OFFICEMAX INC
Form 10-Q
August 09, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

or

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

For the transition period from to .

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

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

(630) 438-7800

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

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

Class	Shares Outstanding as of July 31, 2007
Common Stock, $2.50 par value	75,392,999

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Quarter Ended June 30, 2007 (unaudited)	July 1, 2006
Sales	$ 2,132,417	$ 2,040,951
Cost of goods sold and occupancy costs	1,596,619	1,521,954
Gross profit	535,798	518,997
Operating expenses:		
Operating and selling	392,581	385,299
General and administrative	88,719	86,671
Other operating (income) expense, net	(1,447)	456
Operating income	55,945	46,571
Interest expense	(29,959)	(30,214)
Interest income	21,776	22,103
Other income (expense), net	(2,232)	6,727
Income from continuing operations before income taxes and minority interest	45,530	45,187
Income taxes	(17,757)	(17,284)
Income from continuing operations before minority interest	27,773	27,903
Minority interest, net of income tax	(337)	(508)
Income from continuing operations	27,436	27,395
Discontinued operations:		
Operating loss		
Income tax benefit		
Loss from discontinued operations		
Net income	27,436	27,395
Preferred dividends	(1,008)	(1,009)
Net income applicable to common shareholders	$ 26,428	$ 26,386
Basic income per common share:		
Continuing operations	$ 0.35	$ 0.36
Discontinued operations		
Basic income per common share	$ 0.35	$ 0.36
Diluted income per common share:		
Continuing operations	$ 0.35	$ 0.35
Discontinued operations		
Diluted income per common share	$ 0.35	$ 0.35

See accompanying notes to quarterly consolidated financial statements.

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

	Six Months Ended June 30, 2007 (unaudited)	July 1, 2006
Sales	$ 4,568,671	$ 4,464,488
Cost of goods sold and occupancy costs	3,409,649	3,318,737
Gross profit	1,159,022	1,145,751
Operating expenses:		
Operating and selling	813,349	818,344
General and administrative	182,656	175,904
Other operating (income) expense, net	(3,023)	113,296
Operating income	166,040	38,207
Interest expense	(60,075)	(61,717)
Interest income	44,814	43,217
Other income (expense), net	(5,680)	4,561
Income from continuing operations before income taxes and minority interest	145,099	24,268
Income taxes	(56,589)	(9,290)
Income from continuing operations before minority interest	88,510	14,978
Minority interest, net of income tax	(2,535)	(1,689)
Income from continuing operations	85,975	13,289
Discontinued operations:		
Operating loss		(17,972)
Income tax benefit		6,991
Loss from discontinued operations		(10,981)
Net income	85,975	2,308
Preferred dividends	(2,015)	(2,018)
Net income applicable to common shareholders	$ 83,960	$ 290
Basic income (loss) per common share:		
Continuing operations	$ 1.12	$ 0.15
Discontinued operations		(0.15)
Basic income (loss) per common share	$ 1.12	$
Diluted income (loss) per common share:		
Continuing operations	$ 1.10	$ 0.15
Discontinued operations		(0.15)
Diluted income (loss) per common share	$ 1.10	$

See accompanying notes to quarterly consolidated financial statements.

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

	June 30, 2007 (unaudited)	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 220,615	$ 282,070
Receivables, net	523,896	556,733
Related party receivables	7,793	5,795
Inventories	1,053,769	1,071,486
Deferred income taxes	91,004	129,496
Other	66,217	51,264
Total current assets	1,963,294	2,096,844
Property and equipment:		
Land and land improvements	37,368	36,195
Buildings and improvements	386,295	359,481
Machinery and equipment	804,059	794,010
Total property and equipment	1,227,722	1,189,686
Accumulated depreciation	(652,496)	(610,061)
Net property and equipment	575,226	579,625
Goodwill	1,236,058	1,216,032
Intangible assets, net	201,937	201,304
Investments in affiliates	175,000	175,000
Timber notes receivable	1,635,000	1,635,000
Restricted investments	22,377	22,292
Deferred charges	47,770	40,439
Other non-current assets	168,695	249,512
Total assets	$ 6,025,357	$ 6,216,048

See accompanying notes to quarterly consolidated financial statements.

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

	June 30, 2007 (unaudited)	December 30, 2006
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	$ 6,985	$
Current portion of long-term debt	34,886	25,634
Accounts payable:		
Trade	780,798	965,218
Related parties	42,295	32,482
Accrued expenses and other current liabilities:		
Compensation and benefits	138,455	172,632
Other	319,614	332,937
Total current liabilities	1,323,033	1,528,903
Long-term debt:		
Long-term debt, less current portion	349,579	384,246
Timber notes securitized	1,470,000	1,470,000
Total long-term debt	1,819,579	1,854,246
Other long-term obligations:		
Compensation and benefits	271,243	287,122
Deferred gain on sale of assets	179,757	179,757
Other long-term obligations	300,536	350,491
Total other long-term obligations	751,536	817,370
Minority interest	32,005	29,885
Commitments and contingent liabilities		
Shareholders equity:		
Preferred stock no par value; 10,000,000 shares authorized; Series D ESOP: $.01 stated value; 1,149,580 and 1,216,335 shares outstanding	51,731	54,735
Common stock $2.50 par value; 200,000,000 shares authorized; 75,374,649 and 74,903,220 shares outstanding	188,411	187,226
Additional paid-in capital	905,585	893,848
Retained earnings	999,239	941,830
Accumulated other comprehensive loss	(45,762)	(91,995)
Total shareholders equity	2,099,204	1,985,644
Total liabilities and shareholders equity	$ 6,025,357	$ 6,216,048

See accompanying notes to quarterly consolidated financial statements.

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

	Six Months Ended June 30, 2007 (unaudited)	July 1, 2006
Cash provided by operations:		
Net income (loss)	$ 85,975	$ 2,308
Items in net income (loss) not using (providing) cash:		
Earnings from affiliates	(3,023)	(2,871)
Depreciation and amortization	65,106	60,316
Minority interest, net of income tax	2,535	1,689
Pension and other postretirement benefits expense	4,135	7,407
Discontinued operations	144	7,162
Other	14,811	17,593
Changes other than from acquisition of business:		
Receivables	32,886	72,811
Inventories	18,359	144,721
Accounts payable and accrued liabilities	(253,383)	(180,825)
Current and deferred income taxes	20,643	20,382
Other	52,355	287
Cash provided by operations	40,543	150,980
Cash used for investment:		
Expenditures for property and equipment	(59,440)	(46,996)
Other	(1,948)	596
Cash used for investment	(61,388)	(46,400)
Cash used for financing:		
Cash dividends paid on common stock	(24,453)	(23,268)
Short-term borrowings, net	6,985	(18,666)
Payments of long-term debt	(25,474)	(65,478)
Proceeds from exercise of stock options	5,211	104,623
Other	(2,879)	(33)
Cash used for financing	(40,610)	(2,822)
Increase (decrease) in cash and cash equivalents	(61,455)	101,758
Cash and cash equivalents at beginning of period	282,070	72,198
Cash and cash equivalents at end of period	**$ 220,615**	**$ 173,956**

See accompanying notes to quarterly consolidated financial statements.

Notes to Quarterly Consolidated Financial Statements (Unaudited)

1. Basis of Presentation

OfficeMax Incorporated (OfficeMax , the Company , we or our) 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, governmental offices, and consumers. OfficeMax customers are served by more than 36,000 associates through direct sales, catalogs, the Internet and a network of retail stores located throughout the United States, Canada, Australia, New Zealand and Mexico.

The accompanying quarterly consolidated financial statements include the accounts of OfficeMax and all majority-owned subsidiaries as well as those of 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 and twenty-six week periods ended on June 30, 2007 (also referred to as the second quarter of 2007 and year-to-date 2007) and the thirteen and twenty-six week periods ended on July 1, 2006 (also referred to as the second quarter of 2006 and year-to-date 2006). The Company s fiscal year ends on the last Saturday in December. Due primarily to statutory audit requirements, the Company s international businesses maintain December 31 year-ends.

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 30, 2006.

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. Except as may be disclosed within these Notes to Quarterly Consolidated Financial Statements, 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.

In 2006, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 06-03, How Sales Tax Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (That is, Gross versus Net Presentation). This EITF Issue clarifies that the presentation of taxes collected from customers and remitted to governmental authorities on a gross (included in revenues and costs) or net (excluded from revenues) basis is an accounting policy decision that should be disclosed pursuant to Accounting Principles Board (APB) Opinion No. 22, Disclosure of Accounting Policies. The EITF Issue is effective for the Company beginning in fiscal year 2007. We collect such taxes from our customers and account for them on a net (excluded from revenues) basis. The adoption of EITF Issue No. 06-03 did not impact our consolidated financial statements.

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

2. Discontinued Operations

In December 2004, the Company s board of directors authorized management to pursue the divestiture of a facility near Elma, Washington that manufactured integrated wood-polymer building materials. The board of directors and management concluded that the operations of the facility were no longer consistent with the Company s strategic direction. As a result of that decision, the Company recorded the facility s assets as held for sale on the Consolidated Balance Sheets and reported the results of its operations as discontinued operations.

During 2005, the Company experienced unexpected difficulties in achieving anticipated levels of production at the facility. These issues delayed the process of identifying and qualifying a buyer for the business. While management made substantial progress in addressing the manufacturing issues that caused production to fall below plan, during the fourth quarter of 2005, the Company concluded that it would be unable to attract a buyer in the near term and elected to cease operations at the facility during the first quarter of 2006.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the Company recorded pre-tax charges of $67.8 million in the fourth quarter of 2004 and $28.2 million in the fourth quarter of 2005 to reduce the carrying value of the long-lived assets of the Elma, Washington facility to their estimated fair value. During the first quarter of 2006, management ceased operations at the facility and recorded pre-tax expenses of $18.0 million for contract termination and other closure costs. These charges and expenses were reflected within discontinued operations in the Consolidated Statements of Income (Loss).

The liabilities of the Elma, Washington facility are included in current liabilities ($15.6 million at June 30, 2007 and $15.5 million at December 30, 2006, respectively) in the Consolidated Balance Sheets. The estimated fair value of the related assets was zero at June 30, 2007 and December 30, 2006.

See Note 3, Discontinued Operations, 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 30, 2006 for additional information related to the discontinued operations.

3. Integration Activities and Facility Closures

In September 2005, the board of directors approved a plan to relocate and consolidate the Company s retail headquarters in Shaker Heights, Ohio and its existing corporate headquarters in Itasca, Illinois into a new facility in Naperville, Illinois. The Company began the consolidation and relocation process in the latter half of 2005. During the second quarter and first six months of 2006, the Company incurred and expensed approximately $10.9 million and $26.6 million, respectively, of costs related to the headquarters consolidation, all of which were reflected in the Corporate and Other segment. The consolidation and relocation process was completed during the second half of 2006.

During the first six months of 2006, the Company closed 109 underperforming domestic retail stores and recorded a pre-tax charge of $89.6 million ($11.3 million for employee severance, asset write-off and impairment and other closure costs and $78.3 million for estimated future lease obligations).

At June 30, 2007, approximately $35.8 million of the reserve for integration and facility closures was included in accrued liabilities, other, and $57.8 million was included in other long-term liabilities. At June 30, 2007, the integration and facility closure reserve included approximately $85.7 million for estimated future lease obligations, which represents the estimated net present value of the lease obligations and is net of anticipated future sublease income of approximately $89.8 million.

Integration and facility closure reserve account activity during the first six months of 2007 and 2006, including the headquarters consolidation and the 2006 store closures, as well as other previously disclosed integration and facility closure activities, was as follows:

	Lease\ Contract Terminations (thousands)	Severance\ Retention	Asset Write-off & Impairment	Other	Total
Balance at December 30, 2006	$ 107,824	$ 10,838	$	$ 3,142	$ 121,804
Charges to income					
Change in goodwill					
Changes to estimated costs included in income					
Cash payments	(24,122)	(4,948)		(1,072)	(30,142)
Non-cash charges					
Accretion	1,973				1,973
Balance at June 30, 2007	$ 85,675	$ 5,890	$	$ 2,070	$ 93,635

	Lease\ Contract Terminations (thousands)	Severance\ Retention	Asset Write-off & Impairment	Other	Total
Balance at December 31, 2005	$ 91,455	$ 21,502	$	$ 739	$ 113,696
Charges to income	78,330	10,721	10,065	17,051	116,167
Change in goodwill	(11,000)				(11,000)
Changes to estimated costs included in income		(1,080)			(1,080)
Cash payments	(40,859)	(16,062)		(14,638)	(71,559)
Non-cash charges			(10,065)	(685)	(10,750)
Accretion	3,402				3,402
Balance at July 1, 2006	$ 121,328	$ 15,081	$	$ 2,467	$ 138,876

4. Net Income (Loss) Per Common Share

The computation of basic and diluted income (loss) per common share for the second quarter and first six months of 2007 and 2006 is as follows:

	Quarter Ended June 30, 2007	July 1, 2006	Six Months Ended June 30, 2007	July 1, 2006
	(thousands, except per-share amounts)			
Basic income (loss) per common share:				
Income from continuing operations	$ 27,436	$ 27,395	$ 85,975	$ 13,289
Preferred dividends	(1,008)	(1,009)	(2,015)	(2,018)
Basic income from continuing operations	26,428	26,386	83,960	11,271
Loss from discontinued operations				(10,981)
Net income applicable to common shareholders	**$ 26,428**	**$ 26,386**	**$ 83,960**	**$ 290**
Average shares basic	**75,344**	**72,877**	**75,168**	**71,855**
Basic income (loss) per common share:				
Continuing operations	$ 0.35	$ 0.36	$ 1.12	$ 0.15
Discontinued operations				(0.15)
Basic income per common share	**$ 0.35**	**$ 0.36**	**$ 1.12**	**$**

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	Quarter Ended June 30, 2007	July 1, 2006	Six Months Ended June 30, 2007	July 1, 2006
	(thousands, except per-share amounts)			
Diluted income (loss) per common share:				
Basic income from continuing operations	$ 26,428	$ 26,386	$ 83,960	$ 11,271
Preferred dividends eliminated				
Diluted income from continuing operations	26,428	26,386	83,960	11,271
Loss from discontinued operations				(10,981)
Net income applicable to common shareholders	**$ 26,428**	**$ 26,386**	**$ 83,960**	**$ 290**
Average shares basic	75,344	72,877	75,168	71,855
Restricted stock, stock options and other	1,249	2,047	1,000	1,655
Average shares diluted	**76,593**	**74,924**	**76,168**	**73,510**
Diluted income (loss) per common share:				
Continuing operations	$ 0.35	$ 0.35	$ 1.10	$ 0.15
Discontinued operations				(0.15)
Diluted income per common share	**$ 0.35**	**$ 0.35**	**$ 1.10**	**$**

5. Other Operating (Income) Expense, Net

The components of Other operating (income) expense, net in the Consolidated Statements of Income (Loss) are as follows:

	Quarter Ended June 30, 2007	July 1, 2006	Six Months Ended June 30, 2007	July 1, 2006
	(thousands)			
Integration activities and facility closures (See Note 3)	$	$ 1,899	$	$ 116,167
Earnings from affiliates	(1,447)	(1,443)	(3,023)	(2,871)
	$ (1,447)	**$ 456**	**$ (3,023)**	**$ 113,296**

6. Other Income (Expense), Net (non-operating)

The components of Other income (expense), net (non-operating) in the Consolidated Statements of Income (Loss) are as follows:

	Quarter Ended June 30, 2007	July 1, 2006	Six Months Ended June 30, 2007	July 1, 2006
	(thousands)			
Additional Consideration Agreement adjustment (See Note 16)	$	$ 9,232	$	$ 9,232
Receivable securitization program costs	(2,623)	(2,701)	(5,260)	(5,155)
Other	391	196	(420)	484
	$ (2,232)	**$ 6,727**	**$ (5,680)**	**$ 4,561**

7. Income Taxes

The Company adopted Financial Accounting Standards Board Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of Financial Accounting Standards Board (FASB) Statement No. 109 at the beginning of 2007. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes. The Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As a result of the implementation, the Company recognized a $4.0 million increase to reserves for uncertain tax positions. This increase was accounted for as an adjustment to the beginning balance of retained earnings on the Consolidated Balance Sheet. Including the cumulative effect of this increase, at the beginning of 2007, the Company had approximately $70 million of total gross unrecognized tax benefits. Of this total, approximately $30 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods. The remaining balance of approximately $40 million, if recognized, would be recorded as an adjustment to goodwill and would not affect the effective tax rate. It is possible that the Company s liability for uncertain tax positions will be reduced by as much as $13.3 million by the end of second quarter 2008. Approximately $8.2 million of this amount would impact the Company s effective tax rate with the remaining $5.1 million impacting goodwill. Such reductions would result from the effective settlement of tax positions with various tax authorities.

The Company or its subsidiaries file income tax returns in the U.S. federal jurisdiction, and multiple state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for 2002 and prior years. Years prior to 2003 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 2002.

The Company recognizes accrued interest and penalties associated with uncertain tax positions as part of income tax expense. As of January 1, 2007, the Company had $5.8 million of accrued interest and penalties associated with uncertain tax positions. Income tax expense for the six months ended June 30, 2007 includes interest and penalties of $1.1 million.

For the six months ended June 30, 2007, the Company paid income taxes, net of refunds received, of $43.4 million. For the six months ended July 1, 2006, the Company received income tax refunds, net of income taxes paid, of $21.1 million.

8. Comprehensive Income (Loss)

Comprehensive income (loss) includes the following:

	Quarter Ended		**Six Months Ended**	
	June 30, 2007	**July 1, 2006**	**June 30, 2007**	**July 1, 2006**
	(thousands)			
Net income	$ 27,436	$ 27,395	$ 85,975	$ 2,308
Other comprehensive income (loss):				
Foreign currency translation adjustments	36,168	8,014	41,110	(10,346)
Amortization of unrecognized retirement and benefit costs	2,500		5,122	
Comprehensive income (loss)	**$ 66,104**	**$ 35,409**	**$ 132,207**	**$ (8,038)**

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9. Sales of Accounts Receivable

The Company sells, on a revolving basis, an undivided interest in a defined pool of receivables while retaining a subordinated interest in a portion of the receivables. The receivables are sold without legal recourse to third party conduits through a wholly owned bankruptcy-remote special purpose entity that is consolidated for financial reporting purposes. The Company continues servicing the sold receivables and charges the third party conduits a monthly servicing fee at market rates. The program qualifies for sale treatment under SFAS 140. At June 30, 2007 and December 30, 2006, $159.0 million and $180.0 million of sold accounts receivable were excluded from receivables in the accompanying Consolidated Balance Sheets. The Company s subordinated retained interest in the transferred receivables was $142.0 million and $111.2 million at June 30, 2007 and December 30, 2006, respectively, and is included in receivables, net in the Consolidated Balance Sheets. See Note 19, Subsequent Events for additional information concerning the accounts receivable securitization program and a new loan agreement that the Company entered into on July 12, 2007.

10. Investments in Affiliates

In October 2004, the Company sold substantially all of its paper, forest products and timberland assets for approximately $3.7 billion in cash and other consideration to affiliates of Boise Cascade, L.L.C. (the Sale). In conjunction with the Sale, the Company invested $175 million in the equity units of affiliates of Boise Cascade, L.L.C. A portion (approximately $66 million) of the equity units received in exchange for the Company s investment carry no voting rights. This investment is accounted for under the cost method as Boise Cascade, L.L.C. does not maintain separate ownership accounts for its members, the Company has less than a 20 percent voting interest in Boise Cascade, L.L.C. and does not have the ability to significantly influence its operating and financial policies. This investment is included in investment in affiliates in the Consolidated Balance Sheets. The Company has determined that it is not practicable to estimate the fair value of this investment. However, the Company has not observed any events or changes in circumstances that would have had a significant adverse effect on the fair value of the investment.

The Boise Cascade, L.L.C. non-voting equity units 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 or December. The Company recognized dividend income on this investment of $1.4 million and $3.0 million for the quarter and six months ended June 30, 2007, respectively, and $1.4 million and $2.9 million for the quarter and six months ended July 1, 2006, respectively.

11. Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and intangible assets of businesses acquired. In accordance with the provisions of SFAS 142, Goodwill and Other Intangible Assets, we assess our acquired goodwill and intangible assets with indefinite lives for impairment at least annually in the absence of an indicator of possible impairment, and immediately upon an indicator of possible impairment. We completed our annual assessment in accordance with the provisions of the standard during the first quarters of 2007 and 2006, and concluded there was no impairment. During the first quarters of 2007 and 2006, we also evaluated the remaining useful lives of our finite-lived purchased intangible assets to determine if any adjustments to the useful lives were necessary. We determined that no adjustments to the useful lives of our finite-lived purchased intangible assets were necessary.

Changes in the carrying amount of goodwill by segment were as follows:

	OfficeMax, Contract (thousands)	OfficeMax, Retail	Total
Balance at December 30, 2006	$ 528,090	$ 687,942	$ 1,216,032
Effect of foreign currency translation	19,110		19,110
Businesses acquired	916		916
Balance at June 30, 2007	**$ 548,116**	**$ 687,942**	**$ 1,236,058**

Acquired Intangible Assets

Intangible assets represent the values assigned to trade names, customer lists and relationships, noncompete agreements and exclusive distribution rights of businesses acquired. The trade name assets have an indefinite life and are not amortized. All other intangible assets are amortized on a straight-line basis over their expected useful lives. Customer lists and relationships are amortized over three to 20 years, noncompete agreements over their terms, which are generally three to five years, and exclusive distribution rights over ten years. Intangible assets consisted of the following:

	June 30, 2007 Gross Carrying Amount (thousands)	Accumulated Amortization	Net Carrying Amount
Trade names	$ 173,150	$	$ 173,150
Customer lists and relationships	42,640	(20,697)	21,943
Noncompete agreements	12,870	(9,526)	3,344
Exclusive distribution rights	6,031	(2,531)	3,500
	$ 234,691	**$ (32,754)**	**$ 201,937**

	December 30, 2006 Gross Carrying Amount (thousands)	Accumulated Amortization	Net Carrying Amount
Trade names	$ 173,150	$	$ 173,150
Customer lists and relationships	39,681	(17,678)	22,003
Noncompete agreements	12,853	(8,213)	4,640
Exclusive distribution rights	3,616	(2,105)	1,511
	$ 229,300	**$ (27,996)**	**$ 201,304**

Intangible asset amortization expense totaled $1.4 million and $3.1 million for the quarter and six months ended June 30, 2007, respectively. Intangible asset amortization expense totaled $2.1 million and $3.8 million for the quarter and six months ended July 1, 2006, respectively.

12. Timber Notes Receivable

In October 2004, OfficeMax sold its timberlands in exchange for timber installment notes receivable in the amount of $1,635 million, which were credit enhanced with guarantees. The guarantees were issued by highly-rated financial institutions and were secured by the pledge of underlying collateral notes issued by the credit enhancement banks. The timber installment notes receivable are 15-year non-amortizing. There are two notes that total $817.5 million bearing interest at 4.982% and a third note in the amount of $817.5 million bearing interest at 5.112%. Interest earned on all of the notes is received semiannually. See sub-caption Timber Notes in Note 13, Debt, for additional information concerning a securitization transaction involving the timber installment notes receivable.

13. Debt

Credit Agreements

On June 24, 2005, the Company entered into a loan and security agreement for a revolving credit facility. The revolving credit facility permits the Company to borrow up to the maximum aggregate borrowing amount, which is equal to the lesser of (i) a percentage of the value of certain eligible inventory less certain reserves or (ii) $500 million. There were no borrowings outstanding under the revolver as of June 30, 2007 and December 30, 2006. There were no borrowings outstanding during the six months ended June 30, 2007. Letters of credit, which may be issued under the revolver up to a maximum of $100 million, reduce available borrowing capacity under the revolving credit facility. Letters of credit issued under the revolver totaled $86.3 million as of June 30, 2007 and $75.5 million as of December 30, 2006. As of June 30, 2007, the maximum aggregate borrowing amount available under the revolver was $500.0 million and excess availability under the revolver totaled $413.7 million.

Borrowings under the revolver bear interest at rates based on either the prime rate or the London Interbank Offered Rate (LIBOR). Margins are applied to the applicable borrowing rates and letter of credit fees under the revolver depending on the level of average excess availability. Fees on letters of credit issued under the revolver were charged at a weighted average rate of 1.0% during the first six months of 2007. The Company is also charged an unused line fee of 0.25% on the amount by which the maximum available credit of $500 million exceeds the average daily outstanding borrowings and letters of credit.

Borrowings under the revolver are secured by a lien on substantially all inventory and related proceeds. The revolving loan and security agreement contains customary conditions to borrowing including a monthly calculation of excess borrowing availability and reporting compliance. Covenants in the revolver agreement restrict the amount of letters of credit that may be issued, dividend distributions and other uses of cash if excess availability is less than $75 million. At June 30, 2007, the Company was in compliance with all covenants under the revolver agreement. The revolving credit agreement expires on June 24, 2010. See Note 19, Subsequent Events for additional information concerning the revolving credit facility and a new loan agreement that the Company entered into on July 12, 2007.

Timber Notes

In October 2004, the Company sold its timberlands and received credit-enhanced timber installment notes receivable in the amount of $1,635 million. (See Note 12, Timber Notes Receivable). In December 2004, the Company completed a securitization transaction in which its interest in the timber installment notes receivable and related guarantees were transferred to wholly-owned bankruptcy remote subsidiaries that were designated to be qualifying special purpose entities (the OMXQs). The OMXQs pledged the timber installment notes receivable and related guarantees and issued securitization notes in the amount of $1,470 million. Recourse on the securitization notes is limited to the pledged timber installment notes receivable. The securitization notes are 15-year non-amortizing, and were issued in two equal $735 million tranches paying interest of 5.42% and 5.54%, respectively.

As a result of these transactions, OfficeMax received $1,470 million in cash from the OMXQ s, and over 15 years will earn approximately $82.5 million per year in interest income on the timber installment notes receivable and incur interest expense of approximately $80.5 million on the securitization notes. The pledged timber installment notes receivable and nonrecourse securitization notes will mature in 2020 and 2019, respectively. The securitization notes have an initial term that is approximately three months shorter than the installment notes. The Company expects to refinance its ownership of the installment notes in 2019 with a short-term secured borrowing to bridge the period from initial maturity of the securitization notes to the maturity of the installment notes.

The original entities issuing the credit enhanced timber installment notes are variable-interest entities (the VIE s) under FASB Interpretation 46R, Consolidation of Variable Interest Entities . The OMXQs are considered to be the primary beneficiary, and therefore, the VIE s are required to be consolidated with the OMXQ s, which are also the issuers of the securitization notes. As a result, the accounts of the OMXQ s have been consolidated into those of their ultimate parent, OfficeMax. The effect of the Company s consolidation of the OMXQs is that the securitization transaction is treated as a financing, and both the timber notes receivable and the securitization notes payable are reflected in the Consolidated Balance Sheets.

Note Agreements

In October 2003, the Company issued $300 million of 6.50% senior notes due in 2010 and $200 million of 7.00% senior notes due in 2013. At the time of issuance, the senior note indentures contained a number of restrictive covenants, substantially all of which have been eliminated through the execution of supplemental indentures as described below. On November 5, 2004, the Company repurchased approximately $286.3 million of the 6.50% senior notes and received the requisite consents to adopt amendments to the indenture pursuant to a tender offer for these securities. As a result, the Company and the trustee executed a supplemental indenture that eliminated substantially all of the restrictive covenants, certain events of default and related provisions, and replaced them with the covenants contained in the Company s other public debt. Those covenants include a limitation on mergers and similar transactions, a restriction on secured transactions involving Principal Properties, as defined, and a restriction on sale and leaseback transactions involving Principal Properties.

On December 23, 2004, both Moody s Investors Service, Inc., and Standard & Poor s Rating Services upgraded the credit rating on the Company s 7.00% senior notes to investment grade. The upgrades were the result of actions the Company took to collateralize the notes by granting the note holders a security interest in $113 million in principal amount of General Electric Capital and Bank of America Corp. notes maturing in 2008 (the pledged instruments). These pledged instruments are reflected as restricted investments in the Consolidated Balance Sheets. As a result of these ratings upgrades, the original 7.00% senior note covenants have been replaced with the covenants found in the Company s other public debt. During the first quarter of 2005, the Company purchased and cancelled $87.3 million of the 7.00% senior notes. As a result, $92.8 million of the pledged instruments were released from the security interest granted to the 7.00% senior note holders, and were sold during the second quarter of 2005. The remaining pledged instruments continue to be subject to the security interest, and are reflected as restricted investments in the Consolidated Balance Sheets.

Other

The Company s joint venture in Mexico had short-term borrowings of $7.0 million as of June 30, 2007. These borrowings are unsecured with a current interest rate of approximately 9.1%. The Company had leased certain equipment at its integrated wood-polymer building materials facility near Elma, Washington under a capital lease. The lease agreement had a base term of seven years and an interest rate of 4.67%. During the first quarter of 2006, the Company paid $29.1 million to terminate the lease agreement.

Cash payments for interest were $11.2 million and $20.6 million for the quarter and six months ended June 30, 2007, respectively, and $11.1 million and $21.8 million for the quarter and six months ended July 1, 2006, respectively.

14. Retirement and Benefit Plans

The following represents the components of net periodic pension and other postretirement benefit costs (income):

	Pension Benefits Quarter Ended June 30, 2007 (thousands)	July 1, 2006	Other Benefits Quarter Ended June 30, 2007	July 1, 2006
Service cost	$ 419	$ 400	$ 69	$ 217
Interest cost	19,270	18,670	260	395
Expected return on plan assets	(22,254)	(21,838)		
Recognized actuarial loss	5,055	5,789	82	173
Plan settlement/curtailment/closures expense		223		
Amortization of prior service costs and other			(900)	(893)
Net periodic benefit cost (income)	**$ 2,490**	**$ 3,244**	**$ (489)**	**$ (108)**

	Pension Benefits Six Months Ended June 30, 2007 (thousands)	July 1, 2006	Other Benefits Six Months Ended June 30, 2007	July 1, 2006
Service cost	$ 838	$ 800	$ 165	$ 434
Interest cost	38,542	37,340	649	790
Expected return on plan assets	(44,509)	(43,676)		
Recognized actuarial loss	10,110	11,579	244	346
Plan settlement/curtailment/closures expense		1,580		
Amortization of prior service costs and other			(1,904)	(1,786)
Net periodic benefit cost (income)	**$ 4,981**	**$ 7,623**	**$ (846)**	**$ (216)**

The minimum contribution requirement for the Company s plans for 2007 is approximately $11 million. As of June, 30, 2007, the Company has made contributions totaling $4.2 million.

15. Segment Information

The Company manages its business using three reportable segments: OfficeMax, Contract; OfficeMax, Retail; and Corporate and Other. Each of the Company s segments represents a business with differing products, services and/or distribution channels. Each of these segments requires distinct operating and marketing strategies. Management reviews the performance of the Company based on these segments.

OfficeMax, Contract distributes a broad line of items for the office, including office supplies and paper, technology products and solutions and office furniture. OfficeMax, Contract sells directly to large corporate and government offices, as well as 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, Hawaii, Australia and New Zealand, through office products stores.

OfficeMax, Retail is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. OfficeMax, Retail has operations in the United States, Puerto Rico and the U.S. Virgin Islands. OfficeMax, Retail office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. The retail segment also operates office supply stores in Mexico through a 51%-owned joint venture.

Substantially all products sold by OfficeMax, Contract and OfficeMax, Retail are purchased from independent third-party manufacturers or industry wholesalers, except office papers. These segments purchase office papers primarily from the paper operations of Boise Cascade, L.L.C., under a 12-year paper supply contract. (see Note 18, Commitments and Guarantees, 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 30, 2006 for additional information related to the paper supply contract).

Corporate and Other includes corporate support staff services and related assets and liabilities.

Management evaluates the segments based on operating profits before interest expense, income taxes, minority interest, extraordinary items and cumulative effect of accounting changes. 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. Certain expenses that management considers unusual or non-recurring are not allocated to the Contract and Retail segments.

An analysis of our operations by segment is as follows:

	Sales Quarter Ended June 30, 2007 (thousands)	July 1, 2006	Income (Loss) Before Taxes and Minority Interest (a) Quarter Ended June 30, 2007	July 1, 2006
OfficeMax, Contract	$ 1,197,166	$ 1,146,742	$ 41,019	$ 44,424
OfficeMax, Retail	935,251	894,209	24,704	27,186
Corporate and Other			(9,778)	(25,039)
	$ 2,132,417	**$ 2,040,951**	55,945	46,571
Interest expense			(29,959)	(30,214)
Interest income and other			19,544	28,830
			$ 45,530	**$ 45,187**

	Sales Six Months Ended June 30, 2007 (thousands)	July 1, 2006	Income (Loss) Before Taxes and Minority Interest (a) Six Months Ended June 30, 2007	July 1, 2006
OfficeMax, Contract	$ 2,461,661	$ 2,377,504	$ 100,896	$ 111,473