. Independent Contractor. In performing services under this Agreement, each party shall act solely as an independent contractor; neither party nor any of its

employees or agents shall be treated as or deemed to be employees of the other. Nothing in this Agreement shall be construed to create a partnership, agency, joint venture, or employer-employee relationship between the parties. Neither party shall hold itself out or otherwise represent itself to any person or entity as anything other than an independent contractor of the other party.

14. Right of Offset. All debts and obligations of OfficeMax and Boise to each other are mutual and subject to setoff. For purposes of this paragraph, "OfficeMax" and "Boise" shall be deemed to include each party's respective subsidiaries and affiliates which directly or indirectly control or are controlled by that party.

15. Nonwaiver. Any waiver, at any time, by any part of its rights, remedies, duties, and/or obligations with respect to any matters arising in connection with this Agreement, shall not be deemed a waiver of any other right, remedy, duty, and/or obligation with respect to such matter or with respect to any subsequent matter.

16. Choice of Law and Jurisdiction. This Agreement shall be governed, interpreted, and enforced under the laws of the state of Delaware, without regard to its choice of law rules. The courts of the state of Delaware and federal courts sitting therein shall have exclusive jurisdiction to hear and settle litigation in respect of this Agreement or, subject to the last sentence of this section, any litigation that arises between the parties. In any suit between the parties or their Affiliates; each party hereby consents to receive service of process in any jurisdiction in which it is doing business, including without limitation, the state of its incorporation, provided that such service of process is issued by a federal or state court of general jurisdiction sitting in Delaware. This Section 19 shall not apply in respect of any cross claim brought in any litigation initiated by a person other than a party or one of its Affiliates in a jurisdiction other than Delaware.

17. Captions. All indices, titles, subject headings, and similar items in this Agreement are provided for the purpose of reference and convenience and are not intended to be inclusive, definitive, or to affect the meaning of the content or scope of this Agreement.

18. Interpretation. As used in this Agreement, the masculine gender shall include the feminine or neuter gender, and the plural shall include the singular wherever appropriate.

19. Amendment. This Agreement may be amended only by a written instrument signed by the senior most executive of each party. No failure of any party to insist upon strict performance of obligations owed it hereunder by the other party shall waive or release such party's right to insist on strict performance of such obligation in the future.

20. Counterparts. This Agreement may be executed in two or more duplicate counterparts and upon such execution shall be considered a single document as though each party had executed the same counterpart.

21. Audits. Each party shall have the right to audit the other party's books and accounts to verify volumes, costs, pricing and price adjustments pursuant to this Agreement once per year. Such audits shall be conducted at the expense of the party requesting the audit.

22. Entire Agreement. The terms and provisions herein contained constitute the entire agreement between the parties and supersede all agreements, either verbal or written, between the parties with respect to the subject matter of this Agreement.

23. Brand Ownership. Boise shall own the brand names of all products sold under this Agreement that are produced by Boise, except for the OfficeMax brand names.

**CEO CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Ravichandra Saligram, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OfficeMax Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2011

/s/ RAVICHANDRA SALIGRAM

Ravichandra Saligram
Chief Executive Officer

**CFO CERTIFICATION PURSUANT TO SECTION 302
OF THE SARBANES OXLEY ACT OF 2002**

I, Bruce Besanko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of OfficeMax Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2011

/s/ BRUCE BESANKO

Bruce Besanko
Chief Financial Officer

**SECTION 906 CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND
CHIEF FINANCIAL OFFICER OF
OFFICEMAX INCORPORATED**

We are providing this Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., Section 1350. It accompanies OfficeMax Incorporated's quarterly report on Form 10-Q (the "Report") for the fiscal quarter ended June 25, 2011.

I, Ravichandra Saligram, OfficeMax Incorporated's chief executive officer, certify that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Report fairly presents, in all material respects, OfficeMax Incorporated's financial condition and results of operations.

/s/ RAVICHANDRA SALIGRAM

Ravichandra Saligram
Chief Executive Officer

I, Bruce Besanko, OfficeMax Incorporated's chief financial officer, certify that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (ii) the information contained in the Report fairly presents, in all material respects, OfficeMax Incorporated's financial condition and results of operations.

/s/ BRUCE BESANKO

Bruce Besanko
Chief Financial Officer

Dated: August 4, 2011

A signed original of this written statement required by Section 906 has been provided to OfficeMax Incorporated and will be retained by OfficeMax Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.