OFFICEMAX INC
Form 10-Q/A
March 16, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

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

For the quarterly period ended September 30, 2004

o	**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: 1-5057

OFFICEMAX INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**82-0100960** (I.R.S. Employer Identification No.)
150 Pierce Road **Itasca, Illinois** (Address of principal executive offices)	**60143** (Zip Code)

(630) 773-5000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ý No o

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Shares Outstanding as of October 31, 2004**
Common Stock, $2.50 par value	88,042,269

OFFICEMAX INCORPORATED

FORM 10-Q/A

INTRODUCTORY NOTE

This Amendment No. 1 to quarterly report on Form 10-Q/A (Form 10-Q/A) is being filed to amend the company s quarterly report on Form 10-Q for the quarter ended September 30, 2004, which was originally filed on November 9, 2004 (Original Form 10-Q). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-Q/A contains the complete text of Items 1, 2 and 4 of Part I and Item 6 of Part II, as amended, as well as certain currently dated certifications. Unaffected items have not been repeated in this Amendment No. 1.

Based on the results of an investigation into the company s accounting for vendor income that began in the fourth quarter of 2004, the company concluded in February 2005 that it overstated operating income in the first quarter of 2004 by $7.1 million and understated operating income by $1.1 million and $1.7 million in the second and third quarters of 2004, respectively. Net income was overstated by $4.3 million in the first quarter of 2004 and understated by $0.7 million and $1.0 million in the second and third quarters of 2004. For the nine months ended September 30, 2004, operating income was overstated by $4.3 million and net income was overstated by $2.6 million. The company s financial statements as of and for the year ended December 31, 2003, were not materially impacted. See Note 24 to the accompanying consolidated financial statements for a discussion of the adjustment.

This Amendment No. 1 does not reflect events occurring after the filing of the Original Form 10-Q, which was filed on November 9, 2004. Such events include, among others, the events described in the company s current reports on Form 8-K filed after the filing of the Original Form 10-Q. This Amendment No. 1 is effective for all purposes as of November 9, 2004.

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PART I - FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Income
(thousands, except per-share amounts)

	Three Months Ended September 30			
		2004 (Restated)		**2003**
		(unaudited)		
Sales	$	3,650,930	$	2,110,601
Costs and expenses				
Materials, labor and other operating expenses		2,833,329		1,695,809
Depreciation, amortization and cost of company timber harvested		102,130		78,019
Selling and distribution expenses		496,229		224,405
General and administrative expenses		77,745		38,576
Other (income) expense, net		(1,161)		1,133
		3,508,272		2,037,942
Equity in net income of affiliates				4,038
Income from operations		142,658		76,697
Interest expense		(39,945)		(31,657)
Interest income		455		221
Foreign exchange gain		1,072		133
		(38,418)		(31,303)
Income before income taxes and minority interest		104,240		45,394
Income tax provision		(40,926)		(12,510)
Income before minority interest		63,314		32,884
Minority interest, net of income tax		(1,145)		
Net income		**62,169**		**32,884**
Preferred dividends		(3,242)		(3,191)
Net income applicable to common shareholders	$	58,927	$	29,693
Net income per common share				
Basic	**$**	**0.68**	**$**	**0.51**
Diluted	**$**	**0.64**	**$**	**0.48**

See accompanying notes to consolidated financial statements.

OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Income
(thousands, except per-share amounts)

	Nine Months Ended September 30	
	2004 (Restated)	2003
	(unaudited)	
Sales	$ 10,581,773	$ 5,892,828
Costs and expenses		
Materials, labor and other operating expenses	8,275,205	4,789,443
Depreciation, amortization and cost of company timber harvested	301,172	227,331
Selling and distribution expenses	1,480,676	656,039
General and administrative expenses	224,373	109,246
Other (income) expense, net	(91,768)	14,121
	10,189,658	5,796,180
Equity in net income of affiliates	6,311	4,453
Income from operations	398,426	101,101
Interest expense	(121,029)	(94,911)
Interest income	1,389	653
Foreign exchange gain	728	2,949
	(118,912)	(91,309)
Income before income taxes, minority interest and cumulative effect of accounting changes	279,514	9,792
Income tax (provision) benefit	(104,758)	415
Income before minority interest and cumulative effect of accounting changes	174,756	10,207
Minority interest, net of income tax	(2,393)	
Income before cumulative effect of accounting changes	172,363	10,207
Cumulative effect of accounting changes, net of income tax		(8,803)
Net income	**172,363**	**1,404**
Preferred dividends	(9,776)	(9,744)
Net income (loss) applicable to common shareholders	$ 162,587	$ (8,340)
Net income (loss) per common share		
Basic before cumulative effect of accounting changes	$ 1.88	$ 0.01
Cumulative effect of accounting changes, net of income tax		(0.15)
Basic	**$ 1.88**	**$ (0.14)**
Diluted before cumulative effect of accounting changes	$ 1.78	$ 0.01
Cumulative effect of accounting changes, net of income tax		(0.15)
Diluted	**$ 1.78**	**$ (0.14)**

See accompanying notes to consolidated financial statements.

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands)

	September 30 2004 (Restated)	September 30 2003	December 31 2003
	(unaudited)	(unaudited)	
ASSETS			
Current			
Cash and cash equivalents	$ 168,306	$ 94,544	$ 124,879
Receivables, less allowances of $10,360, $14,349 and $10,865	1,006,283	576,817	574,219
Inventories	1,511,476	643,391	1,609,811
Deferred income taxes	144,436	59,073	132,235
Other	72,392	36,943	60,148
	2,902,893	1,410,768	2,501,292
Property			
Property and equipment			
Land and land improvements	84,347	75,309	87,703
Buildings and improvements	908,248	758,515	890,871
Machinery and equipment	5,048,437	4,731,788	4,905,012
	6,041,032	5,565,612	5,883,586
Accumulated depreciation	(3,283,711)	(3,060,970)	(3,058,527)
	2,757,321	2,504,642	2,825,059
Timber, timberlands and timber deposits	296,595	319,470	330,667
	3,053,916	2,824,112	3,155,726
Goodwill	1,148,787	420,715	1,107,292
Intangible assets, net	210,249	25,056	218,196
Investments in equity affiliates	85	39,992	44,335
Other assets	514,361	346,187	349,318
Total assets	**$ 7,830,291**	**$ 5,066,830**	**$ 7,376,159**

See accompanying notes to consolidated financial statements.

OfficeMax Incorporated and Subsidiaries
Consolidated Balance Sheets
(thousands, except share amounts)

	September 30 2004 (Restated)	September 30 2003	December 31 2003
	(unaudited)	(unaudited)	
LIABILITIES AND SHAREHOLDERS EQUITY			
Current			
Short-term borrowings	$ 452,429	$ 7,167	$ 5,188
Current portion of long-term debt	437,237	77,949	83,016
Income taxes payable		6,181	694
Accounts payable	1,098,342	555,843	1,255,303
Accrued liabilities			
Compensation and benefits	308,585	235,959	317,934
Interest payable	40,173	25,204	34,130
Other	440,641	131,387	280,646
	2,777,407	1,039,690	1,976,911
Debt			
Long-term debt, less current portion	1,416,673	1,517,049	1,999,876
Adjustable conversion-rate equity securities (ACES)	172,500	172,500	172,500
Guarantee of ESOP debt		40,504	19,087
	1,589,173	1,730,053	2,191,463
Other			
Deferred income taxes	134,069	157,682	43,311
Compensation and benefits	567,489	655,529	564,331
Other long-term liabilities	228,685	55,459	256,355
	930,243	868,670	863,997
Minority interest	22,523		20,154
Commitments and contingent liabilities			
Shareholders equity			
Preferred stock no par value; 10,000,000 shares authorized;			
Series D ESOP: $.01 stated value; 3,907,702, 4,131,343 and 4,117,827 shares outstanding	175,847	185,910	185,302
Deferred ESOP benefit		(40,504)	(19,087)
Common stock $2.50 par value; 200,000,000 shares authorized; 88,152,900, 59,548,948 and 87,137,306 shares outstanding	217,378	146,120	214,805
Additional paid-in capital	1,275,422	480,044	1,228,694
Retained earnings	1,026,932	926,039	907,738
Accumulated other comprehensive loss	(184,634)	(269,192)	(193,818)
Total shareholders equity	2,510,945	1,428,417	2,323,634
Total liabilities and shareholders equity	**$ 7,830,291**	**$ 5,066,830**	**$ 7,376,159**

See accompanying notes to consolidated financial statements.

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OfficeMax Incorporated and Subsidiaries
Consolidated Statements of Cash Flows
(thousands)

	Nine Months Ended September 30	
	2004 (Restated)	2003
	(unaudited)	
Cash provided by (used for) operations		
Net income	$ 172,363	$ 1,404
Items in net income not using (providing) cash		
Equity in net income of affiliates	(6,311)	(4,453)
Depreciation, amortization and cost of company timber harvested	301,172	227,331
Deferred income tax provision (benefit)	86,186	(12,056)
Minority interest, net of income tax	2,393	
Gain on sale of assets	(106,660)	
Pension and other postretirement benefits expense	71,011	62,044
Cumulative effect of accounting changes, net of income tax		8,803
Other	17,354	(875)
Receivables	(426,003)	(143,732)
Inventories	97,177	66,824
Accounts payable and accrued liabilities	(21,474)	26,249
Current and deferred income taxes	(16,476)	(10,218)
Pension and other postretirement benefits payments	(239,010)	(91,583)
Other	(52,094)	37,723
Cash provided by (used for) operations	(120,372)	167,461
Cash provided by (used for) investment		
Expenditures for property and equipment	(228,141)	(148,379)
Expenditures for timber and timberlands	(6,056)	(6,682)
Proceeds from equity affiliates	21	102
Sale of assets	186,946	
Other	14,469	(7,861)
Cash used for investment	(32,761)	(162,820)
Cash provided by (used for) financing		
Cash dividends paid		
Common stock	(38,832)	(26,233)
Preferred stock	(6,809)	(7,019)
	(45,641)	(33,252)
Short-term borrowings	447,241	(20,833)
Additions to long-term debt	142	173,613
Payments of long-term debt	(226,784)	(91,713)
Other	21,602	(3,064)
Cash provided by financing	196,560	24,751
Increase in cash and cash equivalents	43,427	29,392
Balance at beginning of the year	124,879	65,152
Balance at September 30	**$ 168,306**	**$ 94,544**

See accompanying notes to consolidated financial statements.

Notes to Quarterly Consolidated Financial Statements (Restated and Unaudited - See Note 24, Restatement of Previously Issued Financial Statements, for a discussion of the Restatement.)

1. Basis of Presentation

On October 29, 2004, we completed the sale of our paper, forest products and timberland assets (the sale) for approximately $3.7 billion to affiliates of Boise Cascade, L.L.C., a new company formed by Madison Dearborn Partners LLC. In connection with the sale, 2004, Boise Cascade Corporation changed its company name to OfficeMax Incorporated (OfficeMax or we). We will continue to operate our office products distribution business as our principal business. We trade on the New York Stock Exchange under the ticker symbol OMX, and our corporate headquarters is in Itasca, Illinois. The new OfficeMax website address is www.officemax.com.

In connection with the name change, we changed the names of our office products segments to OfficeMax, Contract and OfficeMax, Retail. The Boise Cascade Corporation and Boise Office Solutions names were used in documents furnished to or filed with the Securities and Exchange Commission prior to the sale. References made to the OfficeMax, Inc., Acquisition and OfficeMax, Inc., Integration in these notes to quarterly consolidated financial statements refer to Boise Cascade Corporation s acquisition of OfficeMax, Inc., in December 2003 and the related integration activities. The financial data included in this report include the results of the paper, forest products and timberland assets through September 30, 2004, and our future reports will continue to include the results of these assets through October 28, 2004. On October 29, 2004, we invested $175 million in the securities of Boise Cascade, L.L.C., and affiliates. This investment represents continuing involvement as defined in Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Accordingly, we do not show the historical results of the sold paper, forest products and timberland assets as discontinued operations.

We have prepared the quarterly consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Some information and footnote disclosures, which would normally be included in financial statements prepared in accordance with accounting principles generally accepted in the United States, have been condensed or omitted pursuant to those rules and regulations. These statements should be read together with the consolidated statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2003.

The quarterly consolidated financial statements have not been audited by an independent registered public accounting firm, but in the opinion of management, we have included all adjustments necessary to present fairly the results for the periods. Net income for the three and nine months ended September 30, 2004 and 2003, involved estimates and accruals. Actual results may vary from those estimates. Except as may be disclosed within these Notes to Quarterly Consolidated Financial Statements, the adjustments made were of a normal, recurring nature. Quarterly results are not necessarily indicative of results that may be expected for the year.

Certain amounts in prior years financial statements have been reclassified to conform with the current year s presentation. These reclassifications did not affect net income.

2. OfficeMax, Inc., Acquisition

On December 9, 2003, we completed our acquisition of OfficeMax, Inc. We acquired 100% of the voting equity interest. The results of OfficeMax, Inc.   s, operations after December 9, 2003, are included in our consolidated financial statements.

The aggregate consideration paid for the acquisition was as follows:

		(thousands)
Fair value of common stock issued	$	808,172
Cash consideration for OfficeMax, Inc., common shares exchanged		486,738
Transaction costs		20,000
		1,314,910
Debt assumed		81,627
	$	**1,396,537**

We summarized the estimated fair values of assets acquired and liabilities assumed for the OfficeMax, Inc., acquisition in Note 2, OfficeMax, Inc., Acquisition, in Item 8. Financial Statements and Supplementary Data in our 2003 Annual Report on Form 10-K. The initial purchase price allocations may be adjusted within one year of the purchase date for changes in estimates of the fair value of assets acquired and liabilities assumed. During the nine months ended September 30, 2004, we recorded $39.5 million of purchase price adjustments that increased the recorded amount of goodwill. The adjustments were related to adjustments to the recorded amounts of accounts receivable, fair value adjustments, liability accruals, accruals related to facility closures and consolidation of headquarters administrative staff.

Pro Forma Financial Information

The following table summarizes unaudited pro forma financial information assuming we had acquired OfficeMax, Inc., on January 1, 2003. The unaudited pro forma financial information uses OfficeMax, Inc., data for the months corresponding to our September 30 period-end. This unaudited pro forma financial information does not necessarily represent what would have occurred if the transaction had taken place on the dates presented and should not be taken as representative of our future consolidated results of operations or financial position. We have not finalized our integration plans. Accordingly, this pro forma information does not include all costs related to the integration. When the costs are determined, they either increase the amount of goodwill recorded or decrease net income, depending on the nature of the costs. We are realizing operating synergies. Synergies come from offering more products and services across more customer channels, purchasing leverage from increased scale and reduced costs in logistics, marketing and administration. The pro forma information does not reflect these expenses and synergies.

		Three Months Ended September 30, 2003		Nine Months Ended September 30, 2003
		(thousands, except per-share amounts)		
Sales	$	3,360,188	$	9,531,933
Net income before cumulative effect of accounting changes	$	29,329	$	960
Cumulative effect of accounting changes, net of income tax				(8,803)
Net income (loss)	**$**	**29,329**	**$**	**(7,843)**
Net income (loss) per common share				
Basic before cumulative effect of accounting changes	$	0.30	$	(0.11)
Cumulative effect of accounting changes, net of income tax				(0.10)
Basic	**$**	**0.30**	**$**	**(0.21)**
Diluted before cumulative effect of accounting changes	$	0.29	$	(0.11)
Cumulative effect of accounting changes, net of income tax				(0.10)
Diluted	**$**	**0.29**	**$**	**(0.21)**

3. OfficeMax, Inc., Integration

Integration Charges

Increased scale as a result of the OfficeMax, Inc., acquisition has allowed us to evaluate the combined office products business to determine what opportunities for consolidating operations may be appropriate. Closures and consolidation of acquired facilities identified in the integration planning process are accounted for as exit activities in connection with the acquisition and charged to goodwill. Charges for all other closures and consolidations have been recognized in our Consolidated Statements of Income.

During the three and nine months ended September 30, 2004, we charged approximately \$6.9 million and \$24.1 million of integration costs to our Consolidated Statements of Income. Integration costs occurred primarily in the contract segment as the business consolidated distribution centers, customer service centers and administrative staff. For the three and nine months ended September 30, 2004, approximately \$1.1 million and \$9.3 million of the costs are included in Other (income) expense, net, and \$5.8 million and \$14.8 million are included in Selling and distribution expenses. Integration costs are as follows:

	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2004
	(thousands)	
Severance	$ 925	$ 6,717
Lease termination costs	(8)	1,041
Vendor transition costs	1,924	3,158
Professional fees	1,226	4,840
Payroll, benefits and travel	1,188	3,408
Write-down of long-lived assets	138	1,582
Other integration costs	1,506	3,360
	$ 6,899	**$ 24,106**

Facility Closure Reserves

During the nine months ended September 30, 2004, we closed six U.S. distribution centers, two customer service centers and two retail stores (in addition to the 45 retail stores discussed below), eliminating approximately 470 employee positions. We expect to close two more distribution centers during fourth quarter 2004. At September 30, 2004, we had accrued for approximately $7.0 million of costs associated with these closures in our Consolidated Balance Sheet. We are working on a plan to reduce the total number of continental U.S. distribution centers from 55 at December 31, 2003, to 25 to 30 by the end of 2006. We will account for the additional closures when management formalizes its plans. When the costs are determined, they will either increase the amount of goodwill recorded if the closures relate to acquired OfficeMax, Inc., operations, or decrease net income.

Prior to our acquisition, OfficeMax, Inc., had identified and closed underperforming facilities. As part of our purchase price allocation, at December 31, 2003, we had $58.7 million of reserves recorded for the estimated fair value of future liabilities associated with these closures. These reserves related primarily to future lease termination costs, net of estimated sublease income. Most of the expenditures for these facilities will be made over the remaining lives of the operating leases, which range from three to 16 years. At September 30, 2004, the remaining reserve in our Consolidated Balance Sheet was $52.3 million.

In addition to these store closures, at December 31, 2003, we identified 45 OfficeMax retail facilities that were no longer strategically or economically viable. In accordance with the provisions of Emerging Issues Task Force (EITF) 95-3, Recognition of Liabilities in Connection With a Purchase Business Combination, at December 31, 2003, we had $69.4 million of reserves recorded in our Consolidated Balance Sheet. We closed these stores during first quarter 2004, eliminating approximately 995 employee positions, of which approximately 310 people were offered transfers to other stores. These charges were accounted for as exit activities in connection with the acquisition, and we did not recognize a charge to income in our Consolidated Statements of Income. Most of the cash expenditures for the facilities described above will be made over the remaining lives of the operating leases, which range from four months to 12 years. At September 30, 2004, the remaining reserve in our Consolidated Balance Sheet was $50.6 million.

At September 30, 2004, approximately $36.0 million of the facility closure reserve liability was included in Accrued liabilities, other, and $73.9 million was included in Other long-term liabilities. Facility closure reserve account activity was as follows:

	Lease Termination Costs	Severance	Other	Total
		(thousands)		
Facility closure reserve at December 31, 2003	$ 126,922	$ 794	$ 412	$ 128,128
Costs incurred and charged to expense/goodwill	5,644	4,690	245	10,579
Charges against the reserve	(25,452)	(3,098)	(248)	(28,798)
Facility closure reserve at September 30, 2004	**$ 107,114**	**$ 2,386**	**$ 409**	**$ 109,909**

4. Net Income (Loss) Per Common Share

Net income (loss) per common share was determined by dividing net income (loss), as adjusted, by weighted average shares outstanding. For the nine months ended September 30, 2003, the computation of diluted loss per share was antidilutive; therefore, the amounts reported for basic and diluted loss were the same.

	Three Months Ended September 30		Nine Months Ended September 30	
	2004 (Restated)	2003	2004 (Restated)	2003
	(thousands, except per-share amounts)			
Basic				
Income before cumulative effect of accounting changes	$ 62,169	$ 32,884	$ 172,363	$ 10,207
Preferred dividends (a)	(3,242)	(3,191)	(9,776)	(9,744)
Basic income before cumulative effect of accounting changes	58,927	29,693	162,587	463
Cumulative effect of accounting changes, net of income tax				(8,803)
Basic income (loss)	**$ 58,927**	**$ 29,693**	**$ 162,587**	**$ (8,340)**
Average shares used to determine basic income (loss) per common share	**86,864**	**58,411**	**86,472**	**58,334**
Basic income per common share before cumulative effect of accounting changes	$ 0.68	$ 0.51	$ 1.88	$ 0.01
Cumulative effect of accounting changes, net of income tax				(0.15)
Basic income (loss) per common share	**$ 0.68**	**$ 0.51**	**$ 1.88**	**$ (0.14)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2004 (Restated)	2003	2004 (Restated)	2003
	(thousands, except per-share amounts)			
Diluted				
Basic income before cumulative effect of accounting changes	$ 58,927	$ 29,693	$ 162,587	$ 463
Preferred dividends eliminated	3,242	3,191	9,776	
Supplemental ESOP contribution	(2,971)	(2,891)	(8,903)	
Diluted income before cumulative effect of accounting changes	59,198	29,993	163,460	463
Cumulative effect of accounting changes, net of income tax				(8,803)
Diluted income (loss) (b)	**$ 59,198**	**$ 29,993**	**$ 163,460**	**$ (8,340)**
Average shares used to determine basic income (loss) per common share	86,864	58,411	86,472	58,334
Restricted stock, stock options and other	1,982	956	1,947	
Series D Convertible Preferred Stock	3,170	3,330	3,244	
Average shares used to determine diluted income (loss) per common share (b) (c)	**92,016**	**62,697**	**91,663**	**58,334**
Diluted income per common share before cumulative effect of accounting changes	$ 0.64	$ 0.48	$ 1.78	$ 0.01
Cumulative effect of accounting changes, net of income tax				(0.15)
Diluted income (loss) per common share	**$ 0.64**	**$ 0.48**	**$ 1.78**	**$ (0.14)**

(a) The dividend attributable to our Series D Convertible Preferred Stock held by our employee stock ownership plan (ESOP) is net of a tax benefit.

(b) Adjustments totaling $0.9 million for the nine months ended September 30, 2003, which would have reduced the basic loss to arrive at diluted loss, were excluded because the calculation of diluted loss per share was antidilutive. Also, for the nine months ended September 30, 2003, potentially dilutive common shares of 3.8 million were excluded from average shares because they were antidilutive.

(c) Options to purchase 3.8 million and 7.3 million shares of common stock were outstanding during the three months ended September 30, 2004 and 2003, but were not included in the computation of diluted income per share because the exercise prices of the options were greater than the average market price of the common shares. Forward contracts to purchase 5.3 million and 5.4 million shares of common stock were outstanding during the three months ended September 30, 2004 and 2003, but were not included in the computation of diluted income per share because the securities were not dilutive under the treasury stock method. These forward contracts are related to our adjustable conversion-rate equity securities.

Options to purchase 3.6 million and 8.1 million shares of common stock were outstanding during the nine months ended September 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the exercise prices of the options were greater than the average market price of the common shares. Forward contracts to purchase 5.1 million and 5.4 million shares of common stock were outstanding during the nine months ended September 30, 2004 and 2003, but were not included in the computation of diluted income (loss) per share because the securities were not dilutive under the treasury stock method. These forward contracts are related to our adjustable conversion-rate equity securities.

5. Stock-Based Compensation

In 2003, we adopted the fair-value-based method of accounting for stock-based employee compensation under the provisions of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. We used the prospective method of transition for all employee awards granted on or after January 1, 2003. Awards under our plans vest over periods up to three years. Therefore, the cost related to stock-based employee compensation included in the determination of net income for the three and nine months ended September 30, 2003, is less than that which would have been recognized if the fair-value-based method had been applied to all awards since the original effective date of SFAS No. 123, Accounting for Stock-Based Compensation. During the three and nine months ended September 30, 2004, in our Consolidated Statements of Income, we recognized $5.8 million and $18.8 million of pretax compensation expense, of which $5.7 million and $18.4 million related to restricted stock.

The following table illustrates the effect on net income (loss) and net income (loss) per share if we had applied the fair-value-based method to all outstanding and unvested awards in 2003.

	Three Months Ended September 30		Nine Months Ended September 30	
	2004 (Restated)	**2003**	**2004 (Restated)**	**2003**
	(thousands, except per-share amounts)			
Reported net income	$ 62,169	$ 32,884	$ 172,363	$ 1,404
Add: Total stock-based employee compensation expense included in reported net income, net of related tax effects	3,550	1,306	11,467	1,398
Deduct: Total stock-based employee compensation expense determined under the fair value method, for all awards, net of related tax effects	(3,550)	(2,057)	(11,467)	(6,471)
Pro forma net income (loss)	**62,169**	**32,133**	**172,363**	**(3,669)**
Preferred dividends	(3,242)	(3,191)	(9,776)	(9,744)