BUCKEYE TECHNOLOGIES INC
Form 10-Q
April 29, 2005

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, 2005

|_| 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 ____

Indicate by check mark whether the registrant is an accelerated filer(as defined in Rule 12b-2 of the Exchange Act). Yes |X| No ____

As of April 21, 2005, there were outstanding 37,577,573 Common Shares of the Registrant.

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BUCKEYE TECHNOLOGIES INC.

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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	
	2005	2004
Net sales	$180,910	$172,761
Cost of goods sold	150,700	151,031
Gross margin	30,210	21,730
Selling, research and administrative expenses	11,076	9,445
Impairment of long-lived assets	-	43,891
Restructuring costs	616	143
Amortization of intangibles and other	613	563
Operating income (loss)	17,905	(32,312)
Net interest expense and amortization of debt costs	(11,076)	(11,369)
Loss on early extinguishment of debt	(242)	-
Gain on sale of assets held for sale	30	-
Foreign exchange and other	(971)	414
Income (loss) before income taxes and cumulative effect of change in accounting	5,646	(43,267)
Income tax expense (benefit)	1,552	(15,762)
Income (loss) before cumulative effect of change in accounting	4,094	(27,505)
Cumulative effect of change in accounting (net of tax $3,359)	-	-
Net income (loss)	$ 4,094	$ (27,505)
Earnings (loss) per share before cumulative effect of change in accounting		
Basic earnings (loss) per share	$ 0.11	$ (0.74)
Diluted earnings (loss) per share	$ 0.11	$ (0.74)
Cumulative effect of change in accounting		
Basic earnings (loss) per share	$ -	$ -
Diluted earnings (loss) per share	$ -	$ -
Earnings (loss) per share		
Basic earnings (loss) per share	$ 0.11	$ (0.74)
Diluted earnings (loss) per share	$ 0.11	$ (0.74)
Weighted average shares for basic earnings per share	37,499	37,080
Adjusted weighted average shares for diluted earnings per share	37,723	37,080

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

	March 31 2005	June 30 2004
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 12,861	$ 27,235
Accounts receivable-net	116,562	112,367
Inventories	112,749	107,439
Deferred income taxes and other	11,577	10,207
Total current assets	253,749	257,248
Property, plant and equipment	889,369	883,613
Less accumulated depreciation	(369,555)	(345,981)
	519,814	537,632
Goodwill	138,851	130,172
Intellectual property and other, net	38,425	41,023
Total assets	$950,839	$966,075
Liabilities and stockholders' equity		
Current liabilities:		
Trade accounts payable	$ 30,355	$ 27,130
Accrued expenses	51,152	45,337
Current portion of capital lease obligation	672	632
Current portion of long-term debt	998	16,972
Total current liabilities	83,177	90,071
Long-term debt	$537,081	$587,076
Accrued post retirement benefits	19,449	18,931
Deferred income taxes	44,392	37,956
Capital lease obligation	1,559	2,068
Other liabilities	192	628
Stockholders' equity	264,989	229,345
Total liabilities and stockholders' equity	$950,839	$966,075

See accompanying notes.

BUCKEYE TECHNOLOGIES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Nine Months En[ded] March 31
	2005
Operating activities	
Net income (loss)	$11,422
Adjustments to reconcile net income (loss) to net cash provided by operating activities:	
Cumulative effect of change in accounting	-
Impairment of long-lived assets	12,010
Depreciation	34,703
Amortization	2,699
Loss on early extinguishment of debt	242
Deferred income taxes and other	5,466
Gain on sale of assets held for sale	(7,203)
Changes in operating assets and liabilities:	
Accounts receivable	(1,752)
Inventories	(4,786)
Other assets	(4,027)
Accounts payable and other current liabilities	9,021
Net cash provided by operating activities	57,795
Investing activities	
Purchases of property, plant and equipment	(23,014)
Proceeds from sale of assets	13,662
Other	(401)
Net cash used in investing activities	(9,753)
Financing activities	
Net borrowings (payments) under lines of credit	1,200
Issuance of long term debt	-
Payments on long-term debt and other	(67,344)
Payments for debt issuance costs	(5)
Payments related to early extinguishment of debt	-
Proceeds from termination of swap	-
Net proceeds from sale of equity interests	2,672
Net cash used in financing activities	(63,477)
Effect of foreign currency rate fluctuations on cash	1,061
Decrease in cash and cash equivalents	(14,374)
Cash and cash equivalents at beginning of period	27,235
Cash and cash equivalents at end of period	$12,861

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(In thousands)

NOTE A -- 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, 2005 are not necessarily indicative of the results that may be expected for the year ending June 30, 2005. 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, as amended, for the year ended June 30, 2004. Except as otherwise specified, references to years indicate our fiscal year ending June 30, 2005 or ended June 30 of the year referenced and comparisons are to the corresponding period of the prior year.

Reclassifications

Certain prior year amounts have been reclassified to conform to current year presentation. In fiscal 2005, amortization of intangibles is included in operating income (loss). Previously, these expenses were in foreign exchange and other. Amortization of intangibles was $613 and $1,819 for the three and nine months ended March 31, 2005 and $563 and $1,692 for the same periods in 2004.

Translation adjustment

Management has determined that the local currency of our German, Irish, Canadian, and Brazilian subsidiaries is the functional currency, and accordingly European euro, Canadian dollar, and Brazilian real denominated balance sheet accounts are translated into United States dollars at the rate of exchange in effect at March 31, 2005. 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 B -- CHANGE IN ACCOUNTING METHOD

Through June 30, 2003, we accounted for major planned maintenance activities at our specialty fibers plant in Perry, Florida by accruing the cost of the maintenance activities over the period between each planned maintenance activity (the accrue in advance method), which ranged from two to five year intervals. All other facilities expensed maintenance costs as incurred.

During the third quarter of fiscal 2004, we re-evaluated this critical accounting policy and, effective July 1, 2003, changed our method of accounting from the accrue-in-advance method to the direct expense method. Under the new accounting method, maintenance costs are expensed as incurred. We believe the new method is preferable in this circumstance because the maintenance liability is not recorded until there is an obligating event (when the maintenance event is actually being performed). The direct expense method eliminates significant estimates and judgments inherent under the accrual method, and it is the predominant method used in the industry.

The following table reflects the restated net income and earnings per share as if the change in accounting for planned maintenance activities were handled retroactively.

	Three Months Ended March 31		Nine
	2005	2004	2005
Net income (loss) as reported.........................	$4,094	$(27,505)	$ 11,422
Deduct: Cumulative effect of change in accounting for planned maintenance costs, net of tax............	-	-	-
Pro forma net income (loss)...........................	$4,094	$(27,505)	$11,422
Earnings (loss) per share as reported			
Basic..	$ 0.11	$ (0.74)	$ 0.31
Diluted......................................	$ 0.11	$ (0.74)	$ 0.30
Pro forma earnings (loss) per share			
Basic..	$ 0.11	$ (0.74)	$ 0.31
Diluted......................................	$ 0.11	$ (0.74)	$ 0.30

NOTE C -- 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 administration 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

Net sales	2005	$132,344	$56,617	$(8,051)
	2004	121,289	57,259	(5,787)
Operating income (loss)	2005	15,192	3,552	(839)
	2004	10,896	1,349	(44,557)
Depreciation and amortization of intangibles	2005	6,931	4,412	893
	2004	7,037	4,782	831
Capital expenditures	2005	9,566	943	726
	2004	4,596	636	35

Nine Months Ended March 31		Specialty Fibers	Nonwoven Materials	Corporate
Net sales	2005	$380,244	$170,604	$(21,993)
	2004	343,195	161,654	(15,978)
Operating income (loss)	2005	49,140	10,568	(16,276)
	2004	15,484	4,985	(51,399)
Depreciation and amortization of intangibles	2005	21,015	13,038	2,636
	2004	20,638	13,517	2,493
Capital expenditures	2005	19,768	2,180	1,066
	2004	24,452	1,778	227

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.

NOTE D -- ASSETS HELD FOR SALE

In July 2004, we ceased production of nonwoven materials at our Cork, Ireland facility. See Note F - Restructuring costs for more information on this closure. Subsequent to the July 2004 closure of the facility, we began to actively market the building and equipment with carrying values of $4,494 and $1,505, respectively, and reclassified them as assets held for sale. In late December of 2004, we completed the sale of the building to the Port of Cork Company for $13,408. Although the carrying values of these assets were based on appraisals and available market information at the time of the impairment in March of 2004, the purchase of this building for strategic purposes by the Port of Cork Company was not contemplated in those appraisals. As a result of the sale and disposition of the building and equipment for net proceeds of $13,134 (net of $1,897 of decommissioning and selling costs), we recognized a net gain

of $7,203 ($4,688 net of tax and $0.12 per share net of tax) during the nine months ended March 31, 2005. The gain is presented under the "Gain on sale of assets held for sale" caption in the statement of operations.

NOTE E -- IMPAIRMENT COSTS

In January 2005, we announced our decision to discontinue producing cotton linter pulp at our Glueckstadt, Germany facility. Our decision is due to a combination of factors which have come together to increase the plant's costs to a level at which it is uneconomical to continue operations. The most significant factor impacting cost at the site has been the substantial strengthening of the euro over the past two years. Specialty fibers are normally priced and sold in U.S. dollars around the world. As most of Glueckstadt's costs are denominated in euros, this substantial strengthening has had a negative impact on Glueckstadt's cost position. Additionally, Glueckstadt's process water, waste treatment and energy costs are more than twice the cost of these utilities at our Memphis, Tennessee cotton-based specialty fibers facility. Faced with these difficulties, we reduced the number of employees at the facility from approximately 150 to approximately 100 and are currently operating at 55% of capacity.

After careful consideration of all the options available, management reached the decision to close the Glueckstadt facility and consolidate production at our two other cotton-based specialty fibers manufacturing facilities. We expect production at Glueckstadt to cease during the second quarter of fiscal 2006. We believe that closing our Glueckstadt facility and transferring a majority of its cotton-based specialty fiber production to our Memphis, Tennessee and Americana, Brazil facilities later this calendar year will yield a competitive cost structure.

During the second quarter of 2005 leading up to the decision to discontinue production, we evaluated the recoverability of the long-lived assets at the Glueckstadt facility in accordance with Statement of Financial Accounting No. (SFAS) 144, Accounting for Impairment or Disposal of Long-Lived Assets. Based on this evaluation, we determined that these long-lived assets, with a carrying amount of $15,280 (net of $3,215 of foreign currency translation adjustment), were impaired and wrote them down to their estimated fair value of $3,270, resulting in an impairment charge of $12,010. This fair value was based on the remaining service potential of the facility through its expected closure in the second quarter of fiscal 2006, plus the estimated salvage value, as we do not believe the facility can be utilized for its intended purpose as it is uneconomical for us or a third party to continue operations. We expect to eventually sell the land, buildings and equipment.

NOTE F -- RESTRUCTURING COSTS

During fiscal 2003 we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across our company. The main component of this phase was the partial closure of our Lumberton, North Carolina facility, resulting in the consolidation of our U.S. cotton linter pulp production at our Memphis, Tennessee facility and in the elimination of approximately 100 positions within the specialty fibers segment. We do not expect to incur any further expenses related to this program.

During the first quarter of fiscal 2004, we entered into a second phase of our restructuring program. This program was a continuation of the program initiated in the fourth quarter of fiscal 2003 and enabled us to improve our operating results through reduced salaries, benefits, other employee-related

expenses and operating expenses. As a result of this restructuring, 76 positions were eliminated and two additional positions will be eliminated over calendar 2005. These positions include manufacturing, sales, product development and administrative functions throughout the organization. We expect payments related to this phase of the restructuring program to continue through calendar 2005 and expect costs to total approximately $3,500.

During the fourth quarter of fiscal 2004, we announced the cessation of production of nonwoven materials at our Cork, Ireland facility. We have continued to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt, Germany; and Gaston County, North Carolina. This consolidation reduced working capital needs by $4,000, and we expect will enable us to improve our overall nonwoven materials operating results by about $7,000 annually. The closure of the Cork facility and related reorganization of the nonwoven materials organization resulted in the termination of 89 employees and expenses totaling $3,046. We do not expect to incur any further expenses related to this program.

During January 2005, we announced that we will discontinue production of cotton-based specialty fibers at our Glueckstadt, Germany facility during the second quarter of fiscal 2006. We plan to continue to meet customer needs for cotton-based specialty fibers by producing these products at our facilities in Memphis, Tennessee and Americana, Brazil. We expect this consolidation will enable us to improve our overall specialty fibers operating results by about $9,000 annually and reduce working capital needs by approximately $6,000. The closure of the Glueckstadt facility will result in the termination of 103 employees, and we expect restructuring expenses related to the closure to be approximately $7,000 over the remainder of fiscal 2005 and 2006. We expect payments related to this restructuring program to extend through the end of fiscal 2006.

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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 which are expensed as incurred. Accrual balances are included in "Accrued expenses" in the balance sheet. The following table summarizes the expenses and accrual balances by reporting segments for the nine months ended March 31, 2005.

		Nine Months Ended March 31, 2005			
2003 Restructuring Program-Phase 1	Accrual Balance as of June 30, 2004	Additional Charges	Impact Of Foreign Currency	Payments	Accrua Balance of March 3 2005
Severance and employee benefits					
Specialty fibers...............	$ -	$ -	$ -	$ -	$

Nonwoven materials............	-	-	-	-	
Other miscellaneous expenses					
Specialty fibers..............	-	111	-	(111)	
Nonwoven materials............	-	-	-	-	
Total 2003 Program-Phase 1	-	111		(111)	
2003 Restructuring Program-Phase 2					
Severance and employee benefits					
Specialty fibers................	263	278	7	(509)	3
Nonwoven materials..............	-	-	-	-	
Corporate.......................	121	-	-	(121)	
Total 2003 Program-Phase 2	384	278	7	(630)	3
2004 Restructuring Program					
Nonwoven materials					
Severance and employee Benefits......................	1,750	1,007	16	(2,760)	1
Other miscellaneous expenses.....	-	232	-	(232)	
Total 2004 Program.................	1,750	1,239	16	(2,992)	1
2005 Restructuring Program					
Specialty fibers					
Severance and employee Benefits......................	-	491	-	-	49
Other miscellaneous expenses.....	-	56	-	(56)	
Total 2005 Program.................	-	547	-	(56)	49
Total All Programs.................	$2,134	$ 2,175	$23	$ (3,789)	$54

NOTE G -- 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 (FIFO) 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 2005	June 30 2004
Raw materials........................	$35,844	$ 28,073
Finished goods.......................	55,475	57,118
Storeroom and other supplies..........	21,430	22,248

	$112,749	$107,439

NOTE H -- DEBT

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

	March 31 2005	June 30 2004
Senior Notes due:		
2013............................	$200,000	$200,000
Senior Subordinated Notes due:		
2008............................	79,822	99,737
2010............................	152,682	153,061
Credit facility......................	100,575	144,250
Other................................	5,000	7,000
	538,079	604,048
Less current portion.................	998	16,972
	$537,081	$587,076

Senior notes - On September 22, 2003, we placed privately $200,000 in aggregate principal amount of 8.5% senior notes due October 1, 2013 (the "2013 Notes"). 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. We used the net proceeds from the private placement to redeem our $150,000 senior subordinated notes due 2005, make a permanent reduction of $40,000 to our revolving credit facility and pay the related transaction costs. Total costs for the issuance of these notes were $5,274 and will be amortized over the life of the senior notes using the effective interest method. On September 22, 2003, we called the senior subordinated notes due in 2005. These notes were redeemed on October 22, 2003. On December 18, 2003, we completed our offer to exchange the privately placed unregistered senior notes for debt securities of like principal amount of senior notes that have been registered under the Securities Act of 1933, as amended.

During the nine months ended March 31, 2004, $3,300 was expensed related to the early extinguishment of the $150,000 senior subordinated notes due 2005. These expenses included a $2,115 call premium and $1,185 related to the write-off of deferred financing costs.

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 are redeemable at our option, in whole or in part, at any time after September 15, 2004, at a redemption price of 100% of principal amount together with accrued and unpaid interest to the date of redemption.

On February 21, 2005, we called $20,000 of the 2008 Notes. These 2008 Notes were redeemed on March 23, 2005. As a result of this redemption we wrote

off a portion of the deferred financing costs and unamortized discount related to the redeemed bonds. During the three months ended March 31, 2005, we recorded non-cash expenses of $242 related to the early extinguishment of debt.

On October 16, 2003, we successfully completed a solicitation of consents from holders of our 2008 Notes to amend this indenture to conform certain provisions of the 2008 Notes to the provisions in our notes due in 2010 and to current market practice. This amendment allowed us to refinance our revolving credit facility in the fall of calendar 2003 (discussed later in this note).

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 1999, we exchanged these outstanding notes for public notes with the same terms. These notes are redeemable at our option, in whole or in part, at any time on or after October 15, 2003, at redemption prices varying from 104% of principal amount to 100% of principal amount on or after October 15, 2006, together with accrued and unpaid interest to the date of redemption.

Under the indentures governing our senior subordinated notes, as well as the indenture that governs 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. Currently, we exceed 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 the senior subordinated notes. While we can offer no assurance in this regard, we believe that our operating results and recent reductions in our outstanding debt will enable us to continue to exceed this ratio.

Interest rate swap - In May 2001, we entered into an interest rate swap on $100,000 of 8% fixed rate notes maturing in October 2010. The swap converted interest payments from a fixed rate to a floating rate of LIBOR plus 1.97%. This arrangement qualified as a fair value hedge under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. As such, the net effect from the interest rate swap was recorded as part of interest expense. On October 15, 2003, the swap counter party exercised its right to change the termination date of the swap from October 15, 2010 to October 15, 2003. By exercising this right, the swap counter party paid us $4,000 as an early termination fee, which is being amortized as a reduction to interest expense through October 15, 2010. At March 31, 2005, the unamortized portion of the termination fee was recorded as an increase in debt of $3,167. During the three months ended March 31, 2005 and 2004, the swap reduced our interest expense by $143 and $143, respectively and will continue to reduce interest expense through the amortization period of the termination fee.

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") maturing on September 15, 2008 and a $150,000 term loan (the "term loan") with serial maturities through April 15, 2010. On March 15, 2005, we amended the credit facility in order to, among other things, lower the applicable interest rate and modify the maturity schedule. Effective March 15, 2005 the interest rate applicable to borrowings under the term loan decreased 50 basis points. The amendment also reduced serial maturities to $249 quarterly through March 31, 2010 with final maturity remaining on April 15, 2010.

The term loan also requires an annual excess cash flow payment (as

defined under the credit agreement). During the first nine months of fiscal 2005, we made an excess cash flow payment of $15,349 based on fiscal 2004 performance and additional voluntary payments of $28,401. Total payments on the term loan, including required principal payments, during the nine months ended March 31, 2005 were $44,875. Due to many contingent variables that affect

required excess cash flow payments under the credit facility, we are currently unable to estimate a payment amount, if any, for the current fiscal year.

We had $100,575 outstanding on this facility ($99,375 on the term loan and $1,200 on the revolver) at an average variable interest rate of 4.8% as of March 31, 2005. 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%. Effective March 15, 2005, 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.

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. During the three and nine months ended March 31, 2005, we were in compliance with these financial covenants.

As of March 31, 2005, we had $66,084 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. The commitment fee on the unused portion of the revolving credit facility is 0.40% - 0.50% per annum. Total costs for the issuance of the new facility were approximately $3,300 and are being amortized using the effective interest method over the life of the facility. The unamortized issuance costs are presented under the "Intellectual property and other, net" caption on the balance sheet. During the three months ended December 31, 2003, $1,640 was expensed related to the early extinguishment of the previous credit facility. During the three months ended March 31, 2005, $516 was expensed for costs incurred related to the amendment of the senior secured credit facility and other financing activities. These expenses are included in the foreign exchange and other classification in the statement of operations.

NOTE I -- COMPREHENSIVE INCOME

The components of comprehensive income consist of the following:

	Three Months Ended March 31		Nine
	2005	2004	2005
Net income (loss)................................	$4,094	$(27,505)	$11

Foreign currency translation adjustments - net....	(5,284)	(13,045)	21
Comprehensive income (loss)......................	$ (1,190)	$(40,550)	$32

For the three and nine months ended March 31, 2005, the change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US dollar and the euro of $(4,202) and $5,197, the Brazilian real of $(114) and $3,346 and the Canadian dollar of $(968) and $12,927.

For the three and nine months ended March 31, 2004, the change in the foreign currency translation adjustment is primarily due to fluctuations in the exchange rate of the US dollar and the euro of $(11,840) and $5,318, the Brazilian real of $(31) and $(255) and the Canadian dollar of $(1,174) and $3,949.

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NOTE J - INCOME TAXES

Our effective tax rates for the three and nine month periods ended March 31, 2005 were 27.5% and 28.7%, respectively. Our effective tax rates for the same periods of 2004 were 36.4% and 36.1%. The lower rates were primarily due to the large tax benefit received as part of the impairment of the Glueckstadt, Germany facility, which is in a high tax jurisdiction. Excluding the tax benefit related to the impairment of long-lived assets, our effective tax rates for the nine month period of 2005 would have been 32.7%. The lower effective rate for the three months ended March 31, 2005 was due to the source of our income shifting to lower tax rate jurisdictions and an increase in an expected refund on amended tax returns. Our income tax expense (benefit) differs from the amount computed by applying the statutory federal income tax rate of 35% to income (loss) before income taxes due to the following:

	Three Months Ended March 31		Nine
	2005	2004	2005
Expected tax expense (benefit) at 35%............	$1,976	$(15,143)	$5,608
Impairment of long-lived assets..................	-	-	(360
Extraterritorial income benefit..................	(305)	(133)	(796
Other..	(119)	(486)	149
	$1,552	$(15,762)	$4,601

NOTE K - STOCK-BASED COMPENSATION

At March 31, 2005, we have stock-based compensation plans which we account for under the recognition and measurement principles of Accounting Principle No. (APB) 25, Accounting for Stock Issued to Employees, and related interpretations. The following table illustrates the effect on net income (loss) and earnings (loss) per share if we had applied the fair value recognition

provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based compensation.

	Three Months Ended March 31		
	2005	2004	
Net income (loss) as reported	$4,094	$(27,505)	
Deduct: Total stock-based compensation expense determined under fair value based method, net of related tax effects	(372)	(326)	
Pro forma net income (loss)	$3,722	$(27,831)	
Basic earnings (loss) per share:			
As reported	$ 0.11	$ (0.74)	$
Pro forma	$ 0.10	$ (0.75)	$
Diluted earnings (loss) per share:			
As reported	$ 0.11	$ (0.74)	$
Pro forma	$ 0.10	$ (0.75)	$

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS 123 (revised 2004), Share-Based Payment, which is a revision of SFAS 123. SFAS 123(R) supersedes APB 25, Accounting for Stock Issued to Employees, and amends SFAS 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee

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stock options, to be recognized in the income statement based on their fair values. This revised standard will be effective for our reporting period beginning July 1, 2005. SFAS 123(R) allows several adoption alternatives, including retroactively applying the standard, or applying it prospectively. We are currently assessing SFAS 12(R) to determine which transition method to adopt.

As permitted by SFAS 123, the company currently accounts for share-based payments to employees using APB 25 intrinsic value method and, as such, generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of SFAS 123(R)'s fair value method will have an impact on our result of operations, although it is not expected to impact our overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share as shown in the table above. SFAS 123(R) also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after adoption. We cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options.

NOTE L - EMPLOYEE BENEFIT PLANS

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

	Three Months Ended March 31		N
	2005	2004	2
Service cost for benefits earned.................	$176	$188	$
Interest cost on benefit obligation..............	358	313	1,
Amortization of unrecognized prior service cost..........................	(282)	(282)	(
(Gain)/loss......................................	97	84	
Total cost.......................................	$349	$304	$1,

We have evaluated the impact of FASB Staff Position (FSP) 106-2 Accounting and Disclosure Requirements related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) and no amounts have been recognized in the condensed consolidated financial statements related to the Act as of March 31, 2005 due to its immateriality.

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NOTE M -- COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share for the three and nine month periods ended March 31, 2005 and 2004 was as follows:

	Three Months Ended March 31		
	2005	2004	
Net income (loss)....................................	$4,094	$(27,505)	$ 1
Weighted-average shares of common stock outstanding....	37,499	37,080	3
Effect of diluted shares..............................	224	-	
Weighted-average common and common equivalent shares outstanding..............................	37,723	37,080	3
Earnings (loss) per share before cumulative effect of change in accounting			
Basic..	$ 0.11	$(0.74)	$
Diluted..	$ 0.11	$(0.74)	$

Cumulative effect of change in accounting			
Basic.......................................	-	-	
Diluted.....................................	-	-	
Earnings (loss) per share			
Basic.......................................	$ 0.11	$(0.74)	$
Diluted.....................................	$ 0.11	$(0.74)	$

NOTE N - 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 and the receivables subsidiary which do not guarantee the senior notes. Each subsidiary guarantor is 100% owned directly or indirectly by Buckeye Technologies Inc. and all guarantees are full and unconditional.

Supplemental financial information for Buckeye Technologies Inc. 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, 2005

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net sales	$25,840	$109,146	$54,292
Cost of goods sold	21,912	90,291	46,838
Gross margin	3,928	18,855	7,454
Selling, research and administrative expenses, and other	1,543	8,120	2,026
Restructuring and impairment costs	(1)	45	572
Operating income (loss)	2,386	10,690	4,856
Other income (expense):			
Net interest income (expense) and amortization of debt costs	(11,325)	41	208
Other income (expense), including equity income (loss) in affiliates	8,752	(13)	(423)
Intercompany interest income (expense)	7,149	(5,429)	(1,720)
Income (loss) before income taxes	6,962	5,289	2,921
Income tax expense (benefit)	2,868	98	2,044

Net income (loss)	$ 4,094	$5,191	$ 877

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Three Months Ended March 31, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net sales	$ 22,672	$95,241	$61,164
Cost of goods sold	17,518	82,292	57,503
Gross margin	5,154	12,949	3,661
Selling, research and administrative expenses, and other	2,326	5,304	2,378
Restructuring and impairment costs	(96)	1,082	43,048
Operating income (loss)	2,924	6,563	(41,765)
Other income (expense):			
Net interest income (expense) and amortization of debt costs	(11,411)	(77)	119
Other income (expense), including equity income (loss) in affiliates	(36,932)	16	441
Intercompany interest income (expense)	8,420	(6,402)	(2,018)
Income (loss) before income taxes	(36,999)	100	(43,223)
Income tax expense (benefit)	(9,494)	(3,640)	(14,938)
Net income (loss)	$(27,505)	$3,740	$(28,285)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended March 31, 2005

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net sales	$78,251	$317,195	$156,969

Cost of goods sold	63,712	258,511	138,899
Gross margin	14,539	58,684	18,070
Selling, research and administrative expenses, and other	8,672	18,531	6,166
Restructuring and impairment costs	-	166	14,019
Operating income (loss)	5,867	39,987	(2,115)
Other income (expense):			
Net interest income (expense) and amortization of debt costs	(34,182)	65	484
Other income (expense), including equity income in affiliates	24,630	161	6,780
Intercompany interest income (expense)	22,660	(17,401)	(5,259)
Income (loss) before income taxes	18,975	22,812	(110)
Income tax expense (benefit)	7,553	6,844	(47)
Net income (loss)	$11,422	$ 15,968	$(63)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
Nine Months Ended March 31, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net sales	$ 63,657	$277,295	$168,091
Cost of goods sold	51,090	251,289	154,607
Gross margin	12,567	26,006	13,484
Selling, research and administrative expenses, and other	10,987	15,948	6,742
Restructuring and impairment costs	1,589	3,489	43,627
Operating income (loss)	(9)	6,569	(36,885)
Other income (expense):			
Net interest income (expense) and amortization of debt costs	(34,182)	(243)	(631)
Other income (expense), including equity income in affiliates	(50,041)	262	(128)
Intercompany interest income (expense)	24,220	(17,403)	(6,817)
Intercompany miscellaneous income (expense)	(446)	(950)	1,396
Income (loss) before income taxes and cumulative effect of change in accounting	(60,458)	(11,765)	(43,065)

Income tax expense (benefit)	(20,858)	(5,289)	(14,771)
Income (loss) before cumulative effect of change in accounting	(39,600)	(6,476)	(28,294)
Cumulative effect of change in accounting	-	5,720	-
Net income (loss)	$(39,600)	$ (756)	$ (28,294)

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of March 31, 2005

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents	$2,101	$ 181	$10,579
Accounts receivable, net	13,848	71,173	31,541
Inventories	19,245	60,322	34,045
Other current assets	5,350	4,538	1,689
Intercompany accounts receivable	-	14,468	-
Total current assets	40,544	150,682	77,854
Property, plant and equipment, net	54,143	342,918	122,753
Goodwill and intangibles, net	20,975	54,042	91,715
Intercompany notes receivable	333,517	-	-
Other assets, including investment in subsidiaries	301,946	323,017	121,836
Total assets	$751,125	$870,659	$414,158
Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable	$ 5,873	$17,822	$ 6,660
Other current liabilities	25,744	18,248	8,830
Intercompany accounts payable	10,500	-	3,968
Total current liabilities	42,117	36,070	19,458
Long-term debt	537,081	-	-
Deferred income taxes	(38,403)	63,869	18,926
Other long-term liabilities	5,531	14,341	1,328
Intercompany notes payable	-	213,293	120,224
Stockholders'/invested equity	204,799	543,086	254,222

Total liabilities and stockholders' equity	$751,125	$870,659	$414,158

CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Assets			
Current assets			
Cash and cash equivalents.................	$14,746	$ 103	$12,386
Accounts receivable, net..................	15,502	58,631	38,234
Inventories...............................	21,770	51,722	34,503
Other current assets......................	9,408	5,008	(4,209)
Intercompany accounts receivable..........	-	22,604	6,109
Total current assets	61,426	138,068	87,023
Property, plant and equipment, net..........	54,042	347,782	135,808
Goodwill and intangibles, net...............	21,012	55,241	83,114
Intercompany notes receivable...............	369,279	-	-
Other assets, including investment in subsidiaries............................	290,493	330,210	114,164
Total assets	$796,252	$871,301	$420,109
Liabilities and stockholders' equity			
Current liabilities			
Trade accounts payable....................	$ 5,860	$16,118	$ 5,152
Other current liabilities.................	34,493	17,390	11,058
Intercompany accounts payable.............	17,063	-	11,650
Total current liabilities	57,416	33,508	27,860
Long-term debt..............................	585,076	2,000	-
Deferred income taxes.......................	(40,480)	61,732	16,704
Other long-term liabilities.................	5,385	14,657	1,585
Intercompany notes payable..................	-	236,883	132,396
Stockholders'/invested equity...............	188,855	522,521	241,564
Total liabilities and stockholders' equity	$796,252	$871,301	$420,109

CONDENSED COSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2005

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) operations	$44,470	$18,345	$(5,020)
Investing activities:			
Purchases of property, plant and equipment	(3,490)	(15,969)	(3,555)
Proceeds from sale of assets and other	-	(384)	13,645
Net cash provided by (used in) investing activities	(3,490)	(16,353)	10,090
Financing activities			
Net borrowings under line of credit	1,200	-	-
Payments for debt issuance and extinguishment	(5)	-	-
Net payments on long-term debt and other	(54,820)	(1,914)	(7,938)
Net cash used in financing activities	(53,625)	(1,914)	(7,938)
Effect of foreign currency rate fluctuations on cash	-	-	1,061
Increase (decrease) in cash and cash equivalents	(12,645)	78	(1,807)
Cash and cash equivalents at beginning of period	14,746	103	12,386
Cash and cash equivalents at end of period	$ 2,101	$181	$10,579

CONDENSED COSOLIDATING STATEMENTS OF CASH FLOWS
Nine Months Ended March 31, 2004

	Guarantors		
	Buckeye Technologies Inc.	US Subsidiaries	Non-Guarantor Subsidiaries
Net cash provided by (used in) operations	$ (650)	$ (8,347)	$57,073
Investing activities:			
Purchases of property, plant and equipment	(6,356)	(18,419)	(1,682)
Proceeds from sale of assets and other	-	(406)	3

Net cash used in investing activities	(6,356)	(18,825)	(1,679)
Financing activities			
Net payments under line of credit	(209,125)	-	(12,693)
Payments for debt issuance and extinguishment	(9,102)	-	-
Net issuance of (payments on) long-term debt and other	211,359	23,243	(54,837)
Net cash provided by (used in) financing activities	(6,868)	23,243	(67,530)
Effect of foreign currency rate fluctuations on cash	-	-	1,028
Decrease in cash and cash equivalents	(13,874)	(3,929)	(11,108)
Cash and cash equivalents at beginning of period	26,075	4,349	19,553
Cash and cash equivalents at end of period	$ 12,201	$ 420	$ 8,445

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

The following Management's Discussion and Analysis of Results of Operations and Financial Condition ("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, as amended, for the year ended June 30, 2004 ("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, 2005 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, 2005 to the three and nine months ended March 31, 2004.

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.

The three months ended March 31, 2005 was both an encouraging and a challenging period. Our specialty fibers markets remained strong. We continue to have more sales opportunities than we have productive capacity for high end specialty fibers, and our inventories are at extremely low levels. We are carefully matching sales with production to optimize our product mix and move product into higher value niche markets. Demand in areas such as rayon industrial cord and acetate products for liquid crystal displays is very strong.

To accommodate demand for high end products, we have added a shift to our Memphis, Tennessee cotton-based specialty fibers facility. We began operating this facility on a four-shift schedule during March 2005. The additional shift at Memphis will also help accommodate a smooth transition of the business currently sourced at the Glueckstadt, Germany facility as we cease production at our Glueckstadt facility during the second quarter of fiscal 2006.

The positive events in our markets and our ability to strengthen our balance sheet are being dampened by rising costs for chemicals, energy, and other materials. High costs in these areas are restraining our operating margins. Since demand for our specialty fibers is sufficiently strong, we believe we can implement price increases in the future. However, we are somewhat restrained from doing this quickly due to existing commercial agreements.

We ceased producing airlaid nonwoven materials at our Cork, Ireland facility in late July and successfully transitioned the majority of the product previously produced at Cork to our larger dual-line plants in Europe and North America. This increased the capacity utilization at our other airlaid nonwovens facilities and as a result we have seen improved earnings in our nonwovens

segment. The full on-going benefit of these cost savings was realized during the three months ending March 31, 2005 and will total approximately $7 million annually. However, the recent slowing of sales growth for airlaid nonwoven materials is a concern. Our sales for the three months ended March 31, 2005 were slightly below the same period of the previous year.

Our cash flow during the three months ended March 31, 2005 remained strong. During the period, we reduced the debt on our balance sheet by $32.5 million. Although we were not able to cost effectively obtain the consent of the holders of our 2013 Notes to refinance our 2008 Notes with bank debt, we elected to call a portion of our 2008 Notes. During the quarter we retired $20 million of the relatively high cost 9.25% 2008 Notes from the market. We intend to call the remainder of the 2008 Notes in advance of their maturity on September 15, 2008.

We are encouraged by progress on several fronts:

- We launched a new product, Ultra Fiber 500, a revolutionary concrete reinforcement fiber at the World of Concrete exhibit in Las Vegas, Nevada in January 2005. Ultra Fiber 500 was voted the most innovative new product at the show. As we have previously reported, we are currently establishing distribution for this product in the United States as well as in foreign markets. All early signs continue to be positive.

- The demand for liquid crystal display screens for laptop computers and television sets continues to expand rapidly. Our cotton cellulose fibers are a small but critical component of the construction of these screens.

- Our plan to transition the specialty fibers production currently supplied by Glueckstadt, Germany to our lower cost manufacturing facilities in Memphis, Tennessee and Americana, Brazil is proceeding on schedule. As mentioned, we have added a shift at our Memphis, Tennessee facility and believe we are well- positioned to supply cotton-based specialty fiber products from facilities with a significantly more favorable cost structure in North and South America during the second quarter of fiscal 2006.

The combination of new product initiatives, strong demand in important markets, and an improved manufacturing configuration gives us optimism that we can generate future growth in sales and profitability. Like other manufacturing firms, we are currently being negatively impacted by high costs for energy, chemicals, and other materials. Additionally, the extra administrative expense brought about by compliance with the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") is burdensome. These issues will slow progress in the short term but our longer-term outlook continues to be favorable.

Results of Operations

Consolidated results

The following table compares components of operating income for the three and nine months ended March 31, 2005 and 2004.

(millions)	Three Months Ended March 31				Nine Month	
	2005	2004	Change	% Change	2005	2004
Net sales	$ 180.9	$172.8	$ 8.1	5%	$ 528.9	$488
Cost of goods sold	150.7	151.1	(0.4)	-	437.9	437
Gross margin	30.2	21.7	8.5	39%	91.0	51
Selling, research and administrative expenses	11.1	9.4	1.7	18%	31.6	32
Impairment costs	-	43.9	(43.9)	*	12.0	44
Restructuring costs	0.6	0.1	0.5	*	2.2	3
Amortization of intangibles and other	0.6	0.6	-	-	1.8	1
Operating income (loss)	$ 17.9	$ (32.3)	$ 50.2	*	$43.4	$(30

* Percent change is not meaningful

Net sales continued to improve overall during the three and nine months ended March 31, 2005 versus the same period in 2004 due primarily to increased pricing in both specialty fibers and nonwoven materials. Improvements in the mix of specialty fibers also contributed to the improvement in net sales during both three and nine month periods. These improvements were partially offset by lower nonwoven shipment volume during the three months ended March 31, 2005 versus 2004.

Gross margins for both the three and nine month periods were positively impacted by the higher selling prices discussed in the previous paragraph. Additionally, the results for the nine months ended March 31, 2005 were helped by the absence of several additional specialty fibers charges related to unusual events and special circumstances, including an extended maintenance shutdown at our Perry, Florida specialty fiber facility that occurred during the nine months ended March 31, 2004. These items are discussed further in the "Segment Results" section of this discussion and analysis.

Selling, research and administrative expenses increased during the three months ended March 31, 2005 versus 2004 primarily due to increased accounting and consulting fees related to the implementation of Sarbanes-Oxley. External costs related to the implementation of Sarbanes-Oxley totaled approximately $1.5 million for the nine months ended March 31, 2005. Despite the increase in expenses due to Sarbanes-Oxley, selling, research and administrative expenses decreased during the nine month period ending March 31, 2005 versus the same period of the previous year. This decrease was primarily due to the absence of $3.2 million of bad debt expense incurred during the second quarter of fiscal 2004 as a result of the bankruptcy filing of a large specialty fibers customer.

In arriving at our decision to close our Glueckstadt, Germany, cotton-based specialty fibers facility, we evaluated the recoverability of our long-lived assets at the facility and recognized an impairment charge of $12.0 million in December 2004. As of March 31, 2005, we have incurred $0.5 million of restructuring costs as part of this planned closure. The remaining restructuring costs incurred during the nine months ended March 31, 2005 were primarily related to the program initiated as part of the closure of our Cork, Ireland facility.

Further discussion on revenue, operating trends, impairment and restructuring costs are discussed later in this MD&A. Additional information on the impairment and restructuring programs and charges may also be found in Note E and Note F of the accompanying interim financial statements.

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 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, asset impairment 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, 2005 and 2004.

(millions)	Three Months Ended March 31				Nine Months E	
	2005	2004	Change	% Change	2005	2004
Net sales	$ 132.3	$121.3	$ 11.0	9%	$ 380.2	$343.2
Operating income	15.2	10.9	4.3	39%	49.1	15.5

Net sales increased during the three and nine months ended March 31, 2005 versus 2004 due primarily to improved pricing and mix. Improvements in selling prices and mix were driven by several factors. Continued overall strengthening of the economy increased demand for pulp and paper products, driving up commodity pulp prices. While our average fluff pulp price increased by 16.9% and 13.9% year over year for the three and nine month periods ending March 31, 2005, we can offer no assurances that this increase in fluff pulp pricing will continue or that this trend will not reverse direction during the remainder of fiscal 2005. Also, the tight supply conditions due to facility closures helped to increase overall specialty fibers pricing and improve the mix of products during the three and nine month periods ended March 31, 2005 versus 2004.

Over the last year, we have improved the product mix of our wood-based specialty fibers operations by transferring a portion of our wood cellulose production away from fluff pulp into higher value chemical applications. Our overall wood-based chemical cellulose and customized fibers volume increased 15.0% during the first nine months of fiscal 2005 versus the same period in fiscal 2004. Although the price of commodity pulps has risen during the last year, we continue to believe that over the long run we will be better served by having more of our production in high value specialty grades and a smaller exposure to the more volatile fluff pulp market.

Sales price increases and decreases for cotton-based products are influenced by, among other things, the variability in the cost and supply of cotton fibers. As the cost of these fibers increased, we increased our sales prices. Although these price increases had a positive impact on revenue and operating income during the first nine months of fiscal 2005, they were partially offset by the higher fiber costs and the weaker U.S. dollar, which negatively impacts manufacturing costs at our Glueckstadt, Germany facility.

Rising energy and chemical prices continued to push manufacturing costs higher for the three and nine months ended March 31, 2005. The continued increase of these prices during the period had a significantly larger impact on the three months ended March 31, 2005 than it did in the previous quarters. We expect the impact of these higher prices to be approximately $7 million for fiscal 2005. While we were able to recover a portion of these costs through raising the price for our products, we expect that rising energy and chemical prices will continue to put pressure on our margins during the upcoming quarters. The allocation of costs related to the implementation of Sarbanes-Oxley also offset the improvement in pricing, mix, and volume during

the period. Similar to the increases in chemical and energy costs, the Sarbanes-Oxley implementation costs had a greater impact on the three months ended March 31, 2005 than they had earlier in the fiscal year.

In spite of the increase in costs, operating income substantially improved during the three and nine months ending March 31, 2005 over the same periods in the prior year based on the strong improvement in sales. The improvement in the nine month period was also due to the absence of several additional charges related to unusual events and special situations that occurred during the quarter ended December 2003. These unusual events and special situations included: the planned maintenance shutdown of our Perry, Florida facility ($9.6 million), the bankruptcy of a large customer ($3.2 million), the ratification of a new labor agreement that included a one-time retroactive payment ($0.8 million), and high costs associated with reduced production at our Perry, Florida and Memphis, Tennessee specialty fibers facilities.

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We continue to move forward with developing our capability to supply a wide range of products based on cotton cellulose to customers worldwide by upgrading the capability of our Americana, Brazil manufacturing facility. Because Brazil benefits from low manufacturing costs and a large and increasing raw material supply, we expect that, when this upgrade is completed in the fall of 2005, this production capability will be a significant contributor to our profitability.

Nonwoven materials

The following table compares nonwoven materials net sales and operating income for the three and nine months ended March 31, 2005 and 2004.

(millions)	Three Months Ended March 31				Nine Months E	
	2005	2004	Change	% Change	2005	2004
Net sales	$ 56.6	$57.3	$(0.7)	(1%)	$170.6	$161.7
Operating income	3.6	1.3	2.3	177%	10.6	5.0

The increase in net sales during the nine months ended March 31, 2005 was due to an increase in shipment volume, improved pricing, and the strengthening of the euro versus the U.S. dollar. Although we ceased production at our Cork, Ireland facility in July, we continued shipping inventory from Cork through November and completed the transition of a majority of Cork's sales to our other nonwoven materials facilities.

Net sales were down 1% for the three months ended March 31, 2005 as lower volume offset improved prices and the impact of a stronger euro compared to the prior year. Sales growth in airlaid nonwovens was impacted by the fact that a North American competitor emerged from bankruptcy under new ownership and aggressively sought new business in the over-supplied North American market. The competitive action had an impact on volume in some price sensitive areas.

Operating income improved significantly for the three and nine months ended March 31, 2005. The improvement was primarily due to higher selling prices and the closure of our high cost Cork, Ireland facility, the benefit of this

closure was fully realized during the three months ended March 31, 2005. Overall, our nonwoven materials business supported increased shipment and production volume with one less manufacturing facility. Our Gaston, North Carolina facility continued to show improvement in its operating performance compared to the prior year due to significant increases in shipment volume and the resulting improvement in capacity utilization. These improvements were partially offset by price increases on raw materials. The cost of fluff pulp, bi-component fibers, and binder materials increased for the three and nine months ended March 31, 2005 versus the same periods in 2004.

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Restructuring and impairment activities

During fiscal years 2005, 2004 and 2003, we entered into various restructuring programs, which resulted in restructuring and impairment charges. In order to continue to provide both specialty fibers and nonwoven materials at attractive values, we will continue to look for ways to reduce costs and optimize our operating structure. The following table summarizes restructuring expense by program for the nine month period ended March 31, 2005 and 2004.

(millions)	Nine Months Ended December 31 2005	2004	Total Estimated Program Charges	Estimate Comple at March 2005
Restructuring costs				
2005 Restructuring program...............	$ 0.6	$ -	$7.0	$6.4
2004 Restructuring program...............	1.2	-	3.1	-
2003 Restructuring program - phase 2.....	0.3	3.0	3.5	0.1
2003 Restructuring program - phase 1.....	0.1	0.9	2.7	-
Total restructuring costs	2.2	3.9	16.3	6.5
Impairment charges.......................	$12.0	$44.8		

2005 Restructuring program

In January 2005, we announced our decision to discontinue producing cotton linter pulp at our Glueckstadt, Germany facility. Our decision was due to a combination of factors which came together to increase the plant's costs to a level at which it is uneconomical to continue operations. The most significant factor impacting cost at the site has been the substantial strengthening of the euro over the past two years. Specialty fibers are normally priced and sold in U.S. dollars around the world. As most of Glueckstadt's costs are denominated in euros, this currency fluctuation has had a negative impact on Glueckstadt's cost position. While we began to invoice many Glueckstadt customers in euros rather than dollars during the period, our customers still benchmarked the euro prices to the U.S. dollar equivalent level. We also raised the selling price of our product by approximately 15% over the past year to partially offset our higher costs. However, prices are now at a level that are negatively impacting our volume.

We also attempted to address the situation by focusing on new high

value grades, offered at higher selling prices. While some of these new grades such as extra high strength paper pulps developed considerable customer interest, we have been unable to generate enough volume to make them economical. Additionally, Glueckstadt's process water, waste treatment and energy costs are supplied by a site partner through a supply agreement that expires at the end of 2005. The cost of the services provided under the current agreement is more than twice what we pay for these utilities at our Memphis cotton-based specialty fibers facility. The provider of these services has indicated that these costs will likely increase in 2006 and beyond. Faced with these challenges, we reduced the number of employees at Glueckstadt by about one-third over the past year (from approximately 150 to approximately 100) and are currently operating the Glueckstadt facility at 55% of capacity.

After careful consideration of all the options available, management reached the decision to close the Glueckstadt facility and consolidate production at our two other manufacturing facilities. We expect production at Glueckstadt to cease during the second quarter of fiscal 2006. We expect the closing our Glueckstadt facility and transfer of the cotton-based specialty fiber production to our Memphis, Tennessee and Americana, Brazil facilities later this calendar year, will yield a superior cost structure and improve margins.

We expect this consolidation to enable us to improve our overall specialty fibers operating results by approximately $9 million annually and reduce working capital needs by approximately $6 million. The closure of the Glueckstadt facility will result in the termination of approximately 100 employees, and we expect restructuring expenses related to the closure to be

approximately $7 million over the remainder of fiscal 2005 and 2006. We expect payments related to this restructuring program will extend through the end of fiscal 2006.

Based on our inability to recover the remaining value of the long-lived assets at the Glueckstadt, Germany facility, we determined that these long-lived assets, with a carrying amount of $15.3 million, were impaired and wrote them down to their estimated fair value of $3.3 million, resulting in an impairment charge of $12.0 million ($7.4 million after tax).

2004 Restructuring program

During March 2004, our Board of Directors approved the discontinuation of production of nonwoven materials at our Cork, Ireland facility. While the demand for nonwoven products grew at a rate in the low to mid-single digits on an annualized basis, the growth in demand was not sufficient to fully utilize the existing capacity. As such, industry participants rationalized production by idling plants and closing facilities.

Due to excess production capacity around the globe, we operated Cork below its productive capacity from its inception in 1998. Because of its location and small size, our cost to produce at Cork was higher than it is at our other locations. After careful consideration of all the options available, management reached the decision to close the Cork facility and consolidate production at our three other nonwoven manufacturing facilities. Production at Cork ceased in July 2004. Closing our Cork facility reduced our nonwovens capacity by about 10%.

We continued to meet customer needs for nonwoven materials by producing these products at our facilities in Delta, British Columbia, Canada; Steinfurt,

Germany; and Gaston County, North Carolina. This consolidation reduced working capital needs by $4 million, and we expect this will enable us to improve our overall nonwoven materials operating results by approximately $7 million annually. We began to fully realize this on-going benefit during the three months ended March 31, 2005. The closure of the Cork facility and related reorganization of the nonwoven materials segment resulted in the termination of 89 employees and resulted in expenses totaling $3.0 million. We do not expect additional expenses related to this program.

2003 Restructuring programs (phase 1 and phase 2)

In April 2003, we announced the discontinuation of production of cotton linter pulp at our specialty fibers Lumberton, North Carolina facility due to the decline in demand for cotton content paper. We completed this partial closure in August 2003 but continue to produce cosmetic cotton products at the Lumberton site. This decision reflects a steady decline in demand in the cotton fiber paper industry, which contracted by about one-third since the late 1990's. While cotton linter pulp is one of our core businesses, the demand did not economically justify operating a facility that could only produce products for paper applications.

To better meet our customers' needs, we consolidated our U.S. cotton linter pulp production at our larger Memphis, Tennessee and Glueckstadt, Germany facilities. In conjunction with the consolidation, we initiated the first phase of a restructuring program designed to deliver cost reductions through reduced expenses across the company, the main component of which was the partial closure of our Lumberton, North Carolina facility. This phase of restructuring resulted in the elimination of approximately 100 positions within the specialty fibers segment. The resulting increase in facility utilization is enabling us to improve our operating results by an estimated $6 million annually. This more efficient operating configuration began to reduce our cost of goods sold beginning in January 2004. This closure reduced our working capital needs by approximately $10 million. We do not expect additional expenses related to this phase of the program.

During the first quarter of fiscal 2004, we entered into a second phase of this restructuring program. This phase of the program should enable us to improve our operating results by approximately $6 million annually through reduced salaries, benefits, other employee-related expenses and operating expenses. As a result of this restructuring, 76 positions have been eliminated, and two additional positions will be eliminated during calendar year 2005. These

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positions include manufacturing, sales, product development and administrative functions throughout the organization. We expect the full benefit of this restructuring will not be realized until the end of calendar 2005and that payments related to this phase of the restructuring program to continue into calendar 2005 and expect costs to total approximately $3.5 million.

Net interest expense and amortization of debt costs

Net interest expense and amortization of debt costs decreased $0.3 million and $1.5 million for the three and nine month periods ending March 31, 2005 versus the same periods in the prior year. Our decrease in outstanding debt of $73.4 million since March 31, 2004 had a positive impact on interest expense during both the three and nine month periods ending March 31, 2005. Also contributing to the difference was the additional interest expense incurred as part of our debt refinancing initiatives in the fall of 2003. During the 30-day call period with respect to the 2005 Notes in September and October of 2003 both

the $150 million of senior subordinated notes due 2005 and the $200 million of 2013 Notes were outstanding. Also as part of the debt restructuring we refinanced our senior secured credit facility in November 2003. The lower rates achieved as part of the refinancing has helped to offset the increase in variable market interest rates provided for under our senior secured credit facility over the past year. For further information regarding our debt restructuring, see Note H of the accompanying interim financial statements.

Income tax expense

Our effective tax rate for the three and nine months ended March 31, 2005 was 27.5% and 28.7% versus 36.4% and 36.1% for the same periods in 2004. The lower rates were primarily due to the large tax benefit received as part of the impairment of the Glueckstadt, Germany facility which is in a high tax jurisdiction. Excluding the impact of the Glueckstadt impairment, the effective tax rate for the nine months ended March 31, 2005 would have been 32.7% versus 36.1% for the same period of 2004. The lower effective tax rate for the three months ended March 31, 2005 was due to the source of income shifting to lower tax rate jurisdictions and an increase in an expected refund on amended tax returns. Our effective tax 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 remainder of the fiscal year to be 33%, resulting in an overall estimated tax rate of 29% for fiscal 2005.

Gain on sale of assets held for sale

In July 2004, we ceased production of nonwoven materials at our Cork, Ireland facility. Subsequent to the July 2004 closure of the facility, we began to actively market the building and equipment with carrying values of $4.5 million and $1.5 million, respectively. In late December of 2004, we completed the sale of the Cork facility building to the Port of Cork Company for $13.4 million. Although the carrying values of these assets were based on appraisals and available market information at the time of the impairment in March of 2004, the purchase of this building for strategic purposes by the Port of Cork Company was not contemplated in those appraisals. As a result of the sale and disposition of the building and equipment for net proceeds after decommissioning and other expenses of $13.2 million, we recognized a net gain of $7.2 million ($4.7 million net of tax) during the nine months ended March 31, 2005.

Loss on early extinguishment of debt costs

On March 23, 2005 we used cash on hand to redeem $20 million of our 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 three months ended March 31, 2005.

On September 22, 2003, we placed privately $200 million in aggregate principal amount of 8.5% 2013 Notes. The notes are unsecured obligations and rank 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. We used the net proceeds from the private placement to redeem our $150 million senior subordinated notes due 2005. As a result of the extinguishment, $3.3 million was expensed during the three months ended September 30, 2003. These expenses included a $2.1 million call premium and $1.2 million related to the write-off of deferred financing costs.

On November 5, 2003, we established a $220 million senior secured

credit facility. This facility amended and restated our then existing $215 million revolving credit facility. We used the proceeds of the new credit facility to pay the outstanding balance on the former revolving credit facility plus transaction fees and expenses. During the three months ended December 31, 2003, $1.6 million was expensed related to the early extinguishment of the previous credit facility.

Foreign exchange and other

During the three months ended March 31, 2005, we incurred $0.5 million of expenses related to amending our senior secured credit facility and other financing related costs. These costs consisted primarily of legal and transaction support fees. The amendment to the credit facility, among other things, lowered the effective interest rate on our term loan by 50 basis points, reduced the required quarterly principal payments to $0.2 million, changed the final maturity of the term loan to one lump sum payment, and changed various definitions. See Note H of the accompanying interim financial statements for further discussion of these expenses. The remainder of the expenses in the foreign exchange and other caption were primarily the result of the decrease in the value of the euro during the three month period ending March 31, 2005.

Cumulative effect of change in accounting

Historically, we accrued expenses related to extended maintenance shutdowns at our Perry, Florida facility. However, effective July 1, 2003, we changed our method of accounting from the accrue in advance method to the direct expense method. Based on this change, during the three months ended September 30, 2003 we reversed the planned maintenance shutdown accrual of $9.1 million and recorded a cumulative effect of change in accounting adjustment of $5.7 million (net-of-taxes of $3.4 million). See Note B of the accompanying interim financial statements for further discussion of this change in accounting.

Financial Condition

Cash flow

Net cash provided by operating activities

We generated cash from operating activities of $57.8 million and $48.1 million during the nine months ended March 31, 2005 and 2004, respectively. During the nine months ended March 31, 2005, improved earnings were partially offset by increases in accounts receivable and inventories. During 2004, cash from operating activities benefited from a change in our cash management strategy. We began discounting large letters of credit, enabling us to reduce our debt and interest costs, resulting in a permanent decrease in account receivables of approximately $10 million. During the nine months ended March 31, 2005, we used $4.8 million to build inventories primarily reflecting higher costs for raw materials versus generating $24.6 million of cash through reductions in finished goods inventories during the same period of 2004.

Net cash used in investing activities

During the nine months ended March 31, 2005, we used $9.8 million cash in investing activities versus $26.9 million in the same period of 2004. This decrease was primarily the result of selling the Cork, Ireland building and equipment during December 2004 for net proceeds of $13.2 million.

Also contributing to the decrease were lower overall purchases of property, plant and equipment. In addition to our normal level of capital expenditures, we incurred $2.1 million during the nine months ended March 31,

2005 to upgrade our Americana, Brazil specialty fibers facility. During 2004, we made incremental capital expenditures related to the planned maintenance shutdown at our Perry, Florida specialty fibers facility and capital expenditures at our Memphis, Tennessee specialty fibers facility to provide the capability to manufacture cotton-based cellulose products previously manufactured at our Lumberton, North Carolina facility.

In addition to $2.1 million we have incurred to upgrade our Americana, Brazil specialty fibers facility, we expect to incur approximately $8 million during the remaining three months of the fiscal 2005 and about an additional $8 million during fiscal 2006 related to the upgrade. We expect capital expenditures for fiscal 2005 to total about $40 million.

Net cash provided by (used in) financing activities

We continued to use cash from operating activities to reduce our debt during the nine months ended March 31, 2005. On March 23, 2005 we used cash on-hand to redeem $20 million of our 2008 Notes. Under our senior secured credit facility, we were required to make a payment on our term loan for our excess cash flow (as defined under the credit agreement), based on fiscal 2004 performance. During the first nine months of fiscal 2005, we made an excess cash flow payment of $15.3 million based on fiscal 2004 performance and additional voluntary payments of $28.4 million. Total payments on the term loan, including required principal payments, during the nine months ended March 31, 2005 were $44.9 million. Due to many contingent variables that effect this payment, we are currently unable to estimate an excess cash flow payment for the current fiscal year.

During the first quarter of fiscal 2004, we began the restructuring of our debt position by redeeming our $150 million senior subordinated notes due 2005 and making a permanent reduction on our revolving credit facility by issuing $200 million of our 2013 Notes. Further information on this issuance can be found in Note H to the financial statements of this quarterly report.

During the second quarter of fiscal 2004, we established a $220 million senior secured credit facility, comprised of a $70 million revolving credit facility and a $150 million term loan with serial maturities through September 2008. This facility amended and restated our then existing $215 million revolving credit facility. We used the proceeds of the new credit facility to pay the outstanding balance on the former revolving credit facility plus transaction fees and expenses. We further amended this facility on March 15, 2005 to, among other things, reduce the effective interest rate on term loan borrowings by 50 basis points. Further information on this issuance and amendment can be found in Note H to the financial statements of this quarterly report.

Our board of directors has authorized the repurchase of up to 6.0 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 first nine months of fiscal 2005. Through March 31, 2005, we had repurchased a total of 5,009,300 shares under the current board authority. At March 31, 2005, we were prohibited from repurchasing our common stock under the terms of our senior secured credit facility.

Contractual obligations

There have been no material changes to our contractual obligations discussed in our Annual Report. The following table summarizes our significant contractual cash obligations as of March 31, 2005. 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.

(In millions)

		Payments Due by Period		
Contractual Obligations	Total	Fiscal 2005 (1)	Fiscal 2006 and 2007	Fiscal 2008 and 2009
Long-term obligations (2)......	$816.7	$16.0	$ 91.4	$161.5
Capital lease obligations (3)..	2.6	0.2	1.6	0.8
Operating leases	3.8	0.6	2.7	0.5
Timber commitments	75.3	3.6	25.4	25.8
Lint commitments	18.9	17.1	1.8	-
Other purchase commitments (4)	9.5	6.6	2.9	-
Total contractual cash obligations.................	$926.8	$44.1	$125.8	$188.6

(1) Cash obligations for the remainder of fiscal 2005.

(2) Amounts include related interest payments. Interest payments for variable debt of $100.6 million are based on the effective rate as of March 31, 2005 of 4.9%.

(3) Capital lease obligations represent principal and interest payments.

(4) 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.

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 March 31, 2005 and believe we will remain in compliance. These sources of financing are described in detail in Note H of the accompanying interim financial statements.

On March 31, 2005, we had $12.9 million of cash and cash equivalents and $66.1 million borrowing capacity on our revolving credit facility. The portion of this capacity that we could borrow will depend on our financial results and ability to comply with certain borrowing conditions under the revolving credit facility. As of March 31, 2005, our liquidity, including available borrowings and cash and cash equivalents was approximately $79.0 million. Management believes this is sufficient liquidity to meet the needs of the business. 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.

On January 27, 2005 we announced the commencement of a solicitation of consents from the holders of our 8.5% 2013 Notes to amend certain provisions of the indenture governing those notes to permit us to redeem $100 million of our 2008 Notes. In conjunction with the redemption of our 2008 Notes, we intended to amend our current credit facilities with, among other things, an incremental increase in our term borrowings of $85 million to refinance the 2008 Notes. We were unable to cost effectively solicit the necessary consents. Therefore, on February 21, 2005, we called $20 million of our 9.25% 2008 Notes. These notes were redeemed on March 23, 2005. We will continue to redeem portions of our 2008 Notes as we have availability under the restricted payments basket of our 2013

Notes. Since we only redeemed a portion of the 2008 Notes, there was no need to increase our term borrowings. Instead, we amended our senior secured credit facility on March 15, 2005 to among other things, lower our effective borrowing rate on the term loan by 50 basis points, reduce our minimum principal payments to $0.2 million per quarter, change the final maturity of the term loan to one lump sum payment, and change various definitions.

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 five 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, inventory valuation, 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. Further information regarding inventories may be found in Note G to the financial statements of this quarterly 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; 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 March 31, 2005, there have been no 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 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 March 31, 2005 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, 2, 3 and 5 are not applicable and have been omitted.

Item 4. Submission of Matters to a Vote of Security Holders

(a) On January 27, 2005, we announced the solicitation of consents from holders of our outstanding $200 million aggregate principal amount of 8 1/2 Senior Notes due October 1, 2013. Principal amount of 8 1/2%.

(c) The consent solicitation was to amend the indenture related to the 2013 Notes to allow us to redeem $100 million in aggregate principal amount of our 2008 Notes. The consent solicitation expired on February 16, 2005 without the receipt of the requisite majority. Subsequently, we opted to call $20 million of the 2008 Notes.

Item 6. Exhibits

10.1 Amended and Restated Credit Agreement Amendment No. 1, dated March 15, 2005
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

Pursuant to the requirements of Section 13 or 15(d) 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/ DAVID B. FERRARO

David B. Ferraro, Chief Executive Officer

Date: April 29, 2005

By: /S/ KRISTOPHER J. MATULA

Kristopher J. Matula, Executive Vice President and Chief Financial Officer

Date: April 29, 2005