

BUCKEYE TECHNOLOGIES INC
Form 10-Q
October 25, 2007

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

FORM 10-Q

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

For the quarterly period ended September 30, 2007

**.. 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: 33-60032

Buckeye Technologies Inc.
Delaware
(state or other jurisdiction of incorporation)

Internal Revenue Service — Employer Identification No. 62-1518973

1001 Tillman Street, Memphis, TN 38112
901-320-8100

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

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

Large accelerated filer ..

Accelerated filer x

Non-accelerated filer ..

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

As of October 24, 2007, there were outstanding 39,083,682 Common Shares of the Registrant.

INDEX

BUCKEYE TECHNOLOGIES INC.

| ITEM | PAGE |
|--|-------------|
| PART I - FINANCIAL INFORMATION | |
| 1. Financial Statements: | |
| Condensed Consolidated Statements of Income for the Three Months Ended September 30, 2007 and 2006 | 3 |
| Condensed Consolidated Balance Sheets as of September 30, 2007 and June 30, 2007 | 4 |
| Condensed Consolidated Statements of Cash Flows for the Three Months Ended September 30, 2007 and 2006 | 5 |
| Notes to Condensed Consolidated Financial Statements | 6 |
| 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 15 |
| 3. Quantitative and Qualitative Disclosures About Market Risk | 22 |
| 4. Controls and Procedures | 22 |
| PART II - OTHER INFORMATION | |
| 6. Exhibits | 23 |
| SIGNATURES | 24 |

Item 1.

Financial Statements
PART I - FINANCIAL INFORMATION

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

(In thousands, except per share data)

| | Three Months Ended September 30 | |
|---|------------------------------------|------------|
| | 2007 | 2006 |
| Net sales | \$ 197,399 | \$ 191,406 |
| Cost of goods sold | 156,744 | 162,071 |
| Gross margin | 40,655 | 29,335 |
| Selling, research and administrative expenses | 11,474 | 11,204 |
| Amortization of intangibles and other | 561 | 631 |
| Restructuring costs | 96 | 13 |
| Operating income | 28,524 | 17,487 |
| Net interest expense and amortization of debt costs | (9,157) | (10,751) |
| Gain on sale of assets held for sale | - | 355 |
| Loss on early extinguishment of debt | (786) | (556) |
| Foreign exchange and other | (168) | 6 |
| Income before income taxes | 18,413 | 6,541 |
| Income tax expense | 4,916 | 2,734 |
| Net income | \$ 13,497 | \$ 3,807 |
| Earnings per share | | |
| Basic | \$ 0.35 | \$ 0.10 |
| Diluted | \$ 0.34 | \$ 0.10 |
| Weighted average shares for earnings per share | | |
| Basic | 38,743 | 37,661 |
| Effect of diluted shares | 517 | 31 |
| Diluted | 39,260 | 37,692 |

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

| | September 30 2007 (Unaudited) | June 30 2007 |
|---|-------------------------------------|-----------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,003 | \$ 14,790 |
| Accounts receivable – net | 120,199 | 116,865 |
| Inventories – net | 94,050 | 86,777 |
| Deferred income taxes and other | 9,514 | 9,452 |
| Total current assets | 237,766 | 227,884 |
| Property, plant and equipment | 1,038,757 | 1,016,299 |
| Less accumulated depreciation | (497,175) | (478,644) |
| | 541,582 | 537,655 |
| Goodwill | 162,116 | 155,937 |
| Intellectual property and other, net | 30,439 | 30,346 |
| Total assets | \$ 971,903 | \$ 951,822 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Trade accounts payable | \$ 42,032 | \$ 41,030 |
| Accrued expenses | 58,861 | 49,532 |
| Current portion of capital lease obligation | 407 | 399 |
| Short-term debt | 505 | - |
| Total current liabilities | 101,805 | 90,961 |
| Long-term debt | 418,917 | 445,138 |
| Accrued postretirement benefits | 24,622 | 24,509 |
| Deferred income taxes | 47,019 | 41,761 |
| Capital lease obligation | 251 | 356 |
| Other liabilities | 1,493 | 1,943 |
| Stockholders' equity | 377,796 | 347,154 |
| Total liabilities and stockholders' equity | \$ 971,903 | \$ 951,822 |

See accompanying notes.

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

| | Three Months Ended September 30 | |
|---|------------------------------------|-----------|
| | 2007 | 2006 |
| Operating activities | | |
| Net income | \$ 13,497 | \$ 3,807 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 12,629 | 12,146 |
| Amortization | 502 | 937 |
| Loss on early extinguishment of debt | 786 | 556 |
| Deferred income taxes and other | 4,915 | 1,276 |
| Gain on sale of assets held for sale | - | (355) |
| Excess tax benefit from stock based compensation | (15) | - |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (1,726) | 2,745 |
| Inventories | (5,571) | 6,681 |
| Other assets | (219) | (1,294) |
| Accounts payable and other current liabilities | 6,955 | 13,465 |
| Net cash provided by operating activities | 31,753 | 39,964 |
| Investing activities | | |
| Purchases of property, plant and equipment | (8,990) | (6,605) |
| Proceeds from sale of assets | - | 521 |
| Other | (46) | (124) |
| Net cash used in investing activities | (9,036) | (6,208) |
| Financing activities | | |
| Net borrowings (payments) under lines of credit | 88,267 | (3,000) |
| Payments for debt issuance costs | (1,289) | - |
| Payments on long-term debt and other | (113,719) | (21,429) |
| Net proceeds from sale of equity interests | 2,705 | - |
| Excess tax benefit from stock based compensation | 15 | - |
| Net cash used in financing activities | (24,021) | (24,429) |
| Effect of foreign currency rate fluctuations on cash | 517 | (3) |
| Increase (decrease) in cash and cash equivalents | (787) | 9,324 |
| Cash and cash equivalents at beginning of period | 14,790 | 8,734 |
| Cash and cash equivalents at end of period | \$ 14,003 | \$ 18,058 |

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(In thousands)

NOTE 1: BASIS OF PRESENTATION

Our accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended September 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2008. All significant intercompany accounts and transactions have been eliminated in consolidation. For further information and a listing of our significant accounting policies, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2007, which was filed with the Securities and Exchange Commission on September 7, 2007 (“Annual Report”). Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2008 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year.

Translation adjustment

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

Use of estimates

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

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

NOTE 2: SEGMENT INFORMATION

We report results for two segments, specialty fibers and nonwoven materials. The specialty fiber segment is an aggregation of cellulosic fibers based on both wood and cotton. Management makes financial decisions and allocates resources based on the sales and operating income of each segment. We allocate selling, research and administrative expenses to each segment, and management uses the resulting operating income to measure the performance of the segments. The financial information attributed to these segments is included in the following table:

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| Three Months Ended September 30 | | Specialty Fibers | Nonwoven Materials | Corporate | Total |
|---|------|---------------------|-----------------------|------------|------------|
| Net sales | 2007 | \$ 135,701 | \$ 71,630 | \$ (9,932) | \$ 197,399 |
| | 2006 | 134,875 | 64,967 | (8,436) | 191,406 |
| Operating income (loss) | 2007 | 22,066 | 7,954 | (1,496) | 28,524 |
| | 2006 | 12,288 | 5,979 | (780) | 17,487 |
| Depreciation and amortization of intangibles | 2007 | 8,015 | 4,232 | 944 | 13,191 |
| | 2006 | 7,698 | 4,171 | 954 | 12,823 |
| Capital expenditures | 2007 | 7,920 | 707 | 363 | 8,990 |
| | 2006 | 5,573 | 417 | 615 | 6,605 |

Management evaluates operating performance of the specialty fibers and nonwoven materials segments excluding amortization of intangibles, the impact of impairment of long-lived assets and charges related to restructuring. Therefore, the corporate segment includes operating elements such as segment eliminations, amortization of intangibles, non-allocated administrative costs, impairment of long-lived assets and charges related to restructuring. Corporate net sales represent the elimination of intersegment sales included in the specialty fibers reporting segment. Intersegment sales are at current market prices.

NOTE 3: RESTRUCTURING COSTS AND ASSETS HELD FOR SALE

During fiscal 2007, we entered into a restructuring program that complements our operations' consolidations and involves consolidation in our European sales offices, product and market development and corporate overhead. The total cost of this program was \$1,358 and was completed during the three months ended September 30, 2007. The remaining accrual of \$204 will be paid over the next six months. As a result of this restructuring, 22 positions have been eliminated which will provide annual savings over \$2,000.

| | Period Ended September 30, 2007 | | | | | |
|-----------------------------------|---|-----------------------|----------------------------------|-----------------|--|-------------------------------|
| | Accrual Balance as of June 30, 2007 | Additional Charges | Impact of Foreign Currency | Payments | Accrual Balance as of September 30, 2007 | Program Charges to Date |
| 2007 Restructuring Program | | | | | | |
| Severance and employee benefits | | | | | | |
| Specialty fibers | \$ - | \$ 26 | \$ - | \$ (26) | \$ - | \$ 791 |
| Corporate | 199 | 68 | - | (169) | 98 | 432 |
| Other miscellaneous expenses | | | | | | |
| Specialty fibers | 128 | 2 | 5 | (29) | 106 | 135 |
| Total 2007 Program | \$ 327 | \$ 96 | \$ 5 | \$ (224) | \$ 204 | \$ 1,358 |

In September 2006, the remaining assets located at our Glueckstadt facility were sold for \$520. Since we previously had written the value of these assets down to \$165, we recorded a gain on sale of assets held for sale of \$355 during the three months ended September 30, 2006. For the three months ending September 30, 2006, \$13 in restructuring costs were recorded.

NOTE 4: INVENTORIES

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

The components of inventory consist of the following:

| | September 30 2007 | June 30 2007 |
|------------------------------|----------------------|------------------|
| Raw materials | \$ 25,551 | \$ 25,816 |
| Finished goods | 46,461 | 39,335 |
| Storeroom and other supplies | 22,038 | 21,626 |
| | \$ 94,050 | \$ 86,777 |

NOTE 5: DEBT

The components of long-term debt consist of the following:

| | September 30 2007 | June 30 2007 |
|--------------------------------|----------------------|-----------------|
| Senior Notes due: | | |
| 2013 | \$ 200,000 | \$ 200,000 |
| Senior Subordinated Notes due: | | |
| 2008 | - | 59,948 |
| 2010 | 131,254 | 151,568 |
| Credit facility | 87,663 | 33,622 |
| | \$ 418,917 | \$ 445,138 |

7

Senior Notes - During September 2003, we placed privately \$200,000 in aggregate principal amount of 8.5% Senior Notes due October 1, 2013. In fiscal year 2004, we exchanged these outstanding notes for public notes with the same terms. The notes are unsecured obligations and are senior to any of our subordinated debt. The notes are guaranteed by our direct and indirect domestic subsidiaries that are also guarantors on our senior secured indebtedness. The senior notes are redeemable at our option, in whole or part, at any time on or after October 1, 2008, at redemption prices varying from 104.25% of principal amount to 100% of principal amount on or after October 1, 2011, together with accrued and unpaid interest to the date of redemption.

Senior Subordinated Notes - During July 1996, we completed a public offering of \$100,000 in aggregate principal amount of 9.25% unsecured Senior Subordinated Notes due September 15, 2008 (the "2008 Notes"). These notes have been redeemable at our option, in whole or in part, at any time since September 15, 2004, at a redemption price of 100% of principal amount together with accrued and unpaid interest to the date of redemption.

Through fiscal year 2007, we redeemed \$40,000 of the 2008 Notes. As a result of these redemptions, we wrote off a portion of the deferred financing costs and unamortized discount related to the redeemed bonds.

On September 17, 2007, we redeemed the remaining \$60,000 of the 2008 Notes. As a result of this redemption, we wrote off the remaining balance of deferred financing costs and unamortized discount related to the 2008 Notes. During the three months ended September 30, 2007, we recorded non-cash expenses of \$206 related to the early extinguishment of this debt.

During June 1998, we completed a private placement of \$150,000 principal amount of 8% unsecured Senior Subordinated Notes due October 15, 2010. In fiscal year 1999, we exchanged these outstanding notes for public notes with the same terms. These notes have been redeemable at our option, in whole or in part, at any time since October 15, 2006, at a redemption price of 100% of principal amount together with accrued and unpaid interest to the date of redemption.

On September 24, 2007, we redeemed \$20,000 of the 2010 Notes. As a result of this redemption, we wrote off a portion of the deferred financing costs and unamortized discount related to the 2010 Notes. During the three months ended September 30, 2007, we recorded non-cash expenses of \$153 related to the early extinguishment of this debt.

Revolving Credit Facility - On July 25, 2007, we established a \$200,000 senior secured revolving credit facility with a maturity date of July 25, 2012. This facility amends and restates the Company's existing credit facility. Initially, we used proceeds from this new credit facility and cash from operations to pay the outstanding balance on the former credit facility plus fees and expenses. The interest rate applicable to borrowings under the revolver is the agent's prime rate plus 0.25% to 1.00% or a LIBOR-based rate ranging from LIBOR plus 1.25% to LIBOR plus 2.00%. We used proceeds from this facility to redeem the remaining \$60,000 of our 2008 notes and to redeem \$20,000 of the 2010 notes in mid-September 2007. The credit facility is secured by substantially all of our assets located in the United States.

The credit facility contains covenants customary for financing of this type. The financial covenants include: maximum total leverage ratio of consolidated total debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA"), and minimum ratio of consolidated EBITDA to consolidated interest expense. As of September 30, 2007, we are in compliance with the financial covenants under the new credit facility.

As of September 30, 2007, we had \$107,271 available on the revolving credit facility. The commitment fee, on the unused portion of the revolving credit facility, ranges from 0.25% to 0.40% per annum based on a grid related to our leverage ratio. Total costs for the issuance of the facility were approximately \$1,300 and are being amortized to interest expense using the effective interest method over the life of the facility. During the three months ended September 30, 2007, \$427 was expensed as early extinguishment of debt related to the write-off of deferred financing costs for the former credit facility.

On September 17, 2007, we entered into an interest rate swap agreement for \$30,000 maturing on September 17, 2009. The swap involves the exchange of interest payments from a floating-rate three month LIBOR plus the applicable margin on the revolving credit facility to a fixed rate of 4.79% plus the same applicable margin. This arrangement qualifies as a cash flow hedge under SFAS 133 and, therefore, the net effect from the interest rate swap is being recorded as part of interest expense. During the three months ended September 30, 2007, the swap reduced our interest expense by \$10.

NOTE 6: COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

| | Three Months Ended September 30 | |
|--|------------------------------------|----------|
| | 2007 | 2006 |
| Net income | \$ 13,497 | \$ 3,807 |
| Foreign currency translation adjustments – net | 14,909 | (975) |
| Comprehensive income | \$ 28,406 | \$ 2,832 |

For the three months ended September 30, 2007, the change in the foreign currency translation adjustment is due to fluctuations in the exchange rate of the U.S. dollar against the euro of \$3,718, the Brazilian real of \$2,493 and the Canadian dollar of \$8,698.

For the three months ended September 30, 2006, the change in the foreign currency translation adjustment was primarily due to fluctuations in the exchange rate of the U.S. dollar against the euro of \$(233), the Brazilian real of \$(291) and the Canadian dollar of \$(630).

NOTE 7: INCOME TAXES

On July 1, 2007, we adopted the provisions of FASB Interpretation No. (“FIN”) 48, “*Accounting for Uncertainty in Income Taxes*.” FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. As a result of the adoption, we recorded an adjustment of approximately \$878 to reduce the opening balance of retained earnings. At adoption, our unrecognized tax benefits totaled \$1,806. Cumulative potential interest and penalties accrued related to unrecognized tax benefits at the date of adoption totaled \$164. We include interest and penalties related to income tax matters as a component of net income before income tax expense. All unrecognized tax benefits at adoption would affect the effective tax rate, if recognized.

We file income tax returns with federal, state, local and foreign jurisdictions. As of September 30, 2007, we remain subject to examinations of our U.S. federal income tax returns for the years 2003 through 2006, state income tax returns for the years 2002 through 2006 and German tax filings for the years 2003 through 2006.

Our effective tax rate for the three month period ended September 30, 2007 was 26.7%. Our effective tax rate for the same period of 2006 was 41.8%. The rate decrease for the three month period ended September 30, 2007 resulted from a recently enacted German tax rate reduction. Our income tax expense differs from the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes due to the following:

| | Three Months Ended September 30 | |
|------------------------------|------------------------------------|----------|
| | 2007 | 2006 |
| Expected tax expense at 35% | \$ 6,444 | \$ 2,289 |
| German tax rate change | (2,245) | - |
| Effect of foreign operations | 762 | 849 |
| Other | (45) | (404) |
| Income tax expense | \$ 4,916 | \$ 2,734 |

NOTE 8: EMPLOYEE BENEFIT PLANS

We provide medical, dental and life insurance postretirement plans covering certain U.S. employees who meet specified age and service requirements. Pursuant to an amendment, effective January 1, 2006, Medicare eligible retirees age 65 or older are no longer covered under the self-funded plan. Instead they are provided a subsidy towards the purchase of supplemental insurance. The components of net periodic benefit costs are as follows:

| | Three Months Ended | |
|---|--------------------|--------|
| | September 30 | |
| | 2007 | 2006 |
| Service cost for benefits earned | \$ 151 | \$ 149 |
| Interest cost on benefit obligation | 350 | 352 |
| Amortization of unrecognized prior service cost | (251) | (250) |
| Actuarial loss | 146 | 142 |
| Total cost | \$ 396 | \$ 393 |

NOTE 9: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

The guarantor subsidiaries presented below represent our subsidiaries that are subject to the terms and conditions outlined in the indenture governing the senior notes and that guarantee the notes, jointly and severally, on a senior unsecured basis. The non-guarantor subsidiaries presented below represent the foreign subsidiaries that do not guarantee the senior notes. Each subsidiary guarantor is 100% owned directly or indirectly by us and all guarantees are full and unconditional.

Our supplemental financial information and our guarantor subsidiaries and non-guarantor subsidiaries for the senior notes are presented in the following tables.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2007

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|---------------------------------|----------------------------------|-----------------------------------|------------------------------|--------------|
| Net sales | \$ 27,603 | \$ 127,727 | \$ 53,228 | \$ (11,159) | \$ 197,399 |
| Cost of goods sold | 23,033 | 98,686 | 46,139 | (11,114) | 156,744 |
| Gross margin | 4,570 | 29,041 | 7,089 | (45) | 40,655 |
| Selling, research and administrative expenses, and other | (4,246) | 13,182 | 3,099 | - | 12,035 |
| Restructuring and impairment costs | 69 | - | 27 | - | 96 |
| Operating income (loss) | 8,747 | 15,859 | 3,963 | (45) | 28,524 |
| Other income (expense): | | | | | |
| Net interest income (expense) and amortization of debt | (9,139) | (68) | 50 | - | (9,157) |
| Other income (expense), including equity income (loss) in affiliates | 16,577 | 170 | (495) | (17,206) | (954) |
| Intercompany interest income (expense) | 8,331 | (6,546) | (1,785) | - | - |
| Income (loss) before income taxes | 24,516 | 9,415 | 1,733 | (17,251) | 18,413 |
| Income tax expense (benefit) | 11,019 | 2,997 | (1,337) | (7,763) | 4,916 |
| Net income (loss) | \$ 13,497 | \$ 6,418 | \$ 3,070 | \$ (9,488) | \$ 13,497 |

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS

Three Months Ended September 30, 2006

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|---------------------------------|----------------------------------|-----------------------------------|------------------------------|--------------|
| Net sales | \$ 31,143 | \$ 123,183 | \$ 46,273 | \$ (9,193) | \$ 191,406 |
| Cost of goods sold | 25,484 | 103,404 | 42,394 | (9,211) | 162,071 |
| Gross margin | 5,659 | 19,779 | 3,879 | 18 | 29,335 |
| Selling, research and administrative expenses, and other | 2,021 | 8,077 | 1,737 | - | 11,835 |
| Restructuring and impairment costs | - | - | 13 | - | 13 |
| Operating income | 3,638 | 11,702 | 2,129 | 18 | 17,487 |
| Other income (expense): | | | | | |
| Net interest income (expense) and amortization of debt | (10,709) | (62) | 20 | - | (10,751) |
| Other income (expense), including equity income (loss) in affiliates | 1,789 | 5 | 307 | (2,296) | (195) |

| | | | | | |
|---|-----------------|-----------------|-----------------|-------------------|--------------|
| Intercompany interest income (expense) | 7,220 | (4,993) | (2,227) | - | - |
| Income (loss) before income taxes | 1,938 | 6,652 | 229 | (2,278) | 6,541 |
| Income tax expense (benefit) | (1,869) | 2,206 | 780 | (1,617) | 2,734 |
| Net income (loss) | \$ 3,807 | \$ 4,446 | \$ (551) | \$ (3,895) | 3,807 |

CONDENSED CONSOLIDATING BALANCE SHEETS

As of September 30, 2007

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|---------------------------------|----------------------------------|-----------------------------------|------------------------------|-------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 183 | \$ 406 | \$ 13,414 | \$ - | \$ 14,003 |
| Accounts receivable, net of allowance | 15,867 | 68,901 | 35,431 | - | 120,199 |
| Inventories | 16,981 | 54,068 | 23,977 | (976) | 94,050 |
| Other current assets | 3,461 | 5,427 | 626 | - | 9,514 |
| Intercompany accounts receivable | - | 84,268 | - | (84,268) | - |
| Total current assets | 36,492 | 213,070 | 73,448 | (85,244) | 237,766 |
| Property, plant and equipment, net | 58,758 | 327,844 | 154,980 | - | 541,582 |
| Goodwill and intangibles, net | 37,731 | 27,347 | 114,540 | - | 179,618 |
| Intercompany notes receivable | 372,717 | - | - | (372,717) | - |
| Other assets, including investment in subsidiaries | 367,847 | 259,144 | 104,390 | (718,444) | 12,937 |
| Total assets | \$ 873,545 | \$ 827,405 | \$ 447,358 | \$ (1,176,405) | \$ 971,903 |
| Liabilities and stockholders' equity | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | \$ 6,261 | \$ 26,207 | \$ 9,564 | \$ - | \$ 42,032 |
| Other current liabilities | 22,185 | 21,434 | 16,154 | - | 59,773 |
| Intercompany accounts payable | 70,067 | - | 14,201 | (84,268) | - |
| Total current liabilities | 98,513 | 47,641 | 39,919 | (84,268) | 101,805 |
| Long-term debt | 418,917 | - | - | - | 418,917 |
| Deferred income taxes | (29,463) | 59,299 | 17,183 | - | 47,019 |
| Other long-term liabilities | 7,782 | 16,796 | 1,788 | - | 26,366 |
| Intercompany notes payable | - | 257,432 | 115,285 | (372,717) | - |
| Stockholders'/invested equity | 377,796 | 446,237 | 273,183 | (719,420) | 377,796 |
| Total liabilities and stockholders' equity | \$ 873,545 | \$ 827,405 | \$ 447,358 | \$ (1,176,405) | \$ 971,903 |

CONDENSED CONSOLIDATING BALANCE SHEETS

As of June 30, 2007

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|---------------------------------|----------------------------------|-----------------------------------|------------------------------|-------------------|
| Assets | | | | | |
| Current assets | | | | | |
| Cash and cash equivalents | \$ 6,329 | \$ 447 | \$ 8,014 | \$ - | \$ 14,790 |
| Accounts receivable, net | 15,147 | 71,753 | 29,965 | - | 116,865 |
| Inventories | 18,468 | 48,739 | 20,501 | (931) | 86,777 |
| Other current assets | 2,724 | 5,690 | 1,038 | - | 9,452 |
| Intercompany accounts receivable | - | 96,305 | - | (96,305) | - |
| Total current assets | 42,668 | 222,934 | 59,518 | (97,236) | 227,884 |
| Property, plant and equipment, net | 58,941 | 328,480 | 150,234 | - | 537,655 |
| Goodwill and intangibles, net | 15,805 | 49,786 | 108,361 | - | 173,952 |
| Intercompany notes receivable | 304,310 | - | - | (304,310) | - |
| Other assets, including investment in subsidiaries | 451,638 | 327,254 | 99,443 | (866,004) | 12,331 |
| Total assets | \$ 873,362 | \$ 928,454 | \$ 417,556 | \$ (1,267,550) | \$ 951,822 |
| Liabilities and stockholders' equity | | | | | |
| Current liabilities | | | | | |
| Trade accounts payable | \$ 7,799 | \$ 25,473 | \$ 7,758 | \$ - | \$ 41,030 |
| Other current liabilities | 18,843 | 17,684 | 13,409 | (5) | 49,931 |
| Intercompany accounts payable | 84,733 | - | 11,571 | (96,304) | - |
| Total current liabilities | 111,375 | 43,157 | 32,738 | (96,309) | 90,961 |
| Long-term debt | 445,138 | - | - | - | 445,138 |
| Deferred income taxes | (38,450) | 61,034 | 19,177 | - | 41,761 |
| Other long-term liabilities | 8,145 | 16,976 | 1,687 | - | 26,808 |
| Intercompany notes payable | - | 193,789 | 110,520 | (304,309) | - |
| Stockholders'/invested equity | 347,154 | 613,498 | 253,434 | (866,932) | 347,154 |
| Total liabilities and stockholders' equity | \$ 873,362 | \$ 928,454 | \$ 417,556 | \$ (1,267,550) | \$ 951,822 |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended September 30, 2007

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidated |
|---|---------------------------------|----------------------------------|-----------------------------------|--------------|
| Net cash provided by operations | \$ 19,415 | \$ 7,584 | \$ 4,754 | \$ 31,753 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (1,132) | (7,482) | (376) | (8,990) |
| Other | - | (46) | - | (46) |
| Net cash used in investing activities | (1,132) | (7,528) | (376) | (9,036) |
| Financing activities | | | | |
| Net borrowings under line of credit | 87,762 | - | 505 | 88,267 |
| Net payments on long-term debt and other | (112,191) | (97) | - | (112,288) |
| Net cash provided by financing activities | (24,429) | (97) | 505 | (24,021) |
| Effect of foreign currency rate fluctuations on cash | - | - | 517 | 517 |
| Increase (decrease) in cash and cash equivalents | (6,146) | (41) | 5,400 | (787) |
| Cash and cash equivalents at beginning of period | 6,329 | 447 | 8,014 | 14,790 |
| Cash and cash equivalents at end of period | \$ 183 | \$ 406 | \$ 13,414 | \$ 14,003 |

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

Three Months Ended September 30, 2006

| | Buckeye Technologies Inc. | Guarantors US Subsidiaries | Non- Guarantor Subsidiaries | Consolidated |
|--|---------------------------------|----------------------------------|-----------------------------------|--------------|
| Net cash provided by (used in) operations | \$ 37,601 | \$ 5,033 | \$ (2,670) | \$ 39,964 |
| Investing activities: | | | | |
| Purchases of property, plant and equipment | (1,135) | (4,807) | (663) | (6,605) |
| Other | - | (123) | 520 | 397 |
| Net cash used in investing activities | (1,135) | (4,930) | (143) | (6,208) |
| Financing activities | | | | |
| Net payments under line of credit | (3,000) | - | - | (3,000) |
| | (25,548) | (22) | 4,141 | (21,429) |

Net borrowings (payments) on
long-term debt and other

| | | | | |
|--|----------|------|-------|----------|
| Net cash provided by (used in) financing activities | (28,548) | (22) | 4,141 | (24,429) |
|--|----------|------|-------|----------|

| | | | | |
|---|---|---|-----|-----|
| Effect of foreign currency rate fluctuations on cash | - | - | (3) | (3) |
|---|---|---|-----|-----|

| | | | | |
|--|-------|----|-------|-------|
| Increase in cash and cash equivalents | 7,918 | 81 | 1,325 | 9,324 |
|--|-------|----|-------|-------|

| | | | | |
|---|-------|-----|-------|-------|
| Cash and cash equivalents at beginning of period | 1,535 | 162 | 7,037 | 8,734 |
|---|-------|-----|-------|-------|

| | | | | |
|---|----------|--------|----------|-----------|
| Cash and cash equivalents at end of period | \$ 9,453 | \$ 243 | \$ 8,362 | \$ 18,058 |
|---|----------|--------|----------|-----------|

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") summarizes the significant factors affecting our results of operations, liquidity, capital resources and contractual obligations, as well as discussing our critical accounting policies. This discussion should be read in conjunction with the accompanying unaudited financial statements and our Annual Report on Form 10-K for the year ended June 30, 2007 ("Annual Report"), which include additional information about our significant accounting policies, practices and transactions that underlie our financial results. Our MD&A is composed of four major sections: Executive Summary, Results of Operations, Financial Condition, and Critical Accounting Policies.

Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2008 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year. The following discussion includes a comparison of the results of operations for the three months ended September 30, 2007 to the three months ended September 30, 2006.

Executive Summary

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

Our strategy is to continue to strengthen our position as a leading supplier of cellulose-based specialty products. We believe that we can continue to expand market share, improve profitability and decrease our exposure to cyclical downturns by pursuing the following strategic objectives: focus on technically demanding niche markets, develop and commercialize innovative proprietary products, strengthen long-term alliances with customers, provide our products at an attractive value, evaluate external growth opportunities that match our specialty market focus and continue to reduce debt.

Buckeye had another very good quarter. We continue to see strong demand for our products across all of our businesses. Nonwovens revenue growth was especially strong, with net sales up 10% for the three months ended September 30, 2007 compared to the same period in 2006. Earnings benefited from higher selling prices across all of our businesses and improved sales mix for nonwoven materials, which offset the negative impact of lower shipment volumes for our specialty fibers segment. Shipment volume for specialty fibers was down 8% during the three months ended September 30, 2007 compared to the same period in 2006 due to incremental sales made from inventory during the three months ended September 30, 2006 and the limited availability of raw material for our cotton specialty fibers business in the three month period ended September 30, 2007. Our costs were slightly higher during the three months ended September 30, 2007 than in the same period in 2006, as higher raw material costs in our cotton specialty fibers and nonwoven materials businesses and increased transportation costs overall were offset by the favorable impacts of lower chemical usage at our Perry, Florida specialty wood fibers facility and improved capacity utilization and reduced waste at our nonwovens plants. As a result of higher selling prices across our business and improved mix at our nonwoven sites, our gross margin for the three months ended September 30, 2007 improved to 20.6% compared to 15.3% for the same period in 2006.

We are making good progress at our Americana cotton fiber facility in Brazil on optimizing costs and moving our operations to a cash positive position. For the three months ended September 30, 2007, we reduced our operating loss

at this facility by \$1.6 million versus the same period last year. The plant is running above daily design rates with excellent quality and reliability, but will continue to operate at less than full capacity until our cotton linter supply improves. We continue to work with our raw material suppliers in Brazil to increase their delinting capacity. We expect our performance to continue to improve but we cannot predict when the site will be profitable due to constraints on raw material availability and price and due to uncertainties about the future direction of currency exchange rates.

We continue to establish our global sales and distribution network for UltraFiber 500™, our concrete-reinforcing fiber. UltraFiber 500™ is a niche product for the building industry and is an example of the new product initiatives we are undertaking to reduce our dependency on fluff pulp. For the three months ended September 30, 2007, our sales increased by 32% over the same period in 2006. Our customer base and installations of our dispenser continue to increase. We continue to anticipate that we will double our sales in fiscal year 2008 versus fiscal year 2007; however, we must increase our current sales pace to do so.

Strong cash flow generation enabled us to reduce debt by \$25.7 million during the three months September 30, 2007. We have reduced our debt by \$76.9 million over the past twelve months. As a result, our net interest expense for the three months ended September 30, 2007 was down \$1.6 million compared to the three months ended September 30, 2006.

Results of Operations*Consolidated results*

The following table compares components of operating income for the three months ended September 30, 2007 and 2006.

| (millions) | Three Months Ended September 30 | | | |
|---|---------------------------------|----------|---------|----------|
| | 2007 | 2006 | Change | % Change |
| Net sales | \$ 197.4 | \$ 191.4 | \$ 6.0 | 3% |
| Cost of goods sold | 156.7 | 162.1 | (5.4) | (3)% |
| Gross margin | 40.7 | 29.3 | 11.4 | 39% |
| Selling, research and administrative expenses | 11.5 | 11.2 | 0.3 | 3% |
| Restructuring costs | 0.1 | - | 0.1 | * |
| Amortization of intangibles and other | 0.6 | 0.6 | - | - |
| Operating income | \$ 28.5 | \$ 17.5 | \$ 11.0 | 63% |

* Percent change not meaningful

Net sales for the three months ended September 30, 2007 were higher than the same period in 2006, primarily driven by higher selling prices across all segments of our business. The largest contributors to this increase were fluff pulp sales prices, which were up \$120 per ton, and average selling prices for our high-end specialty fibers products, which were up about 7% period over period. We continue to experience a strong pricing environment for our products.

The gross margin improvement for the three months ended September 30, 2007 versus the same period in 2006 was mainly a result of the higher selling prices previously discussed. Our costs were up slightly, as higher raw material and transportation costs were mostly offset by reduced chemical usage, reduced waste and improved capacity utilization at our North American nonwoven materials plants.

Segment results

Although nonwoven materials, processes, customers, distribution methods and regulatory environment are very similar to specialty fibers, we believe it is appropriate for nonwoven materials to be disclosed as a separate reporting segment from specialty fibers. The specialty fibers segment is an aggregation of cellulosic fibers based on both wood and cotton. We make separate financial decisions and allocate resources based on the sales and operating income of each segment. We allocate selling, research, and administrative (SRA) expenses to each segment, and we use the resulting operating income to measure the performance of the segments. We exclude items that are not included in measuring business performance, such as unallocated administrative expenses, amortization of intangibles, restructuring costs, asset impairment and intercompany profit eliminations and report these under our corporate segment.

Specialty fibers

The following table compares specialty fibers net sales and operating income for the three months ended September 30, 2007 and 2006.

| (millions) | Three Months Ended September 30 | | | |
|------------------|---------------------------------|----------|--------|----------|
| | 2007 | 2006 | Change | % Change |
| Net sales | \$ 135.7 | \$ 134.9 | \$ 0.8 | 1% |
| Operating income | 22.1 | 12.3 | 9.8 | 80% |

Net sales were up slightly as higher prices were offset by lower shipment volumes for the three months ended September 30, 2007 versus the same period in 2006. Prices were up about 7% on our cotton and wood specialty products as a result of price increases implemented during the year. Fluff pulp pricing increased by \$120 per ton compared to the same period a year ago.

During the three months ended September 30, 2007, costs for the specialty fibers segment showed a slight reduction overall compared to the same period in 2006. We experienced higher costs during the three months ended September 30, 2007 due to increased prices on domestic cotton linters and increased imports of foreign cotton linters. In addition, transportation costs increased and the strengthening of the Brazilian Real relative to the U.S. dollar put upward pressure on manufacturing costs at our Americana, Brazil facility. However, reductions in chemical usage at our Florida specialty wood plant and lower costs at our Americana plant were sufficient to offset these cost increases.

We continue to make progress at our Americana cotton fiber facility in Brazil. Our operating loss at Americana during the three months ended September 30, 2007 versus the three months ended September 30, 2006 was reduced by \$1.6 million in spite of the stronger Brazilian currency and higher cotton linter prices. This was due to a combination of increased volume, higher selling prices and significant reductions in the plant's fixed direct costs. The operating loss was about the same as it was in the three months ended June 30, 2007, as the facility continues to operate at about 60% of the plant's capacity due to constraints on raw material availability. The plant is currently operating very close to a cash breakeven level.

Raw material availability in our specialty cotton fiber business continues to limit production. The harvest of the cotton crop is smaller and later this year in North America due to the combination of weather and the priority given to the harvest of corn and soy beans for the ethanol and biodiesel markets. The cotton crop in Brazil this year is up 40% from the prior year, but the amount of seed delinted and crushed for oil will not increase as much as we had hoped. We are strengthening relationships with existing raw material suppliers to increase delinting capacity and assisting with their expansion plans. This looks positive, but will take time to implement. Improving our lint supply is a top priority and as more lint becomes available, we will ramp up production levels at our cotton fiber facilities. In the near term, we will continue to operate the Americana, Brazil facility at its current rate of approximately 2,000 tons per month. Due to the lateness of the North American cotton crop, the Memphis, Tennessee facility will run closer to 70% of capacity in the October to December quarter and is expected to return to 80% capacity for the rest of our fiscal year.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three months ended September 30, 2007 and 2006.

| <i>(millions)</i> | Three Months Ended September 30 | | | | |
|-------------------|---------------------------------|---------|--------|----------|--|
| | 2007 | 2006 | Change | % Change | |
| Net sales | \$ 71.6 | \$ 65.0 | \$ 6.6 | 10% | |
| Operating income | 8.0 | 6.0 | 2.0 | 33% | |

The \$6.6 million increase in net sales during the three months ended September 30, 2007 versus the same period in 2006 was due to several factors. Volume increases accounted for approximately \$1.8 million of this improvement as shipment volume for our three airlaid nonwovens plants was up 3% compared to the same period in 2006. Improved pricing accounts for \$1.5 million of the increase in sales and improved product mix contributed approximately \$1.3 million in additional revenues. Additionally, the strengthening of the euro provided \$2.0 million in increased revenues.

Operating income increased by \$2.0 million for the three months ended September 30, 2007 versus the same period in 2006. While the \$1.5 million increase in selling prices was not sufficient to offset a \$2.1 million increase in raw material costs relative to the three months ended September 30, 2006, a combination of better capacity utilization due to higher production and shipment volumes, improved sales mix and reduced waste contributed to the year over year improvement in profitability for the nonwoven materials segment.

Corporate

The following table compares corporate net sales and operating loss for the three months ended September 30, 2007 and 2006.

| <i>(millions)</i> | Three Months Ended September 30 | | | |
|-------------------|---------------------------------|------|--------|----------|
| | 2007 | 2006 | Change | % Change |

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| | | | | | | | |
|----------------|----|-------|----|-------|----|-------|-----|
| Net sales | \$ | (9.9) | \$ | (8.4) | \$ | (1.5) | 18% |
| Operating loss | | (1.5) | | (0.8) | | (0.7) | 88% |

Our intercompany net sales elimination for the three months ended September 30, 2007 was up \$1.5 million compared to the same period in 2006 as wood pulp shipments from our Florida specialty wood facility were up \$1.0 million and cotton cellulose shipments from our Memphis specialty cotton facility were up \$0.5 million. The operating loss for the corporate segment increased by \$0.7 million to \$1.5 million due to an increase in unallocated administrative expenses. The total loss of \$1.5 million consists of \$0.8 million in unallocated administrative expenses, \$0.6 million in intellectual property amortization expenses and \$0.1 million in restructuring expenses.

Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased \$1.6 million for the three months ending September 30, 2007 versus the same period in the prior year. Net interest expense decreased primarily due to debt being \$76.9 million lower at September 30, 2007 versus September 30, 2006. The weighted average effective interest rate on our variable rate debt decreased from 7.3% at September 30, 2006 to 6.9% at September 30, 2007.

Loss on early extinguishment of debt costs

During the three months ended September 30, 2007, we used cash from our revolving credit facility and from operations to make the following payments:

| | |
|---------------------------------------|----------|
| Retire the remaining 2008 Notes | \$ 60.0 |
| Redeem a portion of the 2010 Notes | 20.0 |
| Repay the outstanding credit facility | 33.6 |
| Total | \$ 113.6 |

As a result of these redemptions, we wrote-off a portion of deferred financing costs and unamortized discounts related to the notes. We recorded non-cash expense, related to debt extinguishment, of \$0.8 million during the three months ended September 30, 2007.

During the three months ended September 30, 2006, we used cash from operations to make voluntary prepayments on our term loan of \$20.7 million. As a result of this partial extinguishment, we wrote-off a portion of deferred financing costs. We recorded non-cash expense, related to debt extinguishment, of \$0.6 million during the three months ended September 30, 2006.

Income tax

On July 1, 2007, we adopted the provisions of FASB Interpretation No. ("FIN") 48, "*Accounting for Uncertainty in Income Taxes.*" As a result of the adoption, we recorded an adjustment of approximately \$0.9 million to reduce the opening balance of retained earnings. At adoption, our unrecognized tax benefits totaled \$1.8 million. Cumulative potential interest and penalties accrued related to unrecognized tax benefits at the date of adoption totaled \$0.2 million. We include interest and penalties related to income tax matters as a component of net income before income tax expense. All unrecognized tax benefits at adoption would affect the effective tax rate, if recognized

We file income tax returns with federal, state, local and foreign jurisdictions. As of September 30, 2007, we remain subject to examinations of our U.S. federal income tax returns for the years 2003 through 2006, state income tax returns for the years 2002 through 2006 and German tax filings for the years 2003 through 2006.

Our effective tax rate for the three months ended September 30, 2007 was 26.7% versus 41.8% for the same period in 2006. The main reason for the reduced tax rate was a recently enacted German tax rate law which reduced our taxes by approximately \$2.2 million during the three months ended September 30, 2007. Our effective rate may vary in future quarters due to the amount and source of income, results of tax audits and changes in tax legislation. We currently expect the effective tax rate for the 2008 fiscal year to be 35.5%.

Financial Condition

Liquidity and capital resources

We have the following major sources of financing: senior secured credit facility, senior notes and senior subordinated notes. Our senior secured credit facility, senior notes and senior subordinated notes contain various covenants. We were in compliance with these covenants as of September 30, 2007 and believe we will continue to remain in compliance.

On September 30, 2007, we had \$14.0 million of cash and cash equivalents and \$107.3 million borrowing capacity on our revolving credit facility as defined in Note 5 to our unaudited financial statements. The portion of this capacity that we may borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. As of September 30, 2007, our liquidity, including available borrowings and cash and cash equivalents, was approximately \$121.3 million.

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

Cash Flow

The following table provides a summary of cash flows for the three month periods ended September 30, 2007 and September 30, 2006.

| (millions) | Three Months Ended | |
|--|--------------------|--------|
| | 2007 | 2006 |
| Operating activities: | | |
| Net income | \$ 13.5 | \$ 3.8 |
| Noncash charges and credits, net | 18.8 | 14.5 |
| Changes in operating assets and liabilities, net | (0.5) | 21.6 |
| Net cash provided by operating activities | 31.8 | 39.9 |
| Investing activities: | | |
| Purchases of property, plant and equipment | (9.0) | (6.6) |
| Other investing activities | - | 0.4 |
| Net cash used in investing activities | (9.0) | (6.2) |
| Financing activities: | | |
| Net borrowings (payments) under lines of credit | 88.3 | (3.0) |
| Payments on long-term debt and other | (112.3) | (21.4) |
| Net cash used in financing activities | (24.0) | (24.4) |
| Effect of foreign currency rate fluctuations on cash | 0.5 | - |
| Net increase (decrease) in cash and cash equivalents | \$ (0.8) | \$ 9.3 |

Cash provided by operating activities

Cash provided by operating activities for the three months ended September 30, 2007 was \$31.8 million which was down \$8.1 million compared to the same period in 2006. While net income was up \$9.7 million, there was a negative \$12.3 million change due to an increase in inventories in the three months ended September 30, 2007 compared to a decrease in inventories in the months ended September 30, 2006. Additionally, accounts receivable increased during the three months ended September 30, 2007 due to higher sales while it decreased in the three months ended September 30, 2006 leading to another \$4.5 million negative impact between the two periods.

Net cash used in investing activities

Purchases of property, plant and equipment increased to \$9.0 million during the three months ended September 30, 2007 versus \$6.6 million during the same period in 2006 primarily due to increased maintenance capital spending at our Perry, Florida specialty fibers facility. We expect that our total capital expenditures will be approximately \$48 million for fiscal 2008.

Net cash used in financing activities

During the three months ended September 30, 2007, we established a \$200 million senior secured revolving credit facility with a maturity date of July 25, 2012. This facility amends and restates the Company's existing credit facility. Initially, we used the proceeds from this new credit facility and cash from operations to pay the outstanding balance on the former credit facility plus fees and expenses. We also used proceeds from this facility to redeem the remaining \$60 million of our 2008 notes and to redeem \$20 million of the 2010 notes in mid-September 2007. We intend to continue to use cash from operations to reduce our debt.

Treasury stock

Our board of directors has authorized the repurchase of up to 6 million shares of our common stock. Under this authorization, we will hold the repurchased shares as treasury stock and such shares will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. We have not repurchased any shares of our common stock since fiscal year 2001. Through September 30, 2007, we had repurchased a total of 5,009,300 shares under the current board authority.

Contractual obligations

There have been no material changes to our contractual obligations since our disclosure in our Annual Report on Form 10-K. The following table summarizes our significant contractual cash obligations as of September 30, 2007. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States.

| (millions) | Total | Payments Due by Period | | | |
|--|----------|----------------------------|----------------------|----------------------|------------|
| | | Fiscal 2008 ⁽¹⁾ | Fiscal 2009 and 2010 | Fiscal 2011 and 2012 | Thereafter |
| Contractual Obligations | | | | | |
| Long-term obligations ⁽²⁾ | \$ 572.4 | \$ 33.5 | \$ 66.9 | \$ 175.7 | \$ 296.3 |
| Capital lease obligations and short-term debt ⁽³⁾ | 1.2 | .8 | .4 | - | - |
| Operating lease obligations | 3.1 | 1.1 | 1.3 | .8 | - |
| Timber commitments | 39.8 | 8.6 | 24.8 | 6.4 | - |
| Linter commitments ⁽⁴⁾ | 16.4 | 16.4 | - | - | - |
| Other purchase commitments ⁽⁵⁾ | 33.8 | 17.2 | 8.3 | 4.7 | 3.6 |
| Total contractual cash obligations | \$ 666.7 | \$ 77.6 | \$ 101.7 | \$ 187.6 | \$ 299.9 |

(1) Cash obligations for the remainder of fiscal 2008.

(2) Amounts include related interest payments. Interest payments for variable debt of \$87.7 million are based on the effective rate as of September 30, 2007 of 6.9% per annum.

(3) Capital lease and short-term debt obligations represent principal and interest payments.

(4) Linter commitments are take-or-pay contracts made in the ordinary course of business that usually are less than one year in length.

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

Note: The cash flow to fund post-retirement benefit obligations has not materially changed since June 30, 2007. These obligations are not included in the table above as the total obligation is based on the present value of the payments and would not be consistent with the contractual cash obligations disclosures included in the table above. See Note 12, Employee Benefit Plans, to the Consolidated Financial Statements in our fiscal 2007 Annual Report on Form 10-K for further information.

Critical Accounting Policies

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

The four critical accounting policies that we believe either require the most managerial judgment, or involve the selection or application of alternative accounting policies, and that are material to our financial statements are those relating to allowance for doubtful accounts, deferred income taxes, depreciation and long-lived assets. Further information regarding our "Critical Accounting Policies" can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note 1 to the financial statements in our Annual Report contains a summary of our significant accounting policies.

Forward-Looking Statements

This document contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are not based on historical facts, but rather reflect management's current expectations concerning future results and events. These forward-looking statements generally can be identified by the use of statements that include phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee," "likely," "will" or other similar words or phrases. Similarly, statements that describe management's objectives, plans or goals are or may be forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors that are difficult to predict and which may cause the actual results, performance or achievements to be different from any future results, performance and achievements expressed or implied by these statements. The following important factors, among others, could affect future results, causing these results to differ materially from those expressed in our forward-looking statements: pricing fluctuations and worldwide economic conditions; dependence on a single customer; fluctuation in the costs of raw materials and energy resources; competition; changes in fair values of long-lived assets; inability to predict the scope of future environmental compliance costs or liabilities; inability to predict the scope of future restructuring costs or liabilities; and the ability to obtain additional capital, maintain adequate cash flow to service debt as well as meet operating needs. The forward-looking statements included in this document are only made as of the date of this document and we do not have any obligation to publicly update any forward-looking statements to reflect subsequent events or circumstances. For additional factors that could impact future results, please see our Annual Report.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of September 30, 2007, there have been no material changes in our market risk since the disclosure in our Annual Report. We continue to have raw material availability issues in our specialty cotton fibers business in both North America and Brazil. For the near term, this raw material availability will limit growth and increase our production costs. While we have global operations, the majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by foreign currency gains of equal magnitude in other areas of the world. The principal

foreign currency exchange rate risks to which we are exposed are in the Canadian dollar, Brazilian real and European euro.

Item 4. Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation as of September 30, 2007 of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective.

No changes in our internal control over financial reporting occurred during the quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Items 1, 1A, 2, 3, 4 and 5 are not applicable and have been omitted.

Item 6.

Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

SIGNATURES

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

BUCKEYE TECHNOLOGIES INC.

By: */s/ John B. Crowe*

John B. Crowe, Chief Executive Officer

Date: October 25, 2007

By: */s/ Steven G. Dean*

Steven G. Dean, Sr. Vice President and Chief Financial Officer

Date: October 25, 2007