BUCKEYE TECHNOLOGIES INC
Form 10-Q
May 03, 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 March 31, 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

As of April 30, 2007, there were outstanding 37,997,356 Common Shares of the Registrant.

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Item 1. Financial Statements

PART I - FINANCIAL INFORMATION

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Net sales	$ 193,009	$ 181,407	$ 569,145	$ 535,117
Cost of goods sold	160,070	157,063	477,853	460,872
Gross margin	32,939	24,344	91,292	74,245
Selling, research and administrative expenses	11,680	12,293	34,047	35,053
Amortization of intangibles and other	500	486	1,638	1,494
Impairment of long-lived assets	-	1,469	-	1,469
Restructuring costs	1,201	333	1,224	3,425
Operating income	19,558	9,763	54,383	32,804
Net interest expense and amortization of debt costs	(10,020)	(11,061)	(31,211)	(31,819)
Loss on early extinguishment of debt	(85)	-	(737)	(151)
Gain on sale of assets held for sale	-	-	355	-
Foreign exchange and other	422	148	674	(242)
Income (loss) before income taxes	9,875	(1,150)	23,464	592
Income tax expense (benefit)	3,302	(355)	9,264	(178)
Net income (loss)	$ 6,573	$ (795)	$ 14,200	$ 770
Earnings (loss) per share				
Basic	$ 0.17	$ (0.02)	$ 0.38	$ 0.02
Diluted	$ 0.17	$ (0.02)	$ 0.37	$ 0.02
Weighted average shares for basic earnings per share	37,887	37,638	37,750	37,606
Adjusted weighted average shares for diluted earnings per share	38,442	37,638	38,048	37,646

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31 2007 (Unaudited)	June 30 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 15,497	$ 8,734
Accounts receivable - net	114,900	112,758
Inventories	82,851	98,567
Deferred income taxes and other	8,687	8,473
Total current assets	221,935	228,532
Property, plant and equipment	985,197	957,677
Less accumulated depreciation	(461,131)	(425,779)
	524,066	531,898
Goodwill	147,091	149,106
Intellectual property and other, net	35,881	38,677
Total assets	$ 928,973	$ 948,213
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 34,124	$ 32,973
Accrued expenses	53,311	47,076
Current portion of capital lease obligation	399	627
Current portion of long-term debt	54,615	1,294
Total current liabilities	142,449	81,970
Long-term debt	416,629	519,414
Accrued postretirement benefits	19,798	19,367
Deferred income taxes	40,496	35,686
Capital lease obligation	356	755
Other liabilities	1,963	1,304
Stockholders' equity	307,282	289,717
Total liabilities and stockholders' equity	$ 928,973	$ 948,213

See accompanying notes.

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

	Nine Months Ended March 31	
	2007	2006
Operating activities		
Net income	$ 14,200	$ 770
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment of long-lived assets	-	1,469
Depreciation	36,454	34,947
Amortization	2,354	2,408
Loss on early extinguishment of debt	737	151
Deferred income taxes and other	6,479	(2,887)
Gain on sale of assets held for sale	(355)	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,523)	6,375
Inventories	15,881	(8,758)
Other assets	(754)	(4,267)
Accounts payable and other current liabilities	6,631	(5,168)
Net cash provided by operating activities	80,104	25,040
Investing activities		
Purchases of property, plant and equipment	(26,235)	(41,179)
Proceeds from sale of assets	521	42
Other	(380)	(376)
Net cash used in investing activities	(26,094)	(41,513)
Financing activities		
Net borrowings under lines of credit	368	33,486
Payments on long-term debt and other	(50,127)	(16,636)
Proceeds from exercise of stock options	2,308	549
Net cash provided by (used in) financing activities	(47,451)	17,399
Effect of foreign currency rate fluctuations on cash	204	294
Increase in cash and cash equivalents	6,763	1,220
Cash and cash equivalents at beginning of period	8,734	9,926
Cash and cash equivalents at end of period	$ 15,497	$ 11,146

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 and nine months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending June 30, 2007. 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, 2006. Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2007 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year classifications.

NOTE 2: SEGMENT INFORMATION

We report results for two segments, specialty fibers and nonwoven materials. The specialty fibers segment is an aggregation of operating segments producing cellulosic fibers based on both wood and cotton. The nonwoven materials segment produces airlaid materials based on wood pulps, synthetic fibers and other materials. Management makes financial decisions and allocates resources based on the sales and operating income of each segment. We

allocate selling, research, and administrative expenses to each segment, and management uses the resulting operating income to measure the performance of the segments. The financial information attributed to these segments is included in the following table:

Three Months Ended March 31		Specialty Fibers	Nonwoven Materials	Corporate	Total
Net sales	2007	$ 135,398	$ 65,386	$ (7,775)	$ 193,009
	2006	127,223	61,171	(6,987)	181,407
Operating income (loss)	2007	15,948	5,873	(2,263)	19,558
	2006	7,010	5,105	(2,352)	9,763
Depreciation and amortization of	2007	7,901	3,898	844	12,643
intangibles	2006	7,439	3,842	802	12,083
Capital expenditures	2007	8,727	1,845	1,338	11,910
	2006	5,999	484	338	6,821

Nine Months Ended March 31		Specialty Fibers	Nonwoven Materials	Corporate	Total
Net sales	2007	$ 400,399	$ 192,841	$ (24,095)	$ 569,145
	2006	379,682	176,957	(21,522)	535,117
Operating income (loss)	2007	41,430	16,698	(3,745)	54,383
	2006	28,732	10,404	(6,332)	32,804
Depreciation and amortization of	2007	23,458	12,034	2,649	38,141
intangibles	2006	22,119	11,942	2,489	36,550
Capital expenditures	2007	20,383	2,842	3,010	26,235
	2006	38,591	1,489	1,099	41,179

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, 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. We account for intersegment sales as if the sales were made to third parties, that is, at current market prices. Corporate operating loss in 2007 includes $1,201 and $1,224 of restructuring costs for the three and nine month periods, respectively. Corporate operating loss in 2006 included $1,802 and $4,894 of restructuring costs and impairment charges for the three and nine month periods, respectively.

NOTE 3: IMPAIRMENT OF LONG-LIVED ASSETS AND ASSETS HELD FOR SALE

In December 2005, we ceased production of specialty fibers at our Glueckstadt, Germany facility. During the three months ended March 31, 2006, we began to actively market the land and buildings, and the equipment which had carrying values of $1,600 and $496, respectively. During the three months ended March 31, 2006, management determined that the plan of sale criteria in SFAS No. 144, *Accounting for Impairment or Disposal of Long-lived Assets*, had been met. Accordingly, management reevaluated its estimate of fair value less the cost to sell the assets and determined an additional impairment should be recognized for the land and buildings. Current markets and third party interest for the land and buildings indicated we would not be able to recover the carrying value through the sales process. Therefore, we wrote down the carrying value of the land and buildings to their fair value less costs to sell of $121 and recorded an impairment charge of $1,469 during the three months ended March 31, 2006.

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.

NOTE 4: RESTRUCTURING COSTS

During fiscal 2005, we entered into a restructuring program to discontinue production of cotton-based specialty fibers at our Glueckstadt, Germany facility. The closure of the Glueckstadt facility resulted in the termination of 101 employees as of March 31, 2006 and resulted in an additional two terminations during the remainder of fiscal 2006.

During the three months ended March 31, 2007, we entered into another restructuring program that complements our operations' consolidations and involves consolidation in our European sales offices, product and market development and corporate overhead. We anticipate the total cost of this program will be approximately $1,500 and will be completed during the first quarter of the 2008 fiscal year. As a result of this restructuring, 22 positions will be eliminated which will provide annual savings over $2,000.

Restructuring expenses are included in "Restructuring costs" in our condensed consolidated statements of operations. The additional charges below reflect severance and employee benefits accrued over the retention period, and other miscellaneous expenses. Accrual balances are included in "Accrued expenses" in the balance sheet. The following table summarizes the expenses and accrual balances by reporting segment for the nine months ended March 31, 2007.

		Period Ended March 31, 2007			
	Balance as of June 30, 2006	Additional Charges	Payments	Balance as of March 31, 2007	Program Charges to Date
2005 Restructuring Program					
Specialty fibers					
Severance and employee benefits	$ 9	$ -	$ (9)	$ -	$ 5,096
Other miscellaneous expenses	11	23	(34)	-	1,521
Total 2005 Program	20	23	(43)	-	6,617
2007 Restructuring Program					
Severance and employee benefits					
Specialty fibers	-	896	(699)	197	896
Corporate	-	303	(13)	290	303
Other miscellaneous expenses					
Specialty fibers	-	2	(2)	-	2
Total 2007 Program	-	1,201	(714)	487	1,201
Total All Programs	$ 20	$ 1,224	$ (757)	$ 487	$ 7,818

NOTE 5: 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:

	March 31 2007	June 30 2006
Raw materials	$ 22,312	$ 30,028
Finished goods	39,058	45,759
Storeroom and other supplies	21,481	22,780
	$ 82,851	$ 98,567

NOTE 6: DEBT

The components of debt consist of the following:

	March 31 2007	June 30 2006
Senior Notes due:		
2013	$ 200,000	$ 200,000
Senior Subordinated Notes due:		
2008	59,939	64,902
2010	151,690	152,059
Credit facility	54,615	98,747
Other	5,000	5,000
Total debt	471,244	520,708
Less current portion	54,615	1,294
Long-term debt	$ 416,629	$ 519,414

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.

Senior Subordinated Notes - During July 1996, we completed a public offering of $100,000 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.

During the three months ended March 31, 2007, we redeemed $5,000 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. During the period, we recorded non-cash expenses of $26 related to the early extinguishment of debt. Through fiscal year 2006, we redeemed $35,000 of the 2008 Notes.

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.

Under the indentures governing our senior subordinated notes and our senior notes, our ability to incur additional debt is limited. Under these indentures, additional debt must be incurred as so-called “Ratio Debt” or, alternatively, must be permitted in form and amount as “Permitted Indebtedness.” In order to incur Ratio Debt, a specified consolidated fixed charge coverage ratio (as defined in the indentures) must equal or exceed 2:1 (measured on a rolling four-quarter basis). Falling below the 2:1 ratio does not breach any covenant or constitute an event of default under any of our debt agreements. As of March 31, 2007, we exceeded the required 2:1 ratio and as a result are not limited to the Ratio Debt restrictions under the indentures governing the senior notes and each series of the senior subordinated notes.

Revolving credit facility - On November 5, 2003, we established a $220,000 senior secured credit facility (the “credit facility”), comprised of a $70,000 revolving credit facility (the “revolver”) and a $150,000 term loan (the “term loan”) with serial maturities of $249 quarterly with final payment at maturity. The credit facility maturity date is March 15, 2008, unless we retire or refinance the 2008 Notes, with debt having a due date after October 15, 2010, in which case the

maturity date for the revolver would be September 15, 2008 and the maturity date for the term loan would be April 15, 2010. Since we have not retired or refinanced the 2008 Notes, we have therefore reclassified the outstanding balance on the credit facility to current debt. We are currently exploring alternatives to refinance the credit facility and the 2008 Notes.

We had $54,615 outstanding on this facility ($51,247 on the term loan and $3,368 on the revolver) at an average variable interest rate of 7.5% as of March 31, 2007. The interest rate applicable to borrowings under the revolver is the agent's prime rate plus 1.50% to 1.75%, or a LIBOR-based rate ranging from LIBOR plus 2.50% to LIBOR plus 3.25%. The interest rate applicable to the term loan is the agent's prime rate plus 1.00% or a LIBOR-based rate plus 2.00%. The credit facility is secured by substantially all of our assets located in the United States.

During the three months ended March 31, 2007, we made additional voluntary prepayments on the term loan of $9,000, which makes the voluntary prepayments for the nine months ended March 31, 2007 equal to $43,457. As a result of these prepayments, we wrote off a portion of the deferred financing costs related to the term loan. The non-cash charges, related to early extinguishment of debt, were $59 and $711 during the three and nine months ended March 31, 2007, respectively.

The credit facility contains covenants customary for financing of this type. The financial covenants include: maximum ratio of consolidated net senior secured debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”), minimum ratio of consolidated EBITDA to consolidated interest expense and minimum ratio of consolidated EBITDA minus capital expenditures and taxes to consolidated fixed charges; as well as limitations on capital expenditures, share repurchases and dividend payments. As of March 31, 2007, we were in compliance with these financial covenants.

As of March 31, 2007, we had $61,481 of borrowing capacity on our revolving credit facility. The portion of this capacity that we could borrow on a particular date will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility.

Other long-term debt - On March 1, 2000, we purchased certain technology from Stac-Pac Technologies Inc. In connection with the purchase, we entered into an unsecured promissory note with Stac-Pac Technologies Inc. The principal amount of the note is $5,000 and bears interest at a rate of 7%. In accordance with the purchase agreement, we are entitled to withhold or retain the final installment of the purchase price until and unless there is final resolution of patent rights and to cancel the final installment of the purchase price if the patent rights in certain jurisdictions are not resolved according to the terms of the purchase agreement. As of March 31, 2007, these patent rights were not resolved. Therefore, the principal amount of the note remains unpaid and has been classified as long-term debt. As of March 31, 2007, we have accrued interest on the note of $2,129.

NOTE 7: COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Net income (loss)	$ 6,573	$ (795)	$ 14,200	$ 770
Foreign currency translation adjustments - net	4,044	6,003	437	10,146
Comprehensive income	$ 10,617	$ 5,208	$ 14,637	$ 10,916

For the three and nine months ended March 31, 2007, the change the foreign currency translation adjustment had to stockholders’ equity was primarily due to fluctuations in the exchange rate of the U.S. dollar against the European euro of $714 and $3,031, the Brazilian real of $2,903 and $2,649 and the Canadian dollar of $774 and $(5,201).

For the three months and nine months ended March 31, 2006, the change the foreign currency translation adjustment had to stockholders’ equity was primarily due to fluctuations in the exchange rate of the U.S. dollar against the European euro of $2,045 and $(83), the Brazilian real of $3,956 and $2,339 and the Canadian dollar of $(17) and $7,944.

NOTE 8: INCOME TAXES

Our effective tax rates for the three and nine month period ended March 31, 2007 were 33.4% and 39.5%. Our effective tax rates for the same periods of 2006 were 30.9% and (30.1%), respectively. Our tax rate is impacted by several factors including operations in jurisdictions with varying tax rates and the extraterritorial income tax exclusion. Our low level of our earnings before taxes for the nine months ended March 31, 2006 had a more significant impact on our effective tax rate in that nine month period. The rate increase for the nine month period ended March 31, 2007 was also impacted by a change in estimate related to the valuation allowance for the Brazil net operating loss carryforwards. 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 March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Expected tax expense at 35%	$ 3,456	$ (402)	$ 8,212	$ 207
Impairment of long-lived assets	-	(44)	-	(44)
Effect of foreign operations	821	183	431	984
Extraterritorial income benefit	(393)	(1,085)	(606)	(1,341)
Adjustment of foreign valuation allowance	355	2,000	2,494	2,153
Correction of prior year’s provision	(152)	(1,116)	(152)	(1,711)
Other	(785)	109	(1,115)	(426)
Income tax expense	$ 3,302	$ (355)	$ 9,264	$ (178)

NOTE 9: 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 March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Service cost for benefits earned	$ 150	$ 157	$ 449	$ 471
Interest cost on benefit obligation	352	314	1,056	942
Amortization of unrecognized prior service credit	(251)	(264)	(752)	(792)
Actuarial loss	142	150	426	450
Total cost	$ 393	$ 357	$ 1,179	$ 1,071

NOTE 10: COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share was as follows:

	Three Months Ended March 31		Nine Months Ended March 31	
	2007	2006	2007	2006
Net income (loss) applicable to common shareholders	$ 6,573	$ (795)	$ 14,200	$ 770
Weighted-average shares of common stock outstanding	37,887	37,638	37,750	37,606
Effect of diluted shares	555	-	298	40
Weighted-average common and common equivalent shares outstanding	38,442	37,638	38,048	37,646
Earnings (loss) per share				
Basic	$ 0.17	$ (0.02)	$ 0.38	$ 0.02
Diluted	$ 0.17	$ (0.02)	$ 0.37	$ 0.02

NOTE 11: ACCOUNTING PRONOUNCEMENT

In February 2007, the FASB issued SFAS No. 159, *the Fair Value Option for Financial Assets and Financial Liabilities* (“SAFS 159”). SFAS 159 permits all entities the option to measure most financial instruments and certain other items at fair value at specified election dates and to report related unrealized gains and losses in earnings. The fair value option will generally be applied on an instrument-by-instrument basis and is generally an irrevocable election. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are still evaluating the effect the new statement will have on our consolidated financial position, results of operation and cash flows.

NOTE 12: 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 which 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 is presented in the following tables.

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2007

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 29,329	$ 123,376	$ 48,870	$ (8,566)	$ 193,009
Cost of goods sold	24,987	99,807	43,751	(8,475)	160,070
Gross margin	4,342	23,569	5,119	(91)	32,939
Selling, research and administrative expenses, and other	2,341	8,140	1,699	-	12,180
Restructuring and impairment costs	473	51	677	-	1,201
Operating income (loss)	1,528	15,378	2,743	(91)	19,558
Other income (expense):					
Net interest income (expense) and amortization of debt	(10,150)	12	118	-	(10,020)
Other income (expense), including equity income (loss) in affiliates	12,642	(11)	443	(12,737)	337
Intercompany interest income (expense)	7,057	(4,798)	(2,259)	-	-
Income (loss) before income taxes	11,077	10,581	1,045	(12,828)	9,875
Income tax expense (benefit)	4,504	2,912	1,169	(5,283)	3,302
Net income (loss)	$ 6,573	$ 7,669	$ (124)	$ (7,545)	$ 6,573

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 28,169	$ 119,294	$ 43,542	$ (9,598)	$ 181,407
Cost of goods sold	24,736	102,898	38,900	(9,471)	157,063
Gross margin	3,433	16,396	4,642	(127)	24,344
Selling, research and administrative expenses, and other	3,694	7,308	1,777	-	12,779
Restructuring and impairment costs	-	-	1,802	-	1,802
Operating income (loss)	(261)	9,088	1,063	(127)	9,763
Other income (expense):					
Net interest income (expense) and amortization of debt	(11,416)	118	237	-	(11,061)

Other income (expense), including equity income (loss) in affiliates	2,490	(8)	95	(2,429)	148
Intercompany interest income (expense)	7,321	(5,092)	(2,229)	-	-
Income (loss) before income taxes	(1,866)	4,106	(834)	(2,556)	(1,150)
Income tax expense (benefit)	(1,071)	(158)	1,769	(895)	(355)
Net income (loss)	$ (795)	$ 4,264	$ (2,603)	$ (1,661)	$ (795)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended March 31, 2007

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 90,035	$ 362,818	$ 142,880	$ (26,588)	$ 569,145
Cost of goods sold	75,131	300,037	129,044	(26,359)	477,853
Gross margin	14,904	62,781	13,836	(229)	91,292
Selling, research and administrative expenses and other	6,260	24,096	5,329	-	35,685
Restructuring and impairment costs	473	51	700	-	1,224
Operating income (loss)	8,171	38,634	7,807	(229)	54,383
Other income (expense):					
Net interest income (expense) and amortization of debt	(31,312)	(87)	188	-	(31,211)
Other income (expense), including equity income (loss) in affiliates	29,148	(81)	1,309	(30,084)	292
Intercompany interest income (expense)	21,369	(14,527)	(6,842)	-	-
Income (loss) before income taxes	27,376	23,939	2,462	(30,313)	23,464
Income tax expense (benefit)	13,176	7,344	3,294	(14,550)	9,264
Net income (loss)	$ 14,200	$ 16,595	$ (832)	$ (15,763)	$ 14,200

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended March 31, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Net sales	$ 78,232	$ 338,255	$ 143,758	$ (25,128)	$ 535,117
Cost of goods sold	67,740	289,529	128,812	(25,209)	460,872
Gross margin	10,492	48,726	14,946	81	74,245
Selling, research and administrative expenses, and other	9,714	21,534	5,299	-	36,547
Restructuring and impairment costs	-	-	4,894	-	4,894
Operating income	778	27,192	4,753	81	32,804
Other income (expense):					
Net interest income (expense) and amortization of debt	(33,721)	302	1,600	-	(31,819)
Other income (expense), including equity income (loss) in affiliates	11,972	29	(459)	(11,935)	(393)
Intercompany interest income (expense)	21,710	(15,492)	(6,218)	-	-
Income (loss) before income taxes	739	12,031	(324)	(11,854)	592
Income tax expense (benefit)	(31)	1,889	2,113	(4,149)	(178)
Net income (loss)	$ 770	$ 10,142	$ (2,437)	$ (7,705)	$ 770

CONDENSED CONSOLIDATING BALANCE SHEETS
As of March 31, 2007

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 919	$ 1,031	$ 13,547	$ -	$ 15,497
Accounts receivable, net of allowance	15,596	70,286	29,018	-	114,900
Inventories	15,631	47,995	19,897	(672)	82,851
Other current assets	2,452	5,784	451	-	8,687
Intercompany accounts receivable	-	82,687	-	(82,687)	-
Total current assets	34,598	207,783	62,913	(83,359)	221,935
Property, plant and equipment, net	56,812	323,052	144,202	-	524,066
Goodwill and intangibles, net	20,877	50,255	99,515	-	170,647
Intercompany notes receivable	332,311	-	-	(332,311)	-
Other assets, including investment in subsidiaries	328,626	332,296	97,743	(746,340)	12,325
Total assets	$ 773,224	$ 913,386	$ 404,373	$ (1,162,010)	$ 928,973
Liabilities and stockholders' equity					
Current liabilities					
Trade accounts payable	$ 6,595	$ 20,421	$ 7,108	$ -	$ 34,124
Other current liabilities	79,257	16,411	12,658	(1)	108,325
Intercompany accounts payable	69,737	-	12,950	(82,687)	-
Total current liabilities	155,589	36,832	32,716	(82,688)	142,449
Long-term debt	416,629	-	-	-	416,629
Deferred income taxes	(41,096)	61,654	19,938	-	40,496
Other long-term liabilities	6,608	13,854	1,655	-	22,117
Intercompany notes payable	-	206,228	126,081	(332,309)	-
Stockholders'/invested equity	235,494	594,818	223,983	(747,013)	307,282
Total liabilities and stockholders' equity	$ 773,224	$ 913,386	$ 404,373	$ (1,162,010)	$ 928,973

CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 1,535	$ 162	$ 7,037	$ -	$ 8,734
Accounts receivable, net	17,395	66,207	29,156	-	112,758
Inventories	24,680	53,756	20,573	(442)	98,567
Other current assets	2,422	4,845	1,206	-	8,473
Intercompany accounts receivable	-	57,105	-	(57,105)	-
Total current assets	46,032	182,075	57,972	(57,547)	228,532
Property, plant and equipment, net	55,440	329,020	147,438	-	531,898
Goodwill and intangibles, net	20,913	51,730	101,636	-	174,279
Intercompany notes receivable	342,478	-	-	(342,478)	-
Other assets, including investment in subsidiaries	304,581	337,654	93,066	(721,797)	13,504
Total assets	$ 769,444	$ 900,479	$ 400,112	$ (1,121,822)	$ 948,213
Liabilities and stockholders' equity					
Current liabilities					
Trade accounts payable	$ 4,857	$ 21,077	$ 7,039	$ -	$ 32,973
Other current liabilities	20,416	17,390	11,190	1	48,997
Intercompany accounts payable	52,297	-	4,808	(57,105)	-
Total current liabilities	77,570	38,467	23,037	(57,104)	81,970
Long-term debt	519,414	-	-	-	519,414
Deferred income taxes	(48,099)	64,030	19,755	-	35,686
Other long-term liabilities	6,414	13,476	1,536	-	21,426
Intercompany notes payable	-	201,993	140,485	(342,478)	-
Stockholders'/invested equity	214,145	582,513	215,299	(722,240)	289,717
Total liabilities and stockholders' equity	$ 769,444	$ 900,479	$ 400,112	$ (1,121,822)	$ 948,213

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2007

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by (used in) operations	$ 61,705	$ 24,310	$ (5,911)	$ 80,104
Investing activities:				
Purchases of property, plant and equipment	(5,327)	(18,200)	(2,708)	(26,235)
Other	-	(379)	520	141
Net cash used in investing activities	(5,327)	(18,579)	(2,188)	(26,094)
Financing activities				
Net borrowings under revolving line of credit	368	-	-	368
Net borrowings (payments) on long-term debt and other	(59,670)	(4,862)	14,405	(50,127)
Net proceeds from sale of equity interests	2,308	-	-	2,308
Net cash provided by (used in) financing activities	(56,994)	(4,862)	14,405	(47,451)
Effect of foreign currency rate fluctuations on cash	-	-	204	204
Increase (decrease) in cash and cash equivalents	(616)	869	6,510	6,763
Cash and cash equivalents at beginning of period	1,535	162	7,037	8,734
Cash and cash equivalents at end of period	$ 919	$ 1,031	$ 13,547	$ 15,497

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2006

	Buckeye Technologies Inc.	Guarantors US Subsidiaries	Non-Guarantor Subsidiaries	Consolidated
Net cash provided by operations	$ 853	$ 20,725	$ 3,462	$ 25,040
Investing activities:				
Purchases of property, plant and equipment	(4,662)	(14,405)	(22,112)	(41,179)
Proceeds from sale of assets and other	-	(376)	42	(334)
Net cash used in investing activities	(4,662)	(14,781)	(22,070)	(41,513)

Financing activities								
Net borrowings under line of credit		33,486		-		-		33,486
Net borrowings (payments) on long-term debt and other		(29,857)		(5,862)		19,083		(16,636)
Net proceeds from sale of equity interests		549		-		-		549
Net cash provided by (used in) financing activities		4,178		(5,862)		19,083		17,399
Effect of foreign currency rate fluctuations on cash		-		-		294		294
Increase in cash and cash equivalents		369		82		769		1,220
Cash and cash equivalents at beginning of period		860		151		8,915		9,926
Cash and cash equivalents at end of period	$	1,229	$	233	$	9,684	$	11,146

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. Some of the numbers in this discussion may not add due to rounding. 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, 2006 ("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, 2007 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 and nine months ended March 31, 2007 to the three and nine months ended March 31, 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, 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, and significantly reduce our debt.

We earned net income of $6.6 million and $14.2 million for the three and nine months ended March 31, 2007 versus $(0.8) million and $0.8 million during the same periods in 2006. For the nine months ended March 31, 2007, earnings were impacted by $1.2 million in restructuring costs related to overhead reduction versus the same period of the prior year, when earnings were negatively impacted by $3.4 million in restructuring and $1.5 million in impairment of long-lived assets relating to the closure of our Glueckstadt, Germany specialty fibers facility. Our earnings improvement was primarily driven by higher selling prices in all business segments.

We continue to make progress at our Americana cotton fiber facility in Brazil. Our focus on reliability and efficiency is starting to pay off as our Americana team gains experience operating the new process. We expect our performance to continue to improve but we cannot predict exactly when the site will be profitable due to constraints on raw material availability and price. We have made good progress toward being cash neutral.

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. Sales for the nine months ended March 31, 2007 were $3.9 million compared to approximately $2.0 million for the same period in 2006. We have over 200 dispensers installed providing ready mix operators with significant savings through automation. While our sales growth has been more

gradual than we had anticipated earlier in the year, we expect to about double our revenues year over year for the fiscal year ending June 30, 2007.

Continued strong cash flow generation enabled us to reduce debt by $12.7 million during the three months ended March 31, 2007. For the nine months ended March 31, 2007, cash generated from operations was $79.9 million compared to $25.0 million in the same period in 2006. Total inventory reduction for the nine month period ended March 31, 2007 was $15.9 million compared to an $8.8 million increase in inventory during the same period in 2006. Capital spending decreased by $14.9 million for the nine month period ended March 31, 2007 compared to the same period in 2006, as spending on the Americana project has been completed.

Our markets remain strong and we expect to be able to sell what we produce, making operational reliability essential. We are seeing the benefit of mid-single digit price increases for our specialty fibers products that began in January 2007. We are also benefiting from price increases in our nonwoven materials segment that will offset raw material pricing escalation. Fluff pulp markets remain strong and prices for fluff pulp continue to increase. We have some challenges at Americana to overcome, including raw material supply constraints, but the improvements in our other business areas in fiscal 2007 should offset the effect of the delay in reaching profitability at our Americana facility.

Results of Operations

Consolidated results

The following table compares components of operating income for the three and nine months ended March 31, 2007 and 2006.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Net sales	$ 193.0	$ 181.4	$ 11.6	6.4%	$ 569.1	$ 535.1	$ 34.0	6.4%
Cost of goods sold	160.1	157.0	3.1	2.0	477.9	460.8	17.1	3.7
Gross margin	32.9	24.4	8.5	34.8	91.2	74.3	16.9	22.7
Selling, research and administrative expenses	11.6	12.3	(0.7)	(5.7)	34.0	35.1	(1.1)	(3.1)
Amortization of intangibles and other	0.5	0.5	-	-	1.6	1.5	0.1	6.7
Impairment costs	-	1.5	(1.5)	*	-	1.5	(1.5)	*
Restructuring costs	1.2	0.3	0.9	*	1.2	3.4	(2.2)	*
Operating income	$ 19.6	$ 9.8	$ 9.8	100.0%	$ 54.4	$ 32.8	$ 21.6	65.9%

* Percent change not meaningful

Net sales were higher during the three and nine months ended March 31, 2007, primarily driven by higher selling prices across all segments of our business. The shift from tolling operations to market sales at our Americana specialty fibers facility positively impacted our product mix. A positive currency impact, due to the strong euro, added to the improvement. Shipment volume was down for both the three and nine months ended March 31, 2007. For the three months ended March 31, 2007, fluff pulp shipments were approximately 20% lower as we sold excess inventory in the prior year. For both the three and nine months, the closure of the Glueckstadt plant had a negative impact on sales volume.

Gross margin improved in both the three and nine months ended March 31, 2007 as compared to the same periods in the prior year. The largest component of the improvement was the higher selling prices discussed previously. Lower energy and chemical costs were the primary cost improvement drivers, offset by higher raw material and transportation costs during the three month period. For the nine months ended March 31, 2007, higher transportation, raw material and chemical costs more than offset reductions in energy prices.

Selling, research and administrative expenses decreased in both the three and nine months ended March 31, 2007 as compared to the same period in 2006. As a percentage of net sales these costs were down significantly from 6.8% to 6.0% and from 6.6% to 6.0%, respectively. The improvement was a result of reduced headcount, lower spending on professional services and travel and higher sales.

During the three months ended March 31, 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. We anticipate the total cost of this program will be approximately $1.5, of which $1.2 million has been recorded, and will be completed during the first quarter of the 2008 fiscal year. As a result of this restructuring, 22 positions will be eliminated which will provide annual savings of over $2.0 million.

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 operating segments producing 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 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 amortization of intangibles, restructuring costs and certain financing and investing costs.

Specialty fibers

The following table compares specialty fibers net sales and operating income for the three and nine months ended March 31, 2007 and 2006.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Net sales	$ 135.4	$ 127.2	$ 8.2	6.4%	$ 400.4	$ 379.7	$ 20.7	5.5%
Operating income	15.9	7.0	8.9	127.0	41.4	28.7	12.7	44.3

Specialty fibers net sales improved during the three months ended March 31, 2007 versus the same period in 2006, primarily driven by higher selling prices implemented in January and by the higher shipment volume from our Americana cotton fiber facility in Brazil as we were in start up mode during the same period in the prior year. Partially offsetting this improvement, fluff pulp shipments were approximately 20% lower as we sold excess inventory in the prior year. Net sales increased for the nine months ended March 31, 2007 versus the same period in 2006 primarily due to higher pricing and the shift from tolling operations to market sales at our Americana cotton fibers facility. For the three and nine month periods ended March 31, 2007, fluff pulp pricing increased by 13.0% and 6.0%, respectively, versus the same periods in the previous year. Also for the three and nine months, the closure of the Glueckstadt plant had a negative impact on sales volume versus the prior year.

Operating income improved for the three months ended March 31, 2007 versus the three months ended March 31, 2006. Sales pricing and improved product mix were the primary drivers of this improvement along with better results at our Americana cotton fibers facility. In addition, lower energy and chemical prices added to the improvement but were partially offset by higher transportation costs. The improvement for the nine months ended March 31, 2007 versus the same period in the previous year was also driven by higher prices and improved product mix. Increased transportation, raw material and chemical usage costs more than offset reductions in energy prices.

We continue to make progress at our Americana cotton fiber facility in Brazil. Our focus on reliability and efficiency is starting to pay off as our Americana team gains experience operating the new process. We expect our performance to continue to improve but we cannot predict exactly when the site will be profitable due to constraints on raw material availability and price. We have made good progress toward being cash neutral.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three and nine months ended March 31, 2007 and 2006.

(millions)	Three Months Ended March 31				Nine Months Ended March 31			
	2007	2006	Change	% Change	2007	2006	Change	% Change
Net sales	$ 65.4	$ 61.2	$ 4.2	6.9%	$ 192.8	$ 177.0	$ 15.8	8.9%
Operating income	5.9	5.1	0.8	15.7	16.7	10.4	6.3	60.6

The increase in net sales for the three and nine month periods ended March 31, 2007 was due to higher prices, improved product mix, and the strengthening of the European euro versus the US dollar. Net sales for the nine month period also benefited from higher sales volume. The improvement in operating income during the three and nine month periods was a result of the increased volume and selling prices along with higher production leading to better utilization of our North American facilities. These improvements were slightly offset by higher raw material prices and higher direct costs associated with the increased production.

During the three months ended March 31, 2007, we completed the first phase of a $2 million capital project at our Gaston facility in North America to provide our older machine, Gaston 1, with the capacity to supply some of the growth markets. The machine upgrade will also allow us to have greater product mix flexibility.

Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased $0.6 million for the nine month period ending March 31, 2007 versus the same period in the prior year. Net interest expense for the nine month period ended March 31, 2007 decreased primarily due to lower debt levels. This decrease was partially offset by capitalized interest related to the Americana project, which reduced last year’s interest expense by $1.7 million relative to this year. Net interest expense and amortization of debt costs decreased $1.0 million for the three month period ended March 31, 2007 versus the same period a year ago. Higher variable interest rates were offset by our decrease in average outstanding debt during the three and nine month periods. The weighted average effective interest rate on our variable rate debt increased from 7% at March 31, 2006 to 7.5% at March 31, 2007.

Loss on early extinguishment of debt costs

During the three month period ended March 31, 2007, we used cash from operations and borrowings on our revolver to redeem $5 million of our 9.25% 2008 notes and to make voluntary prepayments on our term loan of $9.0 million. As a result of these partial extinguishments, we wrote-off a portion of deferred financing costs. We recorded non-cash expense related to this debt extinguishment of $0.1 million and $0.7 million during the three and nine months ended March 31, 2007. During the nine months ended March 31, 2007, the voluntary prepayments on our term loan totaled $43.5 million.

On September 26, 2005 we used borrowings on our revolving credit facility to redeem $15 million of our 9.25% 2008 Notes. As a result of this partial extinguishment, we wrote-off a portion of deferred financing costs, resulting in non-cash expense of $0.2 million during the nine months ended March 31, 2006.

Income tax expense

Our effective tax rate for the three and nine months ended March 31, 2007 was 33.4% and 39.5% versus 30.9% and (30.1%) for the same periods in 2006. The rate increase for the nine month period ended March 31, 2007 results from a change in estimate related to the valuation allowance for the Brazil net operating loss carryforwards. 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 fiscal year to be approximately 40.0%. See Note 8: Income Taxes of this quarterly report for further information.

Financial Condition

Liquidity and capital resources

We have the following major sources of financing: 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 March 31, 2007 and believe we will continue to remain in compliance. The 2008 Notes become due September 15, 2008 and, if we have not refinanced the 2008 Notes on or prior to March 15, 2008, our revolving credit facility will become due at that time. Accordingly, we will have to amend our existing credit facility or arrange to refinance the 2008 Notes prior to such date. We are currently exploring alternatives to refinance our credit facility and our 2008 Notes.

On March 31, 2007, we had $15.5 million of cash and cash equivalents and $61.5 million borrowing capacity on our revolving credit facility as defined in Note 6. 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 March 31, 2007, our liquidity, including available borrowings and cash and cash equivalents was approximately $77.0 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 nine month period ended March 31, 2007 and March 31, 2006.

	Nine Months Ended March 31	
(millions)	2007	2006
Operating activities:		
Net income	$ 14.2	$ 0.8
Non-cash charges and credits, net	45.7	36.0
Changes in operating assets and liabilities, net	20.2	(11.8)
Net cash provided by operating activities	80.1	25.0
Investing activities:		
Purchases of property, plant and equipment	(26.2)	(41.1)
Proceeds from sale of assets and other	0.5	-
Other investing activities	(0.4)	(0.4)
Net cash used in investing activities	(26.1)	(41.5)
Financing activities:		
Net borrowings under lines of credit	0.4	33.5
Payments on long-term debt and other	(50.1)	(16.6)
Other financing activities, net	2.3	0.5
Net cash provided by (used in) financing activities	(47.4)	17.4
Effect of foreign currency rate fluctuations on cash	0.2	0.3

Net increase in cash and cash equivalents	$	6.8	$	1.2

Cash provided by operating activities

The $55.1 million increase in cash flows from operating activities during the nine months ended March 31, 2007 was primarily the result of improved earnings and reductions in inventory. The largest components of the inventory reduction during the nine months ended March 31, 2007 were a $6.8 million reduction in finished goods and a $6.7 million reduction in cotton fibers inventory, which is partly the result of the shortage in affordable cotton raw material supply.

Net cash used in investing activities

Purchases of property, plant and equipment decreased during the nine months ended March 31, 2007 versus the same period in 2006 primarily due to expending $20.1 million during the 2006 period to add full market capability to our Americana, Brazil cotton cellulose facility. We expect that our capital expenditures will increase in the last quarter of this fiscal year and the total capital spending for fiscal 2007 will be approximately $42 million.

We expect to incur significant capital expenditures in the future to comply with remaining environmental obligations at our wood specialty fibers facility. The proposed permit for the National Pollutant Discharge Elimination System (NPDES), prepared in connection with the Fenholloway Agreement, was challenged by some members of the public and the administrative hearing to address the issues is now expected to occur during the fourth quarter of calendar 2007 or the first quarter of calendar 2008. Based on current estimates, we expect expenditures of approximately $60 million over eight to ten years, possibly beginning late in our next fiscal year. See Note 20, Contingencies, to the Consolidated Financial Statements in our fiscal 2006 Annual Report filed on Form 10-K.

Net cash provided by (used in) financing activities

During the nine months ended March 31, 2007, we used cash from operating activities to make voluntary prepayments on our term loan of $43.5 million and to redeem $5.0 million on our 2008 Notes. We intend to continue to use cash from operations to reduce our debt. Our capacity to make restricted cash payments under our other debt instruments limited us to redeeming $5.0 million of our high interest rate, 9.25%, senior subordinated notes due in 2008. We are currently exploring alternatives to refinance our credit facility and our 2008 Notes. We are focused on debt reduction with a target of a 50/50 debt to equity balance in our capital structure.

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 repurchased no shares of our common stock during the nine months ended March 31, 2007 and expect to make no such repurchases in the balance of fiscal 2007. Through March 31, 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 March 31, 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)		Payments Due by Period			
Contractual Obligations	Total	Fiscal 2007 [1]	Fiscal 2008 and 2009	Fiscal 2010 and 2011	Thereafter
Long-term obligations [2]	$ 634.6	$ 15.8	$ 191.3	$ 202.0	$ 225.5
Capital lease obligations [3]	0.8	-	0.8	-	-
Operating lease obligations	1.9	0.5	1.2	0.2	-
Timber commitments	46.8	3.2	24.2	19.4	-
Linter commitments[4]	24.8	24.8	-	-	-
Other purchase commitments [5]	14.9	10.1	4.8	-	-
Total contractual cash obligations	$ 723.8	$ 54.4	$ 222.3	$ 221.6	$ 225.5

[1] Cash obligations for the remainder of fiscal 2007.

[2] Amounts include related interest payments. Interest payments for variable debt of $54.6 million are based on the effective rate as of March 31, 2007 of 7.5% per annum.

[3] Capital lease 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 postretirement benefit obligations has not materially changed since June 30, 2006. 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 15, Employee Benefit Plans, to the Consolidated Financial Statements in our fiscal 2006 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 are either the most judgmental, or involve the selection or application of alternative accounting policies, and 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 and supply 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; 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

In our annual report, we indicated that the availability and cost of cotton fiber was a risk factor. As of March 31, 2007, we have potential raw material availability issues in our specialty cotton fibers business in both North America and Brazil. In North America, the USDA recently reported cotton acreage planted in 2007 will be less than 2006 due to the shift in crop mix to corn supporting ethanol and other biofuel initiatives. With less cotton planted, the fall cotton seed crush will likely be reduced resulting in less cotton fiber being available. We have been increasing our imported lint purchases for our Memphis specialty cotton fibers facility in order to minimize the impact of North American cotton fiber availability. In Brazil, the cotton is harvested in the April - July period and we will have better information on lint availability in that market at that time. Currently our production is limited to lint availability. There have been no other material changes in our market risk since the disclosure in our Annual Report. While we have global operations, the majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions provides diversification of our foreign currency risks. 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 March 31, 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: May 2, 2007

By: /S/ STEVEN G. DEAN

Steven G. Dean, Vice President and Chief Financial Officer

Date: May 2, 2007