OFFICEMAX INC
Form 10-K
February 27, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

Annual Report Pursuant to Sections 13 or 15(d)
of the Securities Exchange Act of 1934

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

For the fiscal year ended December 29, 2007

OR

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

For the transition period from ________________ to ________________

Commission File Number: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

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

(630) 438-7800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $2.50 par value	New York Stock Exchange
American & Foreign Power Company Inc. Debentures, 5% Series due 2030	New York Stock Exchange
Common Stock Purchase Rights	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the voting common stock held by nonaffiliates of the registrant, computed by reference to the price at which the common stock was sold as of the close of business on June 30, 2007, was $2,960,672,286. Registrant does not have any nonvoting common equity securities.

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

Class	**Shares Outstanding as of February 22, 2008**
Common Stock, $2.50 par value	75,904,885

Document incorporated by reference

Portions of the registrant's proxy statement relating to its 2008 annual meeting of shareholders to be held on April 23, 2008 ("OfficeMax Incorporated's proxy statement") are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

As used in this 2007 Annual Report on Form 10-K, the terms "OfficeMax," the "Company," and "we" include OfficeMax Incorporated and its consolidated subsidiaries and predecessors. Our Securities and Exchange Commission ("SEC") filings, which include this Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all related amendments, are available free of charge on our website at www.officemax.com and can be found by clicking on "About us," "Investors" and then "SEC filings." Our SEC filings are available as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Last year, we filed our annual Chief Executive Officer certification dated May 18, 2007 with the New York Stock Exchange. Attached as exhibits to this Form 10-K you will find certifications of our Chief Executive Officer and Chief Financial Officer required under Sections 302 and 906 of the Sarbanes-Oxley Act of 2002.

General Overview

OfficeMax is a leader in both business-to-business and retail office products distribution. We provide office supplies and paper, print and document services, technology products and solutions and furniture to large, medium and small businesses, government offices, and consumers. OfficeMax customers are served by approximately 36,000 associates through direct sales, catalogs, the Internet and retail stores. Our common stock trades on the New York Stock Exchange under the ticker symbol OMX, and our corporate headquarters is in Naperville, Illinois.

OfficeMax Incorporated (formerly Boise Cascade Corporation) was organized as Boise Payette Lumber Company, a Delaware corporation, in 1931 as a successor to an Idaho corporation formed in 1913. In 1957, the Company's name was changed to Boise Cascade Corporation. On December 9, 2003, Boise Cascade Corporation acquired 100% of the voting securities of OfficeMax, Inc. That acquisition more than doubled the size of our office products distribution business and expanded that business into the U.S. retail channel. In connection with the sale of our paper, forest products and timberland assets described below, the Company's name was changed from Boise Cascade Corporation to OfficeMax Incorporated, and the names of our office products segments were changed from Boise Office Solutions, Contract and Boise Office Solutions, Retail to OfficeMax, Contract and OfficeMax, Retail. The Boise Cascade Corporation and Boise Office Solutions names were used in documents furnished to or filed with the SEC prior to the sale of our paper, forest products and timberland assets.

References made to the OfficeMax, Inc. acquisition and the OfficeMax, Inc. integration in this Form 10-K refer to Boise Cascade Corporation's acquisition of OfficeMax, Inc. in December 2003, and the related integration activities. (For more information about our integration activities, see Note 3, Integration Activities and Facility Closures, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.)

On October 29, 2004, we sold our paper, forest products and timberland assets to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC (the "Sale"). The Sale did not include our facility near Elma, Washington. (See Note 2, Discontinued Operations, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for more information about the Elma facility.) With the Sale, we completed the Company's transition, begun in the mid-1990s, from a predominately commodity manufacturing-based company to an independent office products distribution company. On October 29, 2004, as part of the Sale, we invested $175 million in the securities of affiliates of Boise

Cascade, L.L.C. This investment represents continuing involvement as defined in Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Accordingly, we do not show the historical results of the sold paper, forest products and timberland assets as discontinued operations.

We present information pertaining to each of our segments and the geographic areas in which they operate in Note 16, Segment Information, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

Change in Fiscal Year End

Effective March 11, 2005, the Company amended its bylaws to make its fiscal year-end the last Saturday in December. Prior to this change, all of the Company's businesses except for our U.S. retail operations had a December 31 fiscal year-end. The U.S. retail operations maintained a fiscal year that ended on the last Saturday in December. Due primarily to statutory requirements, the Company's international businesses have maintained their December 31 year-ends. Fiscal year 2005 ended on December 31, 2005 for all reportable segments and businesses, and included 53 weeks for the Retail segment. Fiscal year 2006 ended on December 30, 2006 and included 52 weeks for all reportable segments and businesses. Fiscal year 2007 ended on December 29, 2007 and also included 52 weeks for all reportable segments and businesses.

OfficeMax, Contract

We distribute a broad line of items for the office, including office supplies and paper, technology products and solutions and office furniture through our OfficeMax, Contract segment. OfficeMax, Contract sells directly to large corporate and government offices, as well as to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and, primarily in foreign markets, through office products stores. Substantially all products sold by this segment are purchased from outside manufacturers or from industry wholesalers, except office papers. We purchase office papers primarily from the paper operations of Boise Cascade, L.L.C., under a 12-year paper supply contract entered into at the time of the Sale. (See Note 17, Commitments and Guarantees, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information related to the paper supply contract.)

As of January 26, 2008, OfficeMax Contract operated 51 distribution centers and 6 customer service and outbound telesales centers. OfficeMax, Contract also operated 75 office products stores in Canada, Hawaii, Australia and New Zealand.

OfficeMax, Contract sales for 2007, 2006 and 2005 were $4.8 billion, $4.7 billion and $4.6 billion, respectively.

OfficeMax, Retail

OfficeMax, Retail is a retail distributor of office supplies and paper, print and document services, technology products and solutions and office furniture. Our retail segment has operations in the United States, Puerto Rico and the U.S. Virgin Islands. Our retail office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Our retail segment also operates office products stores in Mexico through a 51%-owned joint venture. Substantially all products sold by this segment are purchased from outside manufacturers or from industry wholesalers, except office papers. As described above, we purchase office papers primarily

from the paper operations of Boise Cascade, L.L.C., under a 12-year paper supply contract we entered into at the time of the Sale.

As of January 26, 2008, our Retail segment operated 981 stores in the U.S. and Mexico, three large distribution centers in the U.S., and two small distribution centers in Mexico. Each store offers approximately 10,000 stock keeping units (SKUs) of name-brand and OfficeMax private-branded merchandise and a variety of business services targeted at serving the small business customer, including OfficeMax ImPress. As of January 26, 2008, our Retail segment operated six OfficeMax ImPress print on demand facilities with enhanced fulfillment capabilities. These 8,000 square foot operations are located within some of our contract distribution centers, and serve the print and document needs of our large contract customers in addition to supporting our retail stores by providing services that cannot be deployed at every retail store.

OfficeMax, Retail sales for 2007, 2006 and 2005 were $4.3 billion, $4.3 billion and $4.5 billion, respectively.

Competition

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 close proximity to our stores 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 competitors, 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, including potential business combinations among competitors, which may afford them greater cost leverage and scale advantages.

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.

We believe our excellent customer service and the efficiency and convenience for our customers of our combined contract and retail distribution channels gives our OfficeMax, Contract segment a competitive advantage among business-to-business office products distributors. Our ability to network our distribution centers into an integrated system enables us to serve large

national accounts that rely on us to deliver consistent products, prices and services to multiple locations as well as medium and small businesses at a competitive cost.

We believe our OfficeMax, Retail segment competes favorably based on the quality of our customer service, our innovative store formats, the breadth and depth of our merchandise offering and our everyday low prices, along with our specialized service offerings, including OfficeMax ImPress.

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.

Environmental Matters

Our discussion of environmental matters is presented under the caption "Environmental" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K. In addition, certain environmental matters are discussed under "Item 3. Legal Proceedings" of this Form 10-K.

Capital Investment

Information concerning our capital expenditures is presented under the caption "Investment Activities" and in the table entitled "2007 Capital Investment by Segment" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

Acquisitions and Divestitures

We engage in acquisition and divestiture discussions with other companies and make acquisitions and divestitures from time to time. It is our policy to review our operations periodically and to dispose of assets that do not meet our criteria for return on investment, or cease to warrant retention for other reasons.

Geographic Areas

Our discussion of financial information by geographic area is presented in Note 16, Segment Information, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

Identification of Executive Officers

Information with respect to our executive officers is set forth in "Item 10. Directors and Executive Officers of the Registrant" of this Form 10-K.

Employees

On December 29, 2007, we had approximately 36,000 employees, including approximately 10,500 part-time employees.

ITEM 1A. RISK FACTORS

Cautionary and Forward-Looking Statements

This Annual Report on Form 10-K 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 "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K. 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 close proximity to our stores 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 competitors, 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.

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 was new in 2006 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, availability of credit, and the financial condition and growth prospects of our customers may adversely affect our business and the results of our operations.

Our expanding international operations expose us to the unique risks inherent in foreign operations. During 2007, we expanded our operations in international markets, and we may also seek to expand further into other international markets. Our foreign operations encounter risks similar to those faced by our U.S. operations, as well as risks inherent in foreign operations, such as local customs and regulatory constraints, foreign trade policies, competitive conditions, foreign currency fluctuations and unstable political and economic conditions.

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 lower wage scales which are 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.

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 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.

Fluctuations in our effective tax rate may adversely affect our business and results of operations. We are a multi-national, multi-channel provider of office products and services. As a result, our effective tax rate is derived from a combination of applicable tax rates in the various countries, states and other jurisdictions in which we operate. Our effective tax rate may be lower or higher than our tax rates have been in the past due to numerous factors, including the sources of our income, any agreements we may have with taxing authorities in various jurisdictions, and the tax filing positions we take in various jurisdictions. We base our estimate of an effective tax rate at any given point in time upon a calculated mix of the tax rates applicable to our company and to estimates of the amount of business likely to be done in any given jurisdiction. The loss of one or more agreements with taxing jurisdictions, a change in the mix of our business from year to year and from country to country, changes in rules related to accounting for income taxes, changes in tax laws in any of the multiple jurisdictions in which we operate or adverse outcomes from tax audits that we may be subject to in any of the jurisdictions in which we operate could result in an unfavorable change in our effective tax rate, which change could have an adverse effect on our business and results of our operations.

Compromises of our information security may adversely affect our business. Through our sales and marketing activities, we collect and store certain personal information that our customers provide to purchase products or services, enroll in promotional programs, register on our website, or otherwise communicate and interact with us. We also gather and retain information about our associates in the normal course of business. We may share information about such persons with vendors that assist with certain aspects of our business. Despite instituted safeguards for the protection of such information, we cannot be certain that all of our systems are entirely free from vulnerability to attack. Computer hackers may attempt to penetrate our or our vendors' network security and, if successful, misappropriate confidential customer or business information. In addition, a Company employee, contractor or other third party with whom we do business may attempt to circumvent our security measures in order to obtain such information or inadvertently cause a breach involving such information. Loss of customer or business information could disrupt our operations and expose us to claims from customers, financial institutions, payment card associations and other persons, which could have a material adverse effect on our business, financial condition and results of operations.

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 sold paper, forest products and timberland businesses. These obligations include liabilities related to environmental, health and safety, 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 therefore 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 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.

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 maintain 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The majority of OfficeMax facilities are rented under operating leases. (For more information about our operating leases, see Note 7, Leases, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.) Our properties are in good operating condition and are suitable and adequate for the operations for which they are used. We constantly evaluate the real estate market to determine the best locations for new stores. We analyze our existing stores to determine which stores will benefit from being remodeled. We examine each store and market on a case by case basis.

Presented below is a list of our facilities by segment. During 2006, we consolidated our corporate headquarters from Itasca, Illinois, and our retail operations from Shaker Heights, Ohio, to a single headquarters facility located in Naperville, Illinois.

OfficeMax, Contract

As of January 26, 2008, OfficeMax, Contract operated 51 distribution centers in 26 states, Puerto Rico, Canada, Australia and New Zealand. The following table sets forth the locations of these facilities.

Arizona	1	Maryland	1	Tennessee	1
California	2	Massachusetts	1	Texas	2
Colorado	1	Michigan	1	Utah	1
Florida	1	Minnesota	1	Virginia	1
Georgia	1	New Jersey	1	Washington	1
Hawaii	1	New York	2	Wisconsin	1
Idaho	1	North Carolina	1	Puerto Rico	1
Illinois	1	Ohio	1	Canada	7
Kansas	1	Oregon	1	Australia	10
Maine	1	Pennsylvania	1	New Zealand	4

OfficeMax, Contract also operated 75 office products stores in Hawaii (2), Canada (46), Australia (7) and New Zealand (20) and six customer service and outbound telesales centers in Illinois (2), Ohio, Oklahoma, Virginia and Wyoming.

OfficeMax, Retail

As of January 26, 2008, OfficeMax, Retail operated 981 stores in 48 states, Puerto Rico, the U.S. Virgin Islands and Mexico. The following table sets forth the locations of these facilities.

Alabama	11	Louisiana	2	Oklahoma	1
Alaska	3	Maine	1	Oregon	13
Arizona	40	Maryland	1	Pennsylvania	28
Arkansas	2	Massachusetts	9	Rhode Island	1
California	79	Michigan	43	South Carolina	6
Colorado	30	Minnesota	42	South Dakota	4
Connecticut	3	Mississippi	5	Tennessee	18
Delaware	1	Missouri	27	Texas	70
Florida	65	Montana	3	Utah	14
Georgia	28	Nebraska	9	Virginia	21
Hawaii	6	Nevada	14	Washington	21
Idaho	7	New Jersey	5	West Virginia	2
Illinois	64	New Mexico	9	Wisconsin	32
Indiana	14	New York	30	Wyoming	2
Iowa	9	North Carolina	28	Puerto Rico	10
Kansas	12	North Dakota	3	U.S. Virgin Islands	2
Kentucky	6	Ohio	53	Mexico(a)	72

OfficeMax, Retail also operated three large distribution centers in Alabama, Nevada and Pennsylvania; and two small distribution centers in Mexico through our joint venture.

(a)

Represents the locations operated by our 51%-owned joint venture in Mexico, Grupo OfficeMax.

ITEM 3. LEGAL PROCEEDINGS

OfficeMax Incorporated and certain of its subsidiaries are named as defendants in a number of lawsuits, claims and proceedings arising out of the operation of the paper and forest products assets prior to the closing of the Sale, for which OfficeMax agreed to retain responsibility. Also, as part of the Sale, we agreed to retain responsibility for all pending or threatened proceedings and future proceedings alleging asbestos-related injuries arising out of the operation of the paper and forest products assets prior to the closing of the Sale. We do not believe any of these retained proceedings are material to our business.

We have been notified that we are a "potentially responsible party" under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") or similar federal and state laws, or have received a claim from a private party, with respect to certain sites where hazardous substances or other contaminants are or may be located. All of these sites relate to operations either no longer owned by the Company or unrelated to its ongoing operations. In most cases, we are one of many potentially responsible parties, and our alleged contribution to these sites is relatively minor. For sites where a range of potential liability can be determined, we have established appropriate reserves. We believe we have minimal or no responsibility with regard to several other sites. We cannot predict with certainty the total response and remedial costs, our share of the total costs, the extent to which contributions will be available from other parties or the amount of time necessary to complete the cleanups. Based on our investigations; our experience with respect to cleanup of hazardous substances; the fact that expenditures will, in many cases, be incurred over extended periods of time; and the number of solvent potentially responsible parties, we do not believe that the known actual and potential response costs will, in the aggregate, materially affect our financial position, our results of operations or our cash flows.

Over the past several years and continuing in 2008, we have been named a defendant in a number of cases where the plaintiffs allege asbestos-related injuries from exposure to asbestos products or exposure to asbestos while working at job sites. The claims vary widely and often are not specific about the plaintiffs' contacts with the Company. None of the claimants seeks damages from us individually, and we are generally one of numerous defendants. Many of the cases filed against us have been voluntarily dismissed, although we have settled some cases. The settlements we have paid have been covered mostly by insurance, and we believe any future settlements or judgments in these cases would be similarly covered. To date, no asbestos case against us has gone to trial, and the nature of these cases makes any prediction as to the outcome of pending litigation inherently subjective. At this time, however, we believe our involvement in asbestos litigation is not material to our financial position, our results of operations or our cash flows.

In June 2005, the Company announced that the SEC issued a formal order of investigation arising from the Company's previously announced internal investigation into its accounting for vendor income. The Company launched its internal investigation in December 2004 when the Company received claims by a vendor to its retail business that certain employees acted inappropriately in requesting promotional payments and in falsifying supporting documentation. The internal investigation was conducted under the direction of the Company's audit committee and was completed in March 2005. The Company cooperated fully with the SEC. In a letter dated October 23, 2007, the Company received notification from the SEC that it had completed its investigation against the Company and was not recommending any enforcement action.

On April 25, 2005, a putative derivative action, Homstrom v. Harad, et al., was filed in the Circuit Court of Cook County, Illinois. The Homstrom complaint names as defendants the following current and former officers and directors of OfficeMax Incorporated: George J. Harad, Christopher C. Milliken, Theodore Crumley, Gary J. Peterson, Brian P. Anderson, Warren F. Bryant, Claire S. Farley, Rakesh Gangwal, Edward E. Hagenlocker, Gary G. Michael, A. William Reynolds, Francesca Ruiz De Luzuriaga, Jane E. Shaw, Carolyn M. Ticknor, Ward W. Woods, Brian C. Cornell, David M. Szymanski, Richard R. Goodmanson, Donald N. MacDonald, and Frank A. Schrontz. The complaint also names the following former directors of OfficeMax, Inc. as defendants: Michael Feuer, Lee Fisher, Edwin J. Holman, Jerry Sue Thornton, Burnett W. Donoho, Michael F. Killeen, Ivan J. Winfield, and Jacqueline Woods. OfficeMax Incorporated is named as a nominal defendant. The complaint purports to assert, among other things, various common law derivative claims against the individual defendants including breach of fiduciary duty and unjust enrichment. The complaint seeks an award in favor of OfficeMax and against the individual defendants of an unspecified amount of damages, disgorgement of benefits and compensation, equitable or injunctive relief, costs, including attorneys' fees, and such other relief as the court deems just and proper. Pursuant to provisions of the Company's bylaws, fees and other expenses incurred in connection with the foregoing derivative action are being advanced on behalf of those present and former officers and directors by the Company.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange (the "Exchange"). The Exchange requires each listed company to distribute an annual report to its shareholders. We are making this Form 10-K available to our shareholders in lieu of a separate annual report. The reported high and low sales prices for our common stock, as well as the frequency and amount of dividends paid on such stock, are included in Note 19, Quarterly Results of Operations (unaudited), of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K. We expect to continue the practice of paying regular cash dividends in 2008. Information concerning restrictions on the payment of dividends is included in Note 12, Debt, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" and in Liquidity and Capital Resources in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K. The approximate number of common shareholders, based upon actual record holders on February 22, 2008, was 18,493.

We maintain a corporate governance page on our website that includes key information about our corporate governance initiatives. That information includes our Corporate Governance Guidelines, Code of Ethics and charters for our Audit, Executive Compensation and Governance and Nominating Committees, as well as our Committee of Outside Directors. The corporate governance page can be found at www.officemax.com, by clicking on "About us," "Investors" and then "Corporate Governance." You also may obtain copies of these policies, charters and codes by contacting our Investor Relations Department, 263 Shuman Boulevard, Naperville, Illinois 60563, or by calling (630) 864-6800.

Information concerning securities authorized for issuance under our equity compensation plans is included in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Form 10-K.

Shareholder Rights Plan

We have had a shareholder rights plan since January 1986. Our current plan, as amended and restated, took effect in December 1998. At that time, the rights under the previous plan expired, and we distributed to our common stockholders one new right for each common share held. The rights become exercisable ten days after a person or group acquires 15% of our outstanding voting securities or ten business days after a person or group commences or announces an intention to commence a tender or exchange offer that could result in the acquisition of 15% of these securities. Each full right, if it becomes exercisable, entitles the holder to purchase one share of common stock at a purchase price of $175 per share, subject to adjustment. Upon payment of the purchase price, the rights may "flip in" and entitle holders to buy common stock or "flip over" and entitle holders to buy common stock in an acquiring entity in such amount that the market value is equal to twice the purchase price. The rights are nonvoting and may be redeemed by the Company for one cent per right at any time prior to the tenth day after an individual or group acquires 15% of our voting stock, unless extended. The rights expire in 2008. On January 18, 2006, the Company announced that the board of directors voted not to seek an extension of the shareholder rights plan when it expires in 2008. Additional details are set forth in the Renewed Rights Agreement which is an exhibit to this Form 10-K.

Stock Repurchases

Information concerning our stock repurchases during the three months-ended December 29, 2007 is presented below. All stock was withheld to satisfy our tax withholding obligations upon vesting of restricted stock awards.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
September 30-October 27	3,731	$ 33.35		
October 28-November 24	935	$ 26.08		
November 25-December 29	618	$ 24.61		

Performance Graph

The following graph compares the five-year cumulative total return (assuming dividend reinvestment) for the Standard & Poor's 500 Index, the Standard & Poor's 500 Specialty Retail Index and OfficeMax.

ANNUAL RETURN PERCENTAGE
Years Ending

Company\Index Name	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07
OfficeMax Incorporated	33.33	-2.81	-17.54	98.80	-57.62
S&P 500 Index	28.68	10.88	4.91	15.79	5.49
S&P 500 Specialty Retail Index	45.77	12.28	2.86	6.64	-20.27

INDEXED RETURNS
Years Ending

Company\Index Name	Base Period Dec 02	Dec 03	Dec 04	Dec 05	Dec 06	Dec 07
OfficeMax Incorporated	$ 100	$ 133.33	$ 129.59	$ 106.85	$ 212.43	$ 90.02
S&P 500 Index	100	128.68	142.69	149.70	173.34	182.86
S&P 500 Specialty Retail Index	100	145.77	163.68	168.37	179.54	143.14

ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected financial data for the years indicated and should be read in conjunction with the disclosures in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" of this Form 10-K.

	2007(a)	2006(b)	2005(c)	2004(d)	2003(e)
	(millions, except per-share amounts)				
Assets					
Current assets	$ 2,205	$ 2,097	$ 1,942	$ 3,241	$ 2,597
Property and equipment, net	581	580	535	541	2,730
Timber, timberlands and timber deposits					331
Goodwill	1,217	1,216	1,218	1,165	1,107
Timber notes receivable	1,635	1,635	1,635	1,635	
Other	646	688	942	1,055	611
	$ 6,284	**$ 6,216**	**$ 6,272**	**$ 7,637**	**$ 7,376**
Liabilities and shareholders' equity					
Current liabilities	$ 1,371	$ 1,529	$ 1,588	$ 1,857	$ 1,986
Long-term debt, less current portion	349	384	407	585	2,000
Timber notes securitized	1,470	1,470	1,470	1,470	
Other	783	817	1,044	1,091	1,046
Minority interest	32	30	27	23	20
Shareholders' equity	2,279	1,986	1,736	2,611	2,324
	$ 6,284	**$ 6,216**	**$ 6,272**	**$ 7,637**	**$ 7,376**
Net sales	**$ 9,082**	**$ 8,966**	**$ 9,158**	**$ 13,270**	**$ 8,245**
Income (loss) from:					
Continuing operations	$ 207	$ 99	$ (41)	$ 234	$ 35
Discontinued operations		(7)	(33)	(61)	(18)
Cumulative effect of accounting changes, net of income tax					(9)
Net income (loss)	**$ 207**	**$ 92**	**$ (74)**	**$ 173**	**$ 8**
Basic income (loss) per common share:					
Continuing operations	$ 2.70	$ 1.30	$ (0.58)	$ 2.55	$ 0.37
Discontinued operations		(0.10)	(0.41)	(0.70)	(0.30)
Cumulative effect of accounting changes, net of income tax					(0.15)
Basic income (loss) per common share(f)	**$ 2.70**	**$ 1.20**	**$ (0.99)**	**$ 1.85**	**$ (0.08)**
Diluted income (loss) per common share:					
Continuing operations	$ 2.66	$ 1.29	$ (0.58)	$ 2.44	$ 0.37
Discontinued operations		(0.10)	(0.41)	(0.67)	(0.30)

	2007(a)	2006(b)	2005(c)	2004(d)	2003(e)
Cumulative effect of accounting changes, net of income tax					(0.15)
Diluted income (loss) per common share(f)	**$ 2.66**	**$ 1.19**	**$ (0.99)**	**$ 1.77**	**$ (0.08)**
Cash dividends declared per common share	**$ 0.60**	**$ 0.60**	**$ 0.60**	**$ 0.60**	**$ 0.60**

See notes on following page.

(a)
2007 included the following:

- A net loss of $1.1 million included in minority interest, net of income tax related to the sale of OfficeMax, Contract's operations in Mexico to Grupo OfficeMax, our 51% owned joint venture.
- $32.5 million of pre-tax income from the Additional Consideration Agreement we entered into in connection with the Sale.

(b)
2006 included the following pre-tax charges:

- $89.5 million related to the closing of 109 underperforming domestic retail stores.
- $46.4 million related to the relocation and consolidation of our corporate headquarters.
- $10.3 million primarily related to a reorganization of our Contract segment.
- $18.0 million primarily for contract termination and other costs related to the closure of our Elma, Washington manufacturing facility, which is accounted for as a discontinued operation.

2006 also included $48.0 million of pre-tax income from adjustments to the estimated fair value of the Additional Consideration Agreement we entered into in connection with the Sale.

(c)
2005 included the following pre-tax charges:

- $25.0 million related to the relocation and consolidation of our corporate headquarters.
- $31.9 million primarily for one-time severance payments, professional fees and asset write-downs.
- $17.9 million related to the write-down of impaired assets, primarily related to retail store closures.
- $5.4 million related to the restructuring of our international operations.
- $9.8 million for a legal settlement with the Department of Justice.
- $14.4 million related to our early retirement of debt.
- $28.2 million for the write-down of impaired assets at our Elma, Washington manufacturing facility, which is accounted for as a discontinued operation.

2005 included 53 weeks for our OfficeMax, Retail segment.

(d)

2004 included a $67.8 million pre-tax charge for the write-down of impaired assets at our Elma, Washington, manufacturing facility, which is accounted for as a discontinued operation.

2004 included the results of our Boise Building Solutions and Boise Paper Solutions segments through October 28, 2004. On October 29, 2004, we completed the sale of our paper, forest products and timberland assets to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC, and recorded a $280.6 million pre-tax gain. Part of the consideration we received in connection with the Sale consisted of timber installment notes receivable. We securitized the timber installment notes receivable for proceeds of $1.5 billion in December 2004. At the same time we entered into interest rate swap contracts to hedge the interest rate risk associated with the issuance of debt securities by special-purpose entities formed by the Company, and in December 2004 recorded $19.0 million of related expense.

2004 included $137.1 million of costs related to our early retirement of debt.

2004 included a pre-tax gain of $59.9 million on the sale of approximately 79,000 acres of timberland located in western Louisiana.

2004 included a pre-tax gain of $46.5 million on the sale of our 47% interest in Voyageur Panel.

2004 included $15.9 million of expense for the costs of certain one-time benefits granted to employees.

(e)

2003 included a pre-tax charge of $10.1 million for employee-related costs incurred in connection with the 2003 cost-reduction program.

2003 included a net $2.9 million one-time tax benefit related to a favorable tax ruling, net of changes in other tax items.

2003 included a $14.7 million pre-tax charge for the write-down of impaired assets at our plywood and lumber operations in Yakima, Washington.

2003 included income from the OfficeMax, Inc. operations for the period from December 10, 2003 through December 27, 2003, and costs, including incremental interest expense, directly related to the acquisition. The net effect of these items reduced income by $4.1 million before taxes, or $2.5 million after taxes.

(f)

The computation of diluted income (loss) per common share was antidilutive in the years 2005 and 2003; therefore, the amounts reported for basic and diluted income (loss) per common share are the same.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Executive Summary

Sales for 2007 were $9.1 billion, compared to $9.0 billion for 2006 and $9.2 billion for 2005. Net income for 2007 was $207.4 million, or $2.66 per diluted share, compared to $91.7 million, or $1.19 per diluted share, for 2006 and a net loss of $73.8 million, or $(0.99) per diluted share, for 2005.

Results for the years of 2007, 2006 and 2005 include various items related to the Company's previously announced restructuring activities and our transition from a predominately commodity manufacturing-based company to an independent office products distribution company which are not expected to be ongoing. Charges and obligations related to many of these items have been included in our integration activities and facility closures reserve. For more information about these reserves, see the discussion of "Integration Activities and Facility Closures" below. Some of the more significant effects of these actions on our results include:

In 2007, we recognized pre-tax income of $32.5 million and received cash payments from Boise Cascade L.L.C. of $32.5 million related to the Additional Consideration Agreement that was entered into in connection with the 2004 sale of our paper, forest products and timberland assets (the "Sale"). This amount was included in Other income (Expense), net (non-operating). Also, during 2007, we incurred a loss from the sale of OfficeMax, Contract's operations in Mexico to Grupo OfficeMax, our 51% owned joint venture, which resulted in a $1.1 million increase in minority interest, net of income tax. Grupo OfficeMax's results of operations are included in our consolidated results of operations.

In 2006, we recorded pre-tax charges of $89.5 million related to the closing of 109 underperforming, domestic retail stores, $10.3 million primarily related to the reorganization of our contract segment and $46.4 million primarily related to the consolidation of our corporate headquarters. These charges were included in Other operating, net in the Consolidated Statements of Income (Loss) and were reflected in the Retail segment (store closures), Contract segment (reorganization) and Corporate and Other segment (headquarters consolidation), respectively. During 2006, we reduced the liability related to the Additional Consideration Agreement that was entered into in connection with the Sale, which resulted in a credit to Other income (Expense), net (non-operating) of $48.0 million. We also recorded an $18.0 million pre-tax charge for the closure of our Elma, Washington manufacturing facility which was reflected in Discontinued Operations in the Consolidated Statements of Income (Loss).

In 2005, we recorded pre-tax charges of $25.0 million related to the consolidation and relocation of our corporate headquarters, $17.9 million related to the write-down of impaired assets, primarily as a result of retail store closures, $5.4 million related to the restructuring of our international operations, and $31.9 million for one-time severance payments, professional fees and asset write-downs. These charges were reflected in the Retail segment (retail store impairment), Contract segment (international restructuring) and Corporate and Other segment (headquarters consolidation, severance, professional fees and asset write-downs), respectively. In addition, we recognized a $9.8 million pre-tax charge in the Contract segment

for a legal settlement with the Department of Justice related to allegations that the Company submitted false claims when it sold office supply products manufactured in countries not permitted by the Trade Agreements Act to U.S. government agencies. We incurred $14.4 million of costs related to our early retirement of debt, and recorded a $28.2 million pre-tax charge for the write-down of impaired assets at our Elma, Washington manufacturing facility, which is accounted for as a discontinued operation.

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 above. We believe our presentation of financial measures before, or excluding, these items, which are non-GAAP measures, enhances our investors' overall understanding of the impact of the Company's restructuring activities and our recurring operational performance and provides useful information to both investors and management to evaluate the ongoing operations and prospects of the Company by providing better comparisons and information regarding significant trends and variability in our earnings. Whenever we use non-GAAP financial measures, we designate those measures as "adjusted" and provide a reconciliation of non-GAAP financial measures to the most closely applicable GAAP financial measure. Investors are encouraged to review the related GAAP financial measures and the reconciliation of those non-GAAP financial measures to their most directly comparable GAAP financial measure.

Although we believe the non-GAAP financial measures enhance an investors' understanding of our performance, our management does not itself, nor does it suggest that investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. The non-GAAP financial measures we use may not be consistent with the presentation of similar companies in our industry. However, we present such non-GAAP financial measures in reporting our financial results to provide investors with an additional tool to evaluate our operating results in a manner that focuses on what we believe to be our ongoing business operations. In addition, use of the non-GAAP measures that exclude certain gains and losses is not intended to suggest that our future financial results will not be impacted by additional unusual items.

The following table summarizes the impact of the gains and losses described above on our results of operations for 2007, 2006 and 2005, and provides a reconciliation of our non-GAAP measures to the corresponding GAAP measure. Both GAAP and non-GAAP measures are used throughout this Management's Discussion and Analysis.

	Year Ended (millions, except per-share amounts)								
	December 29, 2007			December 30, 2006			December 31, 2005		
	As Reported	Special Items	As Adjusted	As Reported	Special Items	As Adjusted	As Reported	Special Items	As Adjusted
Segment Sales									
OfficeMax, Contract	$ 4,816.1		$ 4,816.1	$ 4,714.5		$ 4,714.5	$ 4,628.6		$ 4,628.6
OfficeMax, Retail	4,265.9		4,265.9	4,251.2		4,251.2	4,529.1		4,529.1
	9,082.0		9,082.0	8,965.7		8,965.7	9,157.7		9,157.7
Segment Income (loss)									
Office, Contract	$ 207.9	$	$ 207.9	$ 197.7	$ 10.3(a)	$ 208.0	$ 100.3	$ 15.2(a),(i)	$ 115.5
OfficeMax, Retail	173.7		173.7	86.3	89.5(b)	175.8	27.9	17.9(h)	45.8
Corporate and Other	(37.4)		(37.4)	(118.0)	46.4(c)	(71.6)	(118.5)	56.9(c),(j)	(61.6)
Operating income (loss)	344.2		344.2	166.0	146.2	312.2	9.7	90.0	99.7
Operating Income margin									
OfficeMax, Contract	4.3%		4.3%	4.2%	0.2%	4.4%	2.2%	0.3%	2.5%
OfficeMax, Retail	4.1%		4.1%	2.0%	2.1%	4.1%	0.6%	0.4%	1.0%
Consolidated	3.8%		3.8%	1.9%	1.6%	3.5%	0.1%	1.0%	1.1%
Debt retirement expenses							(14.4)	14.4(k)	
Interest expense	(121.3)		(121.3)	(123.1)		(123.1)	(128.5)		(128.5)
Interest income and other	114.6	(32.4)(d)	82.2	129.1	(48.0)(d)	81.1	95.6	1.6	97.2
Income (loss) from continuing operations	337.5	(32.4)	305.1	172.0	98.2	270.2	(37.6)	106.0	68.4

	Year Ended (millions, except per-share amounts)								
before income taxes and minority interest									
Income taxes	(125.2)	12.0(g)	(113.2)	(68.8)	(38.2)(g)	(107.0)	(1.2)	(41.2)(g)	(42.4)
Income (loss) from continuing operations before minority interest	212.3	(20.4)	191.9	103.2	60.0	163.2	(38.8)	64.8	26.0
Minority interest, net of income tax	(4.9)	1.1(e)	(3.8)	(4.1)		(4.1)	(2.4)		(2.4)
Income (loss) from continuing operations	207.4	(19.3)	188.1	99.1	60.0	159.1	(41.2)	64.8	23.6
Discontinued operations									
Operating loss				(18.0)	18.0(f)		(24.4)	24.4(f)	
Write-down of assets							(28.2)	28.2(f)	
Income tax benefit				10.6	(10.6)(g)		20.1	(20.1)(g)	
Loss from discontinued operations				(7.4)	7.4		(32.5)	32.5	
Net income (loss)	$ 207.4	$ (19.3)	$ 188.1	$ 91.7	$ 67.4	$ 159.1	$ (73.7)	$ 97.3	$ 23.6
Diluted income (loss) per common share									
Continuing operations	$ 2.66	$ (0.25)	$ 2.41	$ 1.29	$ 0.81	$ 2.10	$ (0.58)	$ 0.82	$ 0.24
Discontinued operations				(0.10)	0.10		(0.41)	0.41	

	Year Ended (millions, except per-share amounts)								
Diluted income (loss) per common share	$ 2.66	$ (0.25)	$ 2.41	$ 1.19	$ 0.91	$ 2.10	$ (0.99)	$ 1.23	$ 0.24

Totals may not foot due to rounding.

(a) Charges associated with the reorganization of our Contract segment included in Contract segment operating expenses.

(b) Charges associated with the closing of 109 retail stores included in Retail segment operating expenses.

(c) Charges associated with the consolidation of our corporate headquarters included in Corporate and Other segment operating expenses.

(d) Income related to the Additional Consideration agreement included in interest income and other.

(e) Loss from a sale of OfficeMax, Contract's operations in Mexico included in minority interest, net of income tax.

(f) Loss from Discontinued operations related to a manufacturing facility near Elma, Washington.

(g) Income tax effect of special items.

(h) Charges associated with impaired assets in underperforming retail stores included in Retail segment operating expenses.

(i) Charges associated with a legal settlement with the Department of Justice included in Contract segment operating expenses.

(j) Charges associated with one-time severance payments, professional fees and asset write-downs.

(k) Loss from early retirement of debt.

Results of Operations, Consolidated

($ in millions, except per share amounts)

	2007	2006	2005
Sales	$ 9,082.0	$ 8,965.7	$ 9,157.7
Income (loss) from continuing operations before income taxes and minority interest	$ 337.5	$ 171.9	$ (37.6)
Net income (loss)	$ 207.4	$ 91.7	$ (73.8)
Diluted income (loss) per common share			
Continuing operations	$ 2.66	$ 1.29	$ (0.58)
Discontinued operations		(0.10)	(0.41)
Diluted income (loss) per common share	**$ 2.66**	**$ 1.19**	**$ (0.99)**

		(percentage of sales)	
Gross profit margin	25.4%	25.8%	24.0%
Operating and selling expenses	18.0%	18.3%	19.3%
General and administrative expenses	3.7%	4.0%	4.0%
Other operating, net	(0.1)%	1.6%	0.6%
Operating profit margin	3.8%	1.9%	0.1%

Operating Results

2007 Compared with 2006

Sales for 2007 increased 1.3% to $9,082.0 million from $8,965.7 million for 2006. The year-over-year sales increase was primarily due to growth in our international businesses. Comparable-store sales increased 0.5% year-over-year primarily as a result of higher sales in our Contract segment. For more information about our segment results, see the discussion of segment results below. The year-over-year sales increases were largely influenced by fluctuations in foreign currency exchange rates, a weaker domestic economic environment in the second half of 2007 and our more disciplined focus on profitable sales growth.

Gross profit margin decreased by 0.4% of sales to 25.4% of sales in 2007 compared to 25.8% of sales in 2006. The gross profit margin decrease was driven by pricing pressure and the impact of new and renewing accounts in our Contract segment.

Operating and selling expenses decreased by 0.3% of sales to 18.0% of sales in 2007 from 18.3% of sales a year earlier. The improvement in operating and selling expenses as a percent of sales was the result of targeted cost reduction programs, including lower promotion and marketing costs and delivery expenses in the Contract segment, and reduced store labor and marketing costs in the Retail segment, as well as reduced incentive compensation expense.

General and administrative expenses were 3.7% of sales for 2007 compared to 4.0% of sales for 2006. The year-over-year decrease in general and administrative expenses as a percentage of sales was due primarily to a decrease in incentive compensation expense.

Other operating, net includes dividends earned on our investment in affiliates of Boise Cascade, L.L.C., which were $6.1 million for 2007 and $5.9 million for 2006, respectively. See Note 5, Other Operating, Net, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information related to the components of Other operating, net.

In 2006, Other operating, net also included $89.5 million related to the 109 domestic store closures, $46.4 million primarily related to the headquarters consolidation and $10.3 million primarily related to the Contract segment reorganization.

Interest expense was $121.3 million in 2007 compared to $123.1 million in 2006. The year-over-year decrease in interest expense was a result of lower average borrowings. Interest expense includes interest related to the timber securitization notes of approximately $80.5 million for 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 $82.5 million for both 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 $5.4 million and $7.2 million for the years ended December 29, 2007 and December 30, 2006, respectively.

Other income (expense), net was $26.7 million of income in 2007 compared to $39.3 million of income in 2006. In 2007 and 2006, we recognized income of $32.5 million and $48.0 million, respectively, in Other income (expense), net related to the Additional Consideration Agreement that was entered into in connection with the Sale. See Note 13, Financial Instruments, Derivatives and Hedging Activities, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information related to the Additional Consideration Agreement.

Our effective tax rate attributable to continuing operations was 37.1% in 2007 and 40.0% in 2006. Income taxes for both periods were affected by the impact of state income taxes, non-deductible expenses and the mix of domestic and foreign sources of income. The effective rate for 2007 was also impacted by the closure of certain prior year audits, which reduced the effective rate. In 2006, we increased our valuation allowance for certain state net operating loss carryforwards by $6.5 million.

As a result of the foregoing factors, we reported income from continuing operations of $207.4 million, or $2.66 per diluted share, for 2007, compared to $99.1 million, or $1.29 per diluted share, for 2006. We reported net income for 2007 of $207.4 million, or $2.66 diluted share compared with net income of $91.7 million, or $1.19 per diluted share in 2006. Excluding the charge related to the sale of OfficeMax, Contract's operations in Mexico and the effect of the Additional Consideration Agreement, adjusted income from continuing operations was $188.1 million, or $2.41 per diluted share, for 2007. Excluding the effect of the Additional Consideration Agreement adjustment, the charges for store closures, contract segment reorganization and our headquarters consolidation, adjusted income from continuing operations was $159.1million, or $2.10 per diluted share, for 2006.

2006 Compared with 2005

Sales for 2006 decreased 2.1% to $8,965.7 million from $9,157.7 million for 2005. The year-over-year sales decrease was primarily due to the impact of 109 strategic store closings in the first quarter of 2006 and the 53rd week included in the 2005 Retail segment results. Comparable-store sales increased 1.0% year-over-year primarily as a result of higher sales in our Contract segment. For more information about our segment results, see the discussion of segment results below.

Gross profit margin improved by 1.8% of sales to 25.8% of sales in 2006 compared to 24.0% of sales in the previous year. The gross profit margin increase was driven by gross margin improvement initiatives in both the Contract and Retail segments.

Operating and selling expenses decreased by 1.0% of sales to 18.3% of sales in 2006 from 19.3% of sales a year earlier. The improvement in operating and selling expenses as a percent of sales was the result of targeted cost reduction programs, including lower promotion and marketing costs, payroll and integration expenses in the Contract segment, and reduced store labor and marketing costs in the Retail segment.

General and administrative expenses were 4.0% of sales for 2006 and 2005. General and administrative expenses in 2005 included $24.2 million of expenses for one-time severance payments and other expenses, primarily professional service fees, which are not expected to be ongoing. Excluding the severance and other expenses, adjusted general and administrative expenses were 3.6% of sales for 2005. The year-over-year increase in general and administrative expenses, excluding the severance and other expenses, was due to increased payroll costs, primarily increased incentive compensation expense.

In 2006, we reported $140.3 million of expense in Other operating, net which included $89.5 million related to the 109 domestic store closures, $46.4 million primarily related to the headquarters consolidation and $10.3 million primarily related to the Contract segment reorganization. In 2005, we reported $54.0 million of expense in Other operating, net. Other operating, net for 2005 included a $9.8 million charge for a legal settlement with the Department of Justice and $25.0 million related to the corporate headquarters consolidation. 2005 also included $23.2 million of expenses for the write-down of impaired assets at underperforming retail stores and the restructuring of our Canadian operations. Other operating, net also includes dividends earned on our investment in affiliates of Boise Cascade, L.L.C., which were $5.9 million for 2006 and $5.5 million for 2005, respectively. See Note 5, Other Operating, Net, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information related to the components of Other operating, net.

During 2005, we incurred costs related to the early retirement of debt of approximately $14.4 million primarily as a result of purchasing and cancelling $87.3 million of 7% senior notes originally due in 2013.

Interest expense was $123.1 million in 2006 compared to $128.5 million in 2005. The year-over-year decrease in interest expense was a result of lower average borrowings. Interest expense included interest related to the timber securitization notes of approximately $80.5 million for 2006 and 2005. The interest expense associated with the timber securitization notes is offset by interest income earned on the timber notes receivable of approximately $82.5 million for both 2006 and 2005. 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 $7.2 million and $14.8 million for the years ended December 30, 2006 and December 31, 2005, respectively. The additional interest income in 2005 included interest earned on the cash and short-term investments we held following the Sale. Approximately $800 million of the Sale proceeds were used to repurchase 23.5 million shares of our common stock during the second quarter of 2005.

Other income (expense), net was $39.3 million of income in 2006 compared to $1.7 million of expense in 2005. In 2006, we reduced the liability related to the Additional Consideration Agreement that was entered into in connection with the Sale. The reduction in the liability reflected the effect of changes in our expectations regarding paper prices over the remaining term of the agreement, and resulted in the recognition of $48.0 million of other non-operating income in 2006. See Note 13, Financial Instruments, Derivatives and Hedging Activities, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of the Form 10-K for additional information related to the Additional Consideration Agreement.

Our effective tax rate attributable to continuing operations for 2006 was 40.0%. In 2005, we reported $1.2 million of income tax expense on a pre-tax loss of $37.6 million. Income taxes for both periods were affected by the impact of state income taxes, non-deductible expenses and the mix of domestic and foreign sources of income. Income tax expense in 2005 was also impacted by a $21.5 million increase in the valuation allowance for certain state net operating losses.

As a result of the foregoing factors, we reported income from continuing operations of $99.1 million, or $1.29 per diluted share, for 2006, compared to a loss from continuing operations of $41.2 million, or $(0.58) per diluted share, for 2005. Including the loss from discontinued operations, the net income for 2006 was $91.7 million, or $1.19 per diluted share compared with a net loss of $73.8 million, or ($0.99) per diluted share in 2005. Excluding the effect of the Additional Consideration Agreement adjustment, the charges for store closures, contract segment reorganization and our headquarters consolidation, adjusted income from continuing operations was $159.1 million, or $2.10 per diluted share, for 2006. Excluding the charges for the write-down of impaired assets of certain retail stores, our legal settlement with the Department of Justice, severance and professional fees, international restructuring and our headquarters consolidation, we recognized adjusted income from continuing operations of $23.6 million, or $0.24 per diluted share, for 2005.

Segment Discussion

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

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 to small and medium-sized offices in the United States, Canada, Australia and New Zealand. This segment markets and sells through field salespeople, outbound telesales, catalogs, the Internet and in some markets, including Canada, 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. Our retail segment has operations in the United States, Puerto Rico and the U.S. Virgin Islands. Our retail segment's office supply stores feature OfficeMax ImPress, an in-store module devoted to print-for-pay and related services. Our retail segment also operates office products stores in Mexico through a 51%-owned joint venture.

Corporate and Other includes support staff services and the related assets and liabilities as well as certain other expenses not fully allocated to the segments.

Management evaluates the segments based on operating profit before interest expense, income taxes and 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. However, certain expenses that management considers unusual or non-recurring are not allocated to the Contract and Retail segments.

OfficeMax, Contract

($ in millions)

	2007	2006	2005
Sales	$ 4,816.1	$ 4,714.5	$ 4,628.6
Segment income	$ 207.9	$ 197.7	$ 100.3
Sales by Product Line			
Office supplies and paper	$ 2,696.3	$ 2,568.9	$ 2,598.1
Technology products	1,535.1	1,551.9	1,469.2
Office furniture	584.7	593.7	561.3
Sales by Geography			
United States	$ 3,518.9	$ 3,559.8	$ 3,519.7
International	1,297.2	1,154.7	1,108.9
Sales growth	2%	2%	6%
Same-location sales growth	2%	2%	5%
	(percentage of sales)		
Gross profit margin	21.8%	22.5%	21.9%
Operating expenses, including allocated general and administrative expenses	17.5%	18.3%	19.7%
Operating profit margin	4.3%	4.2%	2.2%

2007 Compared With 2006

Contract segment sales for 2007 increased 2.2% to $4,816.1 million, from $4,714.5 million for 2006, reflecting a U.S. sales decline of 1.2% offset by international sales growth of 12.3% in U.S. dollars, or 2.8% in local currencies. The U.S. sales decline reflects a weaker economic environment in the second half of 2007, as well as our initiative to terminate existing unprofitable contracts and be more disciplined in new account acquisitions.

Contract segment gross profit margin decreased 0.7% of sales to 21.8% of sales for 2007 compared to 22.5% of sales in the previous year. The year-over-year decrease was primarily due to the continued impact of new and renewing accounts with lower gross margin rates and the impact of paper price increases throughout the year.

Operating expenses for the Contract segment decreased 0.8% of sales to 17.5% of sales for 2007 from 18.3% of sales a year earlier. Fiscal year 2006 included $10.3 million of costs related to the Contract segment reorganization. Excluding the impact of these charges, adjusted operating expenses were 18.2% of sales for 2006. The year-over-year improvement in operating expenses as a percentage of sales on an adjusted basis is the result of targeted cost controls, including the reorganization of the Contract segment that we began in the fourth quarter of 2006, lower incentive compensation expense and lower promotion and marketing costs.

Contract segment income increased $10.2 million to $207.9 million, or 4.3% of sales for 2007, compared to income of $197.7 million, or 4.2% of sales, for 2006. Excluding the $10.3 million of costs related to the Contract segment reorganization, Contract segment income was $208.0 million, or 4.4% of sales, for 2006.

2006 Compared With 2005

Contract segment sales for 2006 increased 1.9% to $4,714.5 million, from $4,628.6 million in 2005. Year-over-year same-location sales increased 2%.

Contract segment gross profit margin improved by 0.6% of sales to 22.5% of sales for 2006 compared to 21.9% of sales in the previous year. The year-over-year increase resulted from a continued focus on the middle-market and other higher margin sales opportunities.

Operating expenses for the Contract segment decreased by 1.4% of sales to 18.3% of sales for 2006 from 19.7% of sales a year earlier. Fiscal year 2006 includes $10.3 million of costs related to the Contract segment reorganization. Fiscal year 2005 includes a $9.8 million pre-tax charge for a legal settlement with the Department of Justice and a $5.4 million pre-tax charge related to the restructuring of our international operations. Excluding the impact of these charges, operating expenses were 18.2% and 19.4% of sales for 2006 and 2005, respectively. The year-over-year improvement in operating expenses as a percentage of sales is due to lower promotion and marketing costs as well as reduced payroll and integration expenses.

Contract segment income increased $97.4 million to $197.7 million, or 4.2% of sales, for 2006, compared to income of $100.3 million, or 2.2% of sales, for 2005. Excluding the $10.3 million of costs related to the Contract segment reorganization, adjusted Contract segment income was $208.0 million, or 4.4% of sales, for 2006. Excluding the $9.8 million legal settlement with the Department of Justice and the $5.4 million of international restructuring charges, adjusted Contract segment income was $115.5 million, or 2.5% of sales, for 2005.

OfficeMax, Retail

($ in millions)

	2007	2006	2005
Sales	$ 4,265.9	$ 4,251.2	$ 4,529.1
Segment income	$ 173.7	$ 86.3	$ 27.9
Sales by Product Line			
Office supplies and paper	$ 1,640.4	$ 1,627.5	$ 1,639.6
Technology products	2,241.8	2,212.5	2,363.5
Office furniture	383.7	411.2	526.0
Sales by Geography			
United States(a)	$ 4,030.0	$ 4,057.4	$ 4,358.9
International	235.9	193.8	170.2
Sales growth	0.3%	(6.1)%	1.1%
Same-location sales growth	(1.2)%	0.1%	(1.0)%
	(percentage of sales)		
Gross profit margin	29.5%	29.3%	26.2%
Operating expenses, including allocated general and administrative expenses	25.4%	27.3%	25.6%
Operating profit margin	4.1%	2.0%	0.6%

(a)

Includes our operations in the United States, Puerto Rico and the U.S. Virgin Islands.

2007 Compared With 2006

Retail segment sales for 2007 increased by 0.3% to $4,265.9 million from $4,251.2 million for 2006. Retail segment same-location sales decreased 1.2% year-over-year during 2007.

Adjusted for the Company's initiative to eliminate mail-in rebates, and to provide instant rebates in lieu of national, vendor-sponsored mail-in rebates, same-store sales decreased 0.5% during 2007. During the fourth quarter of 2007, Retail segment same-store sales decreased 7.3% year-over-year

due to weakness in consumer and small business spending and the Company's reduced promotional activity during the holiday season. The fourth quarter same-store sales decrease offset same store sales increases realized during the first three quarters of 2007. During 2007, we opened 59 new retail stores in the U.S., ending the period with 908 retail stores in the U.S. Our majority owned joint-venture in Mexico opened 15 stores during 2007, ending the year with 68 stores.

Retail segment gross profit margin improved 0.2% of sales to 29.5% of sales for 2007, compared to 29.3% of sales in the previous year. The gross margin improvement was primarily due to the segment's improved promotional and advertising strategies, primarily during the holiday season, partially offset by occupancy costs for new stores.

Operating expenses for the Retail segment decreased 1.9% of sales to 25.4% of sales for 2007 from 27.3% of sales a year earlier. During 2006, the Retail segment incurred pre-tax charges of $89.5 million related to the closure of 109 underperforming retail stores. Excluding the impact of these charges, adjusted Retail segment operating expenses were 25.2% of sales for 2006. The year-over-year increase on an as adjusted basis was primarily due to expense deleveraging from new store openings and the same-store sales decrease, partially offset by reduced incentive compensation expense.

Retail segment operating income was $173.7 million, or 4.1% of sales, for 2007 and $86.3 million, or 2.0% of sales, for 2006. Excluding the impact of the store closing related charges, adjusted Retail segment operating income was $175.8 million, or 4.1% of sales for 2006.

2006 Compared With 2005

Retail segment sales for 2006 decreased 6.1% to $4,251.2 million for 2006 compared to $4,529.1 million for 2005. Retail segment sales were lower due to the impact of the 109 strategic store closings during the first quarter of 2006 and the 53rd week included in 2005 results. Retail segment same-location sales increased 0.1% year-over-year during 2006. During 2006, we opened 44 new retail stores in the U.S., ending the period with 859 retail stores in the U.S. Our majority owned joint-venture in Mexico opened 12 stores during 2006, ending the year with 55 stores.

Retail segment gross profit margin improved by 3.1% of sales to 29.3% of sales for 2006, from 26.2% of sales in the previous year. The gross margin improvement was primarily due to the segment's improved promotional and advertising strategies and reduced inventory shrinkage and inventory clearance, year-over-year.

Retail segment operating expenses increased by 1.7% of sales to 27.3% of sales for 2006 compared to 25.6% of sales a year earlier. During 2006, the Retail segment incurred pre-tax charges of $89.5 million related to the closure of 109 underperforming retail stores. In 2005, the Retail segment incurred asset impairment charges of $17.9 million primarily related to the store closures. Excluding the impact of these charges, adjusted Retail segment operating expenses were 25.2% of sales for both 2006 and 2005. Operating expenses for 2006 benefited from targeted cost reductions, including reduced store labor and marketing costs. These improvements were offset by an increase in allocated general and administrative expenses during 2006.

Retail segment income increased by $58.4 million to $86.3 million, or 2.0% of sales, compared to income of $27.9 million, or 0.6% of sales, for 2005. Excluding the impact of the store closing related charges for both years, adjusted Retail segment operating income for 2006 was $175.8 million, or 4.1% of sales, compared to $45.8 million, or 1.0% of sales for 2005.

Corporate and Other

Corporate and Other expenses were $37.4 million for 2007 compared to $118.0 million for 2006. During 2006, we recorded expenses largely related to the headquarters consolidation in the

Corporate and Other segment totaling $46.4 million. Excluding the expenses related to headquarters consolidation, adjusted Corporate and Other expenses were $71.6 million in 2006. The year-over-year decrease in our Corporate and Other expenses was primarily due to reduced incentive compensation expense and lower legacy costs. Corporate and Other expenses were $118.5 million during 2005, and included $56.9 million of expenses related to the headquarters consolidation, one-time severance payments and other expenses, primarily professional service fees, which are not expected to be ongoing. Excluding the headquarters consolidation, one-time severance payments and other expenses, primarily professional service fees, Corporate and Other expenses were $61.6 million in 2005.

Discontinued Operations

In December 2004, our 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, we concluded that we 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. As of December 29, 2007, the Company has not identified a buyer for the facility.

We recorded pre-tax charges, including $28.2 million recorded 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, we 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).

See Note 2, Discontinued Operations, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K for additional information related to the discontinued operation.

Integration Activities and Facility Closures

Increased scale as a result of the OfficeMax, Inc. acquisition has allowed management to evaluate the Company's combined office products business and to identify opportunities for consolidating operations. Costs associated with the planned closure and consolidation of acquired OfficeMax, Inc. facilities were accounted for under Emerging Issues Task Force ("EITF") Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," and recognized as liabilities in connection with the acquisition and charged to goodwill. Costs incurred in connection with all other business integration activities have been recognized in the Consolidated Statements of Income (Loss).

In September 2005, the board of directors approved a plan to relocate and consolidate our retail headquarters in Shaker Heights, Ohio and existing corporate headquarters in Itasca, Illinois into a new facility in Naperville, Illinois. We began the consolidation and relocation process in the latter half of 2005. As of December 30, 2006, we had expensed approximately $70.9 million of costs

related to the headquarters consolidation in our Corporate and Other segment, including $45.9 million recognized during 2006 and $25.0 million recognized during the second half of 2005. The consolidation and relocation process was completed during the second half of 2006.

Also in 2005, we recorded charges to income of $23.2 million for the write-down of impaired assets related to underperforming retail stores and the restructuring of our Canadian operations.

During 2006, we announced the reorganization of our Contract segment and recorded a pre-tax charge of $7.3 million for employee severance related to the reorganization. The Contract segment also recorded an additional $3.0 million of costs during 2006, primarily related to a facility closure and employee severance.

During 2006, we closed 109 underperforming, domestic retail stores and recorded a pre-tax charge of $89.5 million, comprised of $11.3 million for employee severance, asset write-off and impairment and other closure costs and $78.2 million of estimated future lease obligations.

We conduct regular reviews of our real estate portfolio to identify underperforming facilities, and close those facilities that are no longer strategically or economically viable. We record a liability for the cost associated with a facility closure at its fair value in the period in which the liability is incurred, which is either the date the lease termination is communicated to the lessor or the location's cease-use date. Upon closure, unrecoverable costs are included in facility closure reserves on the Consolidated Balance Sheets, and include provisions for the present value of future lease obligations, less contractual or estimated sublease income. Accretion expense is recognized over the life of the payments.

Integration and facility closure reserve account activity during 2007, 2006 and 2005, including activity related to the reorganization of our Contract segment, retail store closures and headquarters consolidation, was as follows:

	Lease\ Contract Terminations	Severance\ Retention	Asset Write-off & Impairment	Other	Total
			(thousands)		
Balance at December 31, 2004	$ 116,390	$ 6,642	$	$ 409	$ 123,441
Charges to income	547	21,214	23,062	3,565	48,388
Change in goodwill					
Changes to estimated costs included in income					
Cash payments	(28,872)	(6,354)		(3,235)	(38,461)
Non-cash charges			(23,062)		(23,062)
Accretion	3,390				3,390
Balance at December 31, 2005	$ 91,455	$ 21,502	$	$ 739	$ 113,696
Charges to income	89,934	19,407	9,543	27,332	146,216
Change in goodwill	(11,000)				(11,000)
Changes to estimated costs included in income		(1,080)			(1,080)
Cash payments	(68,596)	(28,991)		(18,951)	(116,538)
Non-cash charges			(9,543)	(5,978)	(15,521)
Accretion	6,031				6,031
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	(38,196)	(8,424)		(1,725)	(48,345)
Non-cash charges					
Accretion	3,603				3,603
Balance at December 29, 2007	$ 73,231	$ 2,414	$	$ 1,417	$ 77,062

At December 29, 2007, approximately $22.2 million of the integration and facility closure reserve liability was included in accrued liabilities, other, and $54.9 million was included in other long-term liabilities. At December 29, 2007, the integration activities and facility closures reserve included approximately $73 million for estimated future lease obligations, which represents the estimated fair value of the lease obligations and is net of anticipated sublease income of approximately $77 million.

Liquidity and Capital Resources

As of December 29, 2007, we had $152.6 million of cash and cash equivalents and $398.4 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. During 2007, our net debt (total debt excluding the timber securitization notes less cash and restricted investments) increased by approximately $117.9 million. The increase in net debt is due in part to our termination of our accounts receivable

securitization program in 2007. During 2006, we reduced our net debt by approximately $295 million. Since the end of 2003, we have paid down approximately $1.9 billion of debt, primarily with proceeds from the Sale, and expensed $151.5 million of costs related to the early retirement of debt. We have also returned nearly $885 million of cash to equity holders, including the repurchase of 23.5 million shares of our common stock for $775.5 million, plus transaction costs in 2005. Our ratio of current assets to current liabilities was 1.61:1 at December 29, 2007, compared with 1.37:1 at December 30, 2006. The increase in our ratio of current assets to current liabilities at December 29, 2007 resulted primarily from a decrease in accounts payable and an increase in accounts receivable as a result of the termination of our securitization program on July 12, 2007, with the simultaneous restructuring of our revolving credit facility.

Our primary ongoing cash requirements relate to working capital, expenditures for property and equipment, lease obligations and debt service. We expect 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

Our operating activities generated cash of $70.6 million and $375.6 million in 2007 and 2006, respectively, and used cash of $56.9 million in 2005. In 2007, items included in net income provided $378.0 million of cash, and changes in working capital items used $307.4 million. Cash used by working capital changes includes the effect of terminating our accounts receivable securitization program and the resulting increase in accounts receivable, and a reduction in accounts payable-to-inventory leverage due to decreased inventory turnover and reduced terms for a few key vendors. These changes were partially offset by the monetization of certain Company-owned life insurance assets. In 2006, items included in net income (loss) provided $270.1 million of cash, and favorable changes in working capital items provided $105.5 million. Included in net working capital changes during 2005 were net income tax payments of $134.1 million primarily related to gains recognized in 2004. Other working capital changes in 2005 included a reduction in accounts payable and accrued liabilities partially offset by improved accounts receivable and inventory levels.

On July 12, 2007, we entered into a new loan agreement (See Note 12, Debt of the notes to Consolidated Financial Statements in "Item 8, Financial Statements and Supplementary Data" of this Form 10-K). The new loan agreement amended our existing revolving credit facility and replaced our accounts receivable securitization program. The transferred accounts receivable under the accounts receivable securitization program at that date were refinanced with borrowings under the new loan agreement and excess cash which reduced cash provided by operations. We no longer sell any of our accounts receivable. At December 30, 2006 $180.0 million of sold accounts receivable were excluded from Receivables in our Consolidated Balance Sheet. Cash flow from operations in 2006 and 2005 benefited from increases in the amount of receivables sold under this program by $17 million and $43 million, respectively.

We sponsor noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active OfficeMax, Contract employees. Pension expense was $10.0 million, $13.7 million and $21.7 million for the years ended December 29, 2007, December 30, 2006 and December 31, 2005, respectively. In 2007, 2006 and 2005, we made contributions to our pension plans totaling $19.1 million, $9.6 million and $2.8 million, respectively. Since our active employees who are covered by the plans, as well as all of the inactive participants, are no longer accruing additional benefits, we do not expect our future contributions to these plans to be significant. The minimum required contribution in 2008 is approximately $9.4 million. However, we may elect to make additional voluntary contributions. See "Critical Accounting Estimates" in this

Management's Discussion and Analysis of Financial Condition and Results of Operations for more information.

Investment Activities

Our investing activities used cash of $138.9 million in 2007, $163.9 million in 2006 and $97.3 million in 2005.

Our principal investing activities are related to capital expenditures and acquisitions. Investing activities during 2007 included capital expenditures of $142.1 million. Our capital spending in 2007 primarily related to leasehold improvements, new and remodeled stores, quality and efficiency projects, replacement projects and integration projects, including our previously announced infrastructure improvement initiatives in supply chain and information systems. Details of 2007 capital investment by segment are included in the table below:

	2007 Capital Investment by Segment		
	Acquisitions	Property and Equipment	Total
		(millions)	
OfficeMax, Contract	$ 1.3	$ 42.5	$ 43.8
OfficeMax, Retail		98.3	98.3
	1.3	140.8	142.1
Corporate and Other			
	$ 1.3	$ 140.8	$ 142.1

Investment activities during 2006 included $174.8 million of expenditures for property and equipment and $1.5 million for the acquisitions of businesses by our Contract segment.

Investment activities during 2005 included $152.5 million of expenditures for property and equipment and $34.8 million for the acquisitions of businesses by our Contract segment. These expenditures were partially offset by $93.3 million of proceeds from the sale of restricted investments.

We expect our capital investments in 2008 to total between $200 million and $220 million, excluding acquisitions. Our capital spending in 2008 will be for leasehold improvements, new stores, remodeling projects, quality and efficiency projects, replacement projects and integration projects. In 2008, we expect to open up to 40 new stores, mostly in existing markets, and to remodel approximately 60 stores. All new stores will feature the Advantage store prototype. Remodeled stores will feature key elements of the Advantage store prototype.

Financing Activities

Our financing activities used cash of $62.6 million in 2007, $1.9 million in 2006 and $1,015.3 million in 2005. Common and preferred dividend payments totaled $49.1 million in 2007, $47.6 million in 2006, and $54.2 million in 2005. In all three years, our quarterly cash dividend was 15 cents per common share. During 2007, we received $5.9 million in cash proceeds from stock option exercises and used $11.6 million of cash to reduce debt. In 2006, we received $130.0 million in cash proceeds from stock option exercises. In 2005, we used $780.4 million of cash for the repurchase of 23.5 million shares of our common stock and used $198.7 million of cash to reduce short-term borrowings and long-term debt. Our debt-to-equity ratio, excluding the securitized timber notes, was .17:1 and .21:1 at December 29, 2007 and December 30, 2006, respectively.

Financing Arrangements

We lease our store space and certain other property and equipment under operating leases. These operating leases are not included in debt; however, they represent a significant commitment. Obligations under operating leases are shown in the "Contractual Obligations" section of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

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

Credit Agreements

On July 12, 2007, we entered into an Amended and Restated Loan and Security Agreement (the "Loan Agreement") with a group of banks. The Loan Agreement amended the Company's existing revolving credit facility and replaced our accounts receivable securitization program. The new Loan Agreement permits the Company to borrow up to a maximum of $700 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The revolving credit facility 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. There were no borrowings outstanding under the Company's revolving credit facilities as of December 29, 2007 or December 30, 2006. The maximum amount outstanding under the revolving credit facility was $103.0 million and $122.0 million during 2007 and 2006, respectively. The average amount outstanding under the revolving credit facility was $6.8 million during 2007 and $20.6 million during 2006. Letters of credit, which may be issued under the revolving credit facility up to a maximum of $250 million, reduce available borrowing capacity under the revolving credit facility. Letters of credit issued under the revolving credit facility totaled $85.5 million as of December 29, 2007 and $75.5 million as of December 30, 2006. As of December 29, 2007, the maximum aggregate borrowing amount available under the revolver was $700.0 million and excess availability under the revolving credit facility totaled $614.5 million. At December 29, 2007, the Company was in compliance with all covenants under the Loan Agreement. The Loan Agreement allows the payment of dividends subject to availability restrictions and so long as no default has occured. The Loan Agreement expires on July 12, 2012.

Borrowings under the revolving credit facility 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 revolving credit facility depending on the level of average excess availability. Fees on letters of credit issued under the revolving credit facility were charged at a weighted average rate of 0.875% during the year ended December 29, 2007. 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 and letters of credit.

As of December 29, 2007, Grupo OfficeMax, our 51%-owned joint venture in Mexico, had short term borrowings of $14.2 million. The short-term borrowings consist of three loans with balances of $4.6 million, $4.6 million and $5.0 million respectively. Two of these loans are promissory notes to be repaid in the first quarter of 2008. The third loan is a simple revolving loan. The financing for Grupo OfficeMax is unsecured with no recourse against the Company.

Timber Notes

In October 2004, we sold our timberlands as part of the Sale and received credit-enhanced timber installment notes receivable in the amount of $1,635 million. In December 2004, we completed a securitization transaction in which our interests 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 "OMXQ's"). The OMXQ's 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, we 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 annual 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 Financial Accounting Standards Board ("FASB") Interpretation 46R, "Consolidation of Variable Interest Entities". The OMXQ's 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 our consolidation of the OMXQ's 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, we issued 6.50% senior notes due in 2010 and 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 since been eliminated through the execution of supplemental indentures as described below. On November 5, 2004, we repurchased substantially all of the outstanding 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.

In December 2004, both Moody's Investors Service, Inc. and Standard & Poor's Rating Services upgraded the credit rating on our 7.00% senior notes to investment grade as a result of actions we took to collateralize the notes by granting the note holders a security interest in certain investments 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. The remaining pledged instruments continue to be subject to the security interest, and are reflected as restricted investments in the Consolidated Balance Sheets.

Upon the maturity of the Pledged Instruments in 2008, the Company intends to reinvest the proceeds for a five year term.

Other

We had leased certain equipment at our 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, we paid $29.1 million to terminate the lease agreement.

Cash Paid for Interest

Cash payments for interest, net of interest capitalized and including interest payments related to the timber securitization notes, were $116.6 million in 2007, $124.1 million in 2006 and $122.6 million in 2005.

Contractual Obligations

In the table below, we set forth our contractual obligations as of December 29, 2007. Some of the figures we include in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties and other factors. Because these estimates and assumptions are necessarily subjective, the amounts we will actually pay in future periods may vary from those reflected in the table.

	Payments Due by Period				
	2008	**2009-2010**	**2011-2012**	**Thereafter**	**Total**
			(millions)		
Debt(a)(c)	$ 34.8	$ 66.8	$ 35.6	$ 247.0	$ 384.2
Timber notes securitized				1,470.0	1,470.0
Operating leases(b)(e)	371.8	639.8	468.2	583.3	2,063.1
Purchase obligations	32.4	5.6	0.4	0.6	39.0
Other long-term liabilities(d)					
	$ 439.0	$ 712.2	$ 504.2	$ 2,300.9	$ 3,956.3

(a)

Included in debt are amounts owed on our note agreements, revenue bonds and credit agreements. These borrowings are further described in Note 12, Debt, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in this Form 10-K. The table assumes our debt is held to maturity.

(b)

We enter into operating leases in the normal course of business. We lease our retail store space as well as certain other property and equipment under operating leases. Some of our retail store leases require percentage rentals on sales above specified minimums and contain escalation clauses. These minimum lease payments do not include contingent rental expense. Some lease agreements provide us with the option to renew the lease or purchase the leased property. Our future operating lease obligations would change if we exercised these renewal options and if we entered into additional operating lease agreements. For more information, see Note 7, Leases, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in this Form 10-K.

(c)

The current portion of these liabilities is also included.

(d)

Our Consolidated Balance Sheet as of December 29, 2007 includes $200.3 million of liabilities associated with our retirement and benefit plans and $403.0 million of other long-term liabilities. Certain of these amounts have been excluded from the above table as either the amounts are fully or partially funded, or the timing and/or the amount of any cash payment is uncertain.

(e)

Lease obligations for closed facilities are included in operating leases and a liability equal to the fair value of these obligations is included in the Company's Consolidated Balance Sheets. For more information, see Note 3, Integration Activities and Facility Closures, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements & Supplementary Data" in this Form 10-K.

In accordance with an amended and restated joint venture agreement, the minority owner of our subsidiary in Mexico, Grupo OfficeMax, can elect to put its remaining 49% interest in the subsidiary to OfficeMax if earnings targets are achieved. At December 29, 2007, Grupo OfficeMax had met these earnings targets, which are calculated quarterly on a rolling four-quarter basis. Accordingly, the targets can be achieved in one quarter but not in the next. If the earnings targets are achieved and the minority owner elects to put its ownership interest, the purchase price would be equal to fair value, calculated based on both the subsidiary's earnings for the last four quarters before interest, taxes and depreciation and amortization, and the current market multiples of similar companies. The fair value purchase price is currently estimated at $65 million to $70 million. This contingent obligation is not included in the table above.

In addition to the contractual obligations quantified in the table above, we have other obligations for goods and services entered into in the normal course of business. These contracts, however, are either not enforceable or legally binding or are subject to change based on our business decisions.

Off-Balance-Sheet Activities and Guarantees

Prior to July 2007, we sold, 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 were sold without legal recourse to third party conduits through a wholly owned bankruptcy-remote special purpose entity that was consolidated for financial reporting purposes. We continued servicing the sold receivables and charged the third party conduits a monthly servicing fee at market rates. The program qualified for sale treatment under FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." At December 30, 2006 $180.0 million of sold accounts receivable were excluded from receivables in the accompanying Consolidated Balance Sheet. Our subordinated retained interest in the transferred receivables was $111.2 million December 30, 2006 and is included in receivables, net in the Consolidated Balance Sheet.

On July 12, 2007, we entered into a new loan agreement (See Note 12, Debt, of the notes to Consolidated Financial Statements in "Item 8, Financial Statements and Supplementary Data" of this Form 10-K). The new loan agreement amended our existing revolving credit facility and replaced our accounts receivable securitization program. The transferred accounts receivable under the accounts receivable securitization program at that date were refinanced with borrowings under the new loan agreement and excess cash. We no longer sell any of our accounts receivable.

Guarantees

Note 17, Commitments and Guarantees, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in this Form 10-K describes the nature of our guarantees, including the approximate terms of the guarantees, how the guarantees arose, the events or circumstances that would require us to perform under the guarantees and the maximum potential undiscounted amounts of future payments we could be required to make.

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.

Our 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.

Disclosures of Financial Market Risks

Our debt is predominantly fixed-rate. At December 29, 2007, the estimated current market value of our debt, based on quoted market prices when available or then-current interest rates for similar obligations with like maturities, including the timber notes, was approximately $109.9 million greater than the amount of debt reported in the Consolidated Balance Sheet. Our timber notes receivable also bear interest at a fixed rate. At December 29, 2007, the estimated fair value of these instruments exceeded their carrying amount by $128.5 million. The estimated fair values of our other financial instruments, including cash and cash equivalents, receivables and short-term borrowings are the same as their carrying values. In the opinion of management, we do not have any significant concentration of credit risks. Concentration of credit risks with respect to trade receivables is limited due to the wide variety of vendors, customers and channels to and through which our products are sourced and sold, as well as their dispersion across many geographic areas.

Changes in interest and currency rates expose us to financial market risk. In the past we have used derivative financial instruments, such as interest rate swaps, rate hedge agreements, forward purchase contracts and forward exchange contracts, to hedge underlying debt obligations or anticipated transactions. We do not use them for trading purposes.

Except as described in the sub-heading "Additional Consideration Agreement" in Note 13, Financial Instruments, Derivatives and Hedging Activities of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in this Form 10-K, at December 29, 2007, we were not a party to any significant derivative financial instruments.

Additional Consideration Agreement

Pursuant to an Additional Consideration Agreement between OfficeMax and Boise Cascade, L.L.C. entered into in connection with the Sale, we may have been required to make substantial cash payments to, or entitled to receive substantial cash payments from, Boise Cascade, L.L.C. As described below, the Additional Consideration Agreement terminated in the first quarter of 2008. Under the Additional Consideration Agreement, the Sale proceeds were adjusted upward or downward based on paper prices following the Sale, subject to annual and aggregate caps. Specifically, we 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 was less than $800. Boise Cascade, L.L.C. agreed to pay us $710,000 for each dollar by which the average market price per ton exceeded $920. Under the terms of the agreement, neither party was obligated to make a payment in excess of $45 million in any one year. Payments by either party were also subject to an aggregate cap of $125 million that declined to $115 million in the fifth year and $105 million in the sixth year.

In connection with recording the Sale in 2004, we recognized a $42 million projected future obligation related to the Additional Consideration Agreement based on internal estimates and published industry paper price projections. We recognized accretion expense totaling approximately $6.0 million in our Consolidated Statements of Income (Loss) in 2006 and 2005.

The Company recorded changes in the fair value of the Additional Consideration Agreement in net income (loss) in the period they occured; however, any potential payments from Boise Cascade, L.L.C. to us were not recorded in net income (loss) until all contingencies had been satisfied, which was generally at the end of a 12-month measurement period ending on September 30. Due to increases in actual and projected paper prices, the change in fair value of

this obligation resulted in the recognition of non-operating income in our Consolidated Statement of Income (Loss) of $48.0 million in 2006 and $32.5 million in 2007. Based upon actual and projected paper prices at December 29, 2007 and December 30, 2006, we did not recognize an asset or liability in our Consolidated Balance Sheet related to the Additional Consideration Agreement.

In February 2008, Boise Cascade, L.L.C. sold a majority interest in its paper and packaging and newsprint businesses to Aldabra 2 Acquisition Corp. As a result of this transaction, the Additional Consideration Agreement terminated and no further payments will be required of either party.

The table below provides information about our financial instruments outstanding at December 29, 2007 that are sensitive to changes in interest rates or paper prices. For debt obligations, the table presents principal cash flows and related weighted average interest rates by expected maturity dates. For obligations with variable interest rates, the table sets forth payout amounts based on current rates and does not attempt to project future rates. No amounts receivable or payable under the terms of the Additional Consideration Agreement are reflected in the table due to the termination of that agreement in the first quarter of 2008. Other instruments subject to market risk, such as obligations for pension plans and other postretirement benefits, are not reflected in the table.

Financial Instruments

							Year Ended			
							2007		2006	
	2008	**2009**	**2010**	**2011**	**2012**	**There-after**	**Total**	**Fair Value**	**Total**	**Fair Value**
Debt										
Short-term borrowings	$ 14.2	$	$	$	$	$	$ 14.2	$ 14.2	$	$
Average interest rates	9.0%	%	%	%	%	%	9.0%	%	%	%
Long-term debt										
Fixed-rate debt payments	$ 34.8	$ 50.9	$ 15.9	$ 0.5	$ 35.1	$ 247.0	$ 384.2	$ 382.4	$ 410.6	$ 412.0
Average interest rates	7.5%	8.9%	5.6%	5.8%	7.9%	5.9%	6.9%	%	7.0%	%
Timber notes securitized	$	$	$	$	$	$ 1,470.0	$ 1,470.0	$ 1,581.7	$ 1,470.0	$ 1,440.7
Average interest rates						5.5%	5.5%	%	5.5%	%
Additional Consideration Agreement	$	$	$	$	$	$	$	$	$	$

Environmental

As an owner and operator of real estate, we may be liable under environmental laws for the cleanup of past and present spills and releases of hazardous or toxic substances on or from our properties and operations. We can be found liable under these laws if we knew of, or were responsible for, the presence of such substances. In some cases, this liability may exceed the value of the property itself.

Environmental liabilities that relate to the operation of the paper and forest products assets prior to the closing of the Sale continue to be our liabilities. We have been notified that we are a "potentially responsible party" under the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) or similar federal and state laws, or have received a claim from a private party, with respect to certain sites where hazardous substances or other contaminants are or may be located. All of these sites relate to operations either no longer owned by the Company or unrelated to its ongoing operations. In most cases, we are one of many potentially responsible parties, and our alleged contribution to these sites is relatively minor. For sites where a range of potential liability can be determined, we have established appropriate reserves. We cannot predict with certainty the total response and remedial costs, our share of the total costs, the extent to

which contributions will be available from other parties, or the amount of time necessary to complete the cleanups. Based on our investigations; our experience with respect to cleanup of hazardous substances; the fact that expenditures will, in many cases, be incurred over extended periods of time; and the number of solvent potentially responsible parties, we do not believe that the known actual and potential response costs will, in the aggregate, materially affect our financial position, results of operations or cash flows.

Critical Accounting Estimates

The Securities and Exchange Commission defines critical accounting estimates as those that are most important to the portrayal of our financial condition and results. These estimates require management's most difficult, subjective or complex judgments, often as a result of the need to estimate matters that are inherently uncertain. We reviewed the development, selection and disclosure of the following critical accounting estimates with the Audit Committee of our board of directors. The accounting estimates that we currently consider critical are as follows:

Vendor Rebates and Allowances

We participate in various cooperative advertising and other marketing programs with our vendors. We also participate in volume purchase rebate programs, some of which provide for tiered rebates based on defined levels of purchase volume. These arrangements enable us to receive reimbursement for costs incurred to promote the sale of vendor products, or to earn rebates that reduce the cost of merchandise purchased. Vendor rebates and allowances are accrued as earned. Rebates and allowances received as a result of attaining defined purchase levels are accrued over the incentive period based on the terms of the vendor arrangement and estimates of qualifying purchases during the rebate program period. These estimates are reviewed on a quarterly basis and adjusted for changes in anticipated product sales and expected purchase levels. Volume-based rebates and allowances earned are initially recorded as a reduction in the cost of merchandise inventories and are included in operations (as a reduction of cost of goods sold) in the period the related product is sold. Amounts received under other promotional programs are generally event- based and are recognized at the time of the event as a reduction of cost of goods sold or inventory, as appropriate, based on the nature of the promotion and the terms of the vendor agreement. Advertising and other allowances that represent reimbursements of specific, incremental and identifiable costs incurred to promote vendors' products are recorded as a reduction of operating and selling expenses in the period the expense is incurred.

Amounts owed to us under these arrangements are subject to credit risk. In addition, the terms of the contracts covering these programs can be complex and subject to interpretations, which can potentially result in disputes. We provide an allowance for uncollectible accounts and to cover disputes in the event that our interpretation of the contract terms differ from our vendors' and our vendors seek to recover some of the consideration from us. These allowances are based on the current financial condition of our vendors, specific information regarding disputes and historical experience. If we used different assumptions to estimate the amount of vendor receivables that will not be collected due to either credit default or a dispute regarding the amounts owed, our calculated allowance would be different and the difference could be material. In addition, if actual losses are different than those estimated, adjustments to the recorded allowance may be required.

Merchandise Inventories

Inventories consist of office products merchandise and are stated at the lower of weighted average cost or net realizable value. We estimate the realizable value of inventory using assumptions about future demand, market conditions and product obsolescence. If the estimated realizable value is less than cost, the inventory value is reduced to its estimated realizable value. If

expectations regarding future demand and market conditions are inaccurate or unexpected changes in technology or other factors affect demand, we could be exposed to additional losses.

Throughout the year, we perform physical inventory counts at all of our locations. For periods subsequent to each location's last physical inventory count, an allowance for estimated shrinkage is provided based on historical shrink results and current business trends. If actual losses as a result of inventory shrinkage are different than management's estimates, adjustments to the allowance for inventory shrinkage may be required.

Pensions

The Company sponsors noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active OfficeMax, Contract employees. Since our active employees and all inactive participants who are covered by the plans are no longer accruing additional benefits, we do not expect our future contributions to these plans to be significant.

We account for pension expense in accordance with SFAS No. 87, "Employer's Accounting for Pensions." This statement requires us to calculate our pension expense and liabilities using actuarial assumptions, including a discount rate assumption and a long-term asset return assumption. We base our discount rate assumption on the rates of return on high-quality bonds currently available and expected to be available during the period to maturity of the pension benefits. We base our long-term asset return assumption on the average rate of earnings expected on invested funds. We believe that the accounting estimate related to pensions is a critical accounting estimate because it is highly susceptible to change from period to period, based on the performance of plan assets, actuarial valuations and changes in interest rates, and the effect on our financial position and results of operations could be material.

For 2008, our discount rate assumption used in the measurement of our net periodic benefit cost was 6.3%, and our expected return on plan assets was 8.0%. Using these assumptions, our 2008 pension expense will be approximately $1.9 million. If we were to decrease our estimated discount rate assumption used in the measurement of our net periodic benefit cost to 6.05% and our expected return on plan assets to 7.75%, our 2008 pension expense would be approximately $6.4 million. If we were to increase our discount rate assumption used in the measurement of our net periodic benefit cost to 6.55% and our expected return on plan assets to 8.25%, we would recognize a pension benefit of approximately $2.5 million.

We account for our pension plans in accordance with SFAS No. 158, "Employer's Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." This statement requires the recognition of the funded status of a defined benefit plan in the statement of financial position, and that changes in the funded status be recognized through other comprehensive income (OCI), net of tax, in the year in which the changes occur. Actuarially-determined liabilities related to pension and postretirement benefits are also recorded based on estimates and assumptions. Key factors used in developing estimates of these liabilities include assumptions related to discount rates, rates of return on investments, future compensation costs, healthcare cost trends, benefit payment patterns and other factors. At December 29, 2007, the funded status of our defined benefit pension and other postretirement benefit plans was a liability of $131.9 million. Changes in assumptions related to the measurement of funded status could have a material impact on the amount reported.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the

financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, the Company is subject to challenges from the IRS and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. Prior to fiscal 2007, we recognized income tax accruals with respect to uncertain tax positions based upon SFAS No. 5, "Accounting for Contingencies." In fiscal 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." Under FIN 48, the benefits of tax positions that are more likely than not of being sustained upon audit based on the technical merits of the tax position are recognized in the consolidated financial statements; positions that do not meet this threshold are not recognized. For tax positions that are at least more likely than not of being sustained upon audit, the largest amount of the benefit that is more likely than not of being sustained is recognized in the consolidated financial statements. (See Note 6, Income Taxes, for a discussion of the adoption impact of FIN 48.)

Accruals for income tax exposures, including penalties and interest, expected to be settled within the next year are included in accrued expenses and other current liabilities with the remainder included in other long-term obligations in the Consolidated Balance Sheets. Interest and penalties related to income tax exposures are recognized as incurred and included in income tax expense in the Consolidated Statements of Income (Loss).

The determination of the Company's provision for income taxes requires significant judgment, the use of estimates, and the interpretation and application of complex tax laws. Significant judgment is also required in assessing the timing and amounts of deductible and taxable items.

Facility Closure Reserves

The Company conducts regular reviews of its real estate portfolio to identify underperforming facilities, and closes those facilities that are no longer strategically or economically viable. A liability for the cost associated with such a closure is recorded at its fair value in the period in which it is incurred. These costs are included in facility closure reserves in our Consolidated Balance Sheets and include provisions for the present value of future lease obligations, less estimated sublease income. At December 29, 2007, the facility closure reserve included approximately $73 million of estimated future lease obligations, which is net of anticipated sublease income of approximately $77 million. For each closed location, we estimate future sublease income based on current real estate trends by market and location-specific factors, including the age and quality of the location, as well as our historical experience with similar locations. If we had used different assumptions to estimate future sublease income our reserves would be different and the difference could be material. In addition, if actual sublease income is different than our estimates, adjustments to the recorded reserves may be required.

Environmental Remediation

We are subject to a variety of environmental laws and regulations. We account for environmental remediation liabilities in accordance with the Statement of Position (SOP) 96-1, "Environmental Remediation Liabilities." We record liabilities on an undiscounted basis when assessments and/or remedial efforts are probable and the cost can be reasonably estimated. We

estimate our environmental liabilities based on various assumptions and judgments, as we cannot predict with certainty the total response and remedial costs, our share of total costs, the extent to which contributions will be available from other parties or the amount of time necessary to complete any remediation. In making these judgments and assumptions, we consider, among other things, the activity to date at particular sites, information obtained through consultation with applicable regulatory authorities and third-party consultants and contractors and our historical experience at other sites that are judged to be comparable. Due to the number of uncertainties and variables associated with these assumptions and judgments and the effects of changes in governmental regulation and environmental technologies, the precision of the resulting estimates of the related liabilities is subject to uncertainty. We regularly monitor our estimated exposure to our environmental liabilities. As additional information becomes known, our estimates may change.

Environmental liabilities that relate to the operation of the paper and forest products assets prior to the closing of the Sale continue to be liabilities of OfficeMax, in addition to the liabilities related to certain sites referenced in Note 18, Legal Proceedings and Contingencies, of the Notes to Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data" in this Form 10-K.

Goodwill Impairment

SFAS No. 142, "Goodwill and Other Intangible Assets," requires us to assess goodwill for impairment at least annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment. In assessing impairment, the statement requires us to make estimates of the fair values of our reporting units. If we determine the fair values are less than the carrying amount of goodwill recorded on our Consolidated Balance Sheet, we must recognize an impairment in our financial statements. At December 29, 2007, we had $1.2 billion of goodwill recorded on our Consolidated Balance Sheet. Of the $1.2 billion, $556.9 million and $659.9 million were recorded in our OfficeMax, Contract and OfficeMax, Retail segments, respectively. At December 30, 2006, we had $1.2 billion of goodwill recorded on our Consolidated Balance Sheet. Of the $1.2 billion, $528.1 million and $687.9 million were recorded in our OfficeMax, Contract and OfficeMax, Retail segments, respectively. We completed our annual assessment in accordance with the provisions of SFAS No. 142 in the first quarters of 2007 and 2006, and concluded there was no impairment.

In testing for potential impairment, we measured the estimated fair value of our reporting units based upon discounted future operating cash flows using a discount rate reflecting our estimated average cost of funds. In estimating future cash flows, we used our internal budgets and operating plans, which include assumptions about retail store openings and closures, the consolidation of our distribution networks and improvements in our supply chain. Differences in assumptions used in projecting future operating cash flows and in selecting an appropriate discount rate could have a significant impact on the determination of fair value and impairment amounts. Due to the numerous variables associated with our judgments and assumptions relating to the valuation of the reporting units and the effects of changes in circumstances on these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty. As additional information becomes known, we may change our estimates.

Recently Issued or Newly Adopted Accounting Standards

Following are summaries of recently issued accounting pronouncements that have either been recently adopted or that may become applicable to the preparation of our consolidated financial statements in the future.

During 2006, the Company adopted SFAS No. 158, "Employer's Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." This Standard requires that employers recognize, on a prospective basis, the funded status of their defined benefit pension and postretirement benefit plans in the statement of financial position, and that changes in the funded status be recognized as a component of other comprehensive income, net of tax. SFAS No. 158 also requires the funded status of a plan to be measured as of the date of the year-end statement of financial position, and requires additional note disclosures. The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit pension and other postretirement benefit plans as of December 30, 2006. The initial recognition of the funded status of our defined benefit pension and other postretirement plans resulted in an increase in Shareholders' Equity of $11.9 million, which was net of income taxes of $7.6 million. We currently measure the funded status of our defined benefit plans as of the date of our fiscal year-end statement of financial position, and therefore, the adoption of the measurement provisions of SFAS No. 158 had no impact on our financial statements.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109." 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. The Interpretation was effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective at the beginning of fiscal year 2007. (See Note 6, Income Taxes, for a discussion of the adoption impact of FIN 48.)

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 was 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.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. In November 2007, the FASB provided a one year deferral for the implementation of FAS 157 for other nonfinancial assets and liabilities. We do not anticipate that adoption of FAS 157 will have a material impact on our financial condition, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS 115," ("SFAS 159"). SFAS 159 allows entities to choose, at specific election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be

recognized in current earnings. SFAS 159 is effective beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 159.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations." This statement amends SFAS No. 141 and provides revised guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination. This statement also requires that transaction costs in a business combination be expensed as incurred. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141R will impact the accounting for business combinations completed beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS 160 requires noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements and is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including those that arose before the effective date, except that comparative prior period information must be recast to classify noncontrolling interests in equity and provide other disclosures required by SFAS No. 160. The Company is currently evaluating the impact of the provisions of SFAS 160.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information concerning quantitative and qualitative disclosures about market risk is included under the caption "Disclosures of Financial Market Risks" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K and is incorporated by reference herein.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Income (Loss)

	Fiscal Year Ended		
	December 29, 2007	**December 30, 2006**	**December 31, 2005**
	(thousands, except per-share amounts)		
Sales	$ 9,081,962	$ 8,965,707	$ 9,157,660
Cost of goods sold and occupancy costs	6,771,657	6,656,497	6,960,390
Gross profit	2,310,305	2,309,210	2,197,270
Operating expenses			
Operating and selling	1,633,606	1,641,147	1,765,268
General and administrative	338,593	361,818	368,265
Other operating, net	(6,065)	140,343	54,045
Operating income	344,171	165,902	9,692
Debt retirement expense			(14,391)
Interest expense	(121,271)	(123,082)	(128,504)
Interest income	87,940	89,723	97,272
Other income (expense), net	26,687	39,335	(1,685)
Income (loss) from continuing operations before income taxes and minority interest	337,527	171,878	(37,616)
Income tax expense	(125,282)	(68,741)	(1,226)
Income (loss) from continuing operations before minority interest	212,245	103,137	(38,842)
Minority interest, net of income tax	(4,872)	(4,083)	(2,370)
Income (loss) from continuing operations	207,373	99,054	(41,212)
Discontinued operations			
Operating loss		(17,972)	(24,416)
Write-down of assets			(28,243)
Income tax benefit		10,639	20,109
Loss from discontinued operations		(7,333)	(32,550)
Net income (loss)	**207,373**	**91,721**	**(73,762)**
Preferred dividends	(3,961)	(4,037)	(4,378)
Net income (loss) applicable to common shareholders	**$ 203,412**	**$ 87,684**	**$ (78,140)**
Basic income (loss) per common share			
Continuing operations	$ 2.70	$ 1.30	$ (0.58)
Discontinued operations		(0.10)	(0.41)

	Fiscal Year Ended		
Basic income (loss) per common share	**$ 2.70**	**$ 1.20**	**$ (0.99)**
Diluted income (loss) per common share			
Continuing operations	$ 2.66	$ 1.29	$ (0.58)
Discontinued operations		(0.10)	(0.41)
Diluted income (loss) per common share	**$ 2.66**	**$ 1.19**	**$ (0.99)**

See accompanying notes to consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets

	December 29, 2007	December 30, 2006
	(thousands, except share and per-share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 152,637	$ 282,070
Receivables, net	714,951	556,733
Related party receivables	5,927	5,795
Inventories	1,088,312	1,071,486
Deferred income taxes	185,070	129,496
Other current assets	57,804	51,264
Total current assets	2,204,701	2,096,844
Property and equipment:		
Land and land improvements	38,230	36,195
Buildings and improvements	394,031	359,481
Machinery and equipment	847,348	794,010
Total property and equipment	1,279,609	1,189,686
Accumulated depreciation	(698,954)	(610,061)
Net property and equipment	580,655	579,625
Goodwill	1,216,804	1,216,032
Intangible assets, net	199,720	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	58,949	40,439
Other non-current assets	190,562	249,512
Total assets	**$ 6,283,768**	**$ 6,216,048**

See accompanying notes to consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets

	December 29, 2007	December 30, 2006
	(thousands, except share and per-share amounts)	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	$ 14,197	$
Current portion of long-term debt	34,827	25,634
Accounts payable:		
Trade	831,101	965,218
Related parties	30,184	32,482
Accrued expenses and other current liabilities:		
Compensation and benefits	125,983	172,632
Other	318,997	317,434
Liabilities related to assets held for sale	15,420	15,503
Total current liabilities	1,370,709	1,528,903
Long-term debt:		
Long-term debt, less current portion	349,421	384,246
Timber notes securitized	1,470,000	1,470,000
Total long-term debt	1,819,421	1,854,246
Other long-term obligations:		
Compensation and benefits	200,283	287,122
Deferred gain on sale of assets	179,757	179,757
Other long-term obligations	402,984	350,491
Total other long-term obligations	783,024	817,370
Minority interest (Note 17)	32,042	29,885
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock no par value; 10,000,000 shares authorized; Series D ESOP: $.01 stated value; 1,110,867 and 1,216,335 shares outstanding	49,989	54,735
Common stock $2.50 par value; 200,000,000 shares authorized; 75,397,094 and 74,903,220 shares outstanding	188,481	187,226
Additional paid-in capital	922,414	893,848
Retained earnings	1,095,950	941,830
Accumulated other comprehensive income (loss)	21,738	(91,995)
Total shareholders' equity	2,278,572	1,985,644
Total liabilities and shareholders' equity	**$ 6,283,768**	**$ 6,216,048**

See accompanying notes to consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Cash Flows

	Fiscal Year Ended		
	December 29, 2007	December 30, 2006	December 31, 2005
		(thousands)	
Cash provided by (used for) operations:			
Net income (loss)	$ 207,373	$ 91,721	$ (73,762)
Items in net income (loss) not using (providing) cash:			
Earnings from affiliates	(6,065)	(5,873)	(5,460)
Depreciation and amortization	131,573	127,812	151,145
Minority interest, net of income tax	4,872	4,083	2,370
Pension and other postretirement benefits expense	8,159	13,239	25,877
Discontinued operations	(83)	5,973	8,862
(Gain) loss on sales of assets	465	(1,004)	(410)
Non-cash asset write-downs	4,776	9,543	23,062
Other, principally stock compensation	26,938	24,602	38,384
Changes other than from acquisition of business:			
Receivables	(139,120)	29,126	47,517
Inventories	(3,585)	43,001	32,809
Accounts payable and accrued liabilities	(228,269)	8,662	(142,582)
Current and deferred income taxes	(11,521)	58,683	(136,629)
Other	75,091	(33,929)	(28,088)
Cash provided by (used for) operations	70,604	375,639	(56,905)
Cash provided by (used for) investment:			
Expenditures for property and equipment	(140,843)	(174,769)	(152,450)
Acquisition of businesses and facilities, net of cash acquired	(1,325)	(1,500)	(34,803)
Proceeds from sale of (purchase of) restricted investments			93,259
Proceeds from sales of assets	3,234	12,333	
Other			(3,343)
Cash provided by (used for) investment	(138,934)	(163,936)	(97,337)
Cash provided by (used for) financing:			
Cash dividends paid:			
Common stock	(45,142)	(43,509)	(49,817)
Preferred stock	(3,961)	(4,037)	(4,379)
	(49,103)	(47,546)	(54,196)
Short-term borrowings (repayments), net	14,197	(18,666)	8,266
Payments of long-term debt	(25,751)	(65,610)	(206,933)
Purchase of Series D preferred stock	(4,621)		(7,229)
Purchase of common shares		(33)	(780,417)
Proceeds from exercise of stock options	2,653	129,966	24,747
Other			453
Cash used for financing	(62,625)	(1,889)	(1,015,309)

	Fiscal Year Ended		
Effect of exchange rates on cash and cash equivalents	1,522	58	(793)
Increase (decrease) in cash and cash equivalents	(129,433)	209,872	(1,170,344)
Balance at beginning of the year	282,070	72,198	1,242,542
Balance at end of the year	**$ 152,637**	**$ 282,070**	**$ 72,198**

See accompanying notes to consolidated financial statements

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Shareholders' Equity

For the Fiscal Years ended December 29, 2007, December 30, 2006 and December 31, 2005

Common Shares Outstanding		Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Share-holders' Equity
		(thousands, except share amounts)					
93,575,557	Balance at December 31, 2004	$ 61,964	$ 232,269	$ 1,441,265	$ 1,019,679	$ (144,699)	$ 2,610,478
	Comprehensive income						
	Net loss				(73,762)		(73,762)
	Other comprehensive income						
	Cumulative foreign currency translation adjustment					(6,037)	(6,037)
	Minimum pension liability adjustment, net of tax					8,615	8,615
	Other comprehensive income					2,578	2,578
	Comprehensive income						$ (71,184)
	Cash dividends declared						
	Common stock				(47,082)		(47,082)
	Preferred stock				(4,379)		(4,379)
	Restricted stock			9,184			9,184
(199,134)	Restricted stock vested		1,134	(1,134)			
883,817	Stock options exercised		2,210	24,250			26,460
(23,527,764)	Treasury stock cancellations		(58,819)	(722,362)			(781,181)
72,136	Other	(7,229)	183	(3,398)	3,827		(6,617)
70,804,612	Balance at December 31, 2005	$ 54,735	$ 176,977	$ 747,805	$ 898,283	$ (142,121)	$ 1,735,679
	Comprehensive income						
	Net income				91,721		91,721

		For the Fiscal Years ended December 29, 2007, December 30, 2006 and December 31, 2005					
	Other comprehensive income						
	Cumulative foreign currency translation adjustment					11,581	11,581
	Minimum pension liability adjustment, net of tax					26,634	26,634
	Other comprehensive income					38,215	38,215
	Comprehensive income (loss)						$ 129,936
	Adjustment from initial adoption of SFAS No. 158, net of tax					11,911	11,911
	Cash dividends declared						
	Common stock				(44,136)		(44,136)
	Preferred stock				(4,037)		(4,037)
	Restricted stock			24,116			24,116
46,940	Restricted stock vested		117	(117)			
3,993,857	Stock options exercised		9,985	119,982			129,967
(907)	Treasury stock cancellations		(2)	(31)			(33)
58,718	Other		149	2,093	(1)		2,241
74,903,220	Balance at December 30, 2006	$ 54,735	$ 187,226	$ 893,848	$ 941,830	$ (91,995)	$ 1,985,644
	Comprehensive income (loss)						
	Net income				207,373		207,373
	Other comprehensive income						
	Cumulative foreign currency translation adjustment					59,977	59,977
	Minimum pension liability adjustment, net of tax					53,756	53,756
	Other comprehensive income					113,733	113,733

For the Fiscal Years ended December 29, 2007, December 30, 2006 and December 31, 2005

	Comprehensive income						$ 321,106
	Adjustment from initial adoption of FIN 48				(3,959)		(3,959)
	Cash dividends declared						
	Common stock				(45,333)		(45,333)
	Preferred stock				(3,961)		(3,961)
	Restricted stock			26,437			26,437
301,443	Restricted stock vested		767	(767)			
187,843	Stock options exercised		470	5,447			5,917
	Treasury stock cancellations						
4,588	Other	(4,746)	18	(2,551)			(7,279)
75,397,094	**Balance at December 29, 2007**	**$ 49,989**	**$ 188,481**	**$ 922,414**	**$ 1,095,950**	**$ 21,738**	**$ 2,278,572**

See accompanying notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

Nature of Operations

OfficeMax Incorporated ("OfficeMax," the "Company" or "we") is a leader in both business-to-business and retail office products distribution. The Company provides office supplies and paper, print and document services, technology products and solutions and furniture to large, medium and small businesses, government offices, and consumers. OfficeMax customers are serviced by approximately 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 Company's common stock is traded on the New York Stock Exchange under the ticker symbol OMX. The Company's corporate headquarters is located in Naperville, Illinois, and the OfficeMax website address is www.officemax.com.

The Company manages its business using three reportable segments: OfficeMax, Contract; OfficeMax, Retail; and Corporate and Other. OfficeMax, Contract markets and sells office supplies and paper, technology products and solutions and office furniture directly to large corporate and government offices, as well as to small and medium-sized offices through field salespeople, outbound telesales, catalogs, the Internet and, primarily in foreign markets, through office products stores. OfficeMax, Retail markets and sells office supplies and paper, print and document services, technology products and solutions and office furniture to small and medium-sized businesses and consumers through a network of retail stores.

Consolidation

The 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.

Change in Fiscal Year

Effective March 11, 2005, the Company amended its bylaws to make its fiscal year-end the last Saturday in December. Prior to this change, all of the Company's businesses except for its U.S. retail operations had a December 31 fiscal year-end. The U.S. retail operations maintained a fiscal year that ended on the last Saturday in December. Due primarily to statutory requirements, the Company's international businesses have maintained their December 31 year-ends. Fiscal year 2005 ended on December 31, 2005 for all reportable segments and businesses, and included 53 weeks for the Retail segment. Fiscal year 2006 ended on December 30, 2006 and included 52 weeks for all reportable segments and businesses. Fiscal year 2007 ended on December 29, 2007 and also included 52 weeks for all reportable segments and businesses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures about contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results are likely to differ from those estimates, but management does not believe such differences will materially affect the Company's financial position, results of operations or cash flows. Significant items subject to such estimates and assumptions include the recognition of vendor rebates and allowances; the carrying amount of intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax

assets; facility closure reserves and environmental liabilities; and assets and obligations related to employee benefits.

Foreign Currency Translation

Local currencies are considered the functional currencies for the Company's operations outside the United States. Assets and liabilities of foreign operations are translated into U.S. dollars at the rate of exchange in effect at the balance sheet date with the related translation adjustments reported in stockholders' equity as a component of accumulated other comprehensive income (loss). Revenues and expenses are translated into U.S. dollars at average monthly exchange rates prevailing during the year. Foreign currency transaction gains and losses related to assets and liabilities that are denominated in a currency other than the functional currency are reported in the Consolidated Statements of Income (Loss) in the period they occur.

Revenue Recognition

Revenue from the sale of products is recognized at the time both title and the risk of ownership are transferred to the customer, which generally occurs upon delivery to the customer or third-party delivery service for contract, catalog and Internet sales, and at the point of sale for retail transactions. Service revenue is recognized as the services are rendered. Revenue is reported less an appropriate provision for returns and net of coupons, rebates and other sales incentives.

Revenue from transactions in which the Company acts as an agent or broker is reported on a commission basis. Revenue from the sale of extended warranty contracts is reported on a commission basis at the time of sale, except in a limited number of states where state law specifies the Company as the legal obligor. In such states, the revenue from the sale of extended warranty contracts is recorded at the gross amount and recognized ratably over the contract period. The performance obligations and risk of loss associated with extended warranty contracts sold by the Company are assumed by an unrelated third party. Costs associated with these contracts are recognized in the same period as the related revenue.

Fees for shipping and handling charged to customers in connection with sale transactions are included in sales. Costs related to shipping and handling are included in cost of goods sold and occupancy costs. Taxes collected from customers are accounted for on a net basis and are excluded from sales.

Cash and Cash Equivalents

Cash equivalents includes short-term debt instruments that have an original maturity of three months or less at the date of purchase. The Company's banking arrangements allow the Company to fund outstanding checks when presented to the financial institution for payment. This cash management practice frequently results in a net cash overdraft position for accounting purposes, which occurs when total issued checks exceed available cash balances at a single financial institution. The Company records its outstanding checks in accounts payable trade in the Consolidated Balance Sheets, and the net change in overdrafts in the accounts payable trade line item within the cash flows from operating activities section of the Consolidated Statements of Cash Flows.

Accounts Receivable

Accounts receivable relate primarily to amounts owed by customers for trade sales of products and services and amounts due from vendors under volume purchase rebate, cooperative advertising and various other marketing programs. An allowance for doubtful accounts is recorded to provide for estimated losses resulting from uncollectible accounts, and is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable.

Management believes that the Company's exposure to credit risk associated with accounts receivable is limited due to the size and diversity of its customer and vendor base, which extends across many different industries and geographic regions.

The Company has an agreement with a third-party service provider that manages the Company's private label credit card program and directly extends credit to customers.

Prior to July 2007, the Company sold fractional ownership interests in a defined pool of accounts receivable and retained a subordinated interest and servicing rights to those receivables. The sale of the receivables under this program was accounted for under Statement of Financial Accounting Standards ("SFAS") No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." Sold accounts receivable were excluded from receivables in the Company's Consolidated Balance Sheet. The portion of the fractional ownership in the transferred receivables that the Company retained is included in Receivables in the Consolidated Balance Sheet. See Note 8, Sales of Accounts Receivable, for additional information related to this terminated program.

At December 29, 2007 and December 30, 2006, the Company had allowances for doubtful accounts of $14.5 million and $15.1 million, respectively.

Vendor Rebates and Allowances

The Company participates in various cooperative advertising and other marketing programs with its vendors. The Company also participates in volume purchase rebate programs, some of which provide for tiered rebates based on defined levels of purchase volume. These arrangements enable the Company to receive reimbursement for costs incurred to promote the sale of vendor products, or to earn rebates that reduce the cost of merchandise purchased. Vendor rebates and allowances are accrued as earned. Rebates and allowances received as a result of attaining defined purchase levels are accrued over the incentive period based on the terms of the vendor arrangement and estimates of qualifying purchases during the rebate program period. These estimates are reviewed on a quarterly basis and adjusted for changes in anticipated product sales and expected purchase levels. Volume-based rebates and allowances earned are initially recorded as a reduction in the cost of merchandise inventories and are included in operations (as a reduction in cost of goods sold) in the period the related product is sold. Amounts received under other promotional programs are generally event-based and are recognized at the time of the event as a reduction of cost of goods sold or inventory, as appropriate, based on the nature of the promotion and the terms of the vendor agreement. Advertising and other allowances that represent reimbursements of specific, incremental and identifiable costs incurred to promote vendors' products are recorded as a reduction of operating and selling expenses in the period the expense is incurred.

Merchandise Inventories

Inventories consist of office products merchandise and are stated at the lower of weighted average cost or net realizable value. The Company estimates the realizable value of inventory using assumptions about future demand, market conditions and product obsolescence. If the estimated realizable value is less than cost, the inventory value is reduced to its estimated realizable value.

Throughout the year, the Company performs physical inventory counts at all locations. For periods subsequent to each location's last physical inventory count, an allowance for estimated shrinkage is provided based on historical shrink results and current business trends.

Property and Equipment

Property and equipment are recorded at cost. The Company calculates depreciation using the straight-line method over the estimated useful lives of the assets or the terms of the related leases. The estimated useful lives of depreciable assets are generally as follows: building and improvements, 5 to 40 years; furniture and equipment, 1.5 to 5 years; and machinery, equipment and delivery trucks, 5 to 10 years. Leasehold improvements are amortized over the lesser of the term of the lease, including any option periods that management believes are probable of exercise, or the estimated lives of the improvements, which generally range from 5 to 15 years.

Long-Lived Asset Impairment

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," long-lived assets, such as property, plant, and equipment, capitalized software costs and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized equal to the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the Consolidated Balance Sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated.

Goodwill and Intangible Assets

The Company accounts for goodwill and other indefinite life intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Goodwill represents the excess of purchase price and related direct costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill and intangible assets with indefinite lives are not amortized, but are tested for impairment at least annually, or more frequently if events and circumstances indicate that the asset might be impaired, using a fair-value-based approach. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation in accordance with SFAS No. 141, "Business Combinations." The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. The Company completed its annual assessment in accordance with the provisions of SFAS No. 142 in the first quarters of 2007 and 2006, and concluded there was no impairment.

Intangible assets represent the values assigned to trade names, customer lists and relationships, noncompete agreements and exclusive distribution rights of businesses acquired. 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, which range from three to 20 years. (See Note 10, Goodwill and Intangible Assets, for additional information related to goodwill and intangible assets.)

Investments in Affiliates

Investments in affiliated companies are accounted for under the cost method if the Company does not exercise significant influence over the affiliated company. At December 29, 2007 and

December 30, 2006, the Company held an investment in Boise Cascade, L.L.C., which is accounted for under the cost method. Investments that enable the Company to exercise significant influence over an affiliated company, but do not represent a controlling interest, are accounted for under the equity method; such investments are carried at cost and are adjusted to reflect the Company's proportionate share of income or loss, less dividends received. The Company periodically reviews the recoverability of investments in affiliates. The Company would recognize a loss on these investments if there is a loss in value of an investment which is other than a temporary decline. (See Note 9, Investments in Affiliates, for additional information related to the Company's investments in affiliates.)

Capitalized Software Costs

The Company capitalizes certain costs related to the acquisition and development of internal use software that is expected to benefit future periods in accordance with American Institute of Certified Public Accountants' Statement of Position ("SOP") 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." These costs are amortized using the straight-line method over the expected life of the software, which is typically three to five years. Deferred charges in the Consolidated Balance Sheets include unamortized capitalized software costs of $45.6 million and $25.7 million at December 29, 2007 and December 30, 2006, respectively. Amortization of capitalized software costs totaled $15.2 million, $17.7 million and $25.6 million in 2007, 2006 and 2005, respectively.

Software development costs that do not meet the criteria for capitalization are expensed as incurred.

Pension and Post Retirement Benefits

The Company sponsors noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active OfficeMax, Contract employees. The Company also sponsors various retiree medical benefit plans. The type of retiree medical benefits and the extent of coverage vary based on employee classification, date of retirement, location, and other factors. The Company explicitly reserves the right to amend or terminate its retiree medical plans at any time, subject only to constraints, if any, imposed by the terms of collective bargaining agreements. Amendment or termination may significantly affect the amount of expense incurred.

As of December 30, 2006, the Company adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)." SFAS 158 requires employers to fully recognize the funded status of single-employer defined benefit pension, retiree healthcare and other postretirement plans in the Consolidated Balance Sheets, with changes in the funded status recognized through other comprehensive income, net of tax, in the year in which the changes occur. Actuarially-determined liabilities related to pension and postretirement benefits are recorded based on estimates and assumptions. Key factors used in developing estimates of these liabilities include assumptions related to discount rates, rates of return on investments, future compensation costs, healthcare cost trends, benefit payment patterns and other factors.

The Company measures changes in the funded status of its plans using actuarial models in accordance with SFAS 87, "Employers' Accounting for Pension Plans," and SFAS 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." These models use an attribution approach that generally spreads recognition of the effects of individual events over the estimated service lives of the employees in the plan. The attribution approach assumes that employees render service over their service lives on a relatively smooth basis and as such, presumes that the income statement effects of pension or postretirement benefit plans should follow the same pattern. Net

pension and postretirement benefit income or expense is also determined using assumptions which include expected long-term rates of return on plan assets and discount rates. The Company bases the discount rate assumption on the rates of return on high-quality bonds currently available and expected to be available during the period to maturity of the pension benefits. The long-term asset return assumption is based on the average rate of earnings expected on invested funds, and considers several factors including actual historical rates, expected rates and external data.

The Company's policy is to fund its pension plans based upon actuarial recommendations and in accordance with applicable laws and income tax regulations. Pension benefits are primarily paid through trusts funded by the Company. All of the Company's postretirement medical plans are unfunded. The Company pays postretirement benefits directly to the participants.

Facility Closure Reserves

The Company conducts regular reviews of its real estate portfolio to identify underperforming facilities, and closes those facilities that are no longer strategically or economically viable. The Company accounts for facility closure costs that are not related to a purchase business combination in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." In accordance with SFAS No. 146, the Company records a liability for the cost associated with a facility closure at its fair value in the period in which the liability is incurred, which is either the date the lease termination is communicated to the lessor or the location's cease-use date. Upon closure, unrecoverable costs are included in facility closure reserves on the Consolidated Balance Sheets and include provisions for the present value of future lease obligations, less contractual or estimated sublease income. Accretion expense is recognized over the life of the payments.

The closure of certain facilities acquired in the OfficeMax, Inc. acquisition was accounted for in accordance with Emerging Issues Task Force ("EITF") Issue No. 95-3, "Recognition of Liabilities in Connection With a Purchase Business Combination." The estimated costs to be incurred in closing these facilities were accrued in connection with the acquisition, and did not result in a charge to income in the Company's Consolidated Statements of Income (Loss).

Environmental Matters

The Company has adopted the provisions of SFAS No. 143, "Accounting for Asset Retirement Obligations," in accounting for landfill closure costs related to the sold paper, forest products and timberland assets. This statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time the obligations are incurred. Upon initial recognition of a liability, that cost is capitalized as part of the related long-lived asset and depreciated on a straight-line basis over the remaining estimated useful life of the asset. The asset retirement obligation for estimated closure and closed-site monitoring costs recorded on the Company's Consolidated Balance Sheet was $4.2 million at December 29, 2007 and December 30, 2006. These obligations are related to assets held for sale.

Environmental liabilities that relate to the operation of the sold paper, forest products and timberland assets prior to the closing of the Sale transaction were retained by the Company. These environmental obligations are not within the scope of SFAS No. 143, and the Company accrues for losses associated with these types of environmental remediation obligations when such losses are probable and reasonably estimable according to the guidance in SOP 96-1, "Environmental Remediation Liabilities." The liabilities for environmental obligations are not discounted to their present value. (See Note 18, Legal Proceedings and Contingencies, for additional information.)

Self-insurance

The Company is self-insured for certain losses related to workers' compensation and medical claims as well as general and auto liability. The expected ultimate cost for claims incurred is recognized as a liability in the Consolidated Balance Sheets. The expected ultimate cost of claims incurred is estimated based principally on analysis of historical claims data and actuarial estimates of claims incurred but not reported. Losses are accrued and charged to operations when it is probable that a loss has been incurred and the amount can be reasonably estimated.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is subject to tax audits in numerous jurisdictions in the U.S. and around the world. Tax audits by their very nature are often complex and can require several years to complete. In the normal course of business, the Company is subject to challenges from the IRS and other tax authorities regarding amounts of taxes due. These challenges may alter the timing or amount of taxable income or deductions, or the allocation of income among tax jurisdictions. Prior to fiscal 2007, the Company recognized income tax accruals with respect to uncertain tax positions based upon SFAS No. 5, "Accounting for Contingencies." In fiscal 2007, the Company adopted Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 48, "Accounting for Uncertainty in Income Taxes." Under FIN 48, the benefits of tax positions that are more likely than not of being sustained upon audit based on the technical merits of the tax position are recognized in the consolidated financial statements; positions that do not meet this threshold are not recognized. For tax positions that are at least more likely than not of being sustained upon audit, the largest amount of the benefit that is more likely than not of being sustained is recognized in the consolidated financial statements. (See Note 6, Income Taxes, for a discussion of the adoption impact of FIN 48.)

Accruals for income tax exposures, including penalties and interest, expected to be settled within the next year are included in accrued expenses and other current liabilities with the remainder included in other long-term obligations in the Consolidated Balance Sheets. Interest and penalties related to income tax exposures are recognized as incurred and included in income tax expense in the Consolidated Statements of Income (Loss).

Advertising and Catalog Costs

Advertising costs are either expensed the first time the advertising takes place or, in the case of direct-response advertising, capitalized and charged to expense in the periods in which the related sales occur. Advertising expense was $242.6 million in 2007, $240.4 million in 2006 and $276.2 million in 2005, and is recorded in operating and selling expenses in the Consolidated Statements of Income (Loss). Capitalized catalog costs, which are included in other current assets in the Consolidated Balance Sheets, totaled $7.6 million at December 29, 2007, and $9.3 million at December 30, 2006.

Pre-Opening Expenses

The Company incurs certain non-capital expenses prior to the opening of a store. These pre-opening expenses consist primarily of straight-line rent from the date of possession, store payroll, and supplies and are expensed as incurred and reflected in operating and selling

expenses. In 2007, 2006 and 2005, the Company recorded approximately $10.2 million, $5.6 million and $4.5 million in pre-opening costs, respectively.

Leasing Arrangements

The Company conducts a substantial portion of its business in leased properties. Some of the Company's leases contain escalation clauses and renewal options. In accordance with SFAS No. 13, "Accounting for Leases," as amended by SFAS No. 29, "Determining Contingent Rentals," and FASB Technical Bulletin 85-3, "Accounting for Operating Leases with Scheduled Rent Increases," the Company recognizes rental expense for leases that contain predetermined fixed escalation clauses on a straight-line basis over the expected term of the lease. The difference between the amounts charged to expense and the contractual minimum lease payment is recorded in other long-term liabilities in the Consolidated Balance Sheets. At December 29, 2007 and December 30, 2006, other long-term liabilities included approximately $73.7 million and $51.3 million, respectively, related to these future escalation clauses.

The expected term of a lease is calculated from the date the Company first takes possession of the facility, including any periods of free rent and any option or renewal periods management believes are probable of exercise. This expected term is used in the determination of whether a lease is capital or operating and in the calculation of straight-line rent expense. Rent abatements and escalations are considered in the calculation of minimum lease payments in the Company's capital lease tests and in determining straight-line rent expense for operating leases. Straight-line rent expense is also adjusted to reflect any allowances or reimbursements provided by the lessor.

Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities," as amended, which requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivative instruments are recorded in current earnings or deferred in accumulated other comprehensive income (loss), depending on whether a derivative is designated as, and is effective as, a hedge and on the type of hedging transaction. Changes in fair value of derivatives that are designated as cash flow hedges are deferred in accumulated other comprehensive income (loss) until the underlying hedged transactions are recognized in earnings, at which time any deferred hedging gains or losses are also recorded in earnings. If a derivative instrument is designated as a fair value hedge, changes in the fair value of the instrument are reported in current earnings and offset the change in fair value of the hedged assets, liabilities or firm commitments. The ineffective portion of an instrument's change in fair value is immediately recognized in earnings. Instruments that do not meet the criteria for hedge accounting or contracts for which the Company has not elected hedge accounting, are marked to fair value with unrealized, gains or losses reported in earnings.

Recently Issued or Newly Adopted Accounting Standards

Following are summaries of recently issued accounting pronouncements that have either been recently adopted or that may become applicable to the preparation of the Company's consolidated financial statements in the future.

During 2006, the Company adopted SFAS No. 158, "Employer's Accounting for Defined Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)." This Standard requires that employers recognize, on a prospective basis, the funded status of their defined benefit pension and postretirement benefit plans in the statement of financial position, and that changes in the funded status be recognized as a component of other comprehensive income, net of tax. SFAS No. 158 also requires the funded status of a plan to be

measured as of the date of the year-end statement of financial position, and requires additional note disclosures. The Company adopted the recognition provisions of SFAS No. 158 and initially applied them to the funded status of its defined benefit pension and other postretirement benefit plans as of December 30, 2006. The initial recognition of the funded status of our defined benefit pension and other postretirement plans resulted in an increase in Shareholders' Equity of $11.9 million, which was net of income taxes of $7.6 million. We currently measure the funded status of our defined benefit plans as of the date of our fiscal year-end statement of financial position, and therefore, the adoption of the measurement provisions of SFAS No. 158 had no impact on our financial statements.

In June 2006, the FASB issued Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109." 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. The Interpretation was effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 effective at the beginning of fiscal year 2007. (See Note 6, Income Taxes, for a discussion of the adoption impact of FIN 48.)

In 2006, the 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 was effective for the Company beginning in fiscal year 2007. We collect such taxes from customers and account for them on a net (excluded from revenues) basis. The adoption of EITF Issue No. 06-03 did not impact the consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("FAS 157"). This Standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 is effective for fiscal years beginning after November 15, 2007 for financial assets and liabilities, as well as for any other assets and liabilities that are carried at fair value on a recurring basis in financial statements. In November 2007, the FASB provided a one year deferral for the implementation of FAS 157 for other nonfinancial assets and liabilities. The adoption of FAS 157 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of SFAS 115," ("SFAS 159"). SFAS 159 allows entities to choose, at specific election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 is effective beginning January 1, 2008. The Company is currently evaluating the impact of the provisions of SFAS 159.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations." This statement amends SFAS No. 141 and provides revised guidance for recognizing and measuring assets acquired and liabilities assumed in a business combination. This statement also requires that transaction costs in a business combination be expensed as incurred. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of

the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141R will impact the accounting for business combinations completed beginning January 1, 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements." SFAS 160 requires noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. SFAS 160 applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements and is effective for periods beginning on or after December 15, 2008. Earlier application is prohibited. SFAS No. 160 will be applied prospectively to all noncontrolling interests, including those that arose before the effective date, except that comparative prior period information must be recast to classify noncontrolling interests in equity and provide other disclosures required by SFAS No. 160. The Company is currently evaluating the impact of the provisions of SFAS 160.

Prior Period Revisions

Certain amounts included in the prior years' financial statements have been revised to conform with the current year's presentation. In the current year, the Company separately presented the effect of exchange rate changes on cash in the consolidated Statements of Cash Flows. In prior periods, these amounts were included in other operating activities. The effect of this revision on the amounts reported for 2006 and 2005 was not material.

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 was unable to attract a buyer in the near term and elected to cease operations at the facility during the first quarter of 2006. As of December 29, 2007, the Company has not identified a buyer for the facility.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the Company recorded pre-tax charges, including $28.2 million recorded 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, the Company 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 wood-polymer building materials facility near Elma, Washington, are included in current liabilities ($15.4 million at December 29, 2007 and $15.5 million at December 30, 2006, respectively) in the Consolidated Balance Sheets. There were no assets related to this facility included in the Consolidated Balance Sheets at December 29, 2007 or December 30, 2006.

3. Integration Activities and Facility Closures

During 2003, the Company acquired OfficeMax, Inc. for $1.3 billion (the "Acquisition"). Increased scale as a result of the Acquisition allowed management to evaluate the Company's combined office products business and to identify opportunities for consolidating operations. Costs associated with the planned closure and consolidation of acquired OfficeMax, Inc. facilities were accounted for under EITF Issue No. 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," and recognized as liabilities in connection with the acquisition and charged to goodwill. Costs incurred in connection with all other business integration activities have been recognized in the Consolidated Statement of Income (Loss).

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. The Company has incurred and expensed approximately $70.9 million of costs related to the headquarters consolidation, including $45.9 million recognized during 2006 and $25.0 million recognized during the second half of 2005, all of which were reflected in the Corporate and Other segment. The consolidation and relocation process was completed during the second half of 2006.

Also in 2005, the Company recorded charges to income of $23.2 million for the write-down of impaired assets related to underperforming retail stores and the restructuring of its Canadian operations.

During 2006, the Company announced a reorganization of the Contract segment, and recorded a pre-tax charge of $7.3 million for employee severance related to the reorganization. The Contract segment also recorded an additional $3.0 million of costs during 2006 primarily related to a facility closure and employee severance.

During 2006, the Company closed 109 underperforming domestic retail stores and recorded a pre-tax charge of $89.5 million, comprised of $11.3 million for employee severance, asset write-off and impairment and other closure costs and $78.2 million of estimated future lease obligations.

The Company conducts regular reviews of its real estate portfolio to identify underperforming facilities, and closes those facilities that are no longer strategically or economically viable. The Company records a liability for the cost associated with a facility closure at its fair value in the period in which the liability is incurred, which is either the date the lease termination is communicated to the lessor or the location's cease-use date. Upon closure, unrecoverable costs are included in facility closure reserves on the Consolidated Balance Sheets and include provisions for the present value of future lease obligations, less contractual or estimated sublease income. Accretion expense is recognized over the life of the payments. Integration and facility closure reserve account activity during 2007, 2006 and 2005, including activity related to the reorganization of the Contract segment, retail store closures and headquarters consolidation, was as follows:

	Lease\ Contract Terminations	Severance\ Retention	Asset Write-off & Impairment	Other	Total
			(thousands)		
Balance at December 31, 2004	$ 116,390	$ 6,642	$	$ 409	$ 123,441
Charges to income	547	21,214	23,062	3,565	48,388
Change in goodwill					
Changes to estimated costs included in income					
Cash payments	(28,872)	(6,354)		(3,235)	(38,461)
Non-cash charges			(23,062)		(23,062)
Accretion	3,390				3,390
Balance at December 31, 2005	$ 91,455	$ 21,502	$	$ 739	$ 113,696
Charges to income	89,934	19,407	9,543	27,332	146,216
Change in goodwill	(11,000)				(11,000)
Changes to estimated costs included in income		(1,080)			(1,080)
Cash payments	(68,596)	(28,991)		(18,951)	(116,538)
Non-cash charges			(9,543)	(5,978)	(15,521)
Accretion	6,031				6,031
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	(38,196)	(8,424)		(1,725)	(48,345)
Non-cash charges					
Accretion	3,603				3,603
Balance at December 29, 2007	$ 73,231	$ 2,414	$	$ 1,417	$ 77,062

At December 29, 2007, approximately $22.2 million of the reserve liability was included in accrued liabilities, other, and $54.9 million was included in other long-term liabilities. At December 30, 2006, approximately $44.7 million of the reserve liability was included in accrued liabilities, other, and $77.1 million was included in other long-term liabilities. At December 29, 2007, the integration activities and facility closures reserve included approximately $73 million for estimated future lease obligations, which represents the estimated fair value of the lease obligations and is net of anticipated sublease income of approximately $77 million.

4. Net Income (Loss) Per Common Share

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

	2007	2006	2005
	(thousands, except per-share amounts)		
Basic income (loss) per common share:			
Income (loss) from continuing operations	$ 207,373	$ 99,054	$ (41,212)
Preferred dividends	(3,961)	(4,037)	(4,378)
Basic income (loss) from continuing operations	203,412	95,017	(45,590)
Loss from discontinued operations		(7,333)	(32,550)
Basic income (loss)	**$ 203,412**	**$ 87,684**	**$ (78,140)**
Average shares basic	**75,274**	**73,142**	**78,745**
Basic income (loss) per common share:			
Continuing operations	$ 2.70	$ 1.30	$ (0.58)
Discontinued operations		(0.10)	(0.41)
Basic income (loss) per common share	**$ 2.70**	**$ 1.20**	**$ (0.99)**
Diluted income (loss) per common share:			
Basic income (loss) from continuing operations	$ 203,412	$ 95,017	$ (45,590)
Preferred dividends eliminated(a)			
Diluted income (loss) from continuing operations	203,412	95,017	(45,590)
Loss from discontinued operations		(7,333)	(32,550)
Diluted income (loss)	**$ 203,412**	**$ 87,684**	**$ (78,140)**
Average shares basic	**75,274**	**73,142**	**78,745**
Restricted stock, stock options and other	**1,100**	**571**	
Series D Convertible Preferred Stock			
Average shares diluted(a)(b)(c)	**76,374**	**73,713**	**78,745**
Diluted income (loss) per common share:			
Continuing operations	$ 2.66	$ 1.29	$ (0.58)
Discontinued operations		(.10)	(0.41)
Diluted income (loss) per common share	**$ 2.66**	**$ 1.19**	**$ (0.99)**

(a)

The assumed conversion of outstanding preferred stock was anti-dilutive in all periods presented, and therefore no adjustment was required to determine diluted income (loss) from continuing operations or average shares-diluted.

(b)

Options to purchase 0.4 million shares of common stock were outstanding during 2007, but were not included in the computation of diluted income (loss) per common share because the impact would have been anti-dilutive as the option price is higher than the average market price during the year.

(c)

Options to purchase 3.8 million shares of common stock were outstanding during 2005, but were not included in the computation of diluted income (loss) per common share because the impact would have been anti-dilutive due to the net loss recognized in the period.

5. Other Operating, Net

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

	2007	2006	2005
		(thousands)	
Integration activities and facility closure costs (Note 3)	$	$ 146,216	$ 48,178
Legal settlement(a)			9,800
Other, net			1,527
Earnings from affiliates	(6,065)	(5,873)	(5,460)
	$ (6,065)	**$ 140,343**	**$ 54,045**

(a) Legal settlement with the Department of Justice.

6. Income Taxes

The income tax (provision) benefit attributable to income (loss) from continuing operations as shown in the Consolidated Statements of Income (Loss) includes the following components:

	2007	2006	2005
		(thousands)	
Current income tax (provision) benefit			
Federal	$ (25,710)	$ (10,014)	$ 28,908
State	(11,380)	(4,079)	(14,629)
Foreign	(24,582)	(17,816)	(20,512)
	(61,672)	(31,909)	(6,233)
Deferred income tax (provision) benefit			
Federal	(61,882)	(31,521)	22,646
State	(4,785)	(6,428)	(23,331)
Foreign	3,057	1,117	5,692
	(63,610)	(36,832)	5,007
	$ (125,282)	**$ (68,741)**	**$ (1,226)**

Income tax benefit attributable to loss from discontinued operations was $10.6 million and $20.1 million for 2006 and 2005, respectively. There was no impact due to discontinued operations during 2007.

During 2007, 2006 and 2005, the Company made cash payments for income taxes, net of refunds received, of $89.5 million, $0.6 million and $134.1 million, respectively.

The income tax provision attributable to income (loss) from continuing operations for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 differed from the amounts computed by applying the statutory U.S. Federal income tax rate of 35% to pre-tax income (loss) from continuing operations as a result of the following:

	2007	2006	2005
		(thousands)	
Tax (provision) benefit at statutory rate	$ (118,184)	$ (60,157)	$ 13,166
State taxes, net of federal effect	(11,030)	(5,907)	(5,532)
Foreign tax provision differential	106	(5,262)	(2,883)
Basis difference in investments disposed of			14,867
Nondeductible compensation		(473)	(4,268)
NOL valuation allowance	434	(6,498)	(21,533)
Change in contingency liability	755	1,925	(4,607)
Tax settlement, net of other charges	1,582	5,240	12,462
ESOP dividend deduction	1,317	1,413	1,489
Other, net	(262)	978	(4,387)
	$ (125,282)	**$ (68,741)**	**$ (1,226)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at year-end are presented below.

	2007	2006
	(thousands)	
Current deferred tax assets (liabilities) attributable to		
Accrued expenses	$ 38,096	$ 40,231
Net operating loss carryforwards	7,213	43,489
Allowances for receivables and rebates	29,605	17,998
Compensation and benefits	23,397	11,657
Inventory	3,780	(6,047)
Property and equipment	16,754	
Alternative minimum tax and other credit carryforwards	53,919	
Other temporary differences	357	17,124
Contingency reserves	11,949	5,044
Total current net deferred tax assets	**$ 185,070**	**$ 129,496**
Noncurrent deferred tax assets (liabilities) attributable to		
Deferred gain(a)	(473,838)	(473,838)
Alternative minimum tax and other credit carryforwards	188,033	214,590
Compensation and benefits	103,065	152,221
Net operating loss carryforwards	40,381	66,849
Reserves	24,864	44,445
Investments	6,399	10,046
Goodwill	(30,802)	(33,110)
Other non-current liabilities	5,179	3,010
Undistributed earnings	(4,955)	(4,776)
Deferred charges	2,086	2,692
Property and equipment	15,505	14,300
Other temporary differences	21	(4,430)
	(124,062)	(8,001)
Less: Valuation allowance	(30,300)	(30,734)
Total noncurrent net deferred tax assets (liabilities)	**$ (154,362)**	**$ (38,735)**

(a) Includes $543.8 million related to the gain on the sale of the Company's timberlands to affiliates of Boise Cascade, L.L.C. that was deferred until 2019 for tax purposes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes it is more likely than not that the Company will realize the benefits of these deductible differences, except for certain state net operating losses as noted below. The amount of the deferred tax assets considered realizable, however, could be reduced if estimates of future taxable income during the carryforward period are reduced.

The Company has established a valuation allowance related to net operating loss carryforwards in jurisdictions where the Company has substantially reduced operations because management believes it is more likely than not that these items will expire before the Company is able to realize their benefits. Periodically, the valuation allowance is reviewed and adjusted based on

management's assessments of realizable deferred tax assets. The valuation allowance was $30.3 million and $30.7 million at December 29, 2007 and December 30, 2006, respectively.

The Company had a deferred tax asset related to net operating loss carryforwards for Federal income tax purposes of $68.2 million at December 30, 2006. These net operating loss carryforwards were utilized to offset Federal taxable income in 2007. As of December 29, 2007, the Company has alternative minimum tax credit carryforwards of approximately $224.8 million, which are available to reduce future regular Federal income taxes, if any, over an indefinite period, and foreign tax credit carryforwards of $10.7 million with an expiration date of 2016. The Company also has deferred tax assets related to various state net operating losses of $17.2 million, net of the valuation allowance, that expire between 2008 and 2025.

Pre-tax income (loss) related to continuing operations from domestic and foreign sources is as follows:

	2007	2006	2005
		(thousands)	
Domestic	$ 272,169	$ 124,643	$ (65,073)
Foreign	65,358	47,235	27,457
Total pre-tax income (loss)	$ 337,527	$ 171,878	$ (37,616)

As of December 29, 2007, the Company had undistributed earnings and profits of foreign operations of approximately $360 million. The Company has not provided any U.S. income tax related to jurisdictions for which it has determined that it has permanently reinvested its earnings. The Company has provided for $4.9 million in Federal income taxes related to the anticipated repatriation of earnings from its investment in a Mexican joint venture, net of foreign tax credit.

Through December 30, 2006, the Company had established estimated contingent tax liabilities to provide for the possibility of unfavorable outcomes in tax matters. Contingent tax liabilities totaled $66.6 million as of December 30, 2006, and are included in other noncurrent liabilities in the Consolidated Balance Sheets. These liabilities were accrued when considered probable and estimable, consistent with the requirements of SFAS No. 5, "Accounting for Contingencies."

The Company adopted FASB Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of 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 $70.6 million of total gross unrecognized tax benefits. As of December 29, 2007, the Company had $33.1 million of total gross unrecognized tax

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

Balance at December 30, 2006	$	70,567
Increase related to prior year tax positions		4,513
Decrease related to prior year tax positions		(33,717)
Increase related to current year positions		1,915
Settlements		(10,150)
Lapse of Statute		
Balance at December 29, 2007		33,128

Of the total gross unrecognized tax benefits, approximately $20 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 $13 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 $15.9 million by the end of 2008. Approximately $6.8 million of this amount would impact the Company's effective tax rate, and the remaining $9.1 million would affect 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 December 29, 2007, the Company had $5.5 million of accrued interest and penalties associated with uncertain tax positions. Income tax expense for 2007 includes a benefit of $0.4 million related to interest and penalties, reflecting interest accrued less the effect of adjustments on settlement.

7. Leases

The Company leases its retail stores as well as certain other property and equipment under operating leases. These leases are noncancelable and generally contain multiple renewal options for periods ranging from three to five years, and require the Company to pay all executory costs such as maintenance and insurance. Rental payments include minimum rentals plus, in some cases, contingent rentals based on a percentage of sales above specified minimums. Rental expense for operating leases included the following components:

	2007	**2006**	**2005**
		(thousands)	
Minimum rentals	$ 341,067	$ 343,203	$ 365,880
Contingent rentals	908	763	752
Sublease rentals	(1,258)	(1,660)	(2,021)
	$ 340,717	**$ 342,306**	**$ 364,611**

For operating leases with remaining terms of more than one year, the minimum lease payment requirements are: $371.8 million for 2008, $338.6 million for 2009, $301.2 million for 2010, $256.7 million for 2011, $211.5 million for 2012 and $583.3 million thereafter. These minimum lease

payments do not include contingent rental payments that may be due based on a percentage of sales in excess of stipulated amounts. These future minimum lease payment requirements have not been reduced by $62.3 million of minimum sublease rentals due in the future under noncancelable subleases. These sublease rentals include amounts related to closed stores and other facilities that are accounted for in the integration activities and facility closures reserve. See Note 3, Integration Activities and Facility Closures.

The Company capitalizes lease obligations for which it assumes substantially all property rights and risks of ownership. The Company did not have any material capital leases during any of the periods presented.

8. Sales of Accounts Receivable

Prior to July 2007, the Company sold, 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 Company continued servicing the sold receivables and charged the third party conduits a monthly servicing fee at market rates. The program qualified for sale treatment under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities." At December 30, 2006, $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 $111.2 million at December 30, 2006 and was included in receivables, net in the Consolidated Balance Sheet. Expenses associated with the securitization program totaled $5.6 million, $10.6 million and $5.5 million in 2007, 2006 and 2005, respectively. These expenses relate primarily to the loss on sale of receivables and discount on retained interests, facility fees and professional fees associated with the program, and were included in the Consolidated Statements of Income (Loss).

On July 12, 2007, the Company entered into a new loan agreement that amended the Company's existing revolving credit facility and replaced the Company's accounts receivable securitization program. The transferred accounts receivable under the accounts receivable securitization program at that date were refinanced with borrowings under the new loan agreement and excess cash. The Company no longer sells any of its accounts receivable. For additional information on the new loan agreement see Note 12, Debt.

9. Investments in Affiliates

In connection with the sale of the paper, forest products and timberland assets in 2004 (the "Sale"), the Company invested $175 million in the equity units of affiliates of the buyer, Boise Cascade, L.L.C. A portion (approximately $66 million) of the equity units received in exchange for the Company's investment carries 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, and the Company 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 did not observe 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 any June and December. The Company recognized dividend income on this investment of $6.1 million in 2007, $5.9 million in 2006 and $5.5 million in 2005.

10. Goodwill and Intangible Assets

Goodwill

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

	OfficeMax, Contract	OfficeMax, Retail	Total
Balance at December 31, 2005	$ 523,537	$ 694,663	$ 1,218,200
Effect of foreign currency translation	6,423		6,423
Businesses acquired	1,114		1,114
Purchase accounting adjustments	(2,984)	(6,721)	(9,705)
Balance at December 30, 2006	528,090	687,942	1,216,032
Effect of foreign currency translation	28,032		28,032
Businesses acquired	763		763
Purchase accounting adjustments		(28,023)	(28,023)
Balance at December 29, 2007	**$ 556,885**	**$ 659,919**	**$ 1,216,804**

During 2007, adjustments were necessary to reflect the reversal of income tax reserves that were recorded in purchase accounting. For additional information on the tax reserve adjustment see Note 6, Income Taxes. During 2006, adjustments were necessary to reflect the recognition of certain identifiable assets acquired in a 2005 transaction in the contract segment and the reversal of a portion of the EITF 95-3 liability recorded in purchase accounting related to the retail segment.

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 at year end:

	2007		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(thousands)		
Trade names	$ 173,150	$	$ 173,150
Customer lists and relationships	43,381	(23,072)	20,309
Noncompete agreements	12,884	(10,842)	2,042
Exclusive distribution rights	6,977	(2,758)	4,219
	$ 236,392	**$ (36,672)**	**$ 199,720**

	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 $7.0 million in 2007, $7.3 million in 2006 and $6.8 million in 2005. The estimated amortization expense is $5.5 million, $2.2 million, $2.0 million, $1.6 million, $1.6 million and $1.6 million in 2008, 2009, 2010, 2011, 2012 and 2013, respectively.

During the first quarter of both 2007 and 2006, the Company evaluated the remaining useful lives of finite-lived purchased intangible assets to determine if any adjustments to the useful lives were necessary. Based on this review, management determined that no adjustments to the useful lives of finite-lived purchased intangible assets were necessary.

11. Timber Notes Receivable

In October 2004, OfficeMax sold its timberlands as part of the Sale. In exchange for the timberlands, the Company received 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 the sub-caption "Timber Notes" in Note 12, Debt, for additional information concerning a securitization transaction involving the timber installment notes receivable.

12. Debt

Long-Term Debt

Long-term debt, almost all of which is unsecured, consists of the following at year end:

	2007	2006
	(thousands)	
7.50% notes, due in 2008	$ 29,656	$ 29,656
9.45% debentures, due in 2009	35,707	35,707
6.50% notes, due in 2010	13,680	13,680
7.00% notes, due in 2013	19,100	19,100
7.35% debentures, due in 2016	17,967	17,967
Medium-term notes, Series A, with interest rates averaging 7.8% and 7.7%, due in varying amounts annually through 2013	56,900	82,300
Revenue bonds, with interest rates averaging 6.4% and 6.4%, due in varying amounts annually through 2029	189,930	189,930
American & Foreign Power Company Inc. 5% debentures, due in 2030	18,526	18,526
Other indebtedness, with interest rates averaging 7.1% and 5.5%, due in varying amounts annually through 2017	3,412	3,687
	384,878	410,553
Less unamortized discount	630	673
Less current portion	34,827	25,634
	349,421	384,246
5.42% securitized timber notes, due in 2019	735,000	735,000
5.54% securitized timber notes, due in 2019	735,000	735,000
	$ 1,819,421	**$ 1,854,246**

Scheduled Debt Maturities

The scheduled payments of long-term debt, excluding timber notes due in 2019, are $34.8 million in 2008, $50.9 million in 2009, $15.9 million in 2010, $0.5 million in 2011, $35.1 million in 2012 and $247.0 million thereafter.

Credit Agreements

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 new Loan Agreement permits the Company to borrow up to a maximum of $700 million subject to a borrowing base calculation that limits availability to a percentage of eligible accounts receivable plus a percentage of the value of eligible inventory less certain reserves. The revolving credit facility 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. There were no borrowings outstanding under the Company's revolving credit facilities as of December 29, 2007 or December 30, 2006. The maximum amount outstanding under the revolving credit facility was $103.0 million and $122.0 million during 2007 and 2006, respectively. The average amount outstanding under the revolving credit facility was $6.8 million during 2007 and $20.6 million during 2006. Letters of credit, which may be issued under the revolving credit facility up to a maximum of $250 million, reduce available borrowing capacity under the revolving credit facility. Letters of credit issued under the revolving credit facility totaled

$85.5 million as of December 29, 2007 and $75.5 million as of December 30, 2006. As of December 29, 2007, the maximum aggregate borrowing amount available under the revolving credit facility was $700.0 million and excess availability under the revolving credit facility totaled $614.5 million. At December 29, 2007, the Company was in compliance with all covenants under the Agreement. The Loan Agreement allows the payment of dividends subject to availability restrictions and so long as no default has occured. The Loan Agreement expires on July 12, 2012.

Borrowings under the revolving credit facility 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 revolving credit facility depending on the level of average excess availability. Fees on letters of credit issued under the revolving credit facility were charged at a weighted average rate of 0.875% during the year-ended December 29, 2007. 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 and letters of credit.

As of December 29, 2007, Grupo OfficeMax, our 51%-owned joint venture in Mexico, had short term borrowings of $14.2 million. The short-term borrowings consist of three loans with balances of $4.6 million, $4.6 million and $5.0 million respectively. Two of these loans are promissory notes to be repaid in the first quarter of 2008. The third loan is a simple revolving loan. The financing for Grupo OfficeMax is unsecured with no recourse against the Company.

Timber Notes

In October 2004, the Company sold its timberlands as part of the Sale 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 interests 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 "OMXQ's"). The OMXQ's 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 annual 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 OMXQ's 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 OMXQ's 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 6.50% senior notes due in 2010 and 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 since been eliminated through the execution of supplemental indentures as described below. On November 5, 2004, the Company repurchased substantially all of the outstanding 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.

In December 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 as a result of actions the Company took to collateralize the notes by granting the note holders a security interest in certain investments 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. The remaining Pledged Instruments continue to be subject to the security interest, and are reflected as restricted investments in the Consolidated Balance Sheets. Upon the maturity of the Pledged Instruments in 2008, the Company intends to reinvest the proceeds for a five year term.

Other

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 Paid for Interest

Cash payments for interest, net of interest capitalized and including interest payments related to the timber securitization notes, were $116.6 million in 2007, $124.1 million in 2006 and $122.6 million in 2005.

13. Financial Instruments, Derivatives and Hedging Activities

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, trade accounts receivable, other assets (nonderivatives), short-term borrowings, trade accounts payable, and due to related party, approximate fair value because of the short maturity of these instruments. The following table presents the carrying amounts and estimated fair values of the Company's other financial instruments at December 29, 2007 and December 30, 2006. The fair value of a financial instrument

is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
	(thousands)			
Financial assets:				
Timber notes receivable	$ 1,635.0	$ 1,763.5	$ 1,635.0	$ 1,669.3
Restricted investments	22.4	21.8	22.3	21.6
Financial liabilities:				
Long-term debt	$ 384.2	$ 382.4	$ 409.9	$ 412.0
Securitization notes payable	1,470.0	1,581.7	1,470.0	1,440.7

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

Timber notes receivable: The fair value is determined as the present value of expected future cash flows discounted at the current interest rate for loans of similar terms with comparable credit risk.

Restricted investments: The fair values of debt securities are based on quoted market prices at the reporting date for those or similar investments.

Long-term debt: The fair value of the Company's long-term debt is estimated based on quoted market prices when available or by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities.

Securitization notes payable: The fair value of the Company's securitization notes is estimated by discounting the future cash flows of each instrument at rates currently available to the Company for similar instruments of comparable maturities.

Derivatives and Hedging Activities

Except as described under the sub-heading "Additional Consideration Agreement," the Company was not a party to any significant derivative instruments at December 29, 2007 or December 30, 2006.

Changes in interest rates and currency exchange rates expose the Company to financial market risk. Management occasionally uses derivative financial instruments, such as interest rate swaps, forward purchase contracts and forward exchange contracts, to manage the Company's exposure to changes in interest rates on outstanding debt instruments and to manage the Company's exposure to changes in currency exchange rates. The Company generally does not enter into derivative instruments for any purpose other than hedging the cash flows associated with future interest payments on variable rate debt and hedging the exposure related to changes in the fair value of certain outstanding fixed rate debt instruments due to changes in interest rates. The Company occasionally hedges interest rate risk associated with anticipated financing transactions, as well as commercial transactions and certain liabilities that are denominated in a currency other than the currency of the operating unit entering into the underlying transaction. The Company does not speculate using derivative instruments.

The Company uses a combination of fixed and variable rate debt to finance its operations. The debt obligations with fixed cash flows expose the Company to variability in the fair value of

outstanding debt instruments due to changes in interest rates. The Company has from time to time entered into interest rate swap agreements that effectively convert the interest rate on certain fixed-rate debt to a variable rate. The Company has designated these interest rate swap agreements as hedges of the changes in fair value of the underlying debt obligation attributable to changes in interest rates and accounted for them as fair value hedges. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability in the fair value of outstanding debt obligations are reported in operations. These amounts offset the gain or loss (that is, the change in fair value) of the hedged debt instrument that is attributable to changes in interest rates (that is, the hedged risk) which is also recognized currently in operations. The Company has also from time to time entered into interest rate swap agreements that effectively convert floating rate debt to a fixed rate obligation. These swaps have been designated as hedges of floating interest rate payments attributable to changes in interest rates and accounted for as cash flow hedges, with changes in the fair value of the swap recorded to accumulated other comprehensive income (loss) until the hedged transaction occurs, at which time it is reclassified to operations.

Additional Consideration Agreement

Pursuant to an Additional Consideration Agreement between OfficeMax and Boise Cascade, L.L.C., the Company may have been required to make substantial cash payments to, or receive substantial cash payments from, Boise Cascade, L.L.C. As described below, the Additional Consideration Agreement terminated in the first quarter of 2008. Under the Additional Consideration Agreement, the Sale proceeds were adjusted upward or downward based on paper prices following the Sale, subject to annual and aggregate caps. Specifically, the Company 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 was less than $800. Boise Cascade, L.L.C. agreed to pay us $710,000 for each dollar by which the average market price per ton exceeded $920. Under the terms of the agreement, neither party was obligated to make a payment in excess of $45 million in any one year. Payments by either party were also subject to an aggregate cap of $125 million that declined to $115 million in the fifth year and $105 million in the sixth year.

In connection with recording the Sale in 2004, the Company recognized a $42 million projected future obligation related to the Additional Consideration Agreement based on internal estimates and published industry paper price projections. The Company recognized accretion expense totaling approximately $6.0 million in the Consolidated Statements of Income (Loss) in 2006 and 2005.

The Company recorded changes in the fair value of the Additional Consideration Agreement in net income (loss) in the period they occur; however, any potential payments from Boise Cascade, L.L.C. to us were not recorded in net income (loss) until all contingencies had been satisfied, which was generally at the end of a 12-month measurement period ending on September 30. Due to increases in actual and projected paper prices, the change in fair value of this obligation resulted in the recognition of non-operating income in our Consolidated Statement of Income (Loss) of $48.0 million in 2006 and $32.5 million in 2007. Based upon actual and projected paper prices at December 29, 2007 and December 30, 2006, we did not recognize an asset or liability in our Consolidated Balance Sheet related to the Additional Consideration Agreement.

In February 2008, Boise Cascade, L.L.C. sold a majority interest in its paper and packaging and newsprint businesses to Aldabra 2 Acquisition Corp. As a result of this transaction, the Additional Consideration Agreement terminated and no further payments will be required of either party.

14. Retirement and Benefit Plans

Pension and Other Postretirement Benefit Plans

The Company sponsors noncontributory defined benefit pension plans covering certain terminated employees, vested employees, retirees, and some active OfficeMax, Contract employees. The Company's salaried pension plan was closed to new entrants on November 1, 2003, and on December 31, 2003, the benefits of eligible OfficeMax, Contract participants were frozen.

Under the terms of the Company's plans, the pension benefit for salaried employees was based primarily on the employees' years of service and highest five-year average compensation. The pension benefit for hourly employees was generally based on a fixed amount per year of service. The Company's general funding policy is to make contributions to the plans in amounts that are within the limits of deductibility under current tax regulations, and not less than the minimum contribution required by law. The Company uses a measurement date consistent with its year end for its pension plans.

The Company also sponsors various retiree medical benefit plans. The type of retiree medical benefits and the extent of coverage vary based on employee classification, date of retirement, location, and other factors. All of the Company's postretirement medical plans are unfunded. The Company explicitly reserves the right to amend or terminate its retiree medical plans at any time, subject only to constraints, if any, imposed by the terms of collective bargaining agreements. Amendment or termination may significantly affect the amount of expense incurred.

During the third quarter of 2005, the Company made changes to its retiree medical benefit plans that had the net effect of reducing the medical insurance subsidy provided to retirees, including eliminating the subsidy for certain retirees. As a result of these plan changes, the accumulated post-retirement benefit obligation was reduced by approximately $44 million. The plan changes were considered to be a negative plan amendment, as defined in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." Accordingly, there was no gain related to the plan changes recognized in the Consolidated Statement of Income (Loss) for 2005. The reduction in the accumulated post-retirement benefit obligation will be recognized ratably over the remaining life expectancy of the participants in the plans, which is currently estimated to be approximately 12 years.

During the first quarter of 2007, the Company made changes to its Canadian retiree medical benefit plan that eliminated benefits for certain active employees. As a result of these plan changes, the accumulated post-retirement benefit obligation was reduced by approximately $6.2 million. The plan changes were considered to be curtailment, as defined in SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The reduction in the accumulated post-retirement benefit obligation did not exceed the transition obligation included in accumulated other comprehensive income (loss). Accordingly, there was no gain related to the plan changes recognized in the Consolidated Statement of Income (Loss) for 2007.

Obligations and Funded Status

The changes in pension and other postretirement benefit obligations and plan assets during 2007 and 2006, as well as the funded status of the Company's plans at December 29, 2007 and December 30, 2006, were as follows:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
	(thousands)			
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 1,381,555	$ 1,382,760	$ 31,789	$ 31,523
Service cost	1,676	1,600	341	870
Interest cost	77,084	74,679	1,353	1,583
Amendments			(6,191)	
Actuarial (gain) loss	(67,511)	20,007	(4,717)	(180)
Changes due to exchange rates			3,390	35
Transfers and immediate recognition		6,158		
Benefits paid	(100,781)	(103,649)	(1,684)	(2,042)
Benefit obligation at end of year	**$ 1,292,023**	**$ 1,381,555**	**$ 24,281**	**$ 31,789**
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 1,183,275	$ 1,146,596	$	$
Actual return on plan assets	82,816	130,690		
Employer contributions	19,137	9,638	1,684	2,042
Benefits paid	(100,781)	(103,649)	(1,684)	(2,042)
Fair value of plan assets at end of year	**$ 1,184,447**	**$ 1,183,275**	**$**	**$**
Funded status	$ (107,576)	$ (198,280)	$ (24,281)	$ (31,789)
Unrecognized actuarial loss	253,923	335,444	5,584	10,220
Unrecognized transition obligation				4,947
Unrecognized prior service cost (benefit)			(38,176)	(41,845)
Net amount recognized	**$ 146,347**	**$ 137,164**	**$ (56,873)**	**$ (58,467)**

The following table shows the amounts recognized in the Consolidated Balance Sheets related to the Company's defined benefit pension and other postretirement benefit plans at year end:

	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
	(thousands)			
Prepaid benefit cost	$ 10,069	$	$	$
Deferred income tax assets	98,777	130,488	(12,658)	(10,690)
Accrued benefit liability current	(5,628)	(11,100)	(2,039)	(2,100)
Accrued benefit liability non-current	(112,017)	(187,180)	(22,242)	(29,689)
Accumulated other comprehensive income (loss)	155,146	204,956	(19,934)	(15,988)
Net amount recognized	**$ 146,347**	**$ 137,164**	**$ (56,873)**	**$ (58,467)**

The Company adopted the recognition provisions of SFAS No. 158, "Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R)," as of December 30, 2006, which requires the recognition of the funded status of all defined benefit plans in the statement of financial position, and that changes in the funded status be recognized through other comprehensive income, net of tax, in the year in which the changes occur. The initial recognition of the funded status of the Company's pension and other postretirement plans resulted in an increase in shareholders' equity of $11.9 million, which was net of income taxes of $7.6 million.

Components of Net Periodic Benefit Cost (Income)

The components of net periodic benefit cost (income) are as follows:

	Pension Benefits			Other Benefits		
	2007	2006	2005	2007	2006	2005
	(thousands)					
Service cost	$ 1,676	$ 1,600	$ 959	$ 341	$ 870	$ 643
Interest cost	77,084	74,679	75,266	1,353	1,583	3,668
Expected return on plan assets	(89,018)	(87,353)	(84,135)			
Recognized actuarial loss	20,220	23,159	29,628	512	692	675
Plan settlement/curtailment/closures expense		1,580				
Amortization of prior service costs and other				(4,009)	(3,571)	(826)
Company-sponsored plans	9,962	13,665	21,718	(1,803)	(426)	4,160
Multiemployer pension plans						
Net periodic benefit cost (income)	**$ 9,962**	**$ 13,665**	**$ 21,718**	**$ (1,803)**	**$ (426)**	**$ 4,160**

The estimated net actuarial loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year is $11.8 million. The estimated net actuarial loss and prior service benefit for the retiree medical plans that will be amortized from accumulated other comprehensive loss into net periodic benefit cost (income) over the next fiscal year are $0.3 million and ($4.0) million, respectively.

Assumptions

The assumptions used in accounting for the Company's plans are estimates of factors including, among other things, the amount and timing of future benefit payments. The following table presents the key assumptions used in the measurement of the Company's benefit obligations:

	Pension Benefits			Other Benefits					
				United States			Canada		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Weighted average assumptions as of year end:									
Discount rate	6.30%	5.80%	5.60%	5.90%	5.60%	5.20%	5.50%	5.00%	5.10%
Rate of compensation increase									

The following table presents the assumptions used in the measurement of net periodic benefit cost:

	Pension Benefits			Other Benefits					
				United States			Canada		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Weighted average assumptions:									
Discount rate	5.80%	5.60%	5.60%	5.60%	5.20%	5.48%	5.00%	5.10%	6.00%
Expected return on plan assets	8.00%	8.00%	8.00%						
Rate of compensation increase									

The Company bases its discount rate assumption on the rates of return available on high-quality bonds with maturities approximating the expected period over which the pension benefits will be paid.

The expected long-term rate of return on plan assets assumption is based on the weighted average of expected returns for the major asset classes in which the plans' assets are held. Asset-class expected returns are based on long-term historical returns, inflation expectations, forecasted gross domestic product and earnings growth, as well as other economic factors. The weights assigned to each asset class are based on the Company's investment strategy. The weighted-average expected return on plan assets used in the calculation of net periodic pension benefit cost for 2007 is 8.00%.

The following table presents the assumed healthcare cost trend rates used in measuring the Company's postretirement benefit obligations at December 29, 2007 and December 30, 2006:

	United States		Canada	
	2007	2006	2007	2006
Weighted average assumptions as of year-end:				
Healthcare cost trend rate assumed for next year			9.00%	9.50%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)			5.00%	5.00%
Year that the rate reaches the ultimate trend rate			2015	2015

The assumed healthcare cost trend rates have a significant effect on the amounts reported for the healthcare plans. A one-percentage-point change in the assumed healthcare cost trend rates would have the following effects:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
	(thousands)	
Effect on total of service and interest cost	$ 209	$ (166)
Effect on postretirement benefit obligation	$ 2,360	$ (1,922)

Effective October 1, 2005, the healthcare cost trend rate assumptions for the U.S. plan were reduced to zero following the adoption of plan changes that reduced the medical insurance subsidy to retirees as discussed previously. As a result, the above amounts reflect the impact of changes in trend rates for the Canadian plan only.

Plan Assets

The allocation of pension plan assets by category at December 29, 2007 and December 30, 2006 is as follows:

Asset Category	2007	2006
U.S. equity securities	44.5%	45.1%
International equity securities	23.0%	23.4%
Fixed-income securities	32.5%	31.5%
	100%	**100%**

The Company's Retirement Funds Investment Committee is responsible for establishing and overseeing the implementation of the investment policy for the Company's pension plans. The investment policy is structured to optimize growth of the pension plan trust assets, while minimizing the risk of significant losses, in order to enable the plans to satisfy their benefit payment obligations over time. Plan assets are invested primarily in U.S. equities, international equities and fixed-income securities. The Company uses benefit payments and Company contributions as its primary rebalancing mechanisms to maintain the asset class exposures within the guideline ranges established under the investment policy.

The current asset allocation guidelines set forth a U.S. equity range of 40% to 50%, an international equity range of 20% to 26% and a fixed-income range of 27% to 37%. Asset-class positions within the ranges are continually evaluated and adjusted based on expectations for future returns, the funded position of the plans and market risks. Occasionally, the Company may utilize futures or other financial instruments to alter the pension trust's exposure to various asset classes in a lower-cost manner than trading securities in the underlying portfolios. At December 29, 2007 and December 30, 2006, the pension trust did not have any equity investments in the Company's common stock.

Cash Flows

Pension plan contributions include required statutory minimums and, in some years, additional discretionary amounts. During 2007, 2006 and 2005, the Company made cash contributions to its pension plans totaling $19.1 million, $9.6 million and $2.8 million, respectively. Minimum contribution requirements for 2008 are approximately $9.4 million. However, the Company may elect to make additional voluntary contributions.

Qualified pension benefit payments are paid from the assets held in the plan trust, while nonqualified pension and other benefit payments are paid by the Company. Future benefit payments by year are estimated to be as follows:

	Pension Benefits	Other Benefits
	(thousands)	
2008	$ 104,020	$ 2,039
2009	102,756	1,893
2010	101,587	1,790
2011	100,467	1,707
2012	99,657	1,626
Years 2013-2017	480,609	7,584

Defined Contribution Plans

The Company also sponsors defined contribution plans for most of its employees. Through 2004, the Company sponsored four contributory defined contribution savings plans for most of its salaried and hourly employees: a plan for OfficeMax, Retail employees, a plan for non-Retail salaried employees, a plan for union hourly employees, and a plan for non-Retail, nonunion hourly employees. Effective October 29, 2004, the defined contribution plan account balances for active paper and forest products employees were transferred to plans established by Boise Cascade, L.L.C. The plan for non-Retail salaried employees includes an employee stock ownership plan ("ESOP") component through which the Company matches contributions of eligible employees. Under that plan, the Company's Series D ESOP convertible preferred stock is allocated to eligible participants, as principal and interest payments are made on the ESOP debt by the plan. The ESOP debt was guaranteed by the Company. (See Note 15, Shareholders' Equity for additional information related to the ESOP.) The final principal and interest payments on the ESOP debt were made on June 30, 2004. All remaining shares were allocated to the ESOP participants as matching contributions in 2005. As a result, Company matching contributions for ESOP participants are now made in cash. In January 2005, all of the remaining savings plans were merged into a single plan. Total Company contributions to the defined contribution savings plans were $8.1 million in 2007, $7.8 million in 2006 and $9.9 million in 2005.

15. Shareholders' Equity

Preferred Stock

At December 29, 2007, 1,110,867 shares of 7.375% Series D ESOP convertible preferred stock were outstanding, compared with 1,216,335 shares outstanding at December 30, 2006 and December 31, 2005. The Series D ESOP convertible preferred stock is shown in the Consolidated Balance Sheets at its liquidation preference of $45 per share. This preferred stock was originally issued to the trustee of the Company's ESOP for salaried employees in 1989, and was allocated to eligible participants through 2005. All shares outstanding have been allocated to participants in the plan. Each ESOP preferred share is entitled to one vote, bears an annual cumulative dividend of $3.31875 and is convertible at any time by the trustee to 0.80357 share of common stock. The ESOP preferred shares may not be redeemed for less than the liquidation preference.

Common Stock

The Company is authorized to issue 200,000,000 shares of common stock, of which 75,397,094 shares were issued and outstanding at December 29, 2007. Of the unissued shares, 7,393,647 shares were reserved for the following purposes:

Conversion or redemption of Series D ESOP preferred stock	892,659
Issuance under OfficeMax Incentive and Performance Plan	5,193,025
Issuance under Key Executive Stock Option Plan	1,214,924
Issuance under Director Stock Compensation Plan	7,475
Issuance under Director Stock Option Plan	19,000
Issuance under Key Executive Deferred Compensation Plan	9,377
Issuance under 2003 Director Stock Compensation Plan	57,187

The Company has a shareholder rights plan that was adopted in December 1988. The current rights plan, as amended and restated, took effect in December 1998 and expires in December 2008. On January 18, 2006, the Company announced that the Company's Board of Directors voted not to seek an extension of the shareholder rights plan when it expires in 2008.

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the following:

	Minimum Pension Liability Adjustment	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2005, net of taxes	$ (227,508)	$ 85,387	$ (142,121)
Current-period changes, before taxes	29,999	11,581	41,580
Income taxes	(3,365)		(3,365)
Adjustment from initial adoption of SFAS No. 158, net of tax	11,911		11,911
Balance at December 30, 2006, net of taxes	**(188,963)**	**96,968**	**(91,995)**
Current-period changes, before taxes	87,435	59,977	147,412
Income taxes	(33,679)		(33,679)
Balance at December 29, 2007, net of taxes	**$ (135,207)**	**$ 156,945**	**$ 21,738**

Share-Based Payments

In December 2004, the FASB issued SFAS No. 123R, "Share Based Payment." SFAS 123R is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and supersedes Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. SFAS 123R focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. SFAS 123R requires entities to recognize compensation expense from all share-based payment transactions in the financial statements. SFAS 123R establishes fair value as the measurement objective in accounting for share-based payment transactions and requires all companies to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees.

Effective January 1, 2006, the Company adopted SFAS 123R using the modified prospective transition method. Accordingly, the financial statements for periods prior to January 1, 2006 have

not been restated to reflect the adoption of SFAS 123R. Under the modified prospective transition method, 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. Previously, 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 $26.9 million, $24.7 million and $10.0 million for 2007, 2006 and 2005, 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 income statement for share-based compensation arrangements was $10.5 million, $9.6 million and $3.9 million for 2007, 2006 and 2005, 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"), formerly named the 2003 Boise Incentive and Performance Plan, which were approved by shareholders in April 2003.

A total of 57,187 shares of common stock are 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 eliminate the choice to receive discounted 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 further grants or awards have been made under the Key Executive Performance Plans, KESOP, KEPUP, or DSOP since 2003. A total of 5,193,025 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 2007, the Company granted to employees and nonemployee directors 767,626 restricted stock units ("RSUs"). The weighted-average grant-date fair value of the RSUs was $50.81. As of December 29, 2007, 676,038 of these RSUs were unvested, and vest after defined service periods as follows: 23,778 units in 2008, 326,130 in 2009 and 326,130 in 2010. The remaining

compensation expense to be recognized related to this grant, net of estimated forfeitures, is approximately $14 million.

In 2006, the Company granted to employees and nonemployee directors 1,157,479 restricted stock units ("RSUs"). The weighted-average grant-date fair value of the RSUs was $28.79. As of December 29, 2007, 927,474 of these RSUs were unvested, and vest after defined service periods as follows: 463,737 in 2008 and 463,737 in 2009. The remaining compensation expense to be recognized related to this grant, net of estimated forfeitures, is approximately $7 million.

In 2005, the Company granted to employees and nonemployee directors 728,123 RSUs. The weighted-average grant-date fair value of the RSUs was $33.15. As of December 29, 2007, 51,900 of these RSUs were unvested, and vest after defined service periods as follows: 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 approximately $0.2 million.

Restricted stock shares 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. In 2007, 2006 and 2005, the Company recognized $26.4 million, $24.1 million and $9.2 million, respectively, of pre-tax 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 as long as all applicable performance criteria are met, and their effect is 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. Depending on the terms of the applicable grant agreement, 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. Each stock unit is equal in value to one share of the Company's common stock. The Company matched deferrals used to purchase stock units with a 25% Company allocation of stock units. The value of deferred stock unit accounts is paid in shares of the Company's common stock when an officer retires or terminates employment. There were 9,377 and 13,464 stock units allocated to the accounts of these executive officers at December 29, 2007 and December 30, 2006, respectively. As a result of an amendment to the plan, no additional deferrals can be allocated to the stock unit accounts.

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 years ended December 29, 2007, December 30, 2006 and December 31, 2005 is presented in the table below:

	2007		2006		2005	
	Shares	**Wtd. Avg. Ex. Price**	**Shares**	**Wtd. Avg. Ex. Price**	**Shares**	**Wtd. Avg. Ex. Price**
Balance at beginning of year	1,753,188	$ 31.81	5,759,545	$ 32.39	6,963,462	$ 32.62
Options granted	35,000	31.39			310,200	