

BUCKEYE'S  
SECRET  
INGREDIENT  
IS NOT  
CELLULOSE





A woman with short dark hair and glasses, wearing a white lab coat, is holding a clipboard and a pen. She is looking thoughtfully to the side. The background is a blurred blue and white grid pattern.

# IT'S INNOVATION

At Buckeye, innovative thinking has made us the preeminent global supplier of specialty cellulose and absorbent products. We are the only manufacturer of cellulose from both cotton and wood, and we provide an exceptionally broad range of products to markets around the world.



AND NOT JUST  
IN OUR  
LABORATORIES



ROBERT E. CANNON



File



Print



Send

**From:** Robert E. Cannon, David B. Ferraro  
**To:** Our Stockholders  
**Priority:** Urgent

Buckeye is a global company. About 60% of our sales are in Europe, Asia, and South America, where economies were depressed during our past fiscal year. As was the case with others having substantial overseas sales, these depressed markets had a significant impact on Buckeye's business.

Against this backdrop, Buckeye's results held up reasonably well, although below 1998 levels. Fiscal 1999 net sales were \$618 million and earnings per share were \$1.32, which were 2% and 9%, respectively, below results for the prior year.

A tough year, however, gives fresh impetus to initiatives that will fuel our future growth. In order to intensify efforts to improve Buckeye's profitability, we initiated an EARN (Earnings Added Right Now) program that involves all Buckeye people in reducing costs, accelerating the introduction of new products, and finding more effective and efficient ways to operate the business. The Buckeye team responded by increasing the pace of innovation.

#### INNOVATION AT BUCKEYE

This year's annual report features the many faces of innovation at Buckeye. When we talk about innovation, we first think of the continuing stream of new products, which are the lifeblood of our business.

Product Development had a great year in fiscal 1999 at Buckeye. We developed more breakthrough products and filed many more patents than during any previous year in our history. These include airlaid products that will improve our customers' brands and simplify their manufacturing processes. We developed revolutionary fibers that will deliver thinner, drier disposable diapers for this \$20 billion market. We also developed an advanced form of cotton cellulose that provides greatly improved thickening power in a wide range of consumer products. And we developed improved fibers for use in filter and currency applications.

Buckeye people recognize that there is also room for innovation in the way employee teams work together effectively. Our people are constantly searching for new approaches, which incorporate more efficient manufacturing and operational systems. We can purchase more adroitly by broadening our raw materials supply

FISCAL YEAR ENDED JUNE 30 (IN \$ MILLIONS, EXCEPT PER SHARE AMOUNTS)	1995	1996	1997	1998	1999
NET SALES	\$409	\$471	\$559	\$630	\$618
OPERATING INCOME	\$ 79	\$109	\$109	\$122	\$113
NET EARNINGS	\$ 22	\$ 43	\$ 53	\$ 55	\$ 48
EARNINGS PER SHARE*	NA	\$1.01	\$1.38	\$1.45	\$1.32

\*Diluted basis; not available before Company became public in fiscal 1996.



base to take advantage of attractive opportunities throughout the world. In a period of slow international trade, there are also fresh opportunities in the area of logistics. Sales and marketing costs can be reduced by improving information technology and the use of electronic media.

In fact, energized by our EARN program, Buckeye people have already implemented innovations, which have saved nearly \$10 million. The pace of innovation is continuing to accelerate and bodes well for our Company's future. This annual report will highlight innovations in several areas of Buckeye's business.

#### BUILDING FOR THE FUTURE

By 1997 Buckeye's Skunkworks had developed new and innovative nonwoven products utilizing airlaid techniques. In order to commercialize these products, in mid-1997 we purchased Merfin International, a leader in nonwovens manufacturing. We spent fiscal 1998 learning the technology and completing the start-up of a new plant in Cork, Ireland. Fiscal year 1999 saw a number of important developments in the expansion of this business:

- Our plants in Canada and Ireland operated at capacity.
- We constructed a \$7 million airlaid nonwovens pilot plant adjacent to our Memphis Research and Development facility that will accelerate the delivery of new products to the marketplace.
- We have initiated plans to construct the world's largest and most efficient airlaid nonwovens machine.
- In July, we announced the planned acquisition of Walkisoft, UPM-Kymmene's nonwovens business. This acquisition will give us our first nonwovens manufacturing facilities in the United States and Germany, two of the world's largest markets, and will provide additional capacity while we construct the new machine.
- Collectively, the new machine and the Walkisoft acquisition will triple our nonwovens capacity and give this business the scale to make a large contribution to our future financial results.

We are now the leader in airlaid technology and are positioned for accelerated nonwovens growth. We continue to be the only producer of specialty and absorbent cellulose made from both cotton and wood fibers. We have improved the cost effectiveness of our business, and we are poised to take advantage of improving global economic conditions.

Buckeye people performed extremely well during a difficult period. Year in and year out their dedication, innovation and resourcefulness have made Buckeye successful. We are grateful for their continuing contributions as well as the support of our customers, suppliers and stockholders. We confidently expect the pace of progress to accelerate in the years ahead.



Robert E. Cannon  
Chairman and Chief Executive Officer



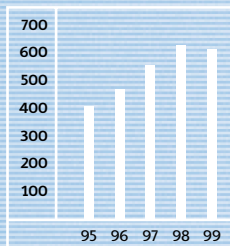
David B. Ferraro  
President and Chief Operating Officer



DAVID B. FERRARO

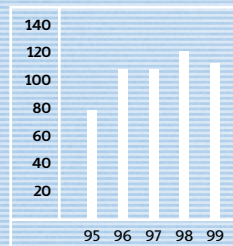
Fiscal Year Ended June 30

**NET SALES**



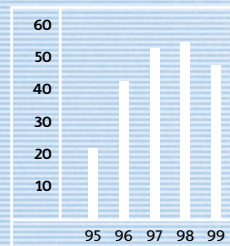
IN MILLIONS OF DOLLARS

**OPERATING INCOME**



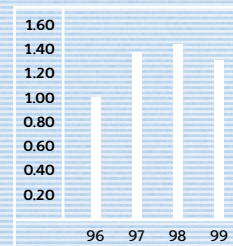
IN MILLIONS OF DOLLARS

**NET EARNINGS**



IN MILLIONS OF DOLLARS

**EARNINGS PER SHARE\***



IN DOLLARS

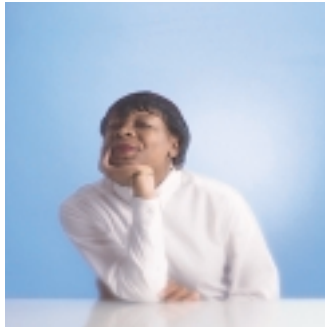
\*Diluted basis; not available before Company became public in fiscal 1996.



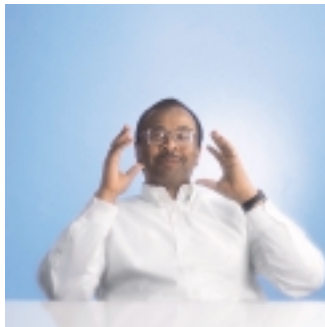
# ONE THING KEEPS THESE PEOPLE CHAINED TO THEIR DESKS



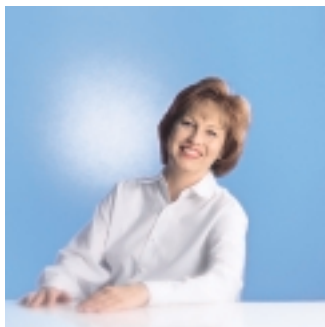
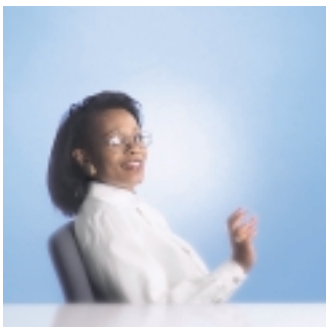
Innovation requires an open and flexible environment in order to flourish. At Buckeye, we want our people to engage in research and development – scientific inquiry, creative exploration, and imaginative insight – without bureaucracy getting in the way. Consequently, we have empowered them with the freedom to make the independent decisions that will enable them to purposefully carry out their work. Our intent is to let them focus on their mission: conceiving and developing innovative products and technical solutions for customers that will build and sustain the success of Buckeye Technologies.



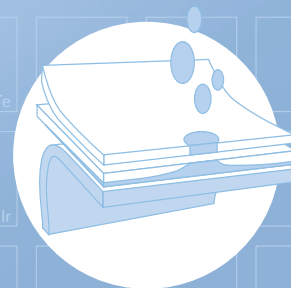
Facing page from left to right:  
Jeff Cook, Namitha Sundara, Tony Brightman  
This page from left to right, top to bottom:  
Randy Flaman, Caroline Haynes, Bill Chou,  
Larry Anderson, Amber Slankard, Chip Aiken,  
Gloria Clark, Allison Woerner, Eva Woo



# ...FREEDOM



# OUR IDEAS REALLY HOLD WATER



We wanted to create a product that would revolutionize the way absorbent materials are made by combining the acquisition, distribution and storage layers into one composite structure. Buckeye scientists succeeded by developing a superior multilayered absorbent core that feels dry to the touch, even after repeated wettings. This new absorbent material, UNICORE™, gives consumers unparalleled performance, reliability and comfort. UNICORE™ also enables our customers to simplify and streamline their manufacturing processes.

Buckeye's airlaid nonwoven products are highly engineered absorbent structures, and make it possible for our customers to manufacture feminine hygiene, diaper and adult incontinence products with performance capabilities that far surpass current, conventional absorbent cores.








YOU HAVE TO  
BE CLEVER TO BE  
THIS THICK

Our scientists recently have developed new forms of cellulose that allow the manufacture of water soluble ethers with significantly enhanced thickening power for use in shampoo and other cosmetics, foods, pharmaceuticals and construction materials.

With our unique experience and expertise in the production of chemical cellulose from both cotton and wood, our scientists are focused on improving our existing products and on the development of breakthrough innovations.

The strength of our innovations is evident in the broad range and high quality of our products. We manufacture a number of grades of chemical cellulose for use in food casings; rayon filament for textiles and tires; acetate for textiles, plastics, and photographic film; and ethers for use as thickeners.

# SOME OF OUR BEST IDEAS ARE TWISTED



V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As
Se	Br	Kr	Rb	Sr	Y	Zr	Nb	Mo	Tc	Ru
Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe	Cs
Ba	La	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg
Tl	Pb	Bi	Po	At	Rn	Fr	Ra	Rf	Db	Sg





# WE KNOW HOW TO HANDLE INSULTS



“Insult” is the term used to describe the flow of a fluid wetting an absorbent structure. An essential measure of the quality of an absorbent product is the number of “insults” it can absorb. Buckeye’s scientists have recently developed a breakthrough, proprietary new fiber that is designed to revolutionize the performance of diapers and adult incontinence products.

Our new fiber will dramatically improve acquisition, distribution and fluid management in absorbent cores. It will provide our customers with greater flexibility in designing drier, thinner products. For consumers, this new innovation means improved absorbency, better skin care and enhanced personal comfort.









WE PUSH OUR  
IDEAS TO EVERY  
CORNER OF  
THE WORLD

H	He	Li	Be	B	C	N	O	F	Ne	Na
Mg	Al	Si	P	S	Cl	Ar	K	Ca	Sc	Ti
V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As
Se	Br	Kr	Rb	Sr	Y	Zr	Nb	Mo	Tc	Ru
Rh	Pd	Ag	Cd	In	Sn	Sb	Te	I	Xe	Cs
Ba	La	Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg



H	He	Li	Be	B	C	N	O	F	Ne	Na			
Mg	Al	Si	P	S	Cl	Ar	K	Ca	Sc	Ti			
V	Cr	Mn	Fe	Co	Ni	Cu	Zn	Ga	Ge	As			
Se	Br	Buckeye has been producing cellulose-based specialty products for more than 75 years. We have established a long history of innovation and growth that has accelerated since Buckeye became a public company in 1995.			Y	Zr	Nb	Mo	Tc	Ru			
Rh	Pd	We market our products in more than 50 countries. Our acquisitions are broadening our global presence. We are well positioned to serve our customers around the world.			Ag	Buckeye has a bright future. We plan to continue growing through the development							
Ba	La	of innovative proprietary products, expansion of our manufacturing facilities, and acquisitions that help us execute our global strategies.			Hf	Ta	W	Re	Os	Ir	Pt	Au	Hg





BUCKEYE INNOVATIONS ENHANCE THESE PRODUCTS...

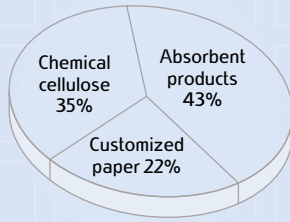


AND THESE PRODUCTS...

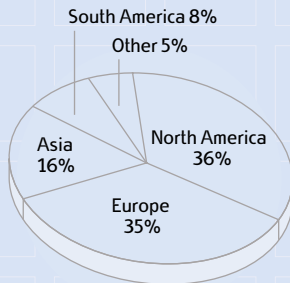


AND THESE PRODUCTS...





**SALES BY PRODUCT**



**SALES BY REGION**

# FINANCIAL INFORMATION

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## FINANCIAL REVIEW

### Introduction

Buckeye Technologies Inc. and its subsidiaries (the Company) manufacture value-added cellulose-based specialty products in the United States, Canada, and Europe, and sell these products in worldwide markets. In September 1996, the Company acquired Alpha Cellulose Holdings, Inc. (Alpha) with its specialty cellulose producing facility, located in Lumberton, North Carolina. In May 1997, the Company completed its tender offer for Merfin International Inc. (Merfin), with absorbent products facilities located in Delta (near Vancouver), Canada; Cork, Ireland; and King, North Carolina.

On July 15, 1999, the Company announced that it had signed a letter of intent to acquire essentially all of the assets of Walkisoft, UPM-Kymmene's nonwoven business, with manufacturing locations in Steinfurt, Germany and Mt. Holly, North Carolina, for approximately \$120 million. The transaction, which is expected to close during the October-December 1999 quarter, is subject to completion of due diligence, regulatory approvals and other terms of the agreement.

### Results of Operations

#### Comparison of Fiscal Years Ended June 30, 1999 and June 30, 1998

Net sales for 1999 were \$617.7 million compared to \$630.2 million for 1998, a decrease of 2%. The decrease was primarily due to lower sales volume.

In 1999, operating income was \$113.0 million compared to \$122.4 million for 1998, a decrease of 7.7%. The 1999 operating income as a percentage of sales was 18.3%, compared to 19.4% for 1998. The decrease was primarily due to lower cellulose volume and unit sales prices, including a scheduled January 1, 1999 fluff pulp contract price reduction to Procter & Gamble. These negative factors were substantially offset by improved airlaid sales and lower overall costs.

Net interest and amortization of debt costs for 1999 were \$38.9 million, compared to \$36.3 million for 1998, an increase of \$2.6 million. This increase was due to higher average interest rates.

The Company's effective tax rate for 1999 was 31.7% versus 34.1% in 1998. During the last two quarters of the fiscal year, the Company recognized additional benefit from optimizing its foreign sales corporation.

The Company's net income for 1999 was \$48.0 million, or \$1.32 per share on a diluted basis, compared with 1998 net income of \$55.3 million, or \$1.45 per share on a diluted basis.

#### Comparison of Fiscal Years Ended June 30, 1998 and June 30, 1997

Net sales for 1998 were \$630.2 million compared to \$558.9 million for 1997, an increase of 13%. The increase was primarily due to higher sales volume resulting from the acquisition of Merfin and Alpha.

In 1998, operating income was \$122.4 million, compared to \$109.4 million for 1997, an increase of 12%. The 1998 operating income as a percentage of sales was 19.4%, virtually the same as 1997. Increased investment in product development and the start-up of a new facility were offset by lower overall raw material costs.

Net interest and amortization of debt costs for 1998 were \$36.3 million, compared to \$27.9 million for 1997, an increase of \$8.4 million. This increase was due to higher average debt balances, resulting from the acquisition of Merfin and Alpha.

The Company's net income for 1998 was \$55.3 million, or \$1.45 per share on a diluted basis, compared with 1997 net income of \$53.3 million, or \$1.38 per share on a diluted basis.

### Financial Condition

#### Cash Flow

Cash provided by operating activities is a major source of funds for the Company, totaling \$978 million in 1999, \$94.0 million in 1998, and \$117.4 million in 1997. The increase in cash generated during 1999 was primarily due to higher deferred taxes partially offset by lower net income. In 1998, an increase in funding of net operating assets offset an increase in net income, depreciation

and amortization. In 1997, a decrease in inventories of \$10.3 million contributed to the cash flow.

Capital expenditures for property, plant and equipment were \$51.5 million in 1999, \$66.7 million in 1998, and \$42.8 million in 1997. The Company made these expenditures to purchase, modernize and upgrade production equipment and to maintain and acquire facilities. Capital expenditures (including environmental expenditures) for 2000 are expected to be approximately \$80 million.

The Board of Directors has authorized the repurchase of 4.0 million shares of common stock. Repurchased shares will be held as treasury stock and will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. During the year ended June 30, 1999, 1,431,900 shares were repurchased at a cost of \$23.2 million. Through June 30, 1999, a total of 3,522,100, shares have been repurchased under the current board authority.

#### **Leverage/Capitalization**

In 1997, the Company used \$50 million of the proceeds from a debt offering to fund a stock repurchase of 4,519,774 shares of common stock. The favorable impact on diluted earnings per share resulting from the stock repurchase was \$0.08 per share.

The total debt to capital ratio was 71.4% at June 30, 1999, compared to 74.6% at June 30, 1998 and 78.9% at June 30, 1997. The interest coverage ratio was 4.0x in 1999, 4.6x in 1998, and 5.1x in 1997.

#### **Liquidity**

The Company believes that its cash flow from operations, together with the borrowings available under its credit facility, will be sufficient to fund capital expenditures (including environmental expenditures), meet operating expenses, fund authorized common stock repurchases, and service all debt requirements for the foreseeable future. Consistent with the Company's stated policy, there are no plans to pay dividends in the foreseeable

future. At June 30, 1999, the Company had unused borrowing capacity of \$192.4 million on the bank credit facility. The announced Walkisoft acquisition for approximately \$120 million includes \$15 million in working capital. When completed, this acquisition will be funded over the next four years by paying UPM-Kymmene \$32 million at closing and \$22 million on each of the first four anniversaries of closing. Interest of 5% annually will be paid on the unpaid balance.

#### **Market Risk**

The Company is exposed to market risk from changes in foreign exchange, interest rates and raw material costs. To reduce such risks, the Company selectively uses financial instruments. All hedging transactions are authorized and executed pursuant to clearly defined policies and procedures. Further, the Company does not enter into financial instruments for trading purposes.

A discussion of the Company's accounting policies for risk management is included in the Accounting Policies in the Notes to the Consolidated Financial Statements.

#### **Interest Rates**

The fair value of the Company's long-term debt is based on an average of the bid and offer prices at year-end. The carrying value and fair value of long-term debt at June 30, 1999 were \$441.2 million and \$434.6 million, respectively, and at June 30, 1998 were \$456.8 million and \$467.3 million, respectively. Market risk is estimated as the potential change in fair value resulting from a hypothetical 10% decrease in interest rates and amounts to \$16.3 million at June 30, 1999.

The Company had \$31.8 million of variable rate long-term debt outstanding at June 30, 1999. At this borrowing level, a hypothetical 10% adverse change in interest rates would have a \$0.2 million unfavorable impact on the Company's pretax earnings and cash flows. The primary interest rate exposures on floating rate debt are with respect to U.S. prime rates and European interbank rates.

### **Foreign Currency Exchange Rates**

Foreign currency exposures arising from transactions include firm commitments and anticipated transactions denominated in a currency other than an entity's functional currency. The Company and its subsidiaries generally enter into transactions denominated in their respective functional currencies. Therefore, foreign currency exposures arising from transactions are not material to the Company. The Company's primary foreign currency exposure arises from foreign-denominated revenues and profits and their translation into U.S. dollars. The primary currencies to which the Company is exposed include the Canadian dollar, the German mark and the Irish punt.

The Company generally views as long-term its investments in foreign subsidiaries with a functional currency other than the U.S. dollar. As a result, the Company does not generally hedge these net investments. However, the Company uses capital structuring techniques to manage its net investment in foreign currencies as considered necessary. The net investment in foreign subsidiaries translated into dollars using the year-end exchange rates is \$209.3 million and \$204.7 million at June 30, 1999 and 1998, respectively. The potential loss in value of the Company's net investment in foreign subsidiaries resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates at June 30, 1999 amounts to \$19.0 million. This change would be reflected in the equity section of the Company's balance sheet.

### **Cost of Raw Materials**

Amounts paid by the Company for wood and cotton fiber represent the largest component of the Company's variable costs of production. The cost of these materials is subject to market fluctuations caused by factors beyond the Company's control, including weather conditions. Significant increases in the cost of wood or cotton fiber, to the extent not reflected in prices for the Company's products, could materially and adversely

affect the Company's business, results of operations and financial condition.

### **Forward-Looking Information**

The above risk management discussion and the estimated amounts generated from the sensitivity analyses are forward-looking statements of market risk, assuming that certain adverse market conditions occur. Actual results in the future may differ materially from those projected results due to actual developments in the global financial markets. The analysis methods used by the Company to assess and mitigate risks discussed above should not be considered projections of future events or losses.

### **Contingencies**

The Company's operations are subject to extensive general and industry-specific federal, state, local and foreign environmental laws and regulations. The Company devotes significant resources to maintaining compliance with such requirements. The Company expects that, due to the nature of its operations, it 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. Given the uncertainties associated with predicting the scope of future requirements, there can be no assurance that the Company will not in the future incur material environmental compliance costs or liabilities. For additional information on environmental matters, see Note 14 to the Consolidated Financial Statements.

See Note 10 to the Consolidated Financial Statements for information related to the Pulp Supply Agreement with the Procter & Gamble Company.

### **Year 2000 Compliance**

The Company is dependent upon computerized information systems for all phases of its operations including production, distribution and accounting. The Company's

suppliers, distributors and customers are also dependent upon computerized information systems and may have year 2000 problems, which could adversely affect the Company. During the last four years, the Company has replaced substantially all of its mission-critical information technology (IT) systems, giving the Company the benefit of new technology and functionality while becoming year 2000 compliant.

The Company developed a plan and timetable to determine the impact of the year 2000 on its operations and to achieve year 2000 compliance. The Company separated its compliance analysis into four categories. These categories were mission-critical IT systems, other IT systems, non-IT systems and major customers' and suppliers' IT systems. The Company also identified five major steps, within each of these areas, that needed to be completed in order to become year 2000 compliant. These steps were: (1) identify compliance owners, (2) inventory all systems to determine compliance or non-compliance, (3) establish a plan to implement any required changes, (4) test the implementation plan, and (5) execute the plan, establish contingencies, and verify that compliance has been achieved.

The Company has completed the total plan and has achieved compliance and established contingencies for all systems. Management believes that its year 2000 readiness program has encompassed all reasonable actions and contingency plans to avoid business interruptions resulting from year 2000 problems. The Company has no information that indicates that a significant vendor may be unable to sell to the Company; that a significant customer may be unable to purchase from the Company; or that a significant service provider may be unable to provide services to the Company. Notwithstanding the above, the effect, if any, on the Company's future results of operations, due to the Company's major customers or suppliers not being year 2000 ready, cannot be reasonably estimated.

#### **Forward-Looking Statements**

Except for the historical information contained herein, the matters discussed in this annual report are forward-looking statements that involve risks and uncertainties, including, but not limited to, economic, competitive, governmental and technological factors affecting the Company's operations, markets, products, services and prices, and other factors. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events.

## CONSOLIDATED STATEMENTS OF INCOME

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended June 30		
	1999	1998	1997
<b>Net sales</b>	<b>\$617,707</b>	\$630,210	\$558,933
Cost of goods sold	<b>459,115</b>	461,757	411,751
Gross margin	<b>158,592</b>	168,453	147,182
Selling, research and administrative expenses	<b>45,568</b>	46,042	37,790
<b>Operating income</b>	<b>113,024</b>	122,411	109,392
Other income (expense):			
Interest income	<b>390</b>	539	765
Interest expense and amortization of debt costs	<b>(39,263)</b>	(36,808)	(28,691)
Other	<b>(3,821)</b>	(2,285)	(1,213)
	<b>(42,694)</b>	(38,554)	(29,139)
Income before income taxes	<b>70,330</b>	83,857	80,253
Income taxes	<b>22,312</b>	28,597	26,979
<b>Net income</b>	<b>\$ 48,018</b>	\$ 55,260	\$ 53,274
<b>Basic earnings per share</b>	<b>\$ 1.34</b>	\$ 1.49	\$ 1.40
<b>Diluted earnings per share</b>	<b>\$ 1.32</b>	\$ 1.45	\$ 1.38
Weighted average shares for basic earnings per share	<b>35,756</b>	37,109	38,127
Effect of dilutive stock options	<b>745</b>	1,125	594
Adjusted weighted average shares for diluted earnings per share	<b>36,501</b>	38,234	38,721
See accompanying notes.			

## CONSOLIDATED BALANCE SHEETS

(IN THOUSANDS, EXCEPT SHARE DATA)

	June 30	
	1999	1998
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 403	\$ 1,472
Short-term investments	-	2,900
Accounts receivable – trade, net of allowance for doubtful accounts of \$1,042 and \$1,174 at June 30, 1999 and 1998, respectively	79,349	85,354
Accounts receivable – other	2,299	3,367
Inventories	104,584	100,372
Deferred income taxes	2,412	4,531
Prepaid expenses and other	8,046	5,510
<b>Total current assets</b>	<b>197,093</b>	<b>203,506</b>
Property, plant and equipment, net	412,231	401,947
Goodwill, net	127,409	132,488
Deferred debt costs and other, net	11,149	13,595
<b>Total assets</b>	<b>\$ 747,882</b>	<b>\$ 751,536</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable	\$ 22,848	\$ 25,142
Accrued expenses	45,127	49,547
Notes payable	-	829
Current portion of long-term debt	-	511
<b>Total current liabilities</b>	<b>67,975</b>	<b>76,029</b>
Long-term debt	441,214	456,332
Accrued postretirement benefits	16,270	15,159
Deferred income taxes	43,480	34,609
Other liabilities	1,524	13,728
Commitments and contingencies (Notes 6, 10, 13, and 14)		
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value; 10,000,000 shares authorized; none issued or outstanding	-	-
Common stock, \$.01 par value; 100,000,000 shares authorized; 43,142,770 shares issued and 35,379,736 and 36,753,546 shares outstanding at June 30, 1999 and 1998, respectively	431	431
Additional paid-in capital	65,477	65,799
Deferred stock compensation	(1,468)	(2,405)
Accumulated other comprehensive income	(21,642)	(17,060)
Retained earnings	238,997	190,979
Treasury shares, 7,763,034 and 6,389,224 shares at June 30, 1999 and 1998, respectively	(104,376)	(82,065)
<b>Total stockholders' equity</b>	<b>177,419</b>	<b>155,679</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 747,882</b>	<b>\$ 751,536</b>

See accompanying notes.

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

(IN THOUSANDS, EXCEPT SHARE DATA)

	Common stock	Additional paid-in capital	Deferred stock compensation	Accumulated other comprehensive income	Retained earnings	Treasury shares	Total
<b>Balance at July 1, 1996</b>	\$428	\$61,071	\$(2,373)	\$ (683)	\$ 82,445	\$ –	\$140,888
Comprehensive income:							
Net income	–	–	–	–	53,274	–	53,274
Other comprehensive income:							
Foreign currency translation adjustment	–	–	–	(3,990)	–	–	(3,990)
Comprehensive income							49,284
Purchase of 5,698,774 shares	–	–	–	–	–	(67,063)	(67,063)
Issuance of 333,524 shares of common stock	3	4,248	–	–	–	48	4,299
Deferred stock compensation	–	609	(609)	–	–	–	–
Amortization of deferred stock compensation	–	–	782	–	–	–	782
<b>Balance at June 30, 1997</b>	431	65,928	(2,200)	(4,673)	135,719	(67,015)	128,190
Comprehensive income:							
Net income	–	–	–	–	55,260	–	55,260
Other comprehensive income:							
Foreign currency translation adjustment	–	–	–	(12,387)	–	–	(12,387)
Comprehensive income							42,873
Purchase of 911,200 shares	–	–	–	–	–	(18,445)	(18,445)
Issuance of 215,550 shares of common stock	–	(1,209)	–	–	–	3,395	2,186
Compensation charge for stock options	–	70	–	–	–	–	70
Deferred stock compensation	–	1,010	(1,010)	–	–	–	–
Amortization of deferred stock compensation	–	–	805	–	–	–	805
<b>Balance at June 30, 1998</b>	431	65,799	(2,405)	(17,060)	190,979	(82,065)	155,679
Comprehensive income:							
Net income	–	–	–	–	48,018	–	48,018
Other comprehensive income:							
Foreign currency translation adjustment	–	–	–	(4,582)	–	–	(4,582)
Comprehensive income							43,436
Purchase of 1,431,900 shares	–	–	–	–	–	(23,151)	(23,151)
Issuance of 58,090 shares of common stock	–	(157)	–	–	–	840	683
Termination of stock options	–	(165)	165	–	–	–	–
Amortization of deferred stock compensation	–	–	772	–	–	–	772
<b>Balance at June 30, 1999</b>	<b>\$431</b>	<b>\$65,477</b>	<b>\$(1,468)</b>	<b>\$(21,642)</b>	<b>\$238,997</b>	<b>\$(104,376)</b>	<b>\$177,419</b>

See accompanying notes.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(IN THOUSANDS)

	Year Ended June 30		
	1999	1998	1997
<b>Operating activities</b>			
Net income	\$ 48,018	\$ 55,260	\$ 53,274
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	37,673	36,562	30,287
Amortization	5,186	7,460	5,800
Deferred income taxes	10,990	3,768	8,769
Other	4,233	2,500	4,198
Changes in operating assets and liabilities:			
Accounts receivable	7,036	(8,609)	(4)
Inventories	(5,117)	5,103	10,347
Prepaid expenses and other assets	(2,493)	(3,459)	3,998
Accounts payable and other current liabilities	(7,695)	(4,544)	736
<b>Net cash provided by operating activities</b>	<b>97,831</b>	<b>94,041</b>	<b>117,405</b>
<b>Investing activities</b>			
Acquisitions of businesses	–	(3,869)	(172,670)
Purchases of property, plant and equipment	(51,549)	(66,720)	(42,757)
Other	2,523	(58)	(440)
<b>Net cash used in investing activities</b>	<b>(49,026)</b>	<b>(70,647)</b>	<b>(215,867)</b>
<b>Financing activities</b>			
Proceeds from sale of equity interests	450	1,757	48
Purchase of treasury shares	(23,151)	(18,445)	(67,063)
Net borrowings (payments) under revolving line of credit	(15,192)	(125,557)	110,612
Proceeds from long-term debt	–	160,480	99,449
Payments for debt issuance costs	–	(4,000)	(4,677)
Principal payments on long-term debt and other	(11,934)	(41,163)	(34,992)
<b>Net cash provided by (used in) financing activities</b>	<b>(49,827)</b>	<b>(26,928)</b>	<b>103,377</b>
<b>Effect of foreign currency rate fluctuations</b>	<b>(47)</b>	<b>(158)</b>	<b>249</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,069)</b>	<b>(3,692)</b>	<b>5,164</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>1,472</b>	<b>5,164</b>	<b>–</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 403</b>	<b>\$ 1,472</b>	<b>\$ 5,164</b>

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(IN THOUSANDS, EXCEPT SHARE DATA)

### 1. Accounting Policies

#### Business Description and Basis of Presentation

The financial statements are consolidated financial statements of Buckeye Technologies Inc. and its subsidiaries (the Company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company 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 filament, acetate fibers and plastics, thickeners and papers.

#### Cash and Cash Equivalents

The Company considers cash equivalents to be temporary cash investments with a maturity of three months or less when purchased.

#### Inventories

Inventories are stated at the lower of cost (determined on average cost or first-in, first-out methods) or market.

#### Property, Plant and Equipment

Property, plant and equipment is stated at cost. The cost of major renewals and improvements is capitalized. Depreciation is computed by the straight-line method over the following estimated useful lives: buildings – 30 to 40 years; machinery and equipment – 5 to 16 years.

#### Impairment of Long-Lived Assets

The Company reviews the appropriateness of the carrying value of its long-lived assets, including goodwill, whenever events or changes in circumstances indicate that the historical cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the carrying value of the asset by estimating the future net cash flows expected to result from the asset including eventual disposition. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

#### Intangible Assets

Goodwill is amortized by the straight-line method over 30 to 40 years. Approximately 95% of the Company's goodwill is attributable to the Company's 1997 acquisitions (see Note 2). Goodwill is net of accumulated amortization of \$10,416 and \$6,758 at June 30, 1999 and 1998, respectively. Deferred debt costs are amortized by the interest method over the life of the related debt and are net of accumulated amortization of \$3,283 and \$2,038 at June 30, 1999 and 1998, respectively.

#### Income Taxes

The Company has provided for income taxes under the liability method. Accordingly, deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. No provision is made for U.S. income taxes applicable to undistributed earnings of foreign subsidiaries that are indefinitely reinvested in foreign operations.

#### Risk Management

The Company selectively uses interest rate swap contracts and foreign currency forward and option contracts to offset the effects of interest and exchange rate risk. The differentials to be received or paid under interest rate contracts are recognized in income over the life of the contracts as adjustments to interest expense. Gains or losses on termination of interest rate contracts are recognized as other income or expense when terminated in conjunction with the retirement of associated debt. The foreign currency forward and option contracts that are designated as effective hedges are deferred and included in income as part of the underlying transactions.

#### Credit Risk

The Company generally obtains credit insurance or requires the customer to provide a letter of credit for export sales. Credit limits have been established for each domestic customer and those foreign customers where credit insurance is not available. Credit limits are monitored routinely.

#### **Environmental Costs**

Liabilities are recorded when environmental assessments are probable and the cost can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

#### **Revenue Recognition**

Revenues are recognized when title to the goods passes to the customer. Net sales are composed of sales reduced by sales allowances and distribution costs.

#### **Foreign Currency Translation**

Company management has determined that the local currency of its German, Canadian and Irish subsidiaries is the functional currency, and accordingly Deutsche mark, Canadian dollar and Irish punt denominated balance sheet accounts are translated into United States dollars at the rate of exchange in effect at fiscal year end. 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 generally accepted accounting principles 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.

#### **Earnings Per Share**

Basic earnings per share has been computed based on the average number of common shares outstanding. Diluted earnings per share reflects the increase in average common shares outstanding that would result from the assumed exercise of outstanding stock options calculated using the treasury stock method.

#### **Stock-Based Compensation**

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25) and related interpretations as permitted by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123).

#### **Comprehensive Income**

In fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 130, *Reporting Comprehensive Income* (SFAS No. 130). This statement establishes rules for the reporting of comprehensive income and its components. Comprehensive income for the Company consists of net income and foreign currency translation adjustments and is presented in the Consolidated Statements of Stockholders' Equity. The adoption of SFAS No. 130 by the Company had no impact on total stockholders' equity. Prior year financial statements have been reclassified to conform with the SFAS No. 130 requirements.

#### **Recently Issued Accounting Standards**

During 1998, the Financial Accounting Standards Board issued Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133). This statement requires companies to record derivative instruments on the balance sheet as assets or liabilities, measured at fair value. Gains or losses resulting from changes in the values of a derivative would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. SFAS No. 133 is effective for the Company's fiscal year 2001. Because of the Company's minimal historical use of derivatives, management anticipates that the adoption of SFAS No. 133 will not have a significant effect on earnings or the financial position of the Company.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. Business Combinations

On September 1, 1996, the Company acquired all of the issued and outstanding stock of Alpha Cellulose Holdings, Inc. (Alpha) for \$25,921 in cash, 328,324 shares of Company common stock valued at \$4,244 and the assumption of long-term debt of \$34,276. Alpha is located in Lumberton, North Carolina and its primary business is the manufacture of specialty cellulose. On May 28, 1997, the Company's wholly-owned subsidiary, Buckeye Acquisition Inc. (BAI), acquired 97.5% of the common shares of Merfin International Inc. (Merfin) for \$146,749 in cash. On July 30, 1997, BAI acquired the remaining outstanding common shares of Merfin for \$3,869 in cash. The total purchase price includes \$150,618 in cash and the assumption of debt of \$49,208. Merfin was one of the leading manufacturers of airlaid nonwovens, which are used as ultrathin absorbent cores in feminine hygiene and adult incontinence products, with facilities located in Canada, Ireland and the United States. The acquisitions were accounted for using the purchase method of accounting. The allocation of the purchase price for both acquisitions is based on the respective fair value of assets and liabilities at the date of acquisition. The excess of the purchase price over the fair value of the net assets for both acquisitions has been recorded as goodwill, and is being amortized by the straight-line method over 30 to 40 years.

#### Purchase Price Allocation

	Alpha	Merfin
Working capital, net of cash	\$13,950	\$ 2,709
Property, plant and equipment	27,538	87,009
Other assets	390	—
Non-compete agreement	4,000	—
Goodwill	25,021	112,681
Other liabilities	(6,458)	(2,573)
	<u>\$64,441</u>	<u>\$199,826</u>

The consolidated operating results of Alpha and Merfin have been included in the consolidated statements of income from the respective dates of acquisition. The following unaudited pro forma results of operations assume that the acquisitions of Alpha and Merfin occurred at the beginning of the period presented.

#### Pro forma results of operations

	Year Ended June 30
	1997
Net sales	\$618,686
Net income	<u>41,255</u>
Basic earnings per share	\$ 1.08
Diluted earnings per share	<u>\$ 1.06</u>

The pro forma financial information is presented for information purposes only and is not necessarily indicative of the operating results that would have occurred had the business combinations been consummated as of the above date, nor is it necessarily indicative of future operating results.

### 3. Inventories

#### Components of inventories

	June 30	
	1999	1998
Raw materials	\$ 28,619	\$ 26,421
Finished goods	56,927	55,939
Storeroom and other supplies	19,038	18,012
	<u>\$104,584</u>	<u>\$100,372</u>

### 4. Property, plant and equipment

#### Components of property, plant and equipment

	June 30	
	1999	1998
Land and land improvements	\$ 9,478	\$ 10,120
Buildings	79,575	76,815
Machinery and equipment	465,310	410,770
Construction in progress	15,392	25,803
	<u>569,755</u>	<u>523,508</u>
Accumulated depreciation	(157,524)	(121,561)
	<u>\$ 412,231</u>	<u>\$ 401,947</u>

## 5. Accrued expenses

### Components of accrued expenses

	June 30	
	1999	1998
Retirement plans	\$12,461	\$11,873
Vacation pay	4,347	4,262
Maintenance accrual	4,822	9,861
Sales program accrual	4,991	6,229
Interest	6,013	4,301
Property taxes	2,737	2,492
Employee compensation	3,101	3,650
Other	6,655	6,879
	<u>\$45,127</u>	<u>\$49,547</u>

## 6. Debt

### Components of long-term debt

	June 30	
	1999	1998
Senior Subordinated Notes due:		
2005	\$149,587	\$149,542
2008	99,533	99,502
2010	149,197	149,155
Credit Facility	31,847	46,919
Other	11,050	11,725
	<u>441,214</u>	<u>456,843</u>
Less current portion	-	511
	<u>\$441,214</u>	<u>\$456,332</u>

The Company completed a public offering of \$150,000 principal amount of 8½% unsecured Senior Subordinated Notes due December 15, 2005 (the 2005 Notes) during November 1995. The 2005 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after December 15, 2000, at redemption prices varying from 104.25% of principal amount to 100.00% of principal amount on or after December 15, 2003, in each case together with accrued and unpaid interest to the date of redemption.

The Company completed a public offering of \$100,000 principal amount of 9¼% unsecured Senior Subordinated Notes due September 15, 2008 (the 2008

Notes) during July 1996. The 2008 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after September 15, 2001, at redemption prices varying from 104.625% of principal amount to 100.00% of principal amount on or after September 15, 2004, in each case together with accrued and unpaid interest to the date of redemption.

The Company completed a private placement of \$150,000 principal amount of 8% unsecured Senior Subordinated Notes due October 15, 2010 during June 1998. In fiscal 1999, the Company exchanged these outstanding notes for public notes (the 2010 Notes) with the same terms. The 2010 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after October 15, 2003, at redemption prices varying from 104.00% of principal amount to 100.00% of principal amount on or after October 15, 2006, in each case together with accrued and unpaid interest to the date of redemption.

The Senior Subordinated Notes are subordinate to the Credit Facility.

The Company has an unsecured credit facility (the Credit Facility), providing for borrowings up to \$225,000. The Credit Facility matures May 28, 2002, and on May 28, 2001, borrowing availability reduces to \$150,000. The interest rates applicable to borrowings under the Credit Facility are the agent's prime rate or a LIBOR-based rate ranging from LIBOR plus 0.450% to 1.125%. Borrowings at June 30, 1999 were at an average rate of 4.83%. Letters of credit issued through the Credit Facility of \$773 are outstanding at June 30, 1999. The amount available for borrowing under the Credit Facility is \$192,380 at June 30, 1999.

The Company has a term facility, which provides for borrowing up to \$15,000 and matures on May 28, 2002. The outstanding balance under this facility was \$10,834 at June 30, 1999, at an interest rate of 7.1%.

Aggregate maturities of long-term debt are as follows: 2002 – \$42,897 and 2005 and thereafter – \$398,317.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Terms of long-term debt agreements require compliance with certain covenants including minimum net worth, interest coverage ratios and limitations on restricted payments and levels of indebtedness. At June 30, 1999, the amount available for the payment of dividends and/or the acquisition of treasury stock was \$29,516 under the most restrictive of these agreements.

The Company has a revolving credit line of approximately \$7,100 with a financial institution at a rate of interest of 4.8% at June 30, 1999. There was no outstanding balance under this revolving line of credit at June 30, 1999. Letters of credit issued through the revolving line of credit of \$1,302 are outstanding at June 30, 1999. The revolving line of credit expires April 30, 2000.

Total interest paid by the Company for the years ended June 30, 1999, 1998 and 1997 was \$36,883, \$37,143 and \$24,311, respectively.

### 7. Stockholders' Equity

The Board of Directors has authorized the repurchase of 4,000,000 shares of common stock. Repurchased shares will be held as treasury stock and will be available for general corporate purposes, including the funding of employee benefit and stock-related plans. During the year ended June 30, 1999, 1,431,900 shares were repurchased, and a total of 3,522,100 shares have been repurchased through June 30, 1999.

The Company's stock option plans provide for the granting of either incentive or nonqualified stock options to employees and nonemployee directors. Options are subject to terms and conditions determined by the Compensation Committee of the Board of Directors, and generally are exercisable in increments of 20% per year

beginning one year from date of grant and expire ten years from date of grant.

### Option plan activity

	Options	Average Exercise Price	Average Fair Value
Outstanding at June 30, 1996	2,140,000	\$ 8.78	
Granted at market	50,000	13.19	\$ 6.18
Granted below market	100,000	7.60	9.15
Exercised	(5,200)	9.25	
Outstanding at June 30, 1997	2,284,800	8.83	
Granted at market	1,598,792	18.25	8.77
Granted below market	100,000	7.60	13.16
Granted above market	11,208	19.63	8.17
Exercised	(199,600)	8.80	
Terminated	(159,600)	10.78	
Outstanding at June 30, 1998	3,635,600	12.88	
Granted at market	<b>240,000</b>	<b>13.88</b>	<b>7.16</b>
Exercised	<b>(49,700)</b>	<b>9.07</b>	
Terminated	<b>(40,000)</b>	<b>13.74</b>	
Outstanding at June 30, 1999	<b>3,785,900</b>	<b>12.99</b>	
Options exercisable at June 30:			
1997	524,034	9.15	
1998	884,600	9.16	
1999	<b>1,647,235</b>	<b>11.34</b>	

There were 859,600, 1,059,600 and 2,610,000 shares reserved for grants of options at June 30, 1999, 1998 and 1997, respectively. The following summary provides information about stock options outstanding and exercisable at June 30, 1999:

Exercise Price	Options	Outstanding		Exercisable	
		Average Exercise Price	Average Remaining Life (Years)	Options	Average Exercise Price
\$ 7.50-\$10.50	1,759,900	\$ 8.26	6.7	1,047,900	\$ 8.35
\$12.50-\$18.00	1,854,792	16.64	7.4	561,731	16.21
\$19.50-\$23.00	171,208	22.06	8.6	37,604	21.84
Total	<b>3,785,900</b>	<b>\$12.99</b>	<b>7.1</b>	<b>1,647,235</b>	<b>\$11.34</b>

As allowed under the Financial Accounting Standards Board Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), the Company applies the provisions of Accounting Principles Board Opinion No. 25 and related interpretations. The following pro forma information has been prepared as if the Company had accounted for its employee stock options using the fair value based method of accounting established by SFAS No. 123:

	Year Ended June 30		
	1999	1998	1997
Net income:			
As reported	<b>\$48,018</b>	\$55,260	\$53,274
Pro forma	<b>43,874</b>	51,482	51,866
Basic earnings per share:			
As reported	<b>\$ 1.34</b>	\$ 1.49	\$ 1.40
Pro forma	<b>1.23</b>	1.39	1.36
Diluted earnings per share:			
As reported	<b>\$ 1.32</b>	\$ 1.45	\$ 1.38
Pro forma	<b>1.21</b>	1.37	1.34

The Company has estimated the fair value of each option grant using the Black-Scholes option pricing model. The fair value was estimated with the following weighted average assumptions: expected life of the stock options of eight years; volatility of the expected market price of common stock of .37 for 1999, .29 for 1998 and .27 for 1997; a risk-free interest rate range of 4.8% to 5.2% for 1999, 5.5% to 6.2% for 1998, and 6% for 1997; and no dividends. Option pricing models, such as the Black-Scholes model, require the input of highly subjective assumptions, including the expected stock price volatility, that are subject to change from time to time. Pro forma amounts reflect total compensation expense from the awards made in 1996 through 1999. Since compensation expense from stock options is recognized over the future years' vesting period, and additional awards generally are made every one to two years, pro forma amounts may not be representative of future years' amounts.

In August 1997, the Board of Directors authorized a restricted stock plan and set aside 800,000 of the Company's treasury shares to fund this plan. At June 30, 1999, 23,541 restricted shares had been awarded.

Stock options that could potentially dilute basic earnings per share in the future, which were not included in the fully diluted computation because they would have been antidilutive, were 1,575,003, 63,589 and 43,562 for the years ended June 30, 1999, 1998 and 1997, respectively.

## 8. Income Taxes

### Provision for income taxes

	Year Ended June 30		
	1999	1998	1997
Current:			
Federal	<b>\$11,120</b>	\$23,740	\$17,472
State and other	<b>202</b>	1,089	738
	<b>11,322</b>	24,829	18,210
Deferred:			
Federal	<b>7,944</b>	4,250	8,242
State and other	<b>3,046</b>	(482)	527
	<b>10,990</b>	3,768	8,769
	<b>\$22,312</b>	\$28,597	\$26,979

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate of 35% to income before income taxes due to the following:

### Rate analysis

	Year Ended June 30		
	1999	1998	1997
Expected tax expense	<b>\$24,616</b>	\$29,350	\$28,089
State taxes	<b>469</b>	644	850
Foreign sales corporation	<b>(4,444)</b>	(3,244)	(3,030)
Effect of foreign operations	<b>1,680</b>	1,988	765
Nondeductible items	<b>529</b>	547	339
Other	<b>(538)</b>	(688)	(34)
	<b>\$22,312</b>	\$28,597	\$26,979

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Significant components of the Company's deferred tax assets (liabilities) are as follows:

### Deferred tax assets (liabilities)

	June 30	
	1999	1998
Deferred tax liabilities:		
Depreciation	<b>\$(55,735)</b>	\$(45,836)
Other	<b>(3,377)</b>	(2,699)
	<b>(59,112)</b>	(48,535)
Deferred tax assets:		
Postretirement benefits	<b>5,852</b>	5,438
Inventory costs	<b>1,165</b>	1,217
Net operating loss	<b>4,373</b>	5,133
Nondeductible reserves	<b>2,953</b>	4,909
AMT carryforward	<b>1,434</b>	–
Other	<b>2,267</b>	1,760
	<b>18,044</b>	18,457
	<b>\$(41,068)</b>	\$(30,078)

The Company paid income taxes of \$10,937, \$26,455 and \$16,965 during the years ended June 30, 1999, 1998 and 1997, respectively.

For the year ended June 30, 1999, income before income taxes consisted of \$66,920 of domestic income and \$3,410 of foreign income. For the year ended June 30, 1998, income before income taxes consisted of \$90,243 of domestic income and \$6,386 of foreign losses. At June 30, 1999, the Company has foreign net operating loss carryforwards of approximately \$23,197, which have no expiration date.

### 9. Employee Benefit Plans

During fiscal 1999, the Company adopted Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* (SFAS No. 132). The provisions of SFAS No. 132 revise disclosure requirements related to pension and other postretirement benefit plans. These provisions do not change the methods of measurement or recognition of assets, liabilities and benefit costs of these plans.

The Company has defined contribution retirement plans covering U.S. employees. The Company contributes 1% of the employee's gross compensation plus ½% for each year of service up to a maximum of 11% of the employee's gross compensation. The plans also provide for additional contributions by the Company contingent upon the Company's results of operations. Contribution expense for the retirement plans for the years ended June 30, 1999, 1998 and 1997 was \$9,111, \$8,096 and \$7,528, respectively.

The Company also provides medical, dental and life insurance postretirement plans covering certain U.S. employees who meet specified age and service requirements. Certain employees who met specified age and service requirements on March 15, 1993 are covered by their previous employer and are not covered by these plans. The Company's current policy is to fund the cost of these benefits as payments to participants are required.

The components of net periodic benefit costs are as follows:

### Effect on operations

	Year Ended June 30		
	1999	1998	1997
Service cost for benefits earned	<b>\$ 841</b>	\$ 779	\$ 677
Interest cost on benefit obligation	<b>869</b>	795	671
Amortization of net loss from earlier periods	<b>1</b>	7	23
Amortization of unrecognized prior service cost	<b>(600)</b>	(650)	(650)
Total cost	<b>\$1,111</b>	\$ 931	\$ 721

The following table provides a reconciliation of the changes in the plans' benefit obligations over the two-year period ending June 30, 1999, and a statement of the plans' funded status as of June 30, 1999 and 1998:

	June 30	
	1999	1998
Change in benefit obligation:		
Obligation at beginning of year	<b>\$11,136</b>	\$ 9,489
Service cost	<b>841</b>	779
Interest cost	<b>869</b>	795
Amendment	<b>448</b>	-
Participant contributions	<b>6</b>	-
Actuarial loss (gain)	<b>(104)</b>	79
Benefits paid	<b>(10)</b>	(6)
Underfunded status at end of year	<b>\$13,186</b>	\$11,136
Unrecognized prior service cost	<b>3,557</b>	4,605
Unrecognized loss	<b>(1,034)</b>	(1,138)
Other	<b>561</b>	556
Net amount recognized in the consolidated balance sheet	<b>\$16,270</b>	\$15,159

The weighted average annual assumed rate of increase in the per capita cost of covered benefits (i.e. health care cost trend rate) for the medical plans is 8.0% for 2000, and is assumed to decrease gradually to 5.0% in 2006, and remain level thereafter. Due to the benefit cost limitations in the plan, the health care cost trend rate assumption does not have a significant effect on the amounts reported.

The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 7% at June 30, 1999 and 1998.

### 10. Significant Customer

Gross sales to Procter & Gamble Company and its affiliates (P&G) for the years ended June 30, 1999, 1998 and 1997 were 35%, 31% and 32%, respectively, of total gross sales.

The Company and P&G are parties to the Pulp Supply Agreement (the "Supply Agreement"), which provides that P&G will purchase, under a take-or-pay arrangement, a specified tonnage (currently, most of the Company's output) of fluff pulp annually at the higher of

the formula price or market price in calendar years 1999 and 2000, and at market price in calendar years 2001 and 2002. Currently, the formula price paid by P&G under the Supply Agreement significantly exceeds the market price for fluff pulp. In the event that P&G does not perform under the Supply Agreement or renew it upon terms favorable to the Company, and the market price for fluff pulp does not increase significantly from present levels, the Company's business, results of operations and financial condition could be materially and adversely affected.

### 11. Segment Information

During June 1997, the Financial Accounting Standards Board issued Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS No. 131). This statement replaces the "industry segment" approach with the "management" approach. The management approach designates the internal organization that is used by management for making operating decisions and assessing performance as the source of the Company's reportable segments. SFAS No. 131 also establishes standards for related disclosures about products, geographic areas and major customers.

The Company operates in one segment consisting of the manufacturing and marketing of value-added cellulose-based specialty products. All of the Company's products involve similar production processes, are sold to similar classes of customers and markets, are distributed using the same methods, and operate in similar regulatory environments.

The Company's identifiable products are chemical cellulose, customized paper cellulose and absorbent products. Chemical cellulose is used to impart purity, strength and viscosity in the manufacture of diversified products such as food casings, rayon filament, acetate fibers and plastics, as well as thickeners for food, cosmetics and pharmaceuticals. Customized paper cellulose is used to provide porosity, color permanence and tear resistance in automotive air and oil filters, premium letterhead, currency paper and personal stationery. Absorbent

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

products are used to increase absorbency and fluid transport in products such as disposable diapers, feminine hygiene products and adult incontinence products.

The following provides relative gross sales to unaffiliated customers by product:

	Year Ended June 30		
	1999	1998	1997
Chemical cellulose	35%	39%	40%
Customized paper cellulose	22%	22%	26%
Absorbent products	43%	39%	34%
	100%	100%	100%

The Company has manufacturing operations in the United States, Canada, Germany and Ireland. The following provides a summary of net sales to unaffiliated customers, based on point of origin, and long-lived assets by geographic areas:

	Year Ended June 30		
	1999	1998	1997
Net sales:			
United States	\$504,219	\$539,132	\$501,124
Other	113,488	91,078	57,809
Total net sales	\$617,707	\$630,210	\$558,933
Long-lived assets:			
United States	\$354,835	\$343,475	\$325,488
Canada	121,532	124,473	123,049
Other	64,899	68,549	76,555
Total long-lived assets	\$541,266	\$536,497	\$525,092

For the year ended June 30, 1999, the Company's gross sales by destination were concentrated in the following geographic markets: North America – 36%, Europe – 35%, Asia – 16%, South America – 8% and Other – 5%.

### 12. Research and Development Expenses

Research and development costs of \$10,924, \$10,732 and \$8,423 were charged to expense as incurred for the years ended June 30, 1999, 1998 and 1997, respectively.

### 13. Purchase Commitments

At June 30, 1999, under three separate agreements expiring at various dates through December 31, 2010,

the Company is required to purchase certain timber from specified tracts of land that is available for harvest. The contract price under the terms of these agreements is either at the then current market price or at fixed prices as stated in the contract. At June 30, 1999, estimated annual purchase obligations were as follows: 2000 – \$25,000; 2001 – \$22,000; 2002 – \$24,000; 2003 – \$23,000; 2004 – \$23,000; and thereafter – \$179,000.

Purchases under these agreements for the years ended June 30, 1999, 1998 and 1997 were \$21,629, \$16,522 and \$23,441, respectively.

### 14. Contingencies

The Company's operations are subject to extensive general and industry-specific federal, state, local and foreign environmental laws and regulations. The Company devotes significant resources to maintaining compliance with these laws and regulations. The Company expects that, due to the nature of its operations, it 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 the Company will not in the future incur material environmental compliance costs or liabilities.

The Foley Plant 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 ("EPA") in 1995, the Company 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 the Company, 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. The Company has already made significant expenditures to make certain in-plant process changes required by the Fenholloway Agreement, and the Company estimates based on 1997 projections, it will incur additional capital expenditures of approximately \$40 million through fiscal 2005 to comply with the remaining obligations under the Fenholloway Agreement. The EPA has objected to several provisions of the renewal permit for the Foley effluent discharge and the Company and the FDEP, which is the delegated permitting authority, requested a public hearing on the objections.

The EPA requested additional environmental studies to identify possible alternatives to the relocation of the discharge point to determine if more cost effective technologies are available to address both Class III water quality standards for the Fenholloway River and anticipated EPA "cluster rules" applicable to wastewater discharges from dissolving kraft pulp mills, like the Foley Plant. The Company completed the process changes within the Foley Plant as required by the Fenholloway Agreement. The other requirements of the Fenholloway Agreement have been deferred until the EPA objections to the renewal permit are satisfactorily resolved. Consequently, a portion of the estimated \$40 million in capital expenditures may be delayed beyond fiscal 2005, and the total capital expenditures for the Foley Plant may increase if prices increase or the Company is required by the "cluster rules" to implement other technologies.

While the EPA has not yet proposed wastewater standards under the "cluster rules" applicable to dissolving kraft pulp mills like the Foley Plant, the EPA has issued air emission standards applicable to the Foley Plant. The Company is reviewing these air emission standards and presently does not believe that such expenditures required by them are likely to have a materially adverse

effect on the Company's business, results of operations or financial condition.

The Foley Plant is on the EPA list of potential hazardous substance release sites prepared under the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). The EPA conducted a site investigation in early 1995. It is possible that the Foley Plant will be listed on the CERCLA National Priorities List and therefore require remedial action, although the Company considers this possibility unlikely. If the site were to be placed on the National Priorities List, the costs associated with conducting a CERCLA remedial action could be material.

The Company is involved in certain legal actions and claims arising in the ordinary course of business. It is the opinion of management that such litigation and claims will be resolved without a materially adverse effect on the Company's financial position or results of operation.

#### **15. Fair Values of Financial Instruments**

For certain of the Company's financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable and notes payable, the carrying amounts approximate fair value due to their short maturities. The fair value of the Company's long-term debt is based on an average of the bid and offer prices at year-end. The carrying value and fair value of long-term debt at June 30, 1999 were \$441,214 and \$434,647, respectively, and at June 30, 1998 were \$456,843 and \$467,270, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 16. Quarterly Results of Operations (Unaudited)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended June 30, 1999				
Net sales	<b>\$156,177</b>	<b>\$147,274</b>	<b>\$155,880</b>	<b>\$158,376</b>
Gross margin	<b>42,354</b>	<b>38,005</b>	<b>38,883</b>	<b>39,350</b>
Operating income	<b>30,526</b>	<b>27,600</b>	<b>27,803</b>	<b>27,095</b>
Net income	<b>13,383</b>	<b>10,874</b>	<b>11,488</b>	<b>12,273</b>
Earnings per share:				
Basic	<b>0.37</b>	<b>0.30</b>	<b>0.32</b>	<b>0.35</b>
Diluted	<b>0.36</b>	<b>0.30</b>	<b>0.32</b>	<b>0.34</b>
Year ended June 30, 1998				
Net sales	\$153,313	\$153,610	\$162,474	\$160,813
Gross margin	42,141	40,356	42,597	43,359
Operating income	30,769	30,220	30,263	31,159
Net income	13,161	13,338	14,204	14,557
Earnings per share:				
Basic	0.35	0.36	0.38	0.40
Diluted	0.34	0.35	0.37	0.38

The Company's effective tax rate for the fourth quarter of fiscal 1999 was 24.0% compared to 34.0% for the nine months ended March 31, 1999. The decrease was primarily the result of the recognition of additional benefit from the Company's optimization of its foreign sales corporation.

### 17. Subsequent Event

On July 15, 1999, the Company announced that it had signed a letter of intent to acquire essentially all the assets of Walkisoft, UPM-Kymmene's nonwoven

business, with manufacturing locations in Steinfurt, Germany and Mt. Holly, North Carolina, for approximately \$120,000. The acquisition includes \$15,000 in working capital and will be funded over the next four years by paying UPM-Kymmene \$32,000 at closing and \$22,000 on each of the first four anniversaries of closing. The transaction, which is expected to close during the October-December 1999 quarter, is subject to completion of due diligence, regulatory approvals and other terms of the agreement.

**REPORT OF MANAGEMENT**

**REPORT OF INDEPENDENT AUDITORS**

The preparation and integrity of the financial statements of Buckeye Technologies Inc. are the responsibility of its management. These statements, which include amounts based on management's best estimates and judgments, have been prepared in conformity with generally accepted accounting principles, and in the opinion of management, fairly present the Company's financial position, results of operations and cash flows.

The Company maintains accounting and internal control systems, which it believes are adequate to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that the financial records are reliable for preparing financial statements. The selection and training of qualified personnel, plus the establishment and communication of accounting and administrative policies and procedures, are important elements of these control systems.

The report of Ernst & Young LLP on their audits of the accompanying financial statements follows. This report states that the audits were made in accordance with generally accepted auditing standards. These standards include a study and evaluation of internal controls for the purpose of establishing a basis for reliance thereon relative to the scope of their audits of the financial statements.

The Board of Directors, through its Audit Committee consisting solely of outside directors, meets periodically with management and the independent auditors to discuss audit and financial reporting matters. To assure independence, Ernst & Young LLP has direct access to the Audit Committee.

To the Board of Directors and Stockholders of Buckeye Technologies Inc.

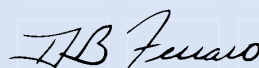
We have audited the accompanying consolidated balance sheets of Buckeye Technologies Inc. as of June 30, 1999 and 1998 and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

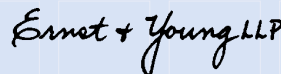
In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Buckeye Technologies Inc. at June 30, 1999 and 1998, and the consolidated results of its operations and its cash flows for each of the three years in the period ended June 30, 1999 in conformity with generally accepted accounting principles.



Robert E. Cannon  
Chairman of the Board and  
Chief Executive Officer



David B. Ferraro  
President and Chief  
Operating Officer



Memphis, Tennessee  
July 30, 1999

## SELECTED FINANCIAL DATA

(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Year Ended June 30				
	1999	1998	1997(a)	1996(b)	1995
Operating data:					
Net sales	<b>\$617,707</b>	\$630,210	\$558,933	\$470,979	\$408,587
Operating income	<b>113,024</b>	122,411	109,392	108,567	79,172
Income before extraordinary loss	<b>48,018</b>	55,260	53,274	47,010	21,712
Net income	<b>48,018</b>	55,260	53,274	43,061	21,712
Basic earnings per share:(c)					
Income before extraordinary loss	<b>1.34</b>	1.49	1.40	1.11	
Net income	<b>1.34</b>	1.49	1.40	1.02	
Diluted earnings per share:(c)					
Income before extraordinary loss	<b>1.32</b>	1.45	1.38	1.10	
Net income	<b>1.32</b>	1.45	1.38	1.01	
Balance sheet data:					
Total assets	<b>\$747,882</b>	\$751,536	\$737,464	\$452,799	\$379,056
Long-term debt less current portion	<b>441,214</b>	456,332	474,631	217,873	166,202
Other data:(d)					
Company EBITDA	<b>\$152,009</b>	\$162,397	\$143,024	\$134,670	\$104,088

(a) Includes the operations of Alpha from September 1, 1996 and Merfin from May 28, 1997, their respective dates of acquisition.

(b) An extraordinary loss of \$3,949, net of tax benefit, was recognized on the early retirement of debt. A minority interest charge ceased on November 28, 1995. This data includes the operations of the Temming Business from May 1, 1996, the date of acquisition.

(c) Historical net income per share has not been presented for 1995 as it is not considered relevant.

(d) Company EBITDA represents earnings before interest, taxes, depreciation, amortization, depletion, minority interest, extraordinary loss, secondary offering costs and other non-cash charges. This data should not be considered in isolation and is not intended to be a substitute for income statement or cash flow statement data as a measure of the Company's profitability (see Consolidated Financial Statements).

## DIRECTORS AND OFFICERS

### Directors

**Robert E. Cannon**

Chairman of the Board and Chief Executive Officer

**R. Howard Cannon**

President  
Dryve, Inc.

**Red Cavaney\***

President and Chief Executive Officer  
American Petroleum Institute

**David B. Ferraro**

President and Chief Operating Officer

**Henry F. Frigon\*†**

Private Investor and Consultant  
Chairman – CARSTAR, Inc.

**Samuel M. Menco†**

Managing Director  
Madison Dearborn Partners, Inc.

**Harry J. Phillips, Sr.†**

Former Chairman and Chief Executive Officer  
Browning-Ferris Industries, Inc.

\*Audit Committee

†Compensation Committee

### Corporate Officers

**Robert E. Cannon**

Chairman and Chief Executive Officer

**David B. Ferraro**

President and Chief Operating Officer

**Henry P. Doggrell**

Senior Vice President, Business Development

**George B. Ellis**

Senior Vice President, Manufacturing–Specialty Cellulose

**E. Allen Eppinger**

Senior Vice President, Manufacturing–Absorbent Products

**Paul N. Horne**

Senior Vice President, Commercial–Specialty Cellulose

**B. Jerry L. Huff**

Senior Vice President, Research and Development

**Kristopher J. Matula**

Senior Vice President, Commercial–Absorbent Products

**David H. Whitcomb**

Senior Vice President, Finance and Accounting

**Charles S. Aiken**

Vice President, Business Systems

**Christian Chavassieu**

Vice President, Europe and Middle East Cellulose Sales

**Jeffery T. Cook**

Vice President, Product Development–New Fibers

**John B. Crowe**

Vice President, Wood Cellulose Manufacturing

**Sheila Jordan Cunningham**

Vice President, General Counsel and Secretary

**Thomas R. Day**

Vice President, Americas and Far East Cellulose Sales

**Howard A. Drew**

Vice President, Wood Cellulose Technology

**John P. Erspamer**

Vice President, Product Development–Absorbent Products

**William M. Handel**

Vice President, Human Resources

**Gayle L. Powelson**

Vice President, Finance and Accounting

**Reggie D. Thompson**

Vice President, Cotton Cellulose Business Development

**Elizabeth J. Welter**

Vice President, Corporate Accounting

**Frank A. McGrew, IV**

Treasurer

### Officer Retirement

**William L. Blankenship**

Vice President, Cotton Cellulose Manufacturing, retired in August 1999 after 38 years of distinguished service and outstanding contributions to Buckeye and its predecessors.

## STOCKHOLDER INFORMATION

### Common Stock Price Range

	Year Ended June 30			
	1999		1998	
	High	Low	High	Low
First quarter (ended September 30)	\$25 <sup>3</sup> / <sub>6</sub>	\$14	\$21 <sup>3</sup> / <sub>6</sub>	\$16 <sup>9</sup> / <sub>16</sub>
Second quarter (ended December 31)	21 <sup>1</sup> / <sub>6</sub>	11 <sup>3</sup> / <sub>4</sub>	23 <sup>3</sup> / <sub>6</sub>	19 <sup>1</sup> / <sub>8</sub>
Third quarter (ended March 31)	15 <sup>5</sup> / <sub>6</sub>	12 <sup>1</sup> / <sub>6</sub>	23 <sup>3</sup> / <sub>6</sub>	19 <sup>5</sup> / <sub>6</sub>
Fourth quarter (ended June 30)	17	12 <sup>3</sup> / <sub>4</sub>	24 <sup>11</sup> / <sub>16</sub>	20 <sup>15</sup> / <sub>16</sub>

The Company has no plans to pay dividends in the foreseeable future.

#### Corporate Headquarters

Buckeye Technologies Inc.  
1001 Tillman Street  
P.O. Box 80407  
Memphis, TN 38108-0407  
Telephone: 901-320-8100  
Fax: 901-320-8216  
Website: [www.bkitech.com](http://www.bkitech.com)

#### Transfer Agent & Registrar

First Union National Bank  
Corporate Trust Operations  
1525 West W.T. Harris Boulevard-3C3  
Charlotte, NC 28288-1153

#### Auditors

Ernst & Young LLP  
2400 One Commerce Square  
Memphis, TN 38103

#### Stock Listing and Shareholders

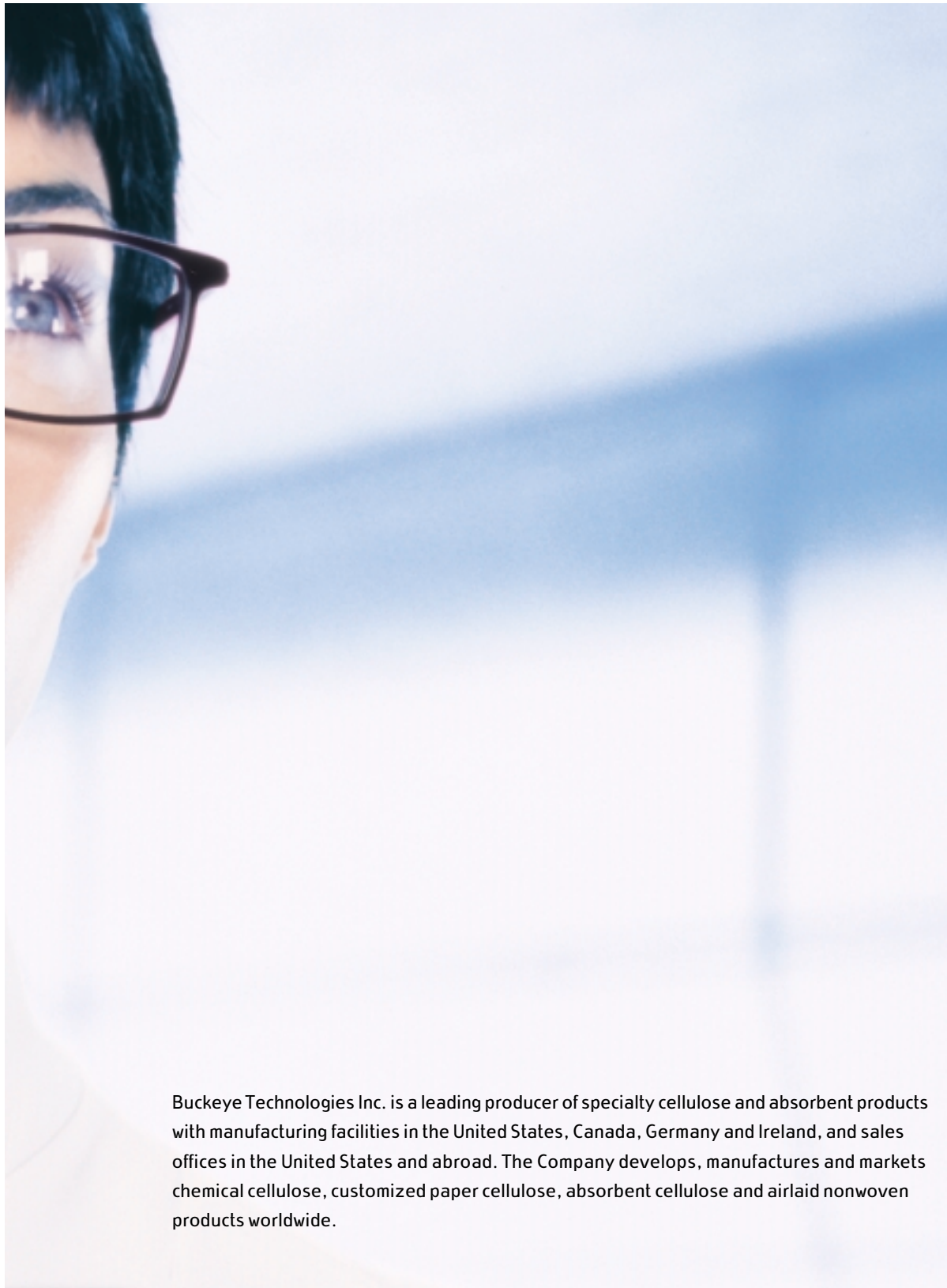
Buckeye Technologies Inc. is traded on the New York Stock Exchange under the symbol BKL. There were approximately 6,000 stockholders on September 1, 1999, based on the number of record holders of the Company's common stock and an estimate of the number of individual participants represented by security position listings.

#### Annual Meeting

The Buckeye Technologies Inc. annual meeting of stockholders will be held on Thursday, November 4, 1999 at 5:00 p.m. (CST) at the Memphis Brooks Museum of Art, 1934 Poplar Avenue, Memphis, Tennessee.

#### Supplemental Information

For copies of the Form 10-K report filed with the Securities and Exchange Commission, or for additional information about Buckeye, please access the Company's website at [www.bkitech.com](http://www.bkitech.com), or contact: Sondra A. Dowdell, Manager, Corporate Communications, Buckeye Technologies Inc., 1001 Tillman Street, P.O. Box 80407, Memphis, TN 38108-0407, Telephone: 901-320-8244, Fax: 901-320-8216, E-mail: [sondra\\_dowdell@bkitech.com](mailto:sondra_dowdell@bkitech.com).



Buckeye Technologies Inc. is a leading producer of specialty cellulose and absorbent products with manufacturing facilities in the United States, Canada, Germany and Ireland, and sales offices in the United States and abroad. The Company develops, manufactures and markets chemical cellulose, customized paper cellulose, absorbent cellulose and airlaid nonwoven products worldwide.

**BUCKEYE**  
TECHNOLOGIES INC.

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**WE PLAN TO  
STAY AHEAD**