

BUCKEYE TECHNOLOGIES INC
Form 10-K
September 07, 2007

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

FORM 10-K

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

For the fiscal year ended June 30, 2007

or

**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.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

62-1518973
(I.R.S. Employer Identification No.)

1001 Tillman Street, Memphis, Tennessee
(Address of principal executive offices)

38112
(Zip Code)

Registrant's telephone number, including area code (901) 320-8100

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

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, par value \$0.1 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No S

Note – Checking the box above will not relieve any registrant required to file report pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether 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 No

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

Large accelerated filer

Accelerated filer S

Non-accelerated filer

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. S

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

As of December 31, 2006, the aggregate market value of the registrant’s voting common equity held by non-affiliates, computed by reference to the price at which the common equity was last sold, was approximately \$424.4 million.

As of September 1, 2007, there were outstanding 39,046,082 Common Shares of the Registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of Buckeye Technologies Inc.’s 2007 Annual Proxy Statement to be filed with the commission in connection with the 2007 Annual Meeting of Stockholders are incorporated by reference into Part III and IV.

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PART I

Item 1. Business

General

Buckeye Technologies Inc. is a leading producer of value-added cellulose-based specialty products, headquartered in Memphis, Tennessee. We believe that we have leading positions in many of the high-end niche markets in which we compete. We utilize our expertise in polymer chemistry, leading research and development and advanced manufacturing facilities to develop and produce innovative and proprietary products for our customers. We sell our products to a wide array of technically demanding niche markets in which we believe our proprietary products, manufacturing processes and commitment to customer technical service give us a competitive advantage. We are the only manufacturer in the world offering cellulose-based specialty products made from both wood and cotton and utilizing wetlaid and airlaid technologies. As a result, we believe we produce and market a broader range of cellulose-based specialty products than any of our competitors. We produce precisely tailored products designed to meet individual customer requirements. Our focus on specialty niche markets allows us to establish long-term supply positions with key customers. We operate manufacturing facilities in the United States, Canada, Germany and Brazil.

Cellulose is a natural fiber derived from trees and other plants that is used in the manufacture of a wide array of products. The total cellulose market generally can be divided into two categories: commodity and specialty. Manufacturers use commodity cellulose to produce bulk paper and packaging materials, the markets for which are very large but highly cyclical. Specialty cellulose is used to impart unique chemical or physical characteristics to a diverse range of highly engineered products. Specialty cellulose generally commands higher prices, and demand for specialty cellulose is less cyclical than commodity cellulose. We believe the more demanding performance requirements for products requiring specialty cellulose limit the number of participants in our niche markets. Our focus on niche specialty cellulose markets has enabled us to maintain positive cash flows even during cyclical downturns in the commodity cellulose markets.

Company History

We and our predecessors have participated in the specialty cellulose market for over 85 years and have developed new uses for many cellulose-based products. We began operations as an independent company on March 16, 1993, when we acquired the cellulose manufacturing operations of Procter & Gamble located in Memphis, Tennessee and Perry, Florida (the Foley Plant), with Procter & Gamble retaining a 50% limited partnership interest in the Foley Plant. We became a public company in November of 1995 and simultaneously acquired and redeemed Procter & Gamble's remaining interest in the Foley Plant.

In May 1996, we acquired the specialty cellulose business of Peter Temming AG located in Glueckstadt, Germany. In September 1996, we acquired Alpha Cellulose Holdings, Inc., a specialty cellulose producing facility located in Lumberton, North Carolina. In May 1997, we acquired Merfin International Inc., a leading manufacturer of airlaid nonwovens with facilities located in Canada, Ireland and the United States. In October 1999, we acquired essentially all of the assets of Walkisoft, UPM-Kymmene's airlaid nonwovens business. The acquisition of Walkisoft added manufacturing facilities in Steinfurt, Germany and Gaston County, North Carolina. In March 2000, we acquired the intellectual property rights to the Stac-Pac™ folding technology. In August 2000, we acquired the cotton cellulose business of Fibra, S.A. located in Americana, Brazil. In calendar 2001, we commenced operating the world's largest airlaid nonwovens machine at our Gaston, North Carolina facility and started up a cosmetic cotton fiber line at our Lumberton, North Carolina facility.

Due to a decline in demand for cotton content paper, in August 2003, we closed the specialty cotton papers portion of our Lumberton, North Carolina facility. Due to excess airlaid production capacity around the globe we closed our

single-line airlaid nonwovens facility in Cork, Ireland during July 2004. In December 2005, we ceased production at our cotton linter pulp facility in Glueckstadt, Germany. In conjunction with this closure, we upgraded the capability of our Americana, Brazil manufacturing facility. This expansion was completed during fiscal year 2006. See Note 3, Impairment of Long-Lived Assets and Assets Held for Sale, to the Consolidated Financial Statements for further discussion of the Lumberton, North Carolina; Cork, Ireland; and Glueckstadt, Germany closures.

We are incorporated in Delaware and our executive offices are located at 1001 Tillman Street, Memphis, Tennessee. Our telephone number is (901) 320-8100.

Products

Our product lines can be broadly grouped into four categories: chemical cellulose, customized fibers, fluff pulp and nonwoven materials. We manage these products within two reporting segments: specialty fibers and nonwoven materials. The chemical cellulose and customized fibers are derived from wood and cotton cellulose materials using wetlaid technologies. Fluff pulps are derived from wood using wetlaid technology. Wetlaid technologies encompass cellulose manufacturing processes in which fibers are deposited using water. Airlaid nonwoven materials are derived from wood pulps, synthetic fibers and other materials using airlaid technology. Airlaid technology utilizes air as a depositing medium for fibers, one benefit of which is an increased ability as compared to wetlaid processes to mix additional feature-enhancing substances into the material being produced. A breakdown of our major product categories, percentage of sales, product attributes and applications is provided below.

Product Groups	% of Fiscal 2007 Sales	Value Added Attributes	Market for End Use Applications
<i>Specialty Fibers</i>			
Chemical Cellulose	33%		
Food casings		Purity and strength	Hot dog and sausage casings
Rayon industrial cord		Strength and heat stability	High performance tires and hose reinforcement
High purity cotton ethers		High viscosity, purity and safety	Personal care products, low fat dairy products, pharmaceuticals and construction materials
Film for liquid crystal displays		Transparency/clarity, strength and Purity	Laptop and desktop computers and television screens
Customized Fibers	16%		
Filters		High porosity and product life	Automotive, laboratory and industrial filters
Specialty cotton papers		Color permanence and tear resistance	Personal stationery, premium letterhead and currency
Cosmetic Cotton		Absorbency, strength and softness	Cotton balls and cotton swabs
Buckeye UltraFiber 500 ^â		Finishing and crack reduction	Concrete
Fluff Pulp	18%		
Fluff pulp		Absorbency and fluid transport	Disposable diapers, feminine hygiene products and adult incontinence products
<i>Nonwoven Materials</i>	33%		

Airlaid nonwovens

Absorbency, fluid
management and wet strength

Feminine hygiene products,
specialty wipes and mops,
tablecloths, napkins, placemats,
incontinence products and food pads

See Note 14, Segment Information, to the Consolidated Financial Statements for additional information on products.

Raw Materials

Slash pine timber and cotton fibers are the principal raw materials used in the manufacture of our specialty fibers products. These materials represent the largest components of our variable costs of production. The region surrounding the Foley Plant has a high concentration of slash pine timber, which enables us to purchase adequate supplies of a species well suited to our products at an attractive cost. In order to be better assured of a secure source of wood at reasonable prices, we have entered into timber purchase agreements which allow us to purchase a portion of our wood at market prices that are fixed annually or current market prices as stated in the agreements. Additional information is included in Note 16, Commitments, to the Consolidated Financial Statements.

We purchase cotton fiber either directly from cottonseed oil mills or indirectly through agents or brokers. We purchase the majority of our requirements of cotton fiber for the Memphis and Lumberton plants domestically. The majority of the cotton fiber processed in the Americana plant comes from within Brazil.

Fluff pulp is the principal raw material used in the manufacture of our nonwoven materials products. Approximately 65% of our fluff pulp usage is supplied internally and the remainder is purchased from several other suppliers. In addition to fluff pulp, these products are comprised of synthetic fibers, latex polymers, absorbent powders and carrier tissue depending on grade specifications. These materials are also purchased from multiple sources.

The cost and availability of slash pine timber, cotton fiber, and fluff pulp are subject to market fluctuations caused by supply and demand factors. We do not foresee material constraints from pricing or availability for slash pine timber and fluff pulp. We have potential raw material availability issues for our cotton fibers in both North America and Brazil. We have increased our imported cotton linters purchases for Memphis specialty cotton fiber production in order to minimize the impact of current constraints on North American cotton fiber availability. For the near term, this raw material availability will limit growth and put pressure on our margins.

Our manufacturing processes especially for specialty fibers, require significant amounts of fuel oil and natural gas. These manufacturing inputs are subject to significant changes in prices and availability, which could adversely impact our future operating results.

Sales and Customers

Our products are marketed and sold through a highly trained and technically skilled sales force. We maintain sales offices in the United States and Europe. Our worldwide sales are diversified by geographic region as well as end-product application. Our sales are distributed to customers in approximately 60 countries around the world. Our fiscal 2007 sales reflect this geographic diversity, with 43% of sales in North America, 38% of sales in Europe, 9% of sales in Asia, 4% of sales in South America and 6% in other regions. Approximately 82% of our worldwide sales, for fiscal 2007, were denominated in U.S. dollars. Our products are shipped by rail, truck and ocean carrier. Geographic segment data and product sales data are included in Note 14, Segment Information, to the Consolidated Financial Statements.

Sales by geographical destination for the three years ended June 30, 2007 were as follows:

(in millions)

	Sales by Destination								
	2007			2006			2005		
United States	\$	254	33%	\$	230	32%	\$	235	33%
Italy		72	9		66	9		56	8
Germany		66	9		59	8		63	9
Canada		45	6		47	6		48	7

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Japan	38	5	38	5	38	5
Mexico	33	4	25	3	16	2
Spain	26	3	25	3	23	3
France	25	3	22	3	19	3
Brazil	25	3	21	3	26	4
All other	185	25	195	28	189	26
Total	\$ 769	100%	\$ 728	100%	\$ 713	100%

The high-end, technically demanding specialty niche markets that we serve require a higher level of sales and technical service support than do commodity product sales. Our sales, product development and customer service professionals work with customers in their plants to design products tailored precisely to their product needs and manufacturing processes. In addition to a direct sales force, we also utilize outside sales agents in some parts of the world.

Procter & Gamble is our largest customer, accounting for 12% of our fiscal 2007 net sales. Nonwoven materials account for approximately 62% of the total sales to Procter & Gamble. No other customer accounted for greater than 6% of our fiscal 2007 net sales.

Research and Development

Our research and development activities focus on developing new products, improving existing products, and enhancing process technologies to further reduce costs and respond to environmental needs. We have research and development pilot plant facilities in Memphis, and we employ engineers, scientists and technicians who are focused on advanced products and new applications to drive future growth. Our pilot plant facilities allow us to produce, test and deliver breakthrough products to the market place on a more cost-effective basis while minimizing interruptions to the normal production cycles of our operating plants.

Research and development costs of \$8.3 million, \$9.2 million and \$8.8 million were charged to expense as incurred for the years ended June 30, 2007, 2006 and 2005, respectively.

Competition

There are relatively few specialty fibers producers when compared with the much larger commodity paper pulp markets. The technical demands and unique requirements of the high-purity chemical cellulose or customized fiber pulp user tend to differentiate suppliers on the basis of their ability to meet the customer's particular set of needs, rather than focusing only on pricing. The high-purity chemical cellulose and customized fiber markets are less subject to price variation than commodity paper pulp markets. Major competitors include Archer-Daniels-Midland, Borregaard, Rayonier and Tembec .

We believe that the number of producers is unlikely to grow significantly due to the substantial investment required to enter the mature specialty fibers market and to sufficient existing capacity. However, Sateri has announced that it is adding 250,000 tons of specialty pulp capacity in Brazil in the October-December quarter of 2007, and a former Weyerhaeuser mill in Cosmopolis, Washington with an annual capacity of 155,000 metric tons may restart production. We do not expect that this planned increase in industry capacity will adversely impact Buckeye's specialty fibers business in the current fiscal year. However, it is possible that it could have an impact in the following fiscal year.

Although demand for fluff pulp is generally stable, fluff pulp prices tend to vary together with commodity paper pulp prices because fluff pulp is often produced in mills that also produce commodity paper pulp. Our strategy is to reduce our exposure to fluff pulp by increasing our sales of more specialized wood cellulose into new and existing markets. We also used approximately 47,000 metric tons of fluff pulp from our Foley plant during this fiscal year as a key raw material in our airlaid nonwovens operations. We currently produce less than 7% of the world's supply of fluff pulp. Major competitors include Bowater, International Paper, GP Cellulose, Rayonier and Weyerhaeuser. We understand International Paper is converting one of its mills to begin producing fluff pulp in September 2007 and GP Cellulose announced it is adding capacity at its Brunswick mill, both of which will create additional fluff pulp capacity. The potential added capacity from these two mills is approximately 10% of current industry capacity.

Demand for airlaid nonwovens grew significantly in the 1990's. Since then, significant capacity expansion in 2001, primarily in North America, resulted in the market being oversupplied. Buckeye is the leading supplier of airlaid nonwoven materials worldwide. The markets we compete in also utilize nonwovens materials produced with technologies other than airlaid such as spunlace. Major nonwovens competitors include Ahlstrom, Fiberweb, Concert Industries, Duni, Koch Industries, Kimberly Clark and PGI.

There is limited availability of airlaid nonwoven capacity in Europe, while the North American industry is operating in an environment of excess supply. We understand that Fiberweb is in the process of starting up a new airlaid nonwovens plant in Italy with an annual capacity of approximately 10,000 metric tons per year.

Intellectual Property

At June 30, 2007 and 2006, we had intellectual property assets recorded totaling \$18.0 million and \$25.2 million, respectively. These amounts include patents (including application and defense costs), licenses, trademarks, and tradenames, the majority of which were obtained in the acquisition of airlaid nonwovens businesses and Stac-Pac® technology. We intend to protect our patents and file applications for any future inventions that are deemed to be important to our business operations. The Stac-Pac® packaging technology, a proprietary system for packaging low-density nonwoven materials in compressed cube-shaped bales, is an example of technology we acquired to further differentiate us from our airlaid nonwovens competitors. Stac-Pac® bales facilitate our customers' high-speed production lines with a continuous flow of material. Stac-Pac® units also reduce freight costs by compressing more material in a bale than can be shipped in a traditional roll form, which enables us to ship the bales more effectively in trucks and containers. Additional information is included in Note 1, Accounting Policies, to our Consolidated Financial Statements.

Inflation

We believe that inflation has not had a material effect on our results of operations or on our financial condition during recent periods.

Seasonality

Our business generally is not seasonal to a substantial extent, although we ship somewhat lower specialty fiber volume in the July – September quarter and somewhat lower nonwovens volume is shipped in the October – December quarter.

Employees

As of September 1, 2007, we employed approximately 1,550 employees, of whom approximately 1,100 are employed at our facilities in the United States. Approximately 55% of the U.S. employees are represented by unions at two plants in Perry, Florida and Memphis, Tennessee. Our Foley Plant's labor agreement expires on March 31, 2008 and we will be entering negotiations for a new agreement in the next few months. The agreement for the Memphis Plant is in effect through March 18, 2009. The union at our Canadian facility ratified a new labor agreement effective through June 30, 2009. A national union provides employee representation for non-management workers at our specialty fibers plant in Americana, Brazil.

A works council provides employee representation for non-management workers at our nonwoven materials plant in Steinfurt, Germany.

Our plants in Gaston, King and Lumberton, North Carolina are not unionized.

None of our facilities has had labor disputes or work stoppages in recent history. The Foley and Memphis Plants have not experienced any work stoppages due to labor disputes in over 30 years and 50 years, respectively. We consider our relationships with our employees and their representative organizations to be good. An extended interruption of operations at any of our facilities could have a material adverse effect on our business.

Environmental Regulations and Liabilities

Our operations are subject to extensive general and industry-specific federal, state, local and foreign environmental laws and regulations. We devote significant resources to maintaining compliance with these laws and regulations. We expect that, due to the nature of our operations, we will be subject to increasingly stringent environmental requirements (including standards applicable to wastewater discharges and air emissions) and will continue to incur substantial costs to comply with such requirements. Our failure to comply with environmental laws or regulations could subject us to penalties or other sanctions which could materially affect our business, results of operations or financial condition. Additional information is included in Note 17, Contingencies, to the Consolidated Financial Statements.

Other Information

Our website is www.bkitech.com. We make available, free of charge, through our website under the heading "Investor Relations," annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those filed or furnished, pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934. The information on our website is not part of or incorporated by reference in this Annual Report on Form 10-K.

These reports are also available as soon as reasonably practicable after we electronically file such materials with, or furnish such materials to, the Securities and Exchange Commission, or the SEC. The public may also read and copy

any materials we file with the SEC at the SEC's Public Reference Room at Station Place, 100 F Street NE, Washington, D.C. 20549. The public may obtain information about the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site that contains reports, proxy and information statements and other information filed electronically by us, which are available at <http://www.sec.gov>.

Safe Harbor Provisions

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: dependence on a single customer; the ability to obtain additional capital, maintain adequate cash flow to service debt as well as meet operating needs; maintaining satisfactory labor relations; an inability to predict the scope of future environmental compliance costs or liabilities; pricing fluctuations and worldwide economic conditions; competition; and fluctuations in the costs and availability of raw materials.

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.

Item 1a. Risk Factors

In addition to the risks and uncertainties discussed elsewhere in this Annual Report on Form 10-K (particularly in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations), the following are some important factors that could materially impact our results of operations and financial condition.

Risks related to our business

If our significant customer changes its purchasing habits, our business could be adversely impacted.

Procter & Gamble is our largest single customer. We supply Procter & Gamble with fluff pulp and airlaid nonwovens, and sales to Procter & Gamble accounted for approximately 12% of our sales in fiscal year 2007. In the event that Procter & Gamble fails to continue to purchase these products from us in substantial volume, our results of operations and financial condition could be materially and adversely affected, particularly if we are unable to attract new customers.

Our substantial indebtedness could adversely affect our financial health.

As of June 30, 2007, our total debt was approximately \$446 million and our total debt, as a percentage of total capitalization, was 56%. Our level of debt could have a significant adverse future effect on our business. For example:

- we may have limited ability to borrow additional amounts for working capital, capital expenditures, acquisitions, debt service requirements, execution of our growth strategy, research and development costs or other purposes;
- a substantial portion of our cash flow may be used to pay principal and interest on our debt, which will reduce the funds available for working capital, capital expenditures, acquisitions and other purposes;
- our senior secured credit facility covenants require us to meet certain financial objectives and impose other restrictions on business operations. These covenants and those contained in the indentures governing our senior and senior subordinated notes limit our ability to borrow additional funds or dispose of assets and limit our flexibility in planning for and reacting to changes in our business;
- we may be more vulnerable to adverse changes in general economic, industry and competitive conditions and adverse changes in government regulation;
- our debt level and the various covenants contained in the indentures related to our senior notes, senior subordinated notes and the documents governing our other existing indebtedness may place us at a relative competitive disadvantage as compared to certain of our competitors; and

- our borrowings under our senior secured credit facility are at floating rates of interest, which could result in higher interest expense in the event of an increase in interest rates.

Our ability to pay principal of and interest on our senior notes and senior subordinated notes, to service our other debt and to refinance indebtedness when necessary depends on our financial and operating performance, each of which is subject to prevailing economic conditions and to financial, business and other factors beyond our control.

We cannot assure you that we will generate sufficient cash flow from operations or that we will be able to obtain sufficient funding to satisfy all of our obligations. If we are unable to pay our debts, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our indebtedness or selling additional equity capital. However, we cannot assure you that any alternative strategies will be feasible at the time or prove adequate. Also, certain alternative strategies will require the consent of our senior secured lenders before we engage in any such strategy.

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Our failure to maintain satisfactory labor relations could have a material adverse effect on our business.

If our negotiations with the representatives of the unions, to which many of our employees belong, are not successful, our operations could be subject to interruptions at many of our facilities. As of September 1, 2007, we employed approximately 1,550 employees, of whom approximately 1,100 are employed at our facilities in the United States. Approximately 55% of the U.S. employees are represented by unions at two plants in Perry, Florida and Memphis, Tennessee. Our Foley Plant's labor agreement expires on March 31, 2008. The agreement for the Memphis Plant is in effect through March 18, 2009. The union at our Canadian facility ratified a new labor agreement effective through June 30, 2009.

Employee representation is provided by a national union for non-management workers at our specialty fibers plant in Americana, Brazil, and our nonwoven materials plant in Steinfurt, Germany. Our plants in Gaston, Lumberton and King, North Carolina are not unionized.

None of our facilities has had labor disputes or work stoppages in recent history. The Foley and Memphis Plants have not experienced any work stoppages due to labor disputes in over 30 years and 50 years, respectively. We consider our relationships with our employees and their representative organizations to be good. An extended interruption of operations at any of our facilities could have a material adverse effect on our business.

Problems regarding the negotiation of any labor contracts could also affect our business. The failure to renegotiate labor agreements in a timely manner could lead to a curtailment or stoppage of work at our factories. If we negotiated a labor agreement on unfavorable terms, our production costs will increase. A reduction in production or increasing the costs of production would lower our profits and harm our business.

Compliance with extensive general and industry specific environmental laws and regulations requires significant resources, and the significant associated costs may adversely impact our business.

Our operations are subject to extensive general and industry specific federal, state, local and foreign environmental laws and regulations. We devote significant resources to maintaining compliance with these laws and regulations. We expect that, due to the nature of our operations, we will be subject to increasingly stringent environmental requirements (including standards applicable to wastewater discharges and air emissions) and will continue to incur substantial costs to comply with these requirements. Because it is difficult to predict the scope of future requirements, there can be no assurance that we will not incur material environmental compliance costs or liabilities in the future.

The Foley Plant, located in Perry, Florida, discharges treated wastewater into the Fenholloway River. Under the terms of an agreement with the Florida Department of Environmental Protection ("FDEP"), approved by the U. S. Environmental Protection Agency (the "EPA") in 1995, we agreed to a comprehensive plan to attain Class III ("fishable/swimmable") status for the Fenholloway River under applicable Florida law (the "Fenholloway Agreement"). The Fenholloway Agreement requires us, among other things, to (i) make process changes within the Foley Plant to reduce the coloration of its wastewater discharge, (ii) restore certain wetlands areas, (iii) relocate the wastewater discharge point into the Fenholloway River to a point closer to the mouth of the river, and (iv) provide oxygen enrichment to the treated wastewater prior to discharge at the new location. We have completed the process changes within the Foley Plant as required by the Fenholloway Agreement. In making these in-plant process changes, we incurred significant expenditures, and, we expect to incur significant additional capital expenditures to comply with the remaining obligations under the Fenholloway Agreement.

Based on the requirements of the proposed permit, we expect to incur capital expenditures of approximately \$10 million over the next four years (beginning fiscal year 2008) on in-plant process changes, and additional capital expenditures of approximately \$50 million over at least five years, possibly beginning as early as fiscal year

2012. The amount and timing of these capital expenditures may vary depending on a number of factors. For additional information on environmental matters, see Note 17 to the Consolidated Financial Statements. These possible expenditures could have a material adverse effect on our business, results of operations or financial condition.

Because approximately 67% of our sales are to customers outside the United States, we are subject to the economic and political conditions of foreign nations.

We have manufacturing facilities in four countries and sell products in approximately 60 countries. For the fiscal year ended June 30, 2007, sales of our products outside the United States represented approximately 67% of our sales. The global economy and relative strength or weakness of the U. S. dollar can have a significant impact on our sales. In addition, although approximately 82% of our sales are denominated in U.S. dollars, it is possible that as we expand globally, we will face increased risks associated with operating in foreign countries, including:

- the risk that foreign currencies will be devalued or that currency exchange rates will fluctuate;
- the risk that limitations will be imposed on our ability to convert foreign currencies into U.S. dollars or on our foreign subsidiaries' ability to remit dividends and other payments to the United States;

- the risk that our foreign subsidiaries will be required to pay withholding or other taxes on remittances and other payments to the United States or that the amount of any such taxes will be increased;
- the risk that certain foreign countries may experience hyperinflation;

and

- the risk that foreign governments may impose or increase investment or other restrictions affecting our business.

Any of these risks could have a material adverse effect on our business, results of operations or financial condition.

Exposure to commodity products creates volatility in pricing and profits.

If our research and development efforts do not result in the commercialization of new, proprietary products, we will continue to have significant exposure to fluff pulp, which could result in volatility in sales prices and profits.

Risks related to our industry

We are subject to the cyclical nature of our industry.

The demand and pricing of our products, particularly fluff pulp, are influenced by the much larger market for papermaking pulps which is highly cyclical. The markets for most cellulose and absorbent products are sensitive to both changes in general global economic conditions and to changes in industry capacity. Both of these factors are beyond our control. The price of these products can fluctuate significantly when supply and demand become imbalanced for any reason. Our financial performance can be heavily influenced by these pricing fluctuations and the general cyclical nature of the industries in which we compete. Furthermore, a general economic downturn in a particular country or on an international scale, could reduce the overall sales within our industry, thereby likely reducing our sales. We cannot assure you that current prices will be maintained, that any price increases will be achieved, or that industry capacity utilization will reach favorable levels. The demand, cost and prices for our products may fluctuate substantially in the future and downturns in market conditions could have a material adverse effect on our business, results of operations and financial condition.

Competition and surplus capacity could adversely affect our operating results and financial condition.

The markets for our products are all competitive. Actions by competitors can affect our ability to sell our products and can affect the volatility of the prices at which our products are sold. Other actions by competitors, such as reducing costs or adding low-cost capacity, may adversely affect our competitive position in the products we manufacture and, consequently, our sales, operating income and cash flows. New competitors and the expansion of existing competitors could create a surplus capacity of the goods that we sell, which might cause us to either lose sales or lower the prices of our goods. As examples of existing competitors expanding their production, Sateri has announced that it will add 250,000 tons of specialty pulp capacity in Brazil and Weyerhaeuser could reopen a mill with an annual capacity of 155,000 metric tons. Actions by our competitors and any surplus capacity could cause our profits to decline, affecting our operating results and financial condition.

Market fluctuations in the availability and cost of energy and raw materials are beyond our control and may adversely impact our business.

Energy, chemicals, and raw material costs, including fuel oil, natural gas, electricity, cotton linters, wood, and caustic and other chemicals are a significant operating expense. The prices and availability of raw materials and energy can be volatile and are susceptible to rapid and substantial changes due to factors beyond our control such as changing economic conditions, currency fluctuations, weather conditions, political unrest and instability in energy-producing nations, and supply and demand considerations. We have raw material availability issues in our specialty cotton fibers business in both North America and Brazil. We have increased our imported cotton linters purchases for our Memphis specialty cotton fiber production in order to minimize the impact of current constraints on North American cotton fiber availability. We have limited production at our Americana, Brazil specialty fibers facility because of raw material constraints in Brazil. For the near term, this raw material availability will limit growth and increase our production costs. Additionally, energy and chemical costs have increased substantially in recent years, which has resulted in increased production costs for our products. Increases in production costs could have a material adverse effect on our business, financial condition and results of operations. In addition to increased costs, it is possible that a disruption in supply of natural gas or other fossil fuels could limit our ability to operate our facilities.

Market fluctuations in the availability and cost of transportation are beyond our control and may adversely impact our business.

Our business depends on the transportation of a large number of products, both domestically and internationally. An increase in transportation rates or fuel surcharges and/or a reduction in transport availability in truck, rail and international shipping could negatively impact our ability to provide products to our customers in a timely manner. An increase in international shipping rates or fuel surcharges or a reduction in the availability of vessels could negatively impact our costs and our ability to provide products to our international customers in a timely manner. While we have had adequate transportation availability, there is no assurance that such availability can continue to be effectively managed in the future.

Item 1b. Unresolved Staff Comments

None.

Item 2. Properties

Corporate Headquarters. Our corporate headquarters, research and development laboratories, and pilot plants are located in Memphis, Tennessee.

Specialty Fiber Plants

Memphis Plant. The Memphis Plant is located on approximately 75 acres adjacent to the headquarters complex and has a capacity of approximately 100,000 annual metric tons of cotton cellulose. As of June 30, 2007, the Memphis Plant operated at approximately 80% of its capacity.

Foley Plant. The Foley Plant is located at Perry, Florida, on a 2,900 acre site and has a capacity of approximately 465,000 annual metric tons of wood cellulose. In connection with the acquisition of the Foley Plant, we also own 13,000 acres of real property near the plant site. As of June 30, 2007, the Foley Plant operated at 100% of its capacity.

Lumberton Plant. The Lumberton Plant is located in Lumberton, North Carolina on a 65-acre site and has a capacity of approximately 8,000 annual metric tons of cosmetic cotton fiber. As of June 30, 2007, the Lumberton Plant operated at approximately 90% of its capacity.

Americana Plant. The Americana Plant is located in the city of Americana in the state of Sao Paulo, Brazil on 27 acres and is part of a multi-business industrial site with a capacity of approximately 40,000 annual metric tons of cotton cellulose. As of June 30, 2007, the Americana Plant operated at approximately 60% of its capacity.

Nonwovens Plants

The stated capacity of airlaid nonwovens machines is based upon an assumed mix of products. The flexible nature of the airlaid technology allows for a wide range of materials to be produced. Machine production capability has typically been lower than the stated capacity, often by factors of 10-20%, when adjusted to reflect the actual product mix. Based on current product mix, utilization of our airlaid machines worldwide, as of June 30, 2007, was operating at approximately 80% of capacity.

Delta Plant. The Delta Plant is located in Delta, British Columbia on a 12-acre industrial park site and has a total capacity of approximately 30,000 annual metric tons of airlaid nonwovens (26,000 based on current production mix) from two production lines.

Steinfurt Plant. The Steinfurt Plant is located in Steinfurt, Germany on an 18-acre site and has a total capacity of approximately 30,000 annual metric tons of airlaid nonwovens from two production lines.

Gaston Plant. The Gaston Plant is located in Gaston County near Mt. Holly, North Carolina on an 80-acre site and has a total capacity of approximately 60,000 annual metric tons of airlaid nonwovens (43,000 annual metric tons based on current production mix) from two production lines.

King Plant. The King Plant is located in King, North Carolina and converts airlaid materials and wetlaid papers into wipes, towels and tissues for industrial and commercial uses.

We own our corporate headquarters, the Memphis Plant, the Foley Plant, the Lumberton Plant, the Gaston Plant, the Delta, Canada Plant, the Steinfurt, Germany Plant and the Americana, Brazil Plant. We lease buildings that house the King, North Carolina Plant, the sales offices in Europe and distribution facilities in Savannah, Georgia. All of the facilities located in the United States are pledged as collateral for certain debt agreements.

We believe that our specialty fibers and nonwoven materials manufacturing facilities and administrative buildings are adequate to meet current operating demands.

Item 3. Legal Proceedings

We are involved in certain legal actions and claims arising in the ordinary course of business. We believe that such litigation and claims will be resolved without material adverse effect on our financial position or results of operation.

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

None

PART II**Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters**

Buckeye Technologies Inc.'s common stock is traded on the New York Stock Exchange under the symbol BKI. There were approximately 4,000 shareholders on September 1, 2007, based on the number of record holders of our common stock and an estimate of the number of individual participants represented by security position listings. The table below sets forth the high and low sales prices for our common stock.

	Year Ended June 30			
	2007		2006	
	High	Low	High	Low
First quarter (ended September 30)	\$ 9.00	\$ 6.84	\$ 10.08	\$ 7.75
Second quarter (ended December 31)	12.72	8.33	8.33	7.18
Third quarter (ended March 31)	14.00	11.16	10.27	7.89
Fourth quarter (ended June 30)	16.25	11.75	9.10	6.97

We did not make any dividend payments during the fiscal years ended June 30, 2007 or 2006, and have no plans to pay dividends in the foreseeable future. We repurchased no shares of our common stock during the fiscal years ended June 30, 2007 or 2006. Due to certain debt agreements we are limited in our ability to make dividend distributions and share repurchases in the future. The amount available will depend on our financial results and ability to comply with certain conditions under our most restrictive debt agreements at the time of distribution or repurchase.

Performance Graph

The line graph below compare the cumulative total stockholder return on our common stock with the cumulative total return of the Standard & Poor's 500 Index and the New York Stock Exchange (NYSE) Paper & Allied Products peer group for the five fiscal years ended June 30, 2007. The graph and table assume that \$100 was invested on June 30, 2002 in each of our common stock, the Standard & Poor's index and the NYSE Paper & Allied Products peer group, and that all dividends were reinvested.

	2002	2003	2004	2005	2006	2007
Buckeye Technologies Inc.	100.00	69.39	117.35	81.33	77.96	157.86
S&P 500	100.00	100.25	119.41	126.96	137.92	166.32
NYSE Paper & Allied Products - SIC Codes 2600-2699 (U.S. & Foreign Cos.)	100.00	84.62	108.78	96.09	101.45	124.14

Item 6. Selected Financial Data

Selected Financial Data

In thousands, except per share data

	Year Ended June 30				
	2007(a)	2006(b)	2005(c)	2004 (d)	2003 (e)
Operating Data:					
Net sales	\$ 769,321	\$ 728,485	\$ 712,782	\$ 656,913	\$ 641,082