# 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**<br>**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 |

**TABLE OF CONTENTS**


**PART I—FINANCIAL INFORMATION**

| | | |
|---|---|---|
| Item 1. | Financial Statements | 3 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 35 |
| Item 4. | Controls and Procedures | 36 |

**PART II—OTHER INFORMATION**

| | | |
|---|---|---|
| Item 1. | Legal Proceedings | 37 |
| Item 1A. | Risk Factors | 37 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 40 |
| Item 3. | Defaults Upon Senior Securities | 40 |
| Item 4. | Submission of Matters to a Vote of Security Holders | 40 |
| Item 5. | Other Information | 40 |
| Item 6. | Exhibits | 40 |

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 | July 1, 2006 |
| | (unaudited) | |
| 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 | July 1, 2006 |
| | (unaudited) | |
| 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.



**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 | July 1, 2006 |
| | (unaudited) | |
| **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 | Severance\ Retention | Asset Write-off & Impairment | Other | Total |
|---|---|---|---|---|---|
| | (thousands) | | | | |
| 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 | Severance\ Retention | Asset Write-off & Impairment | Other | Total |
|---|---|---|---|---|---|
| | (thousands) | | | | |
| 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | 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** | **$ —** |



| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | 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 | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | 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)** |



### *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 | OfficeMax, Retail | Total |
|---|---|---|---|
| | | (thousands) | |
| 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 | Accumulated Amortization | Net Carrying Amount |
| | | (thousands) | |
| 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 | Accumulated Amortization | Net Carrying Amount |
| | | (thousands) | |
| 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 | | Other Benefits Quarter Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (thousands) | | | |
| 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 | | Other Benefits Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (thousands) | | | |
| 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 | | Income (Loss) Before Taxes and Minority Interest (a) | |
|---|---|---|---|---|
| | Quarter Ended | | Quarter Ended | |
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (thousands) | | | |
| 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 | | Income (Loss) Before Taxes and Minority Interest (a) | |
|---|---|---|---|---|
| | Six Months Ended | | Six Months Ended | |
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| | (thousands) | | | |
| OfficeMax, Contract | $ 2,461,661 | $ 2,377,504 | $ 100,896 | $ 111,473 |
| OfficeMax, Retail | 2,107,010 | 2,086,984 | 89,293 | (10,806) |
| Corporate and Other | — | — | (24,149) | (62,460) |
| | **$ 4,568,671** | **$ 4,464,488** | 166,040 | 38,207 |
| Interest expense | | | (60,075) | (61,717) |
| Interest income and other | | | 39,134 | 47,778 |
| | | | **$ 145,099** | **$ 24,268** |

(a) See Note 3, Integration Activities and Facility Closures and Note 5, Other Operating (Income) Expense, Net for an explanation of certain unusual and/or non-recurring items affecting the segments.



***16. Commitments and Guarantees***

In addition to commitments for leases and long-term debt, and purchase obligations for goods and services and capital expenditures entered into in the normal course of business, the Company has various other commitments, guarantees and obligations that are described in Note 18, Commitments and Guarantees, of the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 30, 2006 ("Item

8. Financial Statements and Supplementary Data”). At June 30, 2007, other than a change in the average market price per ton of the benchmark paper grade used to calculate payments under the Additional Consideration Agreement with Boise Cascade L.L.C., described below, there had not been a material change to the information regarding commitments, guarantees and contractual obligations disclosed in the Company’s Annual Report on Form 10-K for the year ended December 30, 2006.

Pursuant to an Additional Consideration Agreement between OfficeMax and Boise Cascade, L.L.C., we may be required to make substantial cash payments to, or receive substantial cash payments from, Boise Cascade, L.L.C. Under the Additional Consideration Agreement, the Sale proceeds may be adjusted upward or downward based on paper prices during the six years following the Sale, subject to annual and aggregate caps. Specifically, we have agreed to pay Boise Cascade, L.L.C. $710,000 for each dollar by which the average market price per ton of a specified benchmark grade of cut-size office paper during any 12-month period ending on September 30 is less than $800. Boise Cascade, L.L.C. has agreed to pay us $710,000 for each dollar by which the average market price per ton exceeds $920. Under the terms of the agreement, neither party will be obligated to make a payment in excess of $45 million in any one year. Payments by either party are also subject to an aggregate cap of $125 million that declines to $115 million in the fifth year and $105 million in the sixth year.

As of June 30, 2007 and December 30, 2006, the net amount recognized in our Consolidated Balance Sheet related to the Additional Consideration Agreement (either receivable or payable) was zero. We record changes in the fair value of the Additional Consideration Agreement in our net income (loss) in the period they occur; however, any potential payments from Boise Cascade, L.L.C. to us are not recorded in net income (loss) until all contingencies have been satisfied, which is generally at the end of a 12-month measurement period ending on September 30. As of June 30, 2007, the average market price per ton of the benchmark grade used to calculate payments due under the Additional Consideration Agreement was $953, which represents the average for the first nine months of the 12-month measurement period ending on September 30, 2007. Market prices for paper are volatile and subject to significant fluctuations. Accordingly, the average market price per ton for the 12-month period ending on September 30, 2007 may be different than the average as of June 30, 2007. If the average price per ton of the benchmark grade remains at $953 through September 30, 2007, we would expect to receive a payment of approximately $25 million from Boise Cascade L.L.C.

***17. Legal Proceedings and Contingencies***

We are involved in litigation and administrative proceedings arising in the normal course of our business. In the opinion of management, our recovery, if any, or our liability, if any, under pending litigation or administrative proceedings would not materially affect our financial position or results of operations. For information regarding legal proceedings and contingencies, see Note 19, Legal Proceedings and Contingencies, of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” in the Company’s Annual Report on Form 10-K for the year ended December 30, 2006 and “Item 16. Legal Proceedings and Contingencies” in the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.



***18. Share Based Payments***

Effective January 1, 2006, the Company adopted SFAS No. 123R, “Share Based Payment” using the modified prospective transition method. Under SFAS 123R, the Company must record compensation expense for all awards granted after the adoption date and for the unvested portion of previously granted awards that remain outstanding at the adoption date, under the fair value method. Prior to the adoption of SFAS 123R, the Company recognized compensation expense for share-based awards to employees using the fair-value-based guidance in SFAS 123. Due to the fact that the Company had previously accounted for share-based awards using SFAS 123, the adoption of SFAS 123R did not have a material impact on the Company’s financial position, results of operations or cash flows.

The Company sponsors several share-based compensation plans, which are described below. Compensation costs related to the Company’s share-based plans were $6.9 million and $14.4 million for the quarter and six months ended June 30, 2007, respectively. Compensation costs related to the Company’s share-based plans were $5.8 million and $10.5 million for the quarter and six months ended July 1, 2006, respectively. Compensation expense is generally recognized on a straight-line basis over the vesting period of grants. The total income tax benefit recognized in the Consolidated Statements of Income (Loss) for share-based compensation arrangements was $2.7 million and $5.6 million for the quarter and six months ended June 30, 2007, respectively. The total income tax benefit recognized in the Consolidated Statements of Income (Loss) for share-based compensation arrangements was $2.2 million and $4.0 million for the quarter and six months ended July 1, 2006, respectively.

*2003 Director Stock Compensation Plan and OfficeMax Incentive and Performance Plan*

In February 2003, the Company’s Board of Directors adopted the 2003 Director Stock Compensation Plan (the “2003 DSCP”) and the 2003 OfficeMax Incentive and Performance Plan (the “2003 Plan”), which were approved by shareholders in April 2003.

A total of 57,187 shares of common stock is reserved for issuance under the 2003 DSCP. Prior to December 8, 2005, the 2003 DSCP permitted non-employee directors to elect to receive some or all of their annual retainer and meeting fees in the form of options to purchase shares of the Company’s common stock. Non-employee directors who elected to receive a portion of their compensation in the form of stock options did not receive cash for that portion of their compensation. The difference between the $2.50-per-share exercise price of the options and the market value of the common stock on the date of grant was equal to the cash compensation that participating directors elected to forego and was recognized as compensation expense in the Consolidated Statements of Income (Loss). On December 8, 2005, the Board of Directors amended the 2003 DSCP to require the exercise price of any options issued to be fair market value. On February 14, 2007, the Board of Directors amended the 2003 DSCP to eliminate the choice to receive stock options. All options granted under the 2003 DSCP expire three years after the holder ceases to be a director.

The 2003 Plan was effective January 1, 2003, and replaced the Key Executive Performance Plan for Executive Officers, Key Executive Performance Plan for Key Executives/Key Managers, 1984 Key Executive Stock Option Plan (“KESOP”), Key Executive Performance Unit Plan (“KEPUP”) and Director Stock Option Plan (“DSOP”). No grants or awards have been made under the Key Executive Performance Plans, KESOP, KEPUP, or DSOP since 2003 and no future grants or awards will be made under these plans. A total of 5,209,540 shares of common stock is reserved for issuance under the 2003 Plan. The Company’s executive officers, key employees and nonemployee directors are eligible to receive awards under the 2003 Plan at the discretion of the Executive Compensation Committee of the Board of Directors. Eight types of awards may be granted under the 2003 Plan, including stock options, stock appreciation rights, restricted stock, restricted stock units, performance units, performance shares, annual incentive awards and stock bonus awards.

*Restricted Stock and Restricted Stock Units*

In the first six months of 2007, the Company granted to employees 683,095 restricted stock units ("RSUs"). The weighted-average grant-date fair value of the RSUs was $53.01. As of June 30, 2007, 670,960 of these RSUs remained outstanding and vest half in 2009 and half in 2010. The remaining compensation expense to be recognized related to this grant, net of estimated forfeitures, is $26 million.

In 2006, the Company granted to employees and directors 1,157,479 RSUs. The weighted-average grant-date fair value of the RSUs was $28.79. As of June 30, 2007, 1,025,996 of these RSUs remained outstanding which vest after defined service periods as follows: 10,808 units in 2007, 507,594 in 2008 and 507,594 in 2009. The remaining compensation expense to be recognized related to this grant, net of estimated forfeitures, is approximately $16 million.

In 2005, the Company granted to employees and directors 728,123 RSUs. The weighted-average grant-date fair value of the RSUs was $33.15. As of June 30, 2007, 81,566 of these RSUs remained outstanding, which vest after defined service periods as follows: 29,666 units in 2007, 45,900 units in 2008 and 3,000 units in both 2009 and 2010. The remaining compensation expense to be recognized related to this grant, net of estimated forfeitures, is $0.5 million.

In 2004, the Company granted 14,765 shares of restricted stock to nonemployee directors. The restricted stock granted to directors vests six months from their termination or retirement from board service, and 7,170 of these restricted stock shares remain outstanding at June 30, 2007.

Shares of restricted stock are restricted until they vest and cannot be sold by the recipient until the restriction has lapsed. RSUs are restricted until they vest and are convertible into one common share after the restriction has lapsed. No entries are made in the financial statements on the grant date of restricted stock and RSU awards. The Company recognizes compensation expense related to these awards over the vesting periods based on the closing prices of the Company's common stock on the grant dates. If these awards contain performance criteria, management periodically reviews actual performance against the criteria and adjusts compensation expense accordingly. For the quarter and six months ended June 30, 2007, the Company recognized $6.8 million and $14.1 million, respectively, of pretax compensation expense and additional paid-in capital related to restricted stock and RSU awards. For the quarter and six months ended July 1, 2006, the Company recognized $5.5 million and $10.0 million, respectively, of pretax compensation expense and additional paid-in capital related to restricted stock and RSU awards.

Restricted shares and RSUs are not included as shares outstanding in the calculation of basic earnings per share, but are included in the number of shares used to calculate diluted earnings per share, if dilutive. When the restriction lapses on restricted stock, the par value of the stock is reclassified from additional paid-in-capital to common stock. When the restriction lapses on RSUs, the units are converted to unrestricted common shares, and the par value of the stock is reclassified from additional paid-in-capital to common stock. Unrestricted shares are included in shares outstanding for purposes of calculating both basic and diluted earnings per share. Restricted stock and RSUs may be eligible to receive all dividends declared on the Company's common shares during the vesting period; however, such dividends are not paid until the restrictions lapse.

*Stock Units*

The Company has a shareholder approved deferred compensation program for certain of its executive officers that allows them to defer a portion of their cash compensation. Previously, these officers could allocate their deferrals to a stock unit account. The Company matched deferrals used to purchase stock units with a 25% Company allocation of stock units. As a result of an amendment to the plan, no additional deferrals can be allocated to the stock unit accounts. At June 30, 2007, 12,789 stock units were allocated to the accounts of executive officers. A stock unit is equal in value to one share of the Company's



common stock. The value of deferred stock unit accounts is paid in shares of the Company's common stock when an officer retires or terminates employment.

*Stock Options*

In addition to the 2003 DSCP and the 2003 Plan discussed above, the Company has the following shareholder-approved stock option plans: the Key Executive Stock Option Plan ("KESOP"), the Director Stock Option Plan ("DSOP") and the Director Stock Compensation Plan ("DSCP"). No further grants will be made under the KESOP, DSOP and DSCP.

The KESOP provided for the grant of options to purchase shares of common stock to key employees of the Company. The exercise price of awards under the KESOP was equal to the fair market value of the Company's common stock on the date the options were granted. Options granted under the KESOP expire, at the latest, ten years and one day following the grant date.

The DSOP, which was available only to nonemployee directors, provided for annual grants of options. The exercise price of awards under the DSOP was equal to the fair market value of the Company's common stock on the date the options were granted. The options granted under the DSOP expire upon the earlier of three years after the director ceases to be a director or ten years after the grant date.

The DSCP permitted nonemployee directors to elect to receive grants of options to purchase shares of the Company's common stock in lieu of cash compensation. The difference between the $2.50-per-share exercise price of DSCP options and the market value of the common stock subject to the options was intended to offset the cash compensation that participating directors elected not to receive. Options granted under the DSCP expire three years after the holder ceases to be a director.

Under the KESOP and DSOP, options may not, except under unusual circumstances, be exercised until one year following the grant date. Under the DSCP, options may be exercised six months after the grant date.

A summary of stock option activity for the quarters ended June 30, 2007 and July 1, 2006 is presented in the table below:

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Shares | Weighted Avg. Exercise Price | Shares | Weighted Avg. Exercise Price |
| Balance at beginning of period | 1,753,188 | $ 31.81 | 5,759,545 | $ 32.39 |
| Options granted | — | — | — | — |
| Options exercised | (167,213) | 31.16 | (3,201,705) | 32.68 |
| Options forfeited and expired | — | — | (12,500) | 37.57 |
| Balance at end of period | 1,585,975 | $ 31.88 | 2,545,340 | $ 32.00 |
| Exercisable at end of period | 1,417,843 | | 2,297,808 | |

The following table provides summarized information about stock options outstanding at June 30, 2007:

| Range of Exercise Prices | Options Outstanding: Options Outstanding | Options Outstanding: Weighted Average Contractual Life (Years) | Options Outstanding: Weighted Average Exercise Price | Options Exercisable: Options Exercisable | Options Exercisable: Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $2.50 | 11,171 | — | $ 2.50 | 11,171 | $ 2.50 |
| $18.00—$28.00 | 574,844 | 3.1 | 27.65 | 574,844 | 27.65 |
| $28.01—$39.00 | 999,960 | 4.3 | 34.64 | 831,828 | 35.11 |



The remaining compensation expense to be recognized related to outstanding stock options, net of estimated forfeitures, is approximately $0.6 million. At June 30, 2007, the aggregate intrinsic value of outstanding stock options and exercisable stock options was $11.8 million and $10.6 million, respectively. The aggregate intrinsic value represents the total pre-tax intrinsic value (i.e. the difference between the Company's closing stock price on the last trading day of the second quarter of 2007 and the exercise price, multiplied by the quantities of in-the-money options at the end of the quarter).

***19. Subsequent Events***

On July 12, 2007, the Company entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") with a group of banks. The Loan Agreement amended the Company's existing revolving credit facility and replaced the Company's accounts receivable securitization program. The sold accounts receivable under the accounts receivable securitization program at that date were refinanced with borrowings under the new Loan Agreement and excess cash. The new Loan Agreement permits the Company to borrow up to a maximum of $700 million in accordance with a borrowing base calculation equal to a percentage of eligible accounts receivable plus a percentage of the value of the eligible inventory less certain reserves. The Loan Agreement may be increased (up to a maximum of $800 million) at the Company's request or reduced from time to time, in each case according to terms detailed in the Loan Agreement.

Borrowings under the revolver bear interest at rates based on either the prime rate or "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. The Company is also charged an unused line fee of 0.25% on the amount by which the maximum available credit exceeds the average daily outstanding borrowings. Borrowings under the revolver are secured by a lien on all personal property of the Company including domestic inventory and accounts receivable. The Loan Agreement expires on July 12, 2012.



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

***Summary***

The following discussion contains statements about our future financial performance. These statements are only predictions. Our actual results may differ materially from these predictions. In evaluating these statements, you should review Part II, Item 1A, "Risk Factors" of this Form 10-Q, including "Cautionary and Forward-Looking Statements."

*Financial Performance*

We evaluate our results of operations both before and after certain gains and losses that management believes are not indicative of our core operating activities, such as the items described below. We believe our presentation of financial measures before, or excluding, these items, which are non-GAAP measures, enhances our investors' overall understanding of our recurring operational performance and provides useful information to both investors and management.

Results for the first six months of 2007 included a loss from a sale of OfficeMax, Contract's operations in Mexico. These operations were sold to OfficeMax de Mexico, our 51% owned joint venture that operates OfficeMax stores in Mexico. The net impact of the transaction was a $1.1 million increase in minority interest, net of income tax, which is included in the Consolidated Statement of Income (Loss).

Results for the first six months of 2006 included various items related to the Company's previously announced restructuring activities and its transition to an independent office products distribution company, which are not expected to be ongoing, including the following:

- In the first six months of 2006, we recorded pre-tax charges of $89.6 million and $26.6 million related to the closing of 109 retail stores and the consolidation of our corporate headquarters, respectively. These charges were included in Other operating (income) expense, net in the Consolidated Statements of Income (Loss) and were reflected in the Retail segment (store closures) and the Corporate and Other segment (headquarters consolidation), respectively. See sub-caption "Integration Activities and Facility Closures" below for additional information regarding the store closures and the headquarters consolidation.
- In the first six months of 2006, we recognized an $11 million loss from discontinued operations related to a manufacturing facility near Elma, Washington. See sub-caption "Discontinued Operations" below for more information regarding the loss from discontinued operations.
- During the second quarter of 2006, we reduced a liability related to the Additional Consideration Agreement that was entered into in connection with the sale of the paper, forest products and timberland assets, which resulted in a credit to Other, income (expense), net (non-operating) of $9.2 million.

***Results of Operations, Consolidated***
***($ in millions, except per share amounts)***

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Sales | $2,132.4 | $2,041.0 | $4,568.7 | $4,464.5 |
| Income from continuing operations before income taxes and minority interest | $ 45.5 | $ 45.2 | $ 145.1 | $ 24.3 |
| Net income | $ 27.4 | $ 27.4 | $ 86.0 | $ 2.3 |
| 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 | $ — |

| | (percentage of sales) | | | |
|---|---|---|---|---|
| Gross profit margin | 25.1% | 25.4% | 25.4% | 25.7% |
| Operating and selling expenses | 18.4% | 18.9% | 17.8% | 18.3% |
| General and administrative expenses | 4.2% | 4.2% | 4.0% | 4.0% |
| Other operating (income) expense, net | (0.1)% | —% | —% | 2.5% |
| Operating profit margin | 2.6% | 2.3% | 3.6% | 0.9% |

Sales for the second quarter of 2007 increased 4.5% to $2,132.4 million from $2,041.0 million for the second quarter of 2006. Year-to-date, sales increased 2.3% to $4,568.7 million in 2007 from $4,464.5 million in 2006. The year-over-year sales increases reflect same-location sales growth for both our Contract and Retail segments as well as the impact of new stores. For more information about our segment results, see the discussion of segment results below.

Gross profit margin declined 0.3% of sales to 25.1% of sales for the second quarter of 2007 compared to 25.4% of sales in the previous year. Gross profit margin declined 0.3% of sales to 25.4% of sales for the first six months of 2007 compared to 25.7% of sales in the previous year. The gross profit margin decreases reflect lower gross margins in our Contract segment partially offset by improved gross margins in our Retail segment.

Operating and selling expenses decreased by 0.5% of sales to 18.4% of sales in the second quarter of 2007 from 18.9% of sales a year earlier. Year-to-date, operating and selling expenses decreased by 0.5% of sales to 17.8% of sales in 2007 from 18.3% of sales a year earlier. The improvements in operating and selling expenses as a percent of sales were primarily the result of reduced occupancy and advertising expenses in the Retail segment and a shift of expense to general and administrative in the Contract segment.

General and administrative expenses were 4.2% of sales for the second quarter of 2007 and 4.2% of sales for the second quarter of 2006. General and administrative expenses were 4.0% of sales for the first six months of 2007 and 4.0% of sales for the first six months of 2006. General and administrative expenses as a percent of sales reflect a shift in expense from operating and selling in the Contract segment and increased incentive compensation expense offset by lower legacy-related costs.

Other operating (income) expense, net includes dividends earned on our investment in affiliates of Boise Cascade, L.L.C., which were $1.4 million and $3.0 million for the second quarter and first six months of 2007, respectively, and $1.4 million and $2.9 million for the second quarter and first six months of 2006, respectively. In the second quarter of 2006, the reserve related to the closure of the 109 underperforming retail stores was reduced due to favorable negotiations with lessors and sub-tenants which resulted in other



operating income of $9.0 million. Also in the second quarter of 2006, expenses of $10.9 million, primarily related to the headquarters consolidation, were included in Other operating (income) expense, net. In the first six months of 2006, we reported $113.3 million of expense in Other operating (income) expense, net which included $89.6 million related to the 109 domestic store closures and $26.6 million primarily related to the headquarters consolidation.

Interest expense was $30.0 million in the second quarter of 2007 versus $30.2 million for the prior year. Year-to-date, interest expense was $60.1 million in 2007 and $61.7 million in 2006. Interest expense includes interest related to the timber securitization notes of approximately $20.1 million for the second quarters of 2007 and 2006 and $40.2 million for the first six months of 2007 and 2006. The interest expense associated with the timber securitization notes is offset by interest income earned on the timber notes receivable of approximately $20.6 million for the second quarters of 2007 and 2006 and $41.2 million for the first six months of 2007 and 2006. The interest income on the timber notes receivable is included in interest income and is not netted against the related interest expense in our Consolidated Statements of Income (Loss).

Excluding the interest income earned on the timber notes receivable, interest income was $1.2 million and $1.5 million for the quarters ended June 30, 2007 and July 1, 2006, respectively, and $3.6 million and $2.0 million for the six months ended June 30, 2007 and July 1, 2006, respectively.

Other income (expense), net (non-operating) was ($2.2) million and $6.7 million for the second quarters of 2007 and 2006, respectively, and ($5.7) million and $4.6 million for the first six months of 2007 and 2006, respectively. During the second quarter of 2006, we reduced a portion of the liability related to the Additional Consideration Agreement that was entered into in connection with the sale of the paper, forest products and timberland assets, which resulted in a credit to Other income (expense), net (non-operating) of $9.2 million. Other income (expense), net (non-operating) also includes costs related to the receivable securitization program, which amounted to ($2.6) million and ($2.7) million for the second quarters of 2007 and 2006, respectively, and ($5.3) million and ($5.2) million for the first six months of 2007 and 2006, respectively.

Our effective tax rate attributable to continuing operations for the second quarter of 2007 was 39.0% compared to 38.2% for the comparable period of 2006. Year-to-date, our effective tax rate attributable to continuing operations was 39.0% in 2007 compared to 38.3% in 2006. Income taxes for both periods were affected by the impact of state income taxes and non-deductible expenses and the mix of domestic and foreign sources of income.

As a result of the foregoing factors, net income for the second quarter of 2007 was $27.4 million, or $0.35 per diluted share, compared with a net income of $27.4 million, or $0.35 per diluted share, for the second quarter of 2006. For the second quarter of 2006, excluding the after-tax effect of the store closures, our headquarters consolidation and the Additional Consideration Agreement adjustment, net income was $23.0 million, or $0.29 per diluted share. Net income for the first six months of 2007 was $86.0 million, or $1.10 per diluted share, compared with net income of $2.3 million, or $0.00 per diluted share, for the

first six months of 2006. For the first six months of 2007, excluding the after-tax effect of a loss from the sale of our Contract operations in Mexico to our joint venture in Mexico, net income was $87.1 million, or $1.12 per diluted share. For the first six months of 2006, excluding the after-tax effect of the store closures, our headquarters consolidation, the Additional Consideration Agreement adjustment and the loss from discontinued operations, net income was $78.6 million, or $1.04 per diluted share.



***OfficeMax, Contract***
***($ in millions)***

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Sales | $1,197.2 | $1,146.7 | $2,461.7 | $2,377.5 |
| Segment income | $ 41.0 | $ 44.4 | $ 100.9 | $ 111.5 |
| **Sales by Product Line** | | | | |
| Office supplies and paper | $ 659.5 | $ 613.2 | $1,371.5 | $1,283.5 |
| Technology products | $ 386.8 | $ 385.9 | $ 795.7 | $ 789.0 |
| Office furniture | $ 150.9 | $ 147.6 | $ 294.5 | $ 305.0 |
| **Sales by Geography** | | | | |
| United States | $ 886.4 | $ 867.1 | $1,829.4 | $1,784.6 |
| International | $ 310.8 | $ 279.6 | $ 632.3 | $ 592.9 |
| Sales growth | 4.4% | 0.8% | 3.5% | 5.1% |
| Same-location sales growth | 4.3% | (0.2)% | 3.5% | —% |
| | (percentage of sales) | | | |
| Gross profit margin | 21.4% | 22.1% | 21.8% | 22.7% |
| Operating expenses | 18.0% | 18.2% | 17.7% | 18.0% |
| Operating profit margin | 3.4% | 3.9% | 4.1% | 4.7% |

For the second quarter of 2007, Contract segment sales were $1,197.2 million, up 4.4% from $1,146.7 million for the second quarter of 2006. For the first six months of 2007, Contract segment sales were $2,461.7 million, up 3.5% from $2,377.5 million for the first six months of 2006. In local currencies, sales increased 2.9% and 1.8%, year-over-year during the second quarter and first six months of 2007, respectively. The sales growth was realized in both the United States and International operations, primarily in large corporate accounts.

Contract segment gross profit margin decreased 0.7% of sales to 21.4% of sales for the second quarter of 2007. Contract segment gross profit margin decreased 0.9% of sales to 21.8% of sales for the first six months of 2007. The decreases in gross profit margin were primarily due to the continued impact of new and renewing accounts with lower gross margin rates and the impact of paper price increases, which were not successfully passed on to our customers.

Operating expenses for the Contract segment were 18.0% of sales for the second quarter of 2007, down from 18.2% of sales for the second quarter of 2006. Operating expenses for the Contract segment were 17.7% of sales for the first six months of 2007, down from 18.0% in the prior year. The year-over-year improvements in operating expenses as a percentage of sales were the result of targeted cost controls, particularly in the international business, and the reorganization of the Contract segment that we began in the fourth quarter of 2006 and completed in the second quarter of 2007. The cost savings were partially offset by a temporary increase in sales compensation incurred during the first quarter of 2007 with the transition to a new commission structure.

Contract segment income decreased to $41.0 million for the second quarter of 2007, or 3.4% of sales, compared to $44.4 million, or 3.9% of sales, for 2006. Contract segment income decreased to $100.9 million for the first six months of 2007, or 4.1% of sales, compared to $111.5 million, or 4.7% of sales, for 2006. The year-over-year decreases in Contract segment income were primarily the result of the decrease in gross profit margin.



***OfficeMax, Retail***
***($ in millions)***

| | Quarter Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2007 | July 1, 2006 | June 30, 2007 | July 1, 2006 |
| Sales | $935.3 | $894.2 | $2,107.0 | $2,087.0 |
| Segment income (loss) | $ 24.7 | $ 27.2 | $ 89.3 | $ (10.8) |
| **Sales by Product Line** | | | | |
| Office supplies and paper | $355.2 | $344.7 | $ 793.5 | $ 791.7 |
| Technology products | $493.8 | $464.8 | $1,122.8 | $1,093.5 |
| Office furniture | $ 86.3 | $ 84.7 | $ 190.7 | $ 201.8 |
| **Sales by Geography** | | | | |
| United States | $884.3 | $853.0 | $1,997.9 | $1,997.5 |
| International | $ 51.0 | $ 41.2 | $ 109.1 | $ 89.5 |
| Sales growth | 4.6% | (6.2)% | 1.0% | (3.0)% |
| Same-location sales growth | 1.6% | (0.9)% | 1.0% | 0.4% |
| | (percentage of sales) | | | |
| Gross profit margin | 29.9% | 29.7% | 29.6% | 29.1% |
| Operating expenses | 27.3% | 26.7% | 25.4% | 29.6% |
| Operating profit margin | 2.6% | 3.0% | 4.2% | (0.5)% |

Retail segment sales were $935.3 million for the second quarter of 2007 compared to $894.2 million for the second quarter of 2006. Retail segment same-location sales increased 1.6% year-over-year. Adjusted for our initiative to eliminate mail-in-rebates and to provide instant rebates in lieu of national vendor sponsored mail-in-rebates, same-location sales increased approximately 2.7% year-over-year during the second quarter. During the second quarter of 2007, we opened four new retail stores in the U.S. and five new stores in Mexico. During the second quarter of 2006, we opened six new domestic stores and two new stores in Mexico.

Retail segment sales were $2,107.0 million for the first six months of 2007 compared to $2,087.0 million for the first six months of 2007. Retail segment same-location sales increased 1.0% year-over-year. Adjusted for our initiative to eliminate mail-in-rebates and to provide instant rebates in lieu of national vendor sponsored mail-in-rebates, same-location sales increased approximately 2.5% year-over-year. During the first six months of 2007, we opened nine new retail stores in the U.S. and nine new stores in Mexico. During the first six months of 2006, we opened nine new retail stores in the U.S. and five new stores in Mexico.

Retail segment gross margin increased 0.2% of sales to 29.9% of sales for the second quarter of 2007, from 29.7% of sales for the comparable period of 2006. Retail segment gross margin increased 0.5% of sales to 29.6% of sales for the first six months of 2007, from 29.1% of sales for the comparable period of 2006. The gross margin improvements were primarily due to increased vendor funding partially offset by prior year physical inventory gains.

Retail segment operating expenses were 27.3% of sales for the second quarter of 2007 compared to 26.7% for the second quarter of 2006. Excluding the impact of the adjustment to the store closing charges, Retail segment operating expenses were 27.7% of sales for the second quarter of 2006. Operating expenses as a percent of sales for the second quarter of 2007 benefited from reduced occupancy and advertising costs, partially offset by an increase in allocated general and administrative expenses.



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Retail segment operating expenses were 25.4% of sales for the first six months of 2007 compared to 29.6% for the comparable period of 2006. Excluding the impact of the store closing charges, Retail segment operating expenses were 25.3% of sales for the first six months of 2006.

For the second quarter of 2007, the Retail segment reported operating income of $24.7 million, or 2.6% of sales, compared to operating income of $27.2 million, or 3.0% of sales, in 2006. Excluding the impact of the adjustment to the store closing charges, Retail segment operating income for the second quarter of 2006 was $18.2 million, or 2.0% of sales. For the first six months of 2007, Retail segment operating income was $89.3 million, or 4.2% of sales, compared to an operating loss of $10.8 million, or (0.5)% of sales, in 2006. Excluding the impact of the store closing charges, Retail segment operating income for the first six months of 2006 was $78.8 million, or 3.8% of sales. The year-over-year improvements in Retail segment income were primarily due to the improvements in gross margins and the expense savings in the second quarter of 2007.

***Corporate and Other***

Corporate and Other expenses were $9.8 million and $25.0 million in the second quarter of 2007 and 2006, respectively. Excluding the expenses related to headquarters consolidation, Corporate and Other expenses were $14.1 million for the second quarter of 2006. Corporate and Other expenses were $24.1 million and $62.5 million for the first six months of 2007 and 2006, respectively. Excluding the expenses related to headquarters consolidation, Corporate and Other expenses were $35.8 million for the first six months of 2006. The year-over-year decreases in our Corporate and Other expenses were primarily due to lower legacy-related costs.

***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 the results of its operations and planned divestiture 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, management concluded that the Company was 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 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).

***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



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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 | Severance\ Retention | Asset Write-off & Impairment | Other | Total |
|---|---|---|---|---|---|
| | | | (thousands) | | |
| 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 | Severance\ Retention | Asset Write-off & Impairment | Other | Total |
|---|---|---|---|---|---|
| | | | (thousands) | | |
| 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 |



***Liquidity and Capital Resources***

As of June 30, 2007, we had $220.6 million of cash and cash equivalents and $391.5 million of short-term and long-term debt, excluding the $1.5 billion of timber securitization notes. We also had $22.4 million of restricted investments on deposit which are pledged to secure a portion of the outstanding debt. As of December 30, 2006, we had $282.1 million of cash and cash equivalents, $22.3 million of restricted investments and $409.9 million of short-term and long-term debt, excluding the $1.5 billion of timber securitization notes. Since the second quarter of 2006, we have reduced our net debt (total debt excluding the timber securitization notes less cash and restricted investments) by approximately $65.4 million.

Our ratio of current assets to current liabilities was 1.48:1 at June 30, 2007, compared with 1.37:1 at December 30, 2006. The increase in our ratio of current assets to current liabilities at June 30, 2007 resulted primarily from the seasonal decrease in accounts payable in the first half of 2007.

The Company's primary ongoing cash requirements relate to working capital, expenditures for property and equipment, lease obligations and debt service. The Company expects to fund these requirements through a combination of cash flow from operations and seasonal borrowings under our revolving credit facility. The sections that follow discuss in more detail our operating, investing, and financing activities, as well as our financing arrangements.

*Operating Activities*

The Company's operating activities generated $40.5 million of cash during the first six months of 2007 and $151.0 million of cash during the first six months of 2006. For the first six months of 2007, items included in net income (loss) provided $169.6 million of cash, and changes in working capital used $129.1 million, principally due to the seasonal reduction in accounts payable partially offset by $82 million of cash proceeds realized from the monetization of certain company-owned life insurance assets. For the first six months of 2006, items included in net income (loss) provided $93.6 million of cash, and changes in working capital provided $57.4 million, primarily due to the reduction in inventories as a result of closing 109 retail stores during the period. At June 30, 2007, $159.0 million of sold accounts receivable were excluded from "Receivables" in our Consolidated Balance Sheet, compared to $180.0 million excluded at December 30, 2006. The decrease at June 30, 2007 in sold accounts receivable of $21.0 million from the amount at December 30, 2006, used cash from operations during 2007.

*Investment Activities*

The Company's investing activities used $61.4 million of cash during the first six months of 2007, compared to $46.4 million during the first six months of 2006. Investment activities during the first six months of 2007 were primarily expenditures for property and equipment. The Company expects expenditures for property and equipment in 2007 to total between $140 and $160 million, excluding acquisitions. The Company's capital spending in 2007 is expected to be for leasehold improvements, new stores, quality and efficiency projects, replacement projects and integration projects.

*Financing Activities*

Our financing activities used $40.6 million of cash during the first six months of 2007, compared with $2.8 million during the first six months of 2006. Dividend payments totaled $24.5 million and $23.3 million during the first six months of 2007 and 2006, respectively. In both years, the Company's quarterly dividend was 15 cents per common share. During the first six months of 2007, the Company used $18.5 million of cash to reduce debt as compared to $84.1 million for the same period in 2006. During the first six months of 2006, the Company realized $104.6 million from the exercise of stock options. Excluding the timber securitization notes, our debt-to-equity ratio was .19:1 at June 30, 2007 and .21:1 at December 30, 2006.

Our debt structure consists of credit agreements, note agreements and other borrowings. Information regarding our debt structure is included below. For additional information, see Note 13, Debt, of the Notes to Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data” of the Company’s Annual Report on Form 10-K for the year ended December 30, 2006.

*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 first six months of 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 Subsequent Events section below 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. 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.



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*Subsequent Events*

On July 12, 2007, the Company entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") with a group of banks. The Loan Agreement amended the Company's existing revolving credit facility and replaced the Company's accounts receivable securitization program. The sold accounts receivable under the accounts receivable securitization program at that date were refinanced with borrowings under the new Loan Agreement and excess cash. The new Loan Agreement permits the Company to borrow up to a maximum of $700 million in accordance with a borrowing base calculation equal to a percentage of eligible accounts receivable plus a percentage of the value of the eligible inventory less certain reserves. The Loan Agreement may be increased (up to a maximum of $800 million) at the Company's request or reduced from time to time, in each case according to terms detailed in the Loan Agreement.

Borrowings under the revolver bear interest at rates based on either the prime rate or "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. The Company is also charged an unused line fee of 0.25% on the amount by which the maximum available credit exceeds the average daily outstanding borrowings. Borrowings under the revolver are secured by a lien on domestic inventory and accounts receivable. The Loan Agreement expires on July 12, 2012.

***Contractual Obligations***

For information regarding contractual obligations, see the caption "Contractual Obligations" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006. In the first quarter of 2007, the Company adopted FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes-an interpretation of Financial Accounting Standards Board (FASB) Statement No. 109", see Note 7, Income Taxes, of "Notes to Quarterly Consolidated Financial Statements (Unaudited)" in this Form 10-Q. As of June 30, 2007, the Company had approximately $70 million of total gross unrecognized tax benefits.

***Off-Balance-Sheet Activities and Guarantees***

For information regarding off-balance-sheet activities and guarantees, see Note 9, Sales of Accounts Receivable, of "Notes to Quarterly Consolidated Financial Statements (Unaudited)" in this Form 10-Q and the caption "Off-Balance-Sheet Activities and Guarantees" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006. At June 30, 2007, there had not been a material change to the information regarding off-balance-sheet-activities and guarantees disclosed in the Company's Annual Report on Form 10-K for the year ended December 30, 2006.

***Inflationary and Seasonal Influences***

We believe that neither inflation nor deflation has had a material effect on our financial condition or results of operations; however, there can be no assurance that we will not be affected by inflation or deflation in the future. The Company's business is seasonal, with OfficeMax, Retail showing a more pronounced seasonal trend than OfficeMax, Contract. Sales in the second quarter and summer months are historically the slowest of the year. Sales are stronger during the first, third and fourth quarters that include the important new-year office supply restocking month of January, the back-to-school period and the holiday selling season, respectively.



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***Environmental***

For information regarding environmental issues, see the caption "Environmental" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006.

***Critical Accounting Estimates***

For information regarding critical accounting estimates, see the caption "Critical Accounting Estimates" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For information regarding market risk see the caption "Disclosures of Financial Market Risk" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006. At June 30, 2007, other than a change in the average market price per ton of the benchmark paper grade used to calculate payments under the Additional Consideration Agreement with Boise Cascade L.L.C., described below, there had not been a material change to the information regarding market risk disclosed in the Company's Annual Report on Form 10-K for the year ended December 30, 2006.

Pursuant to an Additional Consideration Agreement between OfficeMax and Boise Cascade, L.L.C., we may be required to make substantial cash payments to, or receive substantial cash payments from, Boise Cascade, L.L.C. Under the Additional Consideration Agreement, the Sale proceeds may be adjusted upward or downward based on paper prices during the six years following the Sale, subject to annual and aggregate caps. Specifically, we have agreed to pay Boise Cascade, L.L.C. $710,000 for each dollar by which the average market price per ton of a specified benchmark grade of cut-size office

paper during any 12-month period ending on September 30 is less than $800. Boise Cascade, L.L.C. has agreed to pay us $710,000 for each dollar by which the average market price per ton exceeds $920. Under the terms of the agreement, neither party will be obligated to make a payment in excess of $45 million in any one year. Payments by either party are also subject to an aggregate cap of $125 million that declines to $115 million in the fifth year and $105 million in the sixth year.

As of June 30, 2007 and December 30, 2006, the net amount recognized in our Consolidated Balance Sheet related to the Additional Consideration Agreement (either receivable or payable) was zero. We record changes in the fair value of the Additional Consideration Agreement in our net income (loss) in the period they occur; however, any potential payments from Boise Cascade, L.L.C. to us are not recorded in net income (loss) until all contingencies have been satisfied, which is generally at the end of a 12-month measurement period ending on September 30. As of June 30, 2007, the average market price per ton of the benchmark grade used to calculate payments due under the Additional Consideration Agreement was $953, which represents the average for the first nine months of the 12-month measurement period ending on September 30, 2007. Market prices for paper are volatile and subject to significant fluctuations. Accordingly, the average market price per ton for the 12-month period ending on September 30, 2007 may be different than the average as of June 30, 2007. If the average price per ton of the benchmark grade remains at $953 through September 30, 2007, we would expect to receive a payment of approximately $25 million from Boise Cascade L.L.C.



## ITEM 4. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures*

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, these officers have concluded that the Company's disclosure controls and procedures are effective for the purpose of ensuring that material information required to be included in this quarterly report is made known to them by others on a timely basis and that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) *Changes in Internal Controls over Financial Reporting*

There was no change in the Company's internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-1(f) of the Exchange Act, during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.



# PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are involved in litigation and administrative proceedings arising in the normal course of our business. In the opinion of management, our recovery, if any, or our liability, if any, under pending litigation or administrative proceedings would not materially affect our financial position or results of operations. For information concerning legal proceedings, see "Item 3. Legal Proceedings" and Note 19, Legal Proceedings and Contingencies, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 30, 2006 and "Item 16. Legal Proceedings and Contingencies" in the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

## ITEM 1A. RISK FACTORS

***Cautionary and Forward-Looking Statements***

This Quarterly Report on Form 10-Q contains forward-looking statements. Statements that are not historical or current facts, including statements about our expectations, anticipated financial results and future business prospects, are forward-looking statements. You can identify these statements by our use of words such as "may," "will," "expect," "believe," "should," "plan," "anticipate" and other similar expressions. You can find examples of these statements throughout this report, including Management's Discussion and Analysis of Financial Condition and Results of Operations. We cannot guarantee that our actual results will be consistent with the forward-looking statements we make in this report. We have listed below some of the inherent risks and uncertainties that could cause our actual results to differ materially from those we project. We do not assume an obligation to update any forward-looking statement.

***Intense competition in our markets could harm our ability to maintain profitability.*** Domestic and international office products markets are highly and increasingly competitive. Customers have many options when purchasing office supplies and paper, print and document services, technology products and solutions and office furniture. We compete with worldwide contract stationers, office supply superstores, mass merchandisers, wholesale clubs, computer and electronics superstores, Internet merchandisers, direct-mail distributors, discount retailers, drugstores, supermarkets and thousands of local and regional contract stationers. In addition, an increasing number of manufacturers of computer hardware, software and peripherals, including some of our suppliers, have expanded their own direct marketing efforts. The other large office supply superstores have increased their presence in our markets in recent years and are expected to continue to do so in the future. In addition, many of our competitors have expanded their office products assortment, and we expect they will continue to do so. In recent years, two package delivery companies have established retail stores that compete directly with us for copy, printing, packaging and shipping business, and offer a limited assortment of office products and services similar to the ones we offer. We anticipate increasing competition from our two domestic office supply superstore competitors and various other providers, including the two package delivery companies, for print-for-pay and related services. Print-for-pay and related services have historically been a key point of difference for OfficeMax stores and are expected to become an increasingly more important part of our future strategies. Any or all of our competitors may become even more aggressive in the future. Increased competition in the office products markets, together with increased advertising, has heightened price awareness among end-users. Such heightened price awareness has led to margin pressure on office products and impacted the results of both our Retail and Contract segments. In addition to price, competition is also based on customer service, the quality and breadth of product selection, and convenient locations. Some of our competitors are larger than us and have greater financial

resources, which affords them greater purchasing power, increased financial flexibility and more capital resources for expansion and improvement, which may enable them to compete more effectively than we can.



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***We may be unable to open and remodel stores successfully.*** Our business plans include the opening and remodeling of a significant number of retail stores. For these plans to be successful, we must identify and lease favorable store sites, develop remodeling plans, hire and train associates and adapt management and systems to meet the needs of these operations. These tasks are difficult to manage successfully. If we are not able to open and remodel stores as quickly as we have planned, our future financial performance could be materially and adversely affected. Further, we cannot ensure that the new or remodeled stores will achieve the sales or profit levels that we anticipate. This is particularly true as we introduce different store designs, formats and sizes or enter into new market areas. In particular, the “Advantage” prototype store format we intend to utilize for new and remodeled stores is new and there can be no assurance as to whether or to what extent that format will be successful.

***Economic conditions directly influence our operating results.*** Economic conditions, both domestically and abroad, directly influence our operating results. Current and future economic conditions, including the level of unemployment, energy costs and the financial condition and growth prospects of our Contract customers may adversely affect our business and the results of our operations.

***Our quarterly operating results are subject to fluctuation.*** Our quarterly operating results have fluctuated in the past and are likely to do so in the future. Factors that may contribute to these quarter-to-quarter fluctuations could include the effects of seasonality, our level of advertising and marketing, new store openings, changes in product mix and competitors’ pricing. These quarterly fluctuations could have an adverse effect on both our operating results and the price of our common stock.

***We may be unable to attract and retain qualified associates.*** We attempt to attract and retain an appropriate level of personnel in both field operations and corporate functions. As a retailer, we face the challenge of filling many positions at wage scales that are low, although appropriate for our industry and in light of competitive factors. As a result, we face many external risks and internal factors in meeting our labor needs, including competition for qualified personnel, overall unemployment levels, prevailing wage rates, as well as rising employee benefit costs, including insurance costs and compensation programs. Changes in any of these factors, including especially a shortage of available workforce in the areas in which we operate, could interfere with our ability to adequately provide services to customers and result in increasing our labor costs, which could have an adverse effect on our business and results of our operations.

***We cannot assure that new associates will perform effectively.*** In conjunction with our headquarters consolidation, we have hired approximately 600 new employees to replace existing associates who did not relocate to the new headquarters. As a result, we now have a significant number of associates with limited experience with OfficeMax performing key functions. Although we have carefully selected and trained these associates, there is still a risk that institutional knowledge may be lost and operations may be conducted less efficiently or effectively. Also, if we are unable to continue to attract and retain qualified associates for our remaining open positions, as well as train new associates and transition them smoothly into their roles, it could adversely affect our operating results.

***Our expanded offering of proprietary branded products may not improve our financial performance and may expose us to product liability claims.*** Our product offering includes many proprietary branded products. While we have focused on the quality of our proprietary branded products, we rely on third-party manufacturers for these products. Such third party manufacturers may prove to be unreliable, or the quality of our globally sourced products may not meet our expectations. Furthermore, economic and political conditions in areas of the world where we source such products may adversely affect the availability and cost of such products. In addition, our proprietary branded products compete with other manufacturers’ branded items that we offer. As we continue to increase the number and types of proprietary branded products that we sell, we may adversely affect our relationships with our vendors, who may decide to reduce their product offerings through OfficeMax and increase their product offerings



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through our competitors. Finally, if any of our customers are harmed by our proprietary branded products, they may bring product liability and other claims against us. Any of these circumstances could have an adverse effect on our business and financial performance.

***We are more leveraged than some of our competitors, which could adversely affect our business plans.*** A relatively greater portion of our cash flow is used to service debt and other financial obligations including leases. This reduces the funds we have available for working capital, capital expenditures, acquisitions, new stores, store remodels and other purposes. Similarly, our relatively greater leverage increases our vulnerability to, and limits our flexibility in planning for, adverse economic and industry conditions and creates other competitive disadvantages compared with other companies with relatively less leverage.

***We cannot ensure new systems and technology will be implemented successfully.*** Our acquisition of OfficeMax, Inc., in December 2003, required the integration and coordination of our existing contract stationer systems with the retail systems of the acquired company. Integrating and coordinating these systems has been complex and still requires a number of system enhancements and conversions that, if not done properly, could divert the attention of our workforce during development and implementation and constrain for some time our ability to provide the level of service our customers demand. Also, when implemented, the systems and technology enhancements may not provide the benefits anticipated and could add costs and complications to our ongoing operations. A failure to effectively implement changes to these systems or to realize the intended efficiencies could have an adverse effect on our business and results of our operations.

***We retained responsibility for certain liabilities of the paper, forest products and timberland businesses we sold.*** These obligations include liabilities related to environmental, tax, litigation and employee benefit matters. Some of these retained liabilities could turn out to be significant, which could have an adverse effect on our results of operations. Our exposure to these liabilities could harm our ability to compete with other office products distributors, who would not typically be subject to similar liabilities.

***Our business may be adversely affected by the actions of and risks associated with our third-party vendors.*** We are a reseller of other manufacturer’s branded items and are thereby dependent on the availability and pricing of key products including ink, toner, paper and technology products. As a reseller, we cannot control the supply, design, function or cost of many of the products we offer for sale. Disruptions in the availability of these products may adversely affect our sales and result in customer dissatisfaction. Further, we cannot control the cost of manufacturer’s products and cost increases must either be passed

along to our customers or will result in erosion of our earnings. Failure to identify desirable products and make them available to our customers when desired and at attractive prices could have an adverse effect on our business and results of operations.

***Our investment in Boise Cascade, L.L.C. subjects us to the risks associated with the paper and forest products industry.*** When we sold our paper, forest products and timberland assets, we purchased an equity interest in affiliates of Boise Cascade, L.L.C. In addition, we have an ongoing obligation to purchase paper from an affiliate of Boise Cascade, L.L.C. These continuing interests subject us to market risks associated with the paper and forest products industry. These industries are subject to cyclical market pressures. Historical prices for products have been volatile, and industry participants have limited influence over the timing and extent of price changes. The relationship between supply and demand in these industries significantly affects product pricing. Demand for building products is driven mainly by factors such as new construction and remodeling rates, interest rates and weather. The supply of paper and building products fluctuates based on manufacturing capacity, and excess capacity, both domestically and abroad, can result in significant variations in product prices. The level of supply and demand for forest products will affect the price we pay for paper. Our ability to realize the carrying value of our equity interest in affiliates of Boise Cascade, L.L.C. is dependent upon many factors, including the operating performance of Boise Cascade, L.L.C. and other market factors that may not be specific to Boise Cascade, L.L.C., due in part to



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the fact that there is not a liquid market for our equity interest. Our exposure to these risks could decrease our ability to compete effectively with our competitors, who typically are not subject to such risks.

***Compromises of customer debit and credit card data in 2004, regardless of the source of the breach, may damage the OfficeMax brand and our reputation.*** Compromises of customer debit and credit card data in 2004 were later tied to fraudulent transactions outside the U.S. While we have no knowledge of a security breach at OfficeMax, it is possible that information security compromises that involved OfficeMax customer data, including breaches that occurred at third party processors, may damage our reputation. Such damage to our reputation could adversely affect our operating results.

***We have substantial business operations in states in which the regulatory environment is particularly challenging.*** Our operations in California and other similar states expose us to many regulations relating to the conduct of our business, including, without limitation, consumer protection laws, advertising regulations, and employment and wage and hour regulations. This regulatory environment requires the company to implement a heightened compliance effort and exposes us to defense costs, possible fines and penalties, and liability to private parties for monetary recoveries and attorneys' fees, any of which could have an adverse effect on our business and results of operations.

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

Information concerning our stock repurchases during the three months ended June 30, 2007 is below. All stock was withheld to satisfy our tax withholding obligations upon vesting of restricted stock awards.

| Period | Total Number of Shares (or Units) Purchased | Average Price Paid Per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2007—April 28, 2007 | 2,292 | 51.83 | — | — |
| April 29—May 26, 2007 | — | — | — | — |
| May 27—June 30, 2007 | — | — | — | — |
| **Total** | 2,292 | 51.83 | — | — |

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

**None**

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Information concerning our annual meeting of stockholders held April 25, 2007 is set forth in "Item 4. Submission of Matters to a Vote of Security Holders" in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2007, which information is incorporated herein by reference.

## ITEM 5. OTHER INFORMATION

**None**

## ITEM 6. EXHIBITS

Exhibits.

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



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## SIGNATURES

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

OFFICEMAX INCORPORATED

/s/ DON CIVGIN

Don Civgin
Executive Vice President and Chief Financial Officer
(As Duly Authorized Officer and Principal Financial Officer)

/s/ PHILLIP DEPAUL
Phillip DePaul
Senior Vice President, Controller and Chief Accounting Officer
(As Duly Authorized Officer and Principal Accounting Officer)

Date: August 9, 2007



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**OFFICEMAX INCORPORATED**
**INDEX TO EXHIBITS**

Filed With the Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2007

| Number | Description |
|---|---|
| 3.1(1) | Restated Certificate of Incorporation, as amended and restated to date |
| 3.2(2) | Bylaws, as amended October 20, 2006 |
| 31.1* | CEO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2* | CFO Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32* | Section 906 Certifications of Chief Executive Officer and Chief Financial Officer of OfficeMax Incorporated |

* Filed with this Form 10-Q.

(1) Exhibit 3.1 was filed under the same exhibit number in our Current Report on Form 8-K dated May 1, 2007, and is incorporated herein by reference.

(2) Exhibit 3.2 was filed under Exhibit number 3.1 in our Current Report on Form 8-K dated October 25, 2006, and is incorporated herein by reference.

**Exhibit 31.1**

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

I, Sam K. Duncan, chief executive officer of OfficeMax Incorporated, certify that:

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

Date: August 9, 2007

/s/ SAM K. DUNCAN
Sam K. Duncan
Chief Executive Officer

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

I, Don Civgin, chief financial officer of OfficeMax Incorporated, certify that:

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

Date: August 9, 2007

/s/ DON CIVGIN
Don Civgin
Chief Financial Officer

**Exhibit 32**

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

We are providing this Certificate pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C., Section 1350. It accompanies OfficeMax Incorporated's quarterly report on Form 10-Q for the quarter ended June 30, 2007.

I, Sam K. Duncan, OfficeMax Incorporated's chief executive officer, certify that:

(i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, OfficeMax Incorporated's financial condition and results of operations.

/s/ SAM K. DUNCAN
Sam K. Duncan
Chief Executive Officer

I, Don Civgin, OfficeMax Incorporated's chief financial officer, certify that:

(i) the Form 10-Q fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and

(ii) the information contained in the Form 10-Q fairly presents, in all material respects, OfficeMax Incorporated's financial condition and results of operations.

/s/ DON CIVGIN
Don Civgin
Chief Financial Officer

Dated: August 9, 2007

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