

BUCKEYE TECHNOLOGIES INC  
Form 10-Q  
November 06, 2012

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

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2012

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: 001-14030

Buckeye Technologies Inc.  
(Exact name of registrant as specified in its charter)  
Delaware  
(State or other jurisdiction of incorporation)

IRS — Employer Identification No. 62-1518973

1001 Tillman Street, Memphis, TN  
(Address of principal executive offices)  
telephone number,  
including area code)

38112

901-320-8100  
(Zip Code) (Registrant's

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. (Check one).

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

As of October 31, 2012, there were outstanding 38,683,269 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

BUCKEYE TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)  
(In thousands, except per share data)

|   | Three Months Ended<br>September 30 |            |
|---|------------------------------------|------------|
|   | 2012                               | 2011       |
| Net sales   | \$ 196,958                         | \$ 231,462 |
| Cost of goods sold                                    | 146,838                            | 175,196    |
| Gross margin  | 50,120                             | 56,266     |
| Selling, research and administrative expenses         | 13,188                             | 12,339     |
| Amortization of intangibles and other                 | 508                                | 496        |
| Restructuring costs                                   | 963                                | -          |
| Other operating income                                | (2,528)                            | -          |
| Operating income                                      | 37,989                             | 43,431     |
| Net interest expense and amortization of debt costs   | (641)                              | (3,449)    |
| Gain (loss) on foreign exchange and other             | (363)                              | 642        |
| Income from continuing operations before income taxes | 36,985                             | 40,624     |
| Income tax expense                                    | 7,494                              | 101        |
| Income from continuing operations                     | 29,491                             | 40,523     |
| Income from discontinued operations, net of tax       | -                                  | 584        |
| Net income  | \$ 29,491                          | \$ 41,107  |
| Earnings per share                                    |                                    |            |
| Basic   |                                    |            |
| Income from continuing operations                     | 0.75                               | 1.03       |
| Income from discontinued operations                   | -                                  | 0.01       |
| Earnings per share - basic                            | \$ 0.75                            | \$ 1.04    |
| Diluted   |                                    |            |
| Income from continuing operations                     | 0.74                               | 1.02       |
| Income from discontinued operations                   | -                                  | 0.01       |
| Earnings per share - diluted                          | \$ 0.74                            | \$ 1.03    |
| Cash dividends per share                              | \$ 0.08                            | \$ 0.06    |

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (In thousands)

|   | Three Months Ended<br>September 30 |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| Net income  | \$ 29,491                          | \$ 41,107 |
| Other comprehensive income (loss), net of tax:  |                                    |           |
| Foreign currency translation adjustments, net of tax of \$2,102 and \$10,870, respectively        | 3,903                              | (20,188)  |
| Net unrealized gains from cash flow hedging instruments, net of tax of \$18 and \$0, respectively | 33                                 | -         |
| Other comprehensive income (loss)   | 3,936                              | (20,188)  |
| Comprehensive income  | \$ 33,427                          | \$ 20,919 |

See accompanying notes.





BUCKEYE TECHNOLOGIES INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(In thousands)

|   | September 30<br>2012<br>(Unaudited) | June 30<br>2012 |
|---|-------------------------------------|-----------------|
| Assets  |                                     |                 |
| Current assets:   |                                     |                 |
| Cash and cash equivalents                                       | \$ 39,196                           | \$ 38,284       |
| Short-term investments  | 9,051                               | 8,813           |
| Accounts receivable – net                                       | 110,687                             | 126,705         |
| Income tax receivable   | 20,525                              | -               |
| Inventories – net   | 114,948                             | 90,183          |
| Deferred income taxes and other                                 | 27,893                              | 25,697          |
| Total current assets  | 322,300                             | 289,682         |
| Property, plant and equipment                                   | 1,147,835                           | 1,117,277       |
| Less accumulated depreciation                                   | (639,152)                           | (625,168)       |
| Property, plant and equipment – net                             | 508,683                             | 492,109         |
| Deferred income taxes   | 50,144                              | 42,427          |
| Intellectual property and other, net                            | 12,572                              | 13,193          |
| Total assets  | \$ 893,699                          | \$ 837,411      |
| Liabilities and stockholders' equity                            |                                     |                 |
| Current liabilities:  |                                     |                 |
| Trade accounts payable  | \$ 30,775                           | \$ 40,600       |
| Accrued expenses and other                                      | 38,632                              | 43,135          |
| Total current liabilities                                       | 69,407                              | 83,735          |
| Long-term debt  | 81,842                              | 58,578          |
| Accrued postretirement benefits                                 | 30,669                              | 30,602          |
| Deferred income taxes   | 16,385                              | 4,930           |
| Payable related to exchange of alternative fuel mixture credits | 53,029                              | 49,741          |
| Other liabilities   | 6,799                               | 6,789           |
| Stockholders' equity  | 635,568                             | 603,036         |
| Total liabilities and stockholders' equity                      | \$ 893,699                          | \$ 837,411      |

See accompanying notes.

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

|   | Three Months Ended<br>September 30 |           |
|---|------------------------------------|-----------|
|   | 2012                               | 2011      |
| Operating activities  |                                    |           |
| Net income  | \$ 29,491                          | \$ 41,107 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation  | 12,242                             | 13,026    |
| Amortization  | 663                                | 651       |
| Insurance settlement  | (2,528)                            | -         |
| Deferred income taxes   | 1,608                              | (13,632)  |
| Noncurrent alternative fuel mixture credits refund payable                        | 3,288                              | 15,462    |
| Stock based compensation expense  | 1,340                              | 966       |
| Excess tax benefit from stock based compensation                                  | (1,048)                            | (765)     |
| Other   | 653                                | 726       |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Accounts receivable   | 16,121                             | (1,462)   |
| Income tax receivable   | (20,525)                           | -         |
| Inventories   | (24,043)                           | (12,447)  |
| Other assets  | (131)                              | 359       |
| Accounts payable and other current liabilities                                    | (13,395)                           | (15,527)  |
| Net cash provided by operating activities   | 3,736                              | 28,464    |
| Investing activities  |                                    |           |
| Purchases of property, plant and equipment  | (28,103)                           | (10,713)  |
| Proceeds from insurance settlement related to capital investment                  | 3,071                              | -         |
| Other   | (17)                               | (51)      |
| Net cash used in investing activities   | (25,049)                           | (10,764)  |
| Financing activities  |                                    |           |
| Net borrowings (payments) under lines of credit                                   | 23,264                             | (6,570)   |
| Purchase of treasury shares   | (28)                               | (8,648)   |
| Excess tax benefit from stock based compensation                                  | 1,048                              | 765       |
| Net proceeds from sale of equity interests  | 874                                | 638       |
| Payment of dividend   | (3,148)                            | (2,410)   |
| Other   | (864)                              | (469)     |
| Net cash provided by (used in) financing activities                               | 21,146                             | (16,694)  |
| Effect of foreign currency rate fluctuations on cash                              | 1,079                              | 1,294     |
| Increase in cash and cash equivalents   | 912                                | 2,300     |
| Cash and cash equivalents at beginning of period                                  | 38,284                             | 30,494    |
| Cash and cash equivalents at end of period  | \$ 39,196                          | \$ 32,794 |

See accompanying notes.



NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In thousands)

NOTE 1: BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of our significant accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2012, which was filed with the Securities and Exchange Commission (“SEC”) on August 29, 2012 (“Annual Report”). Except as otherwise specified, references to a year indicate our fiscal year ending on June 30 of the year referenced and comparisons are to the corresponding period of the prior year. These financial statements should be read in conjunction with our audited financial statements and the notes thereto included in our Annual Report.

In June 2012, we sold our Brazilian subsidiary, Buckeye Americana Ltda. (“Americana”) to Vicunha Participacoes, S.A. Consequently, our income from continuing operations for the three months ended September 30, 2012, excludes Americana’s results, which have been reclassified to discontinued operations. See Note 3, Discontinued Operations, for further detail.

Translation adjustment

Management has determined that the local currency of our German and Canadian subsidiaries is the functional currency, and accordingly, European euro and Canadian dollar denominated balance sheet accounts are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date. Income and expense activity for the period is translated at the weighted average exchange rate during the period. Translation adjustments are included as a separate component of stockholders' equity.

Use of estimates

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

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

NOTE 2: RECENT ACCOUNTING PRONOUNCEMENTS

In June 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-05, “Presentation of Comprehensive Income” (“ASU 2011-05”) which amends ASC Topic 220, Comprehensive Income. The objective of ASU 2011-05 is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The update requires entities to present items of net income, items of other comprehensive income and total comprehensive income in one continuous statement or two separate consecutive statements, and entities no longer have the option to present items of other comprehensive income in the statement of stockholders’ equity. Accounting Standards Update No. 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items out of Accumulated Other Comprehensive Income in ASU No. 2011-05” (“ASU 2011-12”), defers changes in ASU 2011-05 that relate to the presentation of reclassification adjustments. We adopted ASU 2011-05 as of July 1, 2012, by including a separate statement of comprehensive income. The adoption of the remaining guidance provided in ASU 2011-05 will result in a change to our current presentation of comprehensive income but will have no impact on our financial condition, results of operations, or cash flows.

There were no other accounting standards issued during the period that had or are expected to have a material impact on our financial position or results of operations.

## NOTE 3: DISCONTINUED OPERATIONS

In June 2012, we completed the sale of our Americana, Brazil facility. Below are the amounts attributed to the Americana sale included in discontinued operations in the consolidated statements of operations.

|   | 2011     |
|---|----------|
| Net sales                                     | \$ 8,605 |
| Cost of goods sold                            | \$ 8,019 |
| Operating income                              | \$ 586   |
| Loss from discontinued operations, net of tax | \$ 584   |

## NOTE 4: SEGMENT INFORMATION

We report results for two segments, specialty fibers and nonwoven materials. The specialty fibers segment consists of our chemical cellulose, customized fibers and fluff pulp product lines which are cellulosic fibers based on both wood and cotton. The nonwovens materials segment currently consists of our three airlaid plants. Our converting plant, which was sold in January 2012, is included in the prior-year period results. Management makes financial decisions and allocates resources based on the sales and operating income of each segment. We allocate selling, research, and administrative expenses to each segment and management uses the resulting operating income to measure the performance of the segments. The financial information attributed to these segments is included in the following table:

|                                     | Three Months Ended<br>September 30 | Specialty<br>Fibers | Nonwoven<br>Materials | Corporate  | Total      |
|-------------------------------------|------------------------------------|---------------------|-----------------------|------------|------------|
| Net sales                           | 2012                               | \$ 143,311          | \$ 58,374             | \$ (4,727) | \$ 196,958 |
|                                     | 2011                               | 174,817             | 64,685                | (8,040)    | 231,462    |
| Operating income (loss)             | 2012                               | 37,072              | 5,522                 | (4,605)    | 37,989     |
|                                     | 2011                               | 43,245              | 2,328                 | (2,142)    | 43,431     |
| Depreciation and amortization<br>of | 2012                               | 7,709               | 4,087                 | 954        | 12,750     |
| intangibles                         | 2011                               | 7,694               | 4,217                 | 946        | 12,857     |
| Total assets                        | 2012                               | 505,281             | 188,297               | 200,121    | 893,699    |
|                                     | 2011                               | 520,636             | 198,576               | 153,052    | 872,264    |
| Capital expenditures                | 2012                               | 25,264              | 1,885                 | 954        | 28,103     |
|                                     | 2011                               | 8,985               | 1,689                 | 39         | 10,713     |

Management evaluates operating performance of the specialty fibers and nonwoven materials segments excluding amortization of intangibles, goodwill impairment, asset impairment, charges related to restructuring, unallocated at-risk compensation and unallocated stock-based compensation for executive officers and certain other employees. Therefore, the corporate column includes operating elements such as segment eliminations, amortization of intangibles, asset impairment, goodwill impairment, charges related to restructuring, unallocated at-risk compensation and unallocated stock-based compensation for executive officers and certain other employees.

Corporate net sales represent the elimination of intersegment sales included in the specialty fibers reporting segment which are used in the production of nonwoven materials. We account for intersegment sales as if the sales were to third parties. Corporate assets primarily include cash, income tax receivables, goodwill, and intellectual property.

NOTE 5: RESTRUCTURING COSTS

On July 26, 2012, we announced a corporate restructuring of our executive management team in support of our previously announced decision to close or sell several underperforming or non-core assets and in conjunction with the departure of our chief operating officer. Total costs of \$1.1 million associated with this restructuring plan were recognized in restructuring costs for the three months ended September 30, 2012.

On January 31, 2012, we completed the sale of Merfin Systems. In conjunction with this sale, four positions were eliminated from our nonwoven materials segment. During the second quarter of fiscal year 2011, we completed the consolidation of all production at our Delta, British Columbia, Canada airlaid facility on the newer of the two machines at that site, which resulted in the elimination of 34 positions from our nonwoven materials segment. In June 2011, we announced our decision to close the Delta plant at the end of calendar 2012.

Restructuring expenses are included in “Restructuring costs” in our condensed consolidated statements of operations. The charges below reflect severance and employee benefits accrued over the retention period, relocation expenses and other miscellaneous expenses. Accrual balances are included in “Accrued expenses” in the balance sheet. The following table summarizes the expenses and accrual balances for the quarter ending September 30, 2012.

|   | Accrual<br>Balance as<br>of June<br>30, 2012 | Reserve<br>Adjustment | Impact of<br>Foreign<br>Currency | Payments   | Accrual<br>Balance as<br>of<br>September<br>30, 2012 | Program<br>Charges to<br>Date | Total<br>Estimated<br>Charges |
|---|--|-----------------------|----------------------------------|------------|--|-------------------------------|-------------------------------|
| 2013  |  |                       |                                  |            |  |                               |                               |
| Restructuring<br>Program<br>Severance and<br>employee<br>benefits | \$ -   | \$ 1,080              | \$ -                             | \$ (1,080) | \$ -   | \$ 1,080                      | \$ 1,080                      |
| Total 2013<br>Program   | -  | 1,080                 | -                                | (1,080)    | -  | 1,080                         | 1,080                         |
| 2012  |  |                       |                                  |            |  |                               |                               |
| Restructuring<br>Program<br>Severance and<br>employee<br>benefits | \$ -   | \$ -                  | \$ -                             | \$ -       | \$ -   | \$ 109                        | \$ 109                        |
| Other<br>miscellaneous<br>costs                                   | 117  | (117)                 | -                                | -          | -  | 8                             | 8                             |
| Total 2012<br>Program   | 117  | (117)                 | -                                | -          | -  | 117                           | 117                           |
| 2011  |  |                       |                                  |            |  |                               |                               |
| Restructuring<br>Program<br>Severance and<br>employee<br>benefits | 57   | -                     | 2                                | -          | 59   | 839                           | 839                           |
| Total 2011<br>Program   | 57   | -                     | 2                                | -          | 59   | 839                           | 839                           |
| Total All<br>Programs   | \$ 174                                       | \$ 963                | \$ 2                             | \$ (1,080) | \$ 59  | \$ 2,036                      | \$ 2,036                      |

#### NOTE 6: ALTERNATIVE FUEL MIXTURE CREDITS / CELLULOSIC BIOFUEL CREDITS

On July 9, 2010, the IRS Office of Chief Counsel released legal advice concluding that black liquor sold or used before January 1, 2010, qualifies for the cellulosic biofuel credit (“CBC”). Each gallon of black liquor produced and



used as a fuel by us in our business operations during calendar 2009 qualified for CBC.

We also received Form 637 CB Registration approval during the year ended June 30, 2011, which included additional guidance on converting alternative fuel mixture credits ("AFMC") for gallons of black liquor produced and used by us from February 12, 2009, through December 31, 2009, the time period that we mixed diesel with black liquor which qualifies for AFMCs. Converting the AFMCs to CBC for all gallons of the black liquor mixed with diesel would produce an additional benefit of approximately \$56,278. Utilization of this additional benefit is dependent on cash tax liabilities subject to annual tax credit limitations on taxable income for tax years ending June 30, 2011, through June 30, 2016, when the credit carryforward period would expire. We intend to amend our tax returns for 2009 and 2010, as necessary, to exchange the AFMC previously claimed during those years for the more advantageous CBC to the extent we believe the CBC can be utilized prior to expiration.

For the three months ended September 30, 2012 and 2011, we recognized \$5,650 and \$12,887, respectively, of income tax benefit in our consolidated statement of operations related to the expected incremental benefit from exchanging previously claimed AFMC for CBC based upon our expected ability to utilize the CBC prior to expiration.

Estimating the amount of the CBC benefit recognized requires us to make assumptions and estimates about future taxable income affecting the realization of these tax benefits. The key assumptions in estimating future profitability relate to future selling prices and volumes, operating reliability, raw material, energy, chemical and freight costs, and various other projected economic factors as reflected in our internal planning models including interest cost and the impact of currency exchange rates. These models take into account recent sales and cost data as well as macroeconomic drivers including gross domestic product growth, customer demand and industry capacity. Other assumptions affecting estimates of future taxable income include: significant book-to-tax differences impacting future credit utilization, cost recovery of existing and future capital assets and the domestic manufacturing deduction. Our current forecasts of these book-to-tax differences are based on expected capital acquisitions and operating results. Significant changes to any of these key assumptions could have a material impact on the estimate of CBC utilization. As key factors in these models change in future periods, we will update our projections and revise the estimate of the CBC benefit expected to be utilized. Such changes to the estimate may be significant.

As of September 30, 2012, and June 30, 2012, we had recorded a liability of \$53,029 and \$61,661, respectively, related to the repayment of AFMC refunds to the U.S. government in exchange for CBC. The current portion of the liability as of September 30, 2012, and June 30, 2012, was \$0 and \$11,920, respectively, included in accrued expenses, and the noncurrent portion was \$53,029 and \$49,741, respectively. We forecast expected repayment of the liability annually in amounts needed to generate sufficient CBC to offset each respective year's cash tax liability subject to annual tax credit limitations imposed by law. Based on our current forecasts, we anticipate the noncurrent liability to be paid during the period from fiscal year ending June 30, 2014, through fiscal year ending June 30, 2016.

Interest expense for the three months ended September 30, 2011 included \$2,477 of accrued interest that we expected to have to pay to the U.S. government related to exchanging AFMCs for CBCs. On August 22, 2012, the Internal Revenue Service Chief Counsel Office released legal advice concluding that no interest is due on the AFMC cash refunds in the CBC exchange. Consequently, in the fourth quarter ending June 30, 2012, we reversed our accrual of related interest, and the quarter ending September 30, 2012, does not include accrued interest due to the IRS for AFMC to CBC exchange.

#### NOTE 7: INVENTORIES

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

The components of inventory consist of the following as of the dates indicated:

|                              | September 30,<br>2012 | June 30,<br>2012 |
|------------------------------|-----------------------|------------------|
| Raw materials                | \$ 36,403             | \$ 31,155        |
| Finished goods               | 51,836                | 32,915           |
| Storeroom and other supplies | 26,709                | 26,113           |
| Total inventories            | \$ 114,948            | \$ 90,183        |

#### NOTE 8: LONG-TERM DEBT

On October 22, 2010, we entered into a Second Amended and Restated Credit Agreement (“credit facility”) which increased our maximum committed borrowing capacity to \$300,000 and extended the maturity date of the facility to October 22, 2015. We used the proceeds from the credit facility to pay the outstanding balance on the former credit facility plus fees and expenses. The interest rate applicable to borrowings under the credit facility is the agent’s prime rate plus 0.75% to 1.75%, or a LIBOR-based rate ranging from LIBOR plus 1.75% to LIBOR plus 2.75%, based on a grid related to our leverage ratio. The current interest rate on the credit facility is LIBOR plus 1.75%. The credit facility is secured by substantially all of our assets located in the United States. There are no scheduled payments for the credit facility until its maturity in October 2015. At September 30, 2012, and June 30, 2012, long-term debt consisted of borrowings outstanding against the credit facility of \$81,842 and \$58,578, respectively.

The credit facility contains covenants customary for financing of this type. The financial covenants include: maximum total leverage ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”), and a minimum consolidated fixed-charge coverage ratio. At September 30, 2012, we were in compliance with the financial covenants under the credit facility.

At September 30, 2012, we had \$214,107 borrowing capacity under the credit facility. The commitment fee on the unused portion of the credit facility is 0.375% per annum.



## NOTE 9: FAIR VALUE MEASUREMENTS

### Assets and Liabilities Measured at Fair Value

As of September 30, 2012, and June 30, 2012, there were no significant financial instruments measured at fair value recorded in the consolidated balance sheet.

### Financial Instruments not Recognized at Fair Value

Financial instruments not recognized at fair value on a recurring or nonrecurring basis include cash and cash equivalents, accounts receivable, accounts payable, short-term debt, and long-term debt. With the exception of long-term debt, the carrying amounts of these financial instruments approximate their fair values due to their short maturities. The carrying value and fair value of long-term debt at September 30, 2012, were both \$81,842 and at June 30, 2012, were both \$58,578. The fair value of the long-term debt at September 30, 2012, and June 30, 2012, approximates the carrying amount on those dates as all outstanding borrowings are under our credit facility which has variable interest rates that re-price frequently at current market rates.

### Fair Value of Nonfinancial Assets and Nonfinancial Liabilities

We measure certain nonfinancial assets and nonfinancial liabilities at fair value on a nonrecurring basis. These assets and liabilities include assets acquired and liabilities assumed in an acquisition or in a nonmonetary exchange and property, plant and equipment and intangible assets that are written down to fair value when they are held for sale or determined to be impaired. During the three months ended September 30, 2012 and 2011, we did not have any significant nonfinancial assets or nonfinancial liabilities that were measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

## NOTE 10: INSURANCE RECOVERIES

In June 2012, our Foley, Florida Plant experienced a significant failure of a steam drum on the fluff pulp machine, causing damage to multiple drums and structural damage to the paper machine building and structure. This resulted in an unplanned, complete shutdown of the facility. The specialty pulp production line was restarted later that same month and was operated at target rates, since optimum rates could not be achieved until the fluff pulp machine was back in operation. In July 2012, the fluff pulp machine was restarted and the Foley facility was back to full operation. In June 2012, we received a letter from our insurance company stating that we would receive an advance payment on our claim for a total of \$5,000, including property damage and business interruption. We recognized \$3,984 of this advance payment as an offset to cost of goods sold in 2012. In the quarter ending September 30, 2012, we received two more advance payments totaling \$7,000 of which we recorded \$4,275 as an offset to cost of goods sold and \$2,528 as a gain on insurance proceeds included in "Other operating income" in our condensed consolidated statements of operations. In total we have received \$12,000 in cash payments of which \$7,000 is related to our claim for business interruption including \$1,043 for costs not yet incurred which is recognized in current liabilities on our condensed consolidated balance sheet. The remaining \$5,000 in cash received is related to our property damage claim and \$3,071 of these cash receipts have been invested in capital expenditures to replace the damaged equipment.



## NOTE 11: EARNINGS PER SHARE

Certain of our restricted stock awards granted are considered participating securities as they receive non-forfeitable rights to dividends at the same rate as common stock. As participating securities, we include these instruments in the earnings allocation in computing earnings per share (“EPS”) under the two-class method described in ASC 260.

The following table sets forth the computation of basic and diluted earnings per share under the two-class method:

|  | Three Months Ended<br>September 30 |           |
|--|------------------------------------|-----------|
|  | 2012                               | 2011      |
| <b>Basic earnings per share:</b>   |                                    |           |
| Numerator:   |                                    |           |
| Net income attributable to shareholders  | \$ 29,491                          | \$ 41,107 |
| Less: Distributed and undistributed income allocated to participating securities | (337)                              | (606)     |
| Distributed and undistributed income available to shareholders                   | \$ 29,154                          | \$ 40,501 |
| Denominator:   |                                    |           |
| Basic weighted average shares outstanding  | 38,921                             | 39,358    |
| Income per share from continuing operations                                      | 0.75                               | 1.03      |
| Income per share from discontinued operations                                    | -                                  | 0.01      |
| Basic earnings per share   | \$ 0.75                            | \$ 1.04   |
| <b>Diluted earnings per share</b>  |                                    |           |
| Numerator:   |                                    |           |
| Net income attributable to shareholders  | \$ 29,491                          | \$ 41,107 |
| Less: Distributed and undistributed income allocated to participating securities | (337)                              | (606)     |
| Distributed and undistributed income available to shareholders                   | \$ 29,154                          | \$ 40,501 |
| Denominator:   |                                    |           |
| Basic weighted average shares outstanding  | 38,921                             | 39,358    |
| Effect of dilutive stock options and non-participating securities                | 334                                | 481       |
| Diluted weighted average shares outstanding                                      | 39,255                             | 39,839    |
| Income per share from continuing operations                                      | 0.74                               | 1.02      |
| Income per share from discontinued operations                                    | -                                  | 0.01      |
| Diluted earnings per share   | \$ 0.74                            | \$ 1.03   |

There were no stock options that could potentially dilute basic earnings per share in the future, which were not included in the fully diluted computation because the grant prices were greater than the average market price of common shares for the period, for the three months ended September 30, 2012 or 2011.

NOTE 12: SHARE-BASED PAYMENTS

We recognize compensation expense for share-based payments based on the fair value of the awards at the grant date. Share-based payments include stock option awards, restricted stock awards and performance based restricted stock awards. Total share-based compensation expense (a component of selling, research and administrative expenses) was \$1,340 for the three-month period ended September 30, 2012, and \$966 for the three month period ended September 30, 2011.

## NOTE 13: INCOME TAXES

We file income tax returns with federal, state, local and foreign jurisdictions. As of September 30, 2012, we remain subject to examinations of our U.S. federal and state income tax returns for the years ended June 30, 2002 through June 30, 2012, Canadian income tax returns for the years ended June 30, 2004, through June 30, 2012, and German tax filings for the years ended June 30, 2008, through June 30, 2012. We are currently under a US income tax audit for the years ended June 30, 2009, June 30, 2010, and June 30, 2011.

Our effective tax rate for the three month period ended September 30, 2012, was 20.3%. Our effective tax rate for the same period in 2011 was 0.24%. Our income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes due to the following:

|                               | Three Months Ended<br>September 30 |           |
|-------------------------------|------------------------------------|-----------|
|                               | 2012                               | 2011      |
| Expected tax expense at 35%   | \$ 12,945                          | \$ 14,423 |
| Cellulosic biofuel credits    | (5,650)                            | (12,887)  |
| Energy investment tax credits | -                                  | (750)     |
| Change in valuation allowance | 120                                | (467)     |
| Other                         | 79                                 | (218)     |
| Income tax expense            | \$ 7,494                           | \$ 101    |

## NOTE 14: EMPLOYEE BENEFIT PLANS

We provide medical, dental and life insurance postretirement plans covering certain U.S. employees who meet specified age and service requirements. The components of net periodic benefit costs are as follows:

|   | Three Months Ended<br>September 30 |        |
|---|------------------------------------|--------|
|   | 2012                               | 2011   |
| Service cost for benefits earned                | \$ 152                             | \$ 116 |
| Interest cost on benefit obligation             | 275                                | 320    |
| Amortization of unrecognized prior service cost | (74)                               | (129)  |
| Actuarial loss                                  | 223                                | 93     |
| Total cost                                      | \$ 576                             | \$ 400 |

## NOTE 15: CONTINGENCIES

Our operations are subject to extensive general and industry-specific federal, state, local and foreign environmental laws and regulations, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. We devote significant resources to maintaining compliance with these laws and regulations. Such environmental laws and regulations at the federal level include the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Clean Air Act of 1990, as amended, the Clean Water Act of 1972, as amended, the Resource Conservation and Recovery Act of 1976, as amended, the Toxic Substances Control Act of 1976, as amended, and the Safe Drinking Water Act of 1974, as amended. These environmental regulatory programs are primarily administered by the U.S. Environmental Protection Agency (“EPA”). In addition, the individual states and foreign countries in which we operate have adopted and may adopt in the future equivalent or more stringent environmental laws and regulations or have enacted their own parallel



environmental programs. We closely monitor our compliance with current environmental requirements and believe that we are in substantial compliance.

We expect that, due to the nature of our operations, we will be subject to increasingly stringent environmental requirements, including standards applicable to wastewater discharges and air emissions, such as emissions of greenhouse gases, and general permitting requirements for our manufacturing facilities. We also expect that we will continue to incur substantial costs to comply with such requirements. Any failure on our part to comply with environmental laws or regulations could subject us to penalties or other sanctions that could materially affect our business, results of operations or financial condition. We cannot currently assess, however, the impact that more stringent environmental requirements may have on our operations or capital expenditure requirements. We do not anticipate that capital expenditures in connection with matters relating to environmental compliance will have a material effect on our earnings during fiscal year 2013.

Our Foley Plant discharges treated wastewater into the Fenholloway River. Under the terms of an agreement with the Florida Department of Environmental Protection (“FDEP”), approved by the EPA in 1995, we agreed to a comprehensive plan to attain Class III (“fishable/swimmable”) status for the Fenholloway River under applicable Florida law (the “Fenholloway Agreement”). The Fenholloway Agreement established a schedule for the filing of necessary permit applications and approvals to implement the following activities, among others: (i) make process changes within the Foley Plant to reduce the coloration of its wastewater discharge, (ii) restore certain wetlands areas, (iii) install a pipeline to relocate the wastewater discharge point into the Fenholloway River to a point closer to the mouth of the river, and (iv) provide oxygen enrichment to the treated wastewater prior to discharge at the new location. We have completed the process changes within the Foley Plant as required by the Fenholloway Agreement. In making these in-plant process changes, we incurred significant capital expenditures. Based on the anticipated permit conditions, we expect to incur significant additional capital expenditures once final permits are issued.

In August 2005 FDEP drafted a proposed renewal of the Buckeye National Pollutant Discharge Elimination System (“NPDES”) permit. The FDEP completed the required public notice, review and comment process and issued the formal Notice of Intent to Issue Permit in November 2005. The proposed permit was challenged by some members of the public. In January 2008, the pending administrative hearing was dismissed due to anticipated revisions to the permit based on additional studies and development of a total maximum daily load (“TMDL”) for the Fenholloway River. The development of the TMDL is necessary because the EPA and FDEP have listed the Fenholloway River as an impaired water (not meeting all water quality standards) under the Clean Water Act for certain pollutants. The additional studies necessary to support revisions to the permit have been completed. As a result, we filed petitions with the FDEP for the establishment of several Site-Specific Alternative Water Quality Criteria (“SSAC”) for the Fenholloway River. The Florida Environmental Regulation Commission adopted a rule establishing a SSAC for the Fenholloway River and the FDEP approved the other SSACs. SSACs require the approval of the EPA. The FDEP forwarded the SSACs to the EPA in September 2010 for their approval. We are currently working with the EPA to address their questions related to the SSACs. The revised draft NPDES permit to be issued by the FDEP will be based upon modeling performed in conjunction with the EPA and the FDEP, will address the TMDL established for the Fenholloway River by the EPA and will also contain Water Quality Based Effluent Limits based on the new SSACs. In a recent development, the EPA has requested additional data for one parameter. Gathering that data may delay issuance of that SSAC and the NPDES permit by a year. When the FDEP issues the revised draft permit it will be subject to public comment and opportunity for requesting a hearing.

We expect to incur additional capital expenditures related to our wastewater treatment and discharge of between \$40 million and \$60 million over at least five years, possibly beginning as early as fiscal year 2014. The amount and timing of these capital expenditures may vary depending on a number of factors including when the final NPDES permit is issued and its final terms and conditions.

The Foley Plant is also subject to FDEP and EPA air emission standards. In 2007, new EPA boiler air emission regulations [boiler Maximum Achievable Control Technology (“MACT”) standards] were vacated following a public legal challenge. These regulations would apply to the bark boilers at the Foley Plant. EPA re-proposed those regulations in April 2010 and issued final regulations in February 2011. Due to significant feedback provided during the public comment period, the EPA has recognized that portions of the final boiler MACT regulations contain problematic provisions that will have to be resolved through the ‘reconsideration process’ allowed by the Clean Air Act. These regulations may impact both bark boilers at the Foley Plant. However, until the reconsideration process is completed, it will be difficult to predict the potential capital expenditures associated with these pending regulations.

We are involved in certain legal actions and claims arising in the ordinary course of business. In the opinion of management, however, based upon information currently available, the ultimate liability with respect to these actions will not materially affect our consolidated results of operations or financial position. We review outstanding claims and proceedings internally and with external counsel as necessary to assess probability of loss and for the ability to estimate loss. These assessments are re-evaluated each quarter or as new information becomes available to determine whether a reserve should be established or if any existing reserve should be adjusted. The actual cost of resolving a claim or proceeding ultimately may be substantially different than the amount of the recorded reserve. In addition, because it is not permissible under GAAP to establish a litigation reserve until the loss is both probable and estimable, in some cases there may be insufficient time to establish a reserve prior to the actual incurrence of the loss (upon verdict and judgment at trial, for example, or in the case of a quickly negotiated settlement).

#### NOTE 16: SUBSEQUENT EVENTS

On October 23, 2012, our Board of Directors declared a quarterly dividend of \$0.09 per share of common stock. The dividend is payable on December 14, 2012, to stockholders of record as of the close of business on November 14, 2012.



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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the significant factors affecting our results of operations, liquidity, capital resources and contractual obligations, as well as discusses our critical accounting policies. This discussion should be read in conjunction with the accompanying unaudited financial statements and our Annual Report on Form 10-K for the year ended June 30, 2012, filed with the Securities and Exchange Commission (the "SEC") on August 29, 2012 ("Annual Report"), which include additional information about our significant accounting policies, practices and transactions that underlie our financial results. Our MD&A is composed of four major sections: Executive Summary, Results of Operations, Financial Condition, and Critical Accounting Policies.

Except as otherwise specified, references to years (e.g., "2013") indicate our fiscal year ending June 30 of the year referenced and comparisons are to the corresponding period of the prior year. The following discussion includes a comparison of the results of operations for the three-month period ended September 30, 2012, to the three-month period ended September 30, 2011.

Except for specific historical information, many of the matters discussed in this report may express or imply projections of revenues or expenditures, plans and objectives for future operations, growth or initiatives, expected future economic performance, or the expected outcome or impact of pending or threatened litigation. These and similar statements regarding events or results which we expect will or may occur in the future are forward-looking statements that involve risks, uncertainties and other factors which may cause our actual results and performance to differ materially from those expressed or implied by those statements. All forward-looking information is provided pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 and should be evaluated in the context of these risks, uncertainties and other factors. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "trends," "assumptions," "target," "guidance," "outlook," "opportunity," "future," "plans," "goals," "objectives," "expectations," "near-term," "long-term," "projection," "may," "will," "expect," "intend," "estimate," "anticipate," "believe," "potential," "regular," "should," "projects," "forecasts" or "continue" (or other derivatives of each of these terms) or similar terminology.

We believe the assumptions underlying any forward-looking statements are reasonable; however, any of the assumptions could be inaccurate, and therefore, actual results may differ materially from those projected in or implied by the forward-looking statements. The following important factors, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements:

- pricing fluctuations and worldwide economic conditions;
  - dependence on large customers;
- fluctuation in the costs of raw materials and energy resources;
  - competition;
- changes in the net benefit realized from the alternative fuel mixture credit and cellulosic biofuel credit;
  - changes in fair values of long-lived assets;
  - inability to predict the scope of future environmental compliance costs or liabilities;
    - inability to predict the scope of future restructuring costs or liabilities; and
- the ability to obtain additional capital, maintain adequate cash flow to service debt as well as meet operating needs.
  - the ability to execute our business plans, including those related to acquisitions and divestitures

Other factors and risks that may result in actual results differing from this forward-looking information include, but are not limited to, those contained in Part I, Item 1A of the Annual Report, which is incorporated herein by this reference, or from time to time, in our filings with the SEC, press releases and other communications.

Readers are cautioned not to place undue reliance on forward-looking statements made in this report, since the statements speak only as of the report's date. Except as may be required by law, we have no obligation, and do not intend, to publicly update or revise any of these forward-looking statements to reflect events or circumstances occurring after the date of this report or to reflect the occurrence of unanticipated events. Readers are advised, however, to consult any future public disclosures that we may make on related subjects in reports that we file with or furnish to the SEC or in our other public disclosures.

#### Executive Summary

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

Our strategy is to continue to strengthen our position as a leading supplier of renewable cellulose-based specialty products. Our key focus areas over the next twelve months include maximizing cash flow, optimizing capacity utilization, successful execution of the high-end specialty wood pulp expansion project, identifying new profitable, sustainable growth opportunities, improving our return on invested capital for all assets, and continuing our progress to a Lean Enterprise culture. We plan to take a balanced approach in allocating capital between debt reduction, investment in high rate of return projects, and returning cash to stockholders.

Net sales for the three months ended September 30, 2012, were \$197 million, down \$34 million, or 15%, compared to net sales of \$231 million for the same period in 2011. This decline was primarily due to lower shipment volume in the specialty fibers segment due to lost sales resulting from the Foley steam drum failure and weaker demand in some of our wood and cotton specialty fibers markets. The sale of our King, North Carolina converting business accounted for a \$5 million reduction in net sales compared to the three months ended September 30, 2011. Specialty fibers segment sales decreased 18% and sales in the nonwoven materials segment (excluding the impact of the King divestiture) were down 2%. Shipment volume, excluding the King divestiture, was down 14% compared to the prior year, with specialty fibers shipments down 17% and nonwovens shipment volume up 2%. Average selling prices on our high-end wood pulp were up 10% compared to the year-ago quarter, largely offsetting lower fluff pulp prices, which decreased by \$119 per ton between these two periods.

Operating income for the three months ended September 30, 2012, was \$38.0 million, down \$5.4 million from the same period in 2011. This decrease was largely driven by the lower sales volume. Aside from cotton linter and fluff pulp costs, which have decreased significantly versus the same period a year ago, costs for chemicals, wood, other raw materials, and energy were stable. Gross margin improved from 24.3% to 25.4% as a percentage of sales, reflecting margin improvements at our cotton cellulose and nonwovens plants. Also impacting operating income for the three months ended September 30, 2012, were \$1.0 million of restructuring costs related to the corporate restructuring of our executive management team and a gain of \$2.5 million on insurance proceeds related to the Foley steam drum failure. Selling, research and administrative expenses for the quarter increased to \$13.2 million from \$12.3 million in the prior-year period, reflecting an increase in consulting and legal fees related to our ongoing efforts to identify new growth opportunities.

In June 2012, we completed the sale of our Americana, Brazil facility. Results for prior periods have been adjusted to reflect discontinued operations in the consolidated statements of operations on an after-tax basis. During the three months ended September 30, 2011, we recorded operating income of \$0.6 million at this facility. See Note 3, Discontinued Operations, for further detail.

Net earnings for the three months ended September 30, 2012, of \$29.5 million, or \$0.74 per diluted share, were down \$11.6 million, or \$0.29 per diluted share compared to the same period a year ago. The variation in the net benefit from the cellulosic biofuel credit ("CBC") accounted for \$5.7 million or \$0.15 per diluted share of this reduction in net income, while restructuring costs accounted for an additional \$0.6 million, net of tax, or \$0.02 per diluted share reduction. The remaining \$5.3 million or \$0.12 per diluted share reduction in net income was the result of lower sales and a higher effective tax rate, which effects were partially offset by the gain on the insurance proceeds.

Net cash provided by operating activities for the three months ended September 30, 2012, of \$3.7 million decreased by \$24.8 million compared to \$28.5 million for the same period a year ago. This year over year decrease in cash flows from operations was driven by decreased sales revenue, the repayment of alternative fuel mixture credits ("AFMC"), and inventory build. Inventories increased \$24.0 million during the current year quarter as we rebuilt inventories after the June outage at our Foley facility caused by the steam drum failure and due to weaker demand in some markets. Purchases of property, plant and equipment increased by \$17.4 million compared to the same period last year, reflecting capital spending on the Foley Specialty Expansion Project and expenditures due to the Foley steam drum failure. Borrowings on our revolving line of credit increased \$23.3 million for the current year quarter as we repaid \$28.2 million in AFMCs to the IRS in exchange for higher value CBCs which we expect to receive within

the current fiscal year.

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## Results of Operations

## Consolidated results

The following table compares components of operating income for the three months ended September 30, 2012 and 2011.

| (millions)                                    | Three Months Ended September 30 |          |           |          |  |
|---|---------------------------------|----------|-----------|----------|--|
|   | 2012                            | 2011     | Change    | % Change |  |
| Net sales                                     | \$ 197.0                        | \$ 231.5 | \$ (34.5) | (14.9)%  |  |
| Cost of goods sold                            | 146.8                           | 175.2    | (28.4)    | (16.2)%  |  |
| Gross margin                                  | 50.2                            | 56.3     | (6.1)     | (10.8)%  |  |
| Selling, research and administrative expenses | 13.2                            | 12.4     | 0.8       | 6.5%     |  |
| Amortization of intangibles and other         | 0.5                             | 0.5      | -         | -        |  |
| Restructuring costs                           | 1.0                             | -        | 1.0       | 100.0%   |  |
| Other operating income                        | (2.5)                           | -        | (2.5)     | (100.0)% |  |
| Operating income                              | \$ 38.0                         | \$ 43.4  | \$ (5.4)  | (12.4)%  |  |

Net sales for the three months ended September 30, 2012, were \$34.5 million or 14.9% lower than in the comparable prior-year period, primarily due to lower sales volume in the specialty fibers segment. Higher selling prices on our high-end wood pulp were offset by lower fluff pulp prices. The divestiture of our converting business lowered net sales in the nonwoven materials segment by \$5.0 million compared to the same period a year ago. In addition, exchange rates in Europe unfavorably impacted net sales for the nonwoven materials segment by \$3.2 million.

Gross margin was lower for the three months ended September 30, 2012, compared to the comparable prior-year period primarily driven by the reduction in sales and the impact on the quarter of the unplanned Foley outage. Raw material costs decreased significantly for both our cotton specialty fibers and nonwovens products compared to the year-ago quarter and more than offset modest increases in energy and direct costs compared the same period a year ago.

Selling, research and administrative expenses increased for the three months ended September 30, 2012, versus the same period in the prior year reflecting an increase in consulting and legal fees related to our ongoing efforts to identify new growth opportunities.

## Segment results

Although nonwoven materials, processes, customers, distribution methods and regulatory environment are similar to specialty fibers, we believe it is appropriate for nonwoven materials to be disclosed as a separate reporting segment from specialty fibers. The specialty fibers segment consists of our chemical cellulose, customized fibers and fluff pulp product lines which are cellulosic fibers based on both wood and cotton. The nonwovens materials segment currently consists of our three airlaid plants. Our converting plant, which was sold in January 2012, is included in the prior-year period results. We make separate financial decisions and allocate resources based on the sales and operating income of each segment. We allocate selling, research, and administrative expense to each segment, and we use the resulting operating income to measure the performance of the two segments. We exclude items that are not included in measuring business performance, such as restructuring costs, amortization of intangibles, and unallocated



at-risk and stock-based compensation.

### Specialty fibers

The following table compares specialty fibers net sales and operating income for the three months ended September 30, 2012 and 2011.

| (millions)       | Three Months Ended September 30 |          |           |          |
|------------------|---------------------------------|----------|-----------|----------|
|                  | 2012                            | 2011     | Change    | % Change |
| Net sales        | \$ 143.3                        | \$ 174.8 | \$ (31.5) | (18.0)%  |
| Operating income | 37.1                            | 43.2     | (6.1)     | (14.1)%  |

Net sales were lower for the three months ended September 30, 2012, compared to the comparable prior-year period. Lower sales volume compared to the same period a year ago was the main driver of this decline, reflecting lost sales resulting from the June steam drum failure outage at our Foley facility and weaker demand in some of our wood and cotton specialty fibers markets. For the three months ended September 30, 2012, prices for high-end specialty wood grades were up 10%, while fluff pulp pricing decreased by \$119 per ton compared to the same period in 2011.

Operating income decreased \$6.1 million for the three months ended September 30, 2012, compared to the prior year comparable period due to the decline in sales volume, including the impact of the Foley outage. Raw material costs decreased significantly for our cotton specialty fibers compared to the year-ago quarter and more than offset modest increases in energy and direct costs compared the same period a year ago.

#### Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three months ended September 30, 2012 and 2011.

| (millions)       | Three Months Ended September 30 |         |          |          |  |
|------------------|---------------------------------|---------|----------|----------|--|
|                  | 2012                            | 2011    | Change   | % Change |  |
| Net sales        | \$ 58.4                         | \$ 64.7 | \$ (6.3) | (9.7)%   |  |
| Operating income | 5.5                             | 2.3     | 3.2      | 139.1%   |  |

Nonwoven materials sales for the three months ended September 30, 2012, decreased 10% compared to the same prior-year comparable period, reflecting the divestiture of the King, North Carolina converting business in January 2012. Net sales excluding the King divestiture were down 2% as the negative effect of foreign currency rate fluctuations was partially offset by increased shipment volume and a favorable change in mix.

Operating income increased \$3.2 million for the three months ended September 30, 2012, relative to the comparable prior-year period mainly due to increased production volume as we rebuilt inventories after very strong shipment performance in the fiscal 2012 fourth quarter and a 2% increase in shipment volume for the current quarter compared to the year-ago quarter. Partially offsetting these favorable results was the negative impact of foreign currency rate fluctuations. Results for the prior-year period were impacted by a production issue that resulted in a large amount of non-prime product and unfavorably impacted operating income by \$2.2 million.

#### Corporate

Our intercompany net sales elimination represents intercompany sales from our Florida specialty wood fiber facility to our airlaid nonwovens plants. The unallocated at-risk compensation and unallocated stock-based compensation represent compensation for executive officers and certain other employees. The unallocated growth initiative expenses represent due diligence incurred during the evaluation of potential acquisitions or joint ventures.

The following table compares corporate net sales and operating (loss) income for the three months ended September 30, 2012 and 2011.

| (millions)              | Three Months Ended September 30 |          |        |          |  |
|-------------------------|---------------------------------|----------|--------|----------|--|
|                         | 2012                            | 2011     | Change | % Change |  |
| Net sales               | \$ (4.7)                        | \$ (8.0) | \$ 3.3 | (41.3)%  |  |
| Operating (loss) income | (4.6)                           | (2.1)    | (2.5)  | 119.0 %  |  |

The operating loss for the three months ended September 30 consists of:

| (millions)                       | Three Months Ended September 30 |          |
|----------------------------------|---------------------------------|----------|
|                                  | 2012                            | 2011     |
| Unallocated at-risk compensation | \$ (0.9)                        | \$ (1.0) |

|  |          |          |
|--|----------|----------|
| Unallocated stock-based compensation   | (1.2)    | (0.9)    |
| Unallocated growth initiative expenses | (1.0)    | -        |
| Intellectual property amortization     | (0.5)    | (0.5)    |
| Restructuring                          | (1.0)    | -        |
| Gross margin on intercompany sales     | -        | 0.3      |
| Operating (loss) income                | \$ (4.6) | \$ (2.1) |

#### Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased \$2.8 million for the three months ended September 30, 2012, versus the prior year comparable period. This decrease was primarily due to the reduction of \$2.5 million of interest accrued during the current period compared to the three months ended September 30, 2011, when we were expecting to have to pay the U.S. government interest related to exchanging AFMC credits for CBC credits. See Note 6, Alternative Fuel Mixture Credits/Cellulosic Biofuel Credits, to the Consolidated Financial Statements in our Annual Report for additional discussion of the July 2012 IRS ruling on this topic.

## Income tax

Our effective tax rate for the three-month periods ended September 30, 2012 and 2011, were 20.3% and 0.24%, respectively.

During the three months ended September 30, 2012 and 2011, we recorded tax benefits of \$5.7 million and \$12.9 million, respectively, for exchange of CBCs from AFMCs. See additional discussion at Note 6 to the condensed consolidated financial statements.

## Financial Condition

### Liquidity and capital resources

On October 22, 2010, we entered into a Second Amended and Restated Credit Agreement (“credit facility”) which amended and restated the prior credit facility in its entirety. The credit facility increased our maximum committed borrowing capacity to \$300.0 million and extended our maturity date on such borrowings to October 22, 2015. We used the proceeds from the credit facility to pay the outstanding balance on the prior credit facility plus fees and expenses.

On September 30, 2012, we had \$39.2 million of cash and cash equivalents, \$9.1 million of short-term investments and \$214.1 million borrowing capacity on our credit facility.

Of the cash and cash equivalents held at September 30, 2012, \$38.9 million was held by foreign subsidiaries. All earnings of the foreign subsidiaries are considered to be permanently reinvested, and it is not practicable to compute the potential deferred tax liability associated with these undistributed foreign earnings. We believe that cash held domestically, funds available through the credit facility, and cash generated from U.S. based operations will be adequate to meet the future needs of the U.S. based operations.

While we can offer no assurances, we believe that our cash flow from operations, together with current cash and cash equivalents, will be sufficient to fund necessary capital expenditures, meet operating expenses, service our debt obligations and pay dividends for the next 24 months.

### Treasury shares

At September 30, 2012, a total of 7.0 million shares have been repurchased under authorizations by our Board of Directors to repurchase up to 11.0 million shares of our common stock. Repurchased shares are held as treasury stock and are available for general corporate purposes, including the funding of employee benefit and stock-related plans. During the three months ended September 30, 2012 and 2011, we repurchased 0.9 thousand and 356 thousand shares, respectively. During October 2012, we have repurchased an additional 300 thousand shares.

## Cash Flow

The following table provides a summary of cash flows for the three month periods ended September 30, 2012 and 2011.

| (millions)   | Three Months Ended<br>September 30 |         |
|--|------------------------------------|---------|
|  | 2012                               | 2011    |
| <b>Operating activities:</b>                         |                                    |         |
| Net income   | \$ 29.5                            | \$ 41.1 |
| Noncash charges and credits, net                     | 16.2                               | 16.5    |
| Changes in operating assets and liabilities, net     | (42.0)                             | (29.1)  |
| Net cash provided by operating activities            | 3.7                                | 28.5    |
| <b>Investing activities:</b>                         |                                    |         |
| Purchases of property, plant and equipment           | (28.1)                             | (10.7)  |
| Other investing activities                           | 3.1                                | (0.1)   |
| Net cash used in investing activities                | (25.0)                             | (10.8)  |
| <b>Financing activities:</b>                         |                                    |         |
| Net (payments) borrowings under lines of credit      | 23.3                               | (6.6)   |
| Purchase of treasury shares                          | -                                  | (8.6)   |
| Net proceeds from sale of equity interests           | 0.9                                | 0.6     |
| Payment of dividend                                  | (3.1)                              | (2.4)   |
| Other  | -                                  | 0.3     |
| Net cash provided by (used in) financing activities  | 21.1                               | (16.7)  |
| Effect of foreign currency rate fluctuations on cash | 1.1                                | 1.3     |
| Net increase in cash and cash equivalents            | \$ 0.9                             | \$ 2.3  |

## Cash provided by operating activities

Cash provided by operating activities for the three months ended September 30, 2012, was \$24.8 million less than for the comparable prior-year period. This was driven primarily by net income of \$11.6 million less than the comparable prior-year period which in turn was due mostly to a gross margin of \$6.1 million less and income tax expense \$7.4 million higher than the comparable prior-year period. Cash taxes were \$24.5 million higher compared to the same three month period a year ago due mostly to a \$28.2 million IRS payment made in the current period. The changes in working capital, excluding the impact of taxes, resulted in a \$7.6 million decrease in the use of cash in the current period compared to the same period last year as a reduction in accounts receivable more than offset the impact of a larger inventory build.

## Net cash used in investing activities

Purchases of property, plant and equipment increased \$17.4 million during the three months ended September 30, 2012, versus the comparable prior-year period. A significant portion of this increase relates to spending on the Foley Specialty Expansion Project which will add approximately 42,000 tons annually of high-end specialty production

while reducing an equal amount of fluff pulp production. This project will cost approximately \$85 million of which \$46 million has been spent to date and an additional \$39 million is expected to be spent in the current fiscal year. We expect our capital spending will be approximately \$120 million in fiscal year 2013, including \$6 million relating to the June steam drum failure outage at our Foley facility.

Net cash used in financing activities

During the three months ended September 30, 2012, borrowings on our revolving line of credit increased \$23.3 million to \$81.8 million, as we repaid \$28.2 million in AFMCs to the IRS in exchange for higher value CBCs. During the three months ended September 30, 2012, we paid cash dividends (\$0.08 per share) in the aggregate amount of \$3.1 million. During the three months ended September 30, 2011, we paid cash dividends (\$0.06 per share) in the aggregate amount of \$2.4 million and repurchased 356 thousand shares for \$8.6 million.

## Contractual obligations

The following table summarizes our significant contractual cash obligations as of September 30, 2012. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

| (millions)                         | Total    | Payments Due by Period |                  |                  |            |
|------------------------------------|----------|------------------------|------------------|------------------|------------|
|                                    |          | 2013(1)                | 2014<br>and 2015 | 2016<br>and 2017 | Thereafter |
| Contractual Obligations            |          |                        |                  |                  |            |
| Long-term obligations (2)          | \$ 88.0  | \$ 1.5                 | \$ 4.0           | \$ 82.5          | \$ -       |
| Operating lease obligations        | 4.5      | 1.2                    | 2.6              | 0.7              | -          |
| Timber commitments                 | 188.7    | 21.2                   | 51.4             | 47.7             | 68.4       |
| Other purchase commitments (3)     | 61.3     | 47.5                   | 13.8             | -                | -          |
| Total contractual cash obligations | \$ 342.5 | \$ 71.4                | \$ 71.8          | \$ 130.9         | \$ 68.4    |

(1) Cash obligations for the remainder of 2013.

(2) Amounts include related interest payments. Interest payments of \$6.2 million for variable debt are based on the effective annual rate as of September 30, 2012, of 2.5%.

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

Note: The cash amounts necessary to fund post-retirement benefit obligations have not changed materially since June 30, 2012. These obligations are not included in the table above as the total obligation is based on the present value of the payments and would not be consistent with the contractual cash obligations disclosures included in the table above. See Note 19, Employee Benefit Plans, to the Consolidated Financial Statements in our Annual Report for further information.

## Critical Accounting Policies

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

See Part II, Item 7 — Critical Accounting Policies and Estimates and our consolidated financial statements and related notes in Part IV, Item 15 of our Annual Report for additional accounting policies and related estimates that we believe are the most critical to understanding our condensed consolidated financial statements, financial condition and results of operations and which require complex management judgment and assumptions, or involve uncertainties. These critical accounting policies include those relating to allowance for doubtful accounts, deferred income taxes, CBCs, depreciation and long-lived assets.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Part II, Item 7A of our Annual Report is incorporated herein by this reference. There have been no material changes in our quantitative and qualitative market risks since June 30, 2012.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of September 30, 2012, of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that, as of September 30, 2012, our disclosure controls and procedures were effective for the purposes set forth in the definition thereof in Exchange Act Rule 13a-15(e).

There have been no changes (including corrective actions with regard to significant deficiencies and material weaknesses) during the quarter ended September 30, 2012, in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

Not applicable.

## Item 1A. Risk Factors

There have been no changes to the material risks facing our business from those disclosed in our Annual Report on Form 10-K for the year ended June 30, 2012.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Issuer Purchases of Equity Securities

The Board of Directors has authorized total repurchases of 11.0 million shares of common stock. At September 30, 2012, we have remaining approximately 4.0 million shares authorized by our Board of Directors to repurchase. Repurchased shares will be held as treasury stock and will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. Below is a summary of our stock repurchases for the quarter ending September 30, 2012.

|                                     | (a) Total<br>number of<br>shares<br>purchased | (b)<br>Average<br>price paid<br>per share | (c) Total number<br>of shares<br>purchased as part<br>of publicly<br>announced plans<br>or programs | (d) Maximum<br>number of shares<br>that may yet be<br>purchased under<br>plans or programs |
|-------------------------------------|---|---|---|--|
| Balance June 30, 2012               |   |   |   | 4,048,871  |
| July 1 – July 31, 2012              | -   | \$ -                                      | -   | 4,048,871  |
| August 1 – August 31, 2012          | -   | -   | -   | 4,048,871  |
| September 1 – September 30,<br>2012 | 900   | 31.02                                     | 900   | 4,047,971  |
| Total                               | 900   | \$ 31.02                                  | 900   | 4,047,971  |

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

Not applicable.

## Item 6. Exhibits

See Exhibit Index immediately following signature page.

SIGNATURES

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

BUCKEYE TECHNOLOGIES INC.

By: */s/ John B. Crowe*

John B. Crowe, Chairman of the Board and Chief Executive Officer  
(Principal Executive Officer)

Date: November 6, 2012

By: */s/ Steven G. Dean*

Steven G. Dean, Executive Vice President and Chief Financial Officer  
(Principal Accounting and Financial Officer)

Date: November 6, 2012

EXHIBIT INDEX

|         |   |
|---------|---|
| 31.1    | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer |
| 31.2    | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer |
| 32.1    | Section 1350 Certification of Chief Executive Officer             |
| 32.2    | Section 1350 Certification of Chief Financial Officer             |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase                      |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase                       |
| 101.INS | XBRL Instance Document  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase                            |
| 101.PRE | XBRL Presentation Linkbase Document                               |
| 101.SCH | XBRL Taxonomy Extension Schema                                    |

