

Rock-Tenn CO  
Form 10-Q  
May 01, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended March 31, 2009

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-12613

**Rock-Tenn Company**

(Exact Name of Registrant as Specified in Its Charter)

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**Georgia**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**62-0342590**  
(I.R.S. Employer  
Identification No.)

**504 Thrasher Street, Norcross, Georgia**  
(Address of Principal Executive Offices)

**30071**  
(Zip Code)

**Registrant's Telephone Number, Including Area Code: (770) 448-2193**

N/A

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report.)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

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

**Class**  
Class A Common Stock, \$0.01 par value

**Outstanding as of April 24, 2009**  
38,350,090

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**ROCK-TENN COMPANY**

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	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Net sales	\$ 676.3	\$ 685.9	\$ 1,379.4	\$ 1,282.2
Cost of goods sold	504.8	560.0	1,043.1	1,049.3
Gross profit	171.5	125.9	336.3	232.9
Selling, general and administrative expenses	83.5	75.3	165.0	140.5
Restructuring and other costs, net	3.2	0.8	9.7	3.8
Operating profit	84.8	49.8	161.6	88.6
Interest expense	(24.6)	(19.7)	(51.0)	(31.5)
Loss on extinguishment of debt		(1.9)	(2.4)	(1.9)
Interest income and other (expense) income, net	(0.5)	0.1	(0.1)	
Equity in (loss) income of unconsolidated entities	(0.2)	0.2	(0.6)	(0.1)
Minority interest in income of consolidated subsidiaries	(0.2)	(1.2)	(0.9)	(2.1)
Income before income taxes	59.3	27.3	106.6	53.0
Income tax expense	(21.9)	(10.2)	(38.6)	(18.4)
Net income	\$ 37.4	\$ 17.1	\$ 68.0	\$ 34.6
Weighted average diluted shares outstanding	38.6	38.2	38.6	38.1
Basic earnings per share:				
Net income	\$ 0.99	\$ 0.46	\$ 1.80	\$ 0.93
Diluted earnings per share:				
Net income	\$ 0.97	\$ 0.45	\$ 1.76	\$ 0.91
Cash dividends paid per common share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

See Accompanying Notes to Condensed Consolidated Financial Statements

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**ROCK-TENN COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(In Millions, Except Share Data)

	March 31, 2009	September 30, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 10.3	\$ 52.8
Restricted cash and marketable debt securities		19.2
Accounts receivable (net of allowances of \$12.0 and \$9.0)	264.0	304.3
Inventories	283.5	283.0
Other current assets	51.2	49.2
Assets held for sale	0.9	0.7
<b>Total current assets</b>	<b>609.9</b>	<b>709.2</b>
Property, plant and equipment at cost:		
Land and buildings	394.7	398.3
Machinery and equipment	1,808.1	1,826.2
Transportation equipment	15.1	15.2
Leasehold improvements	5.5	7.6
	2,223.4	2,247.3
Less accumulated depreciation and amortization	(943.8)	(914.2)
<b>Net property, plant and equipment</b>	<b>1,279.6</b>	<b>1,333.1</b>
Goodwill	725.2	727.0
Intangibles, net	157.9	176.9
Investment in unconsolidated entities	25.3	29.4
Other assets	35.6	37.5
	\$ 2,833.5	\$ 3,013.1

**LIABILITIES AND SHAREHOLDERS EQUITY**

Current liabilities:		
Current portion of debt	\$ 182.6	\$ 245.1
Accounts payable	211.6	241.5
Accrued compensation and benefits	68.5	95.2
Other current liabilities	83.8	65.9
<b>Total current liabilities</b>	<b>546.5</b>	<b>647.7</b>
Long-term debt due after one year	1,322.2	1,447.2
Hedge adjustments resulting from terminated fair value interest rate derivatives or swaps	5.6	6.6
<b>Total long-term debt</b>	<b>1,327.8</b>	<b>1,453.8</b>

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Accrued pension and other long-term benefits	73.4	70.8
Deferred income taxes	162.9	153.3
Other long-term liabilities	38.6	29.4
Commitments and contingencies (Note 14)		
Minority interest	14.7	17.6
Shareholders' equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares outstanding		
Class A common stock, \$0.01 par value; 175,000,000 shares authorized; 38,350,090 and 38,228,523 shares outstanding at March 31, 2009 and September 30, 2008, respectively	0.4	0.4
Capital in excess of par value	248.0	238.8
Retained earnings	479.7	421.7
Accumulated other comprehensive loss	(58.5)	(20.4)
Total shareholders' equity	669.6	640.5
	\$ 2,833.5	\$ 3,013.1

See Accompanying Notes to Condensed Consolidated Financial Statements

**Table of Contents****ROCK-TENN COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In Millions)**

	Six Months Ended March 31,	
	2009	2008
<b>Operating activities:</b>		
Net income	\$ 68.0	\$ 34.6
Items in income not affecting cash:		
Depreciation and amortization	75.2	57.4
Deferred income tax expense (benefit)	19.5	(4.7)
Share-based compensation expense	4.9	4.1
Gain on disposal of plant, equipment and other, net	(0.4)	(0.1)
Minority interest in income of consolidated subsidiaries	0.9	2.1
Equity in loss of unconsolidated entities	0.6	0.1
Payment on termination of cash flow interest rate hedges		(3.5)
Pension funding less (more) than expense	3.2	(7.8)
Impairment adjustments and other non-cash items	(0.8)	0.3
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	34.5	(11.1)
Inventories	(6.2)	9.0
Other assets	(6.4)	(12.7)
Accounts payable	(25.7)	(13.5)
Income taxes payable	13.5	3.2
Accrued liabilities and other	(25.3)	(22.4)
Net cash provided by operating activities	155.5	35.0
<b>Investing activities:</b>		
Capital expenditures	(31.2)	(37.2)
Cash paid for purchase of business, including amounts received from (paid into) escrow, net of cash received	8.5	(809.2)
Investment in unconsolidated entities	(0.5)	(0.2)
Return of capital from unconsolidated entities	3.7	0.4
Proceeds from sale of property, plant and equipment	0.7	2.2
Net cash used for investing activities	(18.8)	(844.0)
<b>Financing activities:</b>		
Proceeds from issuance of notes		198.6
Additions to revolving credit facilities	185.0	202.3
Repayments of revolving credit facilities	(158.3)	(109.1)
Additions to debt	85.0	766.0
Repayments of debt	(296.0)	(169.3)
Debt issuance costs	(0.9)	(27.3)
Restricted cash and investments	19.2	(0.7)
Issuances of common stock, net of related minimum tax withholdings	0.3	1.4
Excess tax benefits from share-based compensation	1.7	0.5
(Repayments to) advances from unconsolidated entity	(5.3)	1.0
Cash dividends paid to shareholders	(7.7)	(7.6)
Cash distributions paid to minority interest	(2.7)	(1.4)

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Net cash (used for) provided by financing activities	(179.7)	854.4
Effect of exchange rate changes on cash and cash equivalents	0.5	0.3
(Decrease) increase in cash and cash equivalents	(42.5)	45.7
Cash and cash equivalents at beginning of period	52.8	10.9
Cash and cash equivalents at end of period	\$ 10.3	\$ 56.6

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Income taxes, net of refunds	\$ 3.3	\$ 18.2
Interest, net of amounts capitalized	55.3	27.0

See Accompanying Notes to Condensed Consolidated Financial Statements



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**ROCK-TENN COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three and Six Month Periods Ended March 31, 2009**

**(Unaudited)**

*The condensed consolidated financial statements include our accounts and the accounts of our partially-owned consolidated subsidiaries. Unless the context otherwise requires, we, us, our, RockTenn and the Company refer to the business of Rock-Tenn Company, its wholly-owned subsidiaries and its partially-owned consolidated subsidiaries. Our references to the business of Rock-Tenn Company do not include entities that we do not consolidate but account for using the equity method.*

We are primarily a manufacturer of packaging products, recycled paperboard, containerboard, bleached paperboard and merchandising displays.

**Note 1. Interim Financial Statements**

Our independent public accounting firm has not audited our accompanying interim financial statements. We derived the condensed consolidated balance sheet at September 30, 2008 from the audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 (the **Fiscal 2008 Form 10-K**). In the opinion of our management, the condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations for the three and six months ended March 31, 2009 and 2008, our financial position at March 31, 2009 and September 30, 2008, and our cash flows for the six months ended March 31, 2009 and 2008.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these interim statements should be read in conjunction with our Fiscal 2008 Form 10-K.

The results for the three and six months ended March 31, 2009 are not necessarily indicative of results that may be expected for the full year.

**Note 2. New Accounting Standards**

***Recently Adopted Standards***

In September 2006, the Financial Accounting Standards Board ( **FASB** ) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* ( **SFAS 157** ). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement would be determined based on the assumptions that market participants would use in pricing the asset or liability. SFAS 157, as issued, is effective for fiscal years beginning after November 15, 2007 (October 1, 2008 for us). In February 2008, the FASB issued FASB Staff Position 157-2 that deferred for one year the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). We adopted SFAS 157 as of October 1, 2008, the beginning of our current fiscal year. See **Note 11. Fair Value** to our Condensed Consolidated Financial Statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133* ( **SFAS 161** ). SFAS 161 requires entities to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( **SFAS 133** ) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We adopted SFAS 161 on January 1, 2009, and have included the additional disclosures in **Note 10. Derivatives** to our Condensed Consolidated Financial Statements. SFAS 161 applies only to financial statement disclosures, therefore it did not have an impact on our consolidated financial position, results of operations, and cash flows.

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**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)*****Recently Issued Standards***

In April 2009, the FASB issued FASB Staff Position ( **FSP** ) 107-1 and APB 28-1 ( **FSP 107-1** ). FSP 107-1 amends FASB No. 107, *Disclosures about Fair Value of Financial Instruments* , to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. FSP 107-1 also amends Accounting Principles Board Opinion No. 28, *Interim Financial Reporting* , to require those disclosures in all interim financial statements. FSP 107-1 is effective for interim and annual periods ending after June 15, 2009, with early adoption permitted. We expect to provide the related disclosures in our interim financial statements as of June 30, 2009.

In June 2008, the FASB issued FSP Emerging Issues Task Force Issue No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* ( **FSP 03-6-1** ). FSP 03-6-1 clarifies that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method described in SFAS No. 128, *Earnings Per Share* . FSP 03-6-1 is effective for fiscal years beginning after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. This FSP requires all presented prior-period earnings per share data to be adjusted. We are currently evaluating the effect the implementation of FSP 03-6-1 will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* ( **SFAS 141(R)** ). SFAS 141(R) expands the definition of a business combination and requires the fair value of the purchase price of an acquisition, including the issuance of equity securities, to be determined on the acquisition date. SFAS 141(R) also requires that all assets, liabilities, contingent considerations, and contingencies of an acquired business be recorded at fair value at the acquisition date. In addition, SFAS 141(R) requires that acquisition costs generally be expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. SFAS 141(R) is effective for fiscal years beginning after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. We are currently evaluating the effect the implementation of SFAS 141(R) will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* ( **SFAS 160** ). SFAS 160 changes the accounting and reporting for minority interests such that minority interests will be recharacterized as noncontrolling interests and will be required to be reported as a component of equity, requires that purchases or sales of subsidiaries' equity interests that do not result in a change in control be accounted for as equity transactions and, upon a loss of control, requires the interest sold, as well as any interest retained, to be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. We are currently evaluating the effect the implementation of SFAS 160 will have on our consolidated financial statements.

In February 2008, the FASB issued FSP 157-2, *Effective Date of FASB Statement No. 157* ( **FSP 157-2** ) that deferred the effective date of SFAS 157 until fiscal years beginning after November 15, 2008 (October 1, 2009 for us) for the application of SFAS 157 to all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually). We are currently evaluating the effect the implementation of FSP 157-2 will have on our consolidated financial statements.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 3. Comprehensive Income**

The following are the components of comprehensive income (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Net income	\$ 37.4	\$ 17.1	\$ 68.0	\$ 34.6
Foreign currency translation adjustments	(5.0)	(4.5)	(24.7)	(4.5)
Reclassification of net loss (gain) on cash flow hedges to earnings, net of tax	1.8	0.1	1.7	(0.2)
Net unrealized loss on cash flow hedges, net of tax	(1.8)	(3.3)	(15.1)	(3.2)
<b>Comprehensive income</b>	<b>\$ 32.4</b>	<b>\$ 9.4</b>	<b>\$ 29.9</b>	<b>\$ 26.7</b>

The net of tax components of comprehensive income were determined using effective tax rates of approximately 39% for the three and six month periods ended March 31, 2009 and 2008. The change in other comprehensive income due to foreign currency translation was primarily due to the change in the Canadian/U.S. dollar exchange rates.

**Note 4. Earnings per Share**

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share data):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>Numerator:</b>				
Net income	\$ 37.4	\$ 17.1	\$ 68.0	\$ 34.6
<b>Denominator:</b>				
Denominator for basic earnings per share weighted average shares	37.8	37.3	37.7	37.3
Effect of dilutive stock options and restricted stock awards	0.8	0.9	0.9	0.8
Denominator for diluted earnings per share weighted average shares and assumed conversions	38.6	38.2	38.6	38.1
<b>Basic earnings per share:</b>				
Net income per share basic	\$ 0.99	\$ 0.46	\$ 1.80	\$ 0.93
<b>Diluted earnings per share:</b>				
Net income per share diluted	\$ 0.97	\$ 0.45	\$ 1.76	\$ 0.91

Options to purchase 0.6 million and 0.5 million common shares were not included in computing diluted earnings per share in the three and six months ended March 31, 2009, respectively, because the effect would have been antidilutive. Options to purchase 0.3 million common shares were not included in computing diluted earnings per share in the three and six months ended March 31, 2008, because the effect would have been antidilutive.

**Note 5. Acquisitions**

*Southern Container Acquisition*

On March 5, 2008, we acquired the stock of Southern Container Corp. ( **Southern Container** ). We have included the results of Southern Container's operations in our financial statements in our Corrugated Packaging segment since the March 2, 2008 effective date. We made the acquisition in order to expand our corrugated packaging business with the Southern Container operations that we believe have the lowest system costs and the highest EBITDA margins of any major integrated corrugated company in North America.

The purchase price for the acquisition was \$1,059.9 million, net of cash received of \$54.0 million, including expenses. RockTenn and Southern Container made an election under section 338(h)(10) of the Internal Revenue

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Code of 1986, as amended (the **Code**) that increased RockTenn's tax basis in the acquired assets and is expected to result in a net present value benefit of approximately \$135 million, net of an agreed upon payment included in the purchase price for the election to the sellers of approximately \$68.6 million paid to Southern Container's former stockholders in November 2008. In fiscal 2008, we incurred \$26.8 million of debt issuance costs in connection with the transaction.

Our allocation of purchase price as of March 2, 2008, follows (in millions):

Current assets, net of cash received	\$ 135.0
Property, plant, and equipment	546.5
Goodwill	370.6
Intangible assets	108.7
Other long-term assets	22.6
 Total assets acquired	 1,183.4
 Current portion of debt	 116.8
Current liabilities	83.7
Long-term debt due after one year	126.3
Minority interest and other long-term liabilities	39.8
 Total liabilities assumed	 366.6
 Net assets acquired	 \$ 816.8

We recorded estimated fair values for acquired assets and liabilities, including goodwill and intangibles. The intangibles are being amortized over estimated useful lives ranging generally from 11 to 40 years on a straight-line basis over a weighted average life of approximately 18 years, and 15 years for tax purposes. We recorded \$72.3 million of customer relationship intangibles with a weighted average life of approximately 15 years, \$18.1 million of trade names and trademarks with a weighted average life of approximately 39 years and \$18.3 million for a steam supply contract with a life of approximately 11 years. None of the intangibles has significant residual value. Approximately \$317 million of the goodwill is deductible for income tax purposes as a result of the Code section 338(h)(10) election.

The following unaudited pro forma information reflects our consolidated results of operations as if the Southern Container acquisition had taken place as of the beginning of each period presented. The unaudited pro forma information includes adjustments primarily for depreciation and amortization based on the fair value of the acquired property, plant and equipment, acquired intangibles and interest expense on the acquisition financing debt. We have added back the minority interest in the earnings of the Solvay mill subsidiary, since such interests were acquired by Southern Container prior to our acquisition; we have eliminated certain expenses that Southern Container historically incurred that the combined company does not expect to incur due to changes in employment and other contractual arrangements. During the three and six months ended March 31, 2008, we have also eliminated certain non-recurring expenses directly associated with the acquisition including \$7.1 million of inventory step up expense, \$3.0 million for an acquisition bridge financing fee, \$1.9 million of debt extinguishment costs associated with the transaction and \$0.7 million of deferred compensation expense funded into escrow through a purchase price reduction from Southern Container's stockholders. Pre-tax integration costs of \$1.1 million are included in the unaudited pro forma net income below for the three and six months ended March 31, 2008. The unaudited pro forma information in the table below for the three and six months ended March 31, 2008, is not necessarily indicative of the results of operations that we would have reported had the transaction actually occurred at the beginning of this period nor is it necessarily indicative of future results (in millions, except per share data).

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	Three Months Ended March 31, 2008	Six Months Ended March 31, 2008
Net sales	\$ 795.2	\$ 1,571.4
Net income	\$ 28.0	\$ 57.1
Diluted earnings per common share	\$ 0.73	\$ 1.50

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Prior to the acquisition, Southern Container used a 52/53 week fiscal year and reported its results of operations in three 12-week periods and one 16-week period, with the 16-week period being the fourth period and ending on the last Saturday of the calendar year. The unaudited pro forma information above for the three and six months ended March 31, 2008 utilizes the condensed consolidated statements of income for RockTenn for the three and six months ended March 31, 2008 and the condensed consolidated statements of operations of Southern Container for the 9 and 25 weeks ended March 2, 2008.

**Note 6. Restructuring and Other Costs, Net*****Summary of Restructuring and Other Initiatives***

We recorded pre-tax restructuring and other costs, net, of \$3.2 million and \$0.8 million for the three months ended March 31, 2009 and 2008, respectively, and recorded pre-tax restructuring and other costs, net, of \$9.7 million and \$3.8 million for the six months ended March 31, 2009 and 2008, respectively. These amounts are not comparable since the timing and scope of the individual actions associated with a restructuring can vary. We discuss these charges in more detail below.

The following table presents a summary of restructuring and other charges, net, related to our active restructuring initiatives that we incurred during the three and six months ended March 31, 2009 and 2008, the cumulative recorded amount since we announced each initiative, and the total we expect to incur (in millions):

**Summary of Restructuring and Other Costs (Income), Net**

Segment	Period	Net Property, Plant and Equipment (1)	Severance and Other Employee Related Costs	Equipment and Inventory Relocation Costs	Facility Carrying Costs	Other Costs	Total
Consumer Packaging (a)	Current Qtr.	\$	\$ (0.2)	\$ 0.1	\$	\$ 0.1	\$
	YTD Fiscal 2009	0.1	(0.1)	0.5		1.3	1.8
	Prior Year Qtr.	(1.3)	0.1	0.1	0.1		(1.0)
	YTD Fiscal 2008	0.6	1.2	0.2	0.2	0.1	2.3
	Cumulative	4.1	4.1	2.5	1.1	5.6	17.4
	Expected Total	4.1	4.1	2.5	1.1	5.6	17.4
Corrugated Packaging (b)	Current Qtr.				0.1		0.1
	YTD Fiscal 2009			0.1	0.1		0.2
	Prior Year Qtr.						
	YTD Fiscal 2008						
	Cumulative	1.6	0.3	0.1	0.1	0.3	2.4
Expected Total	1.6	0.3	0.4	0.1	0.3	2.7	
Specialty Paperboard Products (c)	Current Qtr.	0.2	0.5			0.2	0.9
	YTD Fiscal 2009	0.2	0.5			0.2	0.9
	Prior Year Qtr.						
	YTD Fiscal 2008	(0.3)					(0.3)
	Cumulative		0.7	0.1	0.4	0.1	1.3
Expected Total		0.8	0.2	0.4	0.1	1.5	
Other (d)	Current Qtr.					2.2	2.2
	YTD Fiscal 2009					6.8	6.8
	Prior Year Qtr.					1.8	1.8

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YTD Fiscal 2008	1.8	1.8
Cumulative	16.4	16.4
Expected Total	16.4	16.4



**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Total	Current Qtr.	\$ 0.2	\$ 0.3	\$ 0.1	\$ 0.1	\$ 2.5	\$ 3.2
	YTD Fiscal 2009	\$ 0.3	\$ 0.4	\$ 0.6	\$ 0.1	\$ 8.3	\$ 9.7
	Prior Year Qtr.	\$ (1.3)	\$ 0.1	\$ 0.1	\$ 0.1	\$ 1.8	\$ 0.8
	YTD Fiscal 2008	\$ 0.3	\$ 1.2	\$ 0.2	\$ 0.2	\$ 1.9	\$ 3.8
	Cumulative	\$ 5.7	\$ 5.1	\$ 2.7	\$ 1.6	\$ 22.4	\$ 37.5
	Expected Total	\$ 5.7	\$ 5.2	\$ 3.1	\$ 1.6	\$ 22.4	\$ 38.0

- (1) For this Note 6, we have defined the term **Net property, plant and equipment** as: property, plant and equipment impairment losses, subsequent adjustments to fair value for assets classified as held for sale, and subsequent (gains) or losses on sales of property, plant and equipment and related parts and supplies.

When we close a facility, if necessary, we recognize an impairment charge primarily to reduce the carrying value of equipment or other property to their estimated fair value or fair value less cost to sell, and record charges for severance and other employee related costs. Any subsequent change in fair value, less cost to sell prior to disposition, is recognized as identified; however, no gain is recognized in excess of the cumulative loss previously recorded. At the time of each announced closure, we generally expect to record future charges for equipment relocation, facility carrying costs, costs to terminate a lease or contract before the end of its term and other employee related costs. Expected future charges are reflected in the table above in the **Expected Total** lines until incurred.

- (a) The Consumer Packaging segment charges primarily reflect the following folding carton plant closures recorded: Baltimore, Maryland (announced in fiscal 2008 and closed in fiscal 2009), Chicopee, Massachusetts (announced and closed in fiscal 2008), Stone Mountain, Georgia (announced and closed in fiscal 2007), and Kerman, California (announced and closed in fiscal 2006). Although specific circumstances vary, our strategy has generally been to consolidate our business into large well-equipped plants that operate at high utilization rates and take advantage of open capacity created by operational excellence initiatives. Therefore, we transferred a substantial portion of each plant's assets and production to our other folding carton plants. We believe these actions have allowed us to more effectively manage our business.
- (b) The Corrugated Packaging segment charges primarily reflect the closure of our Greenville, South Carolina sheet plant (announced in fiscal 2008 and closed in fiscal 2009). We have transferred a substantial portion of Greenville's production to our other corrugated plants.
- (c) The Specialty Paperboard Products segment charges primarily reflect the closure of our Litchfield, Illinois interior packaging plant (announced and closed in fiscal 2009). The income in fiscal 2008 primarily reflects the gain on sale of real estate relating to a previously closed facility.
- (d) The expenses in the **Other Costs** column primarily reflect Southern Container integration expenses and deferred compensation expense for key Southern Container employees. The deferred compensation and retention bonus expense was funded through a purchase price reduction from Southern Container's stockholders. Nearly all of these funds were escrowed and were disbursed in March 2009 following the one year anniversary of the acquisition. The pre-tax charges are summarized below (in millions):

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	<b>Integration Expenses</b>	<b>Deferred Compensation Expense</b>	<b>Total</b>
Current Qtr.	\$ 0.8	\$ 1.4	\$ 2.2
YTD Fiscal 2009	3.3	3.5	6.8
Prior Year Qtr.	1.1	0.7	1.8
YTD Fiscal 2008	1.1	0.7	1.8

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

The following table represents a summary of the restructuring accrual, which is primarily composed of accrued severance and other employee costs, and a reconciliation of the restructuring accrual to the line item **Restructuring and other costs, net** on our condensed consolidated statements of income for the six months ended March 31, 2009 and 2008 (in millions):

	2009	2008
Accrual at beginning of fiscal year	\$ 3.4	\$ 2.4
Additional accruals	1.8	1.1
Payments	(2.9)	(0.6)
Adjustments to accruals	(0.1)	
Accrual at March 31,	\$ 2.2	\$ 2.9

**Reconciliation of accruals and charges to restructuring and other costs, net:**

Additional accruals and adjustments to accruals (see table above)	\$ 1.7	\$ 1.1
Integration expenses	2.7	1.1
Deferred compensation expense	3.5	0.7
Net property, plant and equipment	0.3	0.3
Severance and other employee costs	0.3	0.2
Equipment relocation	0.6	0.2
Facility carrying costs	0.1	0.2
Other	0.5	
Total restructuring and other costs, net	\$ 9.7	\$ 3.8

**Note 7. Tax Provision**

We recorded income tax expense of \$21.9 million and \$38.6 million in the three and six months ended March 31, 2009, compared to \$10.2 million and \$18.4 million in the three and six months ended March 31, 2008. The effective tax rates for the three and six months ended March 31, 2009 were approximately 36.9% and 36.2%, respectively, and were primarily impacted by a \$0.7 million tax benefit related to extension of the United States federal research credit, which was partially offset by \$0.4 million deferred tax expense related to changes in state effective rates in the first quarter of fiscal 2009. The effective rates for the three and six months ended March 31, 2008 were approximately 37.4% and 34.7%, respectively, and were primarily impacted by a tax benefit of \$1.1 million related to a tax rate reduction in Canada in the first quarter of fiscal 2008.

As of March 31, 2009, the gross amount of unrecognized tax benefits was approximately \$15.9 million, exclusive of interest and penalties. Of this balance, if we were to prevail on all unrecognized tax benefits recorded, approximately \$5.0 million would benefit the effective tax rate. We regularly evaluate, assess and adjust the related liabilities in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period.

We recognize interest and penalties related to unrecognized tax benefits in income tax expense in the consolidated statements of income, which is consistent with the recognition of these items in prior reporting periods. As of March 31, 2009, we had a recorded liability of \$2.6 million for the payment of interest and penalties related to the FIN 48 liability for unrecognized tax benefits.

We file federal, state and local income tax returns in the U.S. and various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to fiscal 2001.



**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 8. Inventories**

We value substantially all of our U.S. inventories at the lower of cost or market, with cost determined on the last-in first-out ( **LIFO** ) inventory valuation method, which we believe generally results in a better matching of current costs and revenues than under the first-in first-out ( **FIFO** ) inventory valuation method. In periods of increasing costs, the LIFO method generally results in higher cost of goods sold than under the FIFO method. In periods of decreasing costs, the results are generally the opposite. Because LIFO is designed for annual determinations, it is possible to make an actual valuation of inventory under the LIFO method only at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, we base interim LIFO estimates on management's projection of expected year-end inventory levels and costs. We value all other inventories at the lower of cost or market, with cost determined using methods which approximate cost computed on a FIFO basis. These other inventories represent primarily foreign inventories and spare parts inventories. Inventories were as follows (in millions):

	March 31, 2009	September 30, 2008
Finished goods and work in process	\$ 165.6	\$ 163.3
Raw materials	112.0	113.4
Supplies and spare parts	49.2	49.9
Inventories at FIFO cost	326.8	326.6
LIFO reserve	(43.3)	(43.6)
Net inventories	\$ 283.5	\$ 283.0

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 9. Debt**

With the exception of certain items noted below, there were no significant changes in our debt characteristics during the six months ended March 31, 2009. For more information regarding certain of our debt characteristics, see *Note 10. Debt* of the Notes to Consolidated Financial Statements section of the Fiscal 2008 Form 10-K ( **Debt Footnote on Form 10-K** ).

The following were individual components of debt (in millions):

	March 31, 2009	September 30, 2008
8.20% secured notes due August 2011, net of unamortized discount of \$0.2 and \$0.2 <sup>(a)</sup>	\$ 249.8	\$ 249.8
Hedge adjustments resulting from terminated interest rate derivatives or swaps	4.3	5.1
	254.1	254.9
5.625% secured notes due March 2013, net of unamortized discount of \$0.1 and \$0.1 <sup>(a)</sup>	99.9	99.9
Hedge adjustments resulting from terminated interest rate derivatives or swaps	1.3	1.5
	101.2	101.4
9.25% unsecured notes due March 2016, net of unamortized discount of \$1.2 and \$1.3 <sup>(a)</sup>	198.8	198.7
Term loan facilities, net of unamortized discount of \$1.5 and \$1.7 <sup>(b)</sup>	746.5	747.3
Revolving credit and swing facilities <sup>(b)</sup>	57.0	33.5
Receivables-backed financing facility <sup>(c)</sup>	124.0	92.0
Cash payable to sellers <sup>(d)</sup>		110.7
Industrial development revenue bonds bearing interest at: variable rates - \$18.9 million at 3.22% at March 31, 2009, and \$29.0 million at 10.06% at September 30, 2008; fixed rates - \$120.9 million at 6.97% at September 30, 2008; due at various dates through October 2036 <sup>(e)</sup>	18.9	149.9
Other notes	9.9	10.5
Total Debt	1,510.4	1,698.9
Less current portion of debt	182.6	245.1
Long-term debt due after one year	\$ 1,327.8	\$ 1,453.8

The following were the aggregate components of debt (in millions):

Face value of debt instruments, net of unamortized discounts	\$ 1,504.8	\$ 1,692.3
Hedge adjustments resulting from terminated interest rate derivatives or swaps	5.6	6.6
Total Debt	\$ 1,510.4	\$ 1,698.9

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A portion of the debt classified as long-term, which includes the revolving and swing facilities, may be paid down earlier than scheduled at our discretion without penalty. Included in the current portion of debt at March 31, 2009 and September 30, 2008 is \$15.0 million representing amounts required to support normal working capital needs.

- (a) Interest on our 8.20% notes due August 2011 is payable in arrears each February and August. Interest on our 5.625% notes due March 2013 ( **March 2013 Notes** ) and 9.25% notes due March 2016 ( **March 2016 Notes** ) is payable in arrears each September and March.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

- (b) On March 5, 2008 we entered into an Amended and Restated Credit Agreement (the **Credit Facility**) with an original maximum principal amount of \$1.2 billion. The Credit Facility includes revolving credit, swing, term loan, and letters of credit consisting of a \$450 million revolving credit facility, a \$550 million term loan A facility and a \$200 million term loan B facility. The Credit Facility is pre-payable at any time. Scheduled term loan payments or other term loan payments reduce the facility size. The revolving credit facility and term loan A facility are scheduled to mature on the earlier to occur of (a) March 5, 2013 or (b) if our \$100 million March 2013 Notes have not been paid in full or refinanced by September 15, 2012, then September 15, 2012; the term loan B facility is scheduled to mature on the earlier to occur of (a) March 5, 2014 or (b) if the March 2013 Notes have not been paid in full or refinanced by September 15, 2012, then September 15, 2012. The Credit Facility provides for up to \$100.0 million in Canadian or U.S. Dollar loans to a Canadian subsidiary. In November 2008, the amount committed under the Credit Facility for loans to a Canadian subsidiary was reduced from \$100.0 million to \$45.0 million, and \$55.0 million was reallocated to the U.S. revolving credit facility, increasing its maximum availability to \$405.0 million. At March 31, 2009, there were \$18.4 million in borrowings by the Canadian subsidiary. At March 31, 2009, available borrowings under the revolving credit portion of the Credit Facility, reduced by outstanding letters of credit not drawn upon of approximately \$33.6 million, were approximately \$359.3 million.

The variable rate on our term loan A and term loan B facilities, before the effect of interest rate swaps, was 2.75% and 5.75%, respectively, at March 31, 2009, and 4.74% and 5.76%, respectively, at September 30, 2008. We had interest rates on our revolving credit facility ranging from 2.73% to 4.50% at March 31, 2009 and from 6.00% to 6.25% at September 30, 2008. Concurrent with our earnings release, we will file our quarterly compliance report with our bank group and, based on the most recent Leverage Ratio, will receive a 25 basis point decrease prospectively to the applicable credit margin in the Credit Facility.

Our obligations under the Credit Facility and under certain related hedging agreements are unconditionally guaranteed by substantially all of our U.S. subsidiaries, and partially by our Canadian subsidiaries. Obligations under the Credit Facility are secured by a substantial portion of our assets. Certain restrictive covenants govern our maximum availability under this facility, including Minimum Consolidated Interest Ratio Coverage; Maximum Leverage Ratio; and Minimum Consolidated Net Worth as discussed in our Debt Footnote on Form 10-K. We test and report our compliance with these covenants each quarter. We are in compliance with all of our covenants.

- (c) On September 2, 2008, we amended our 364-day receivables-backed financing facility (the **Receivables Facility**) to increase its size from \$110.0 million to \$175.0 million and to set it to expire on September 1, 2009. Accordingly, such borrowings are classified as current at March 31, 2009 and September 30, 2008. The borrowing rate, which consists of the market rate for asset-backed commercial paper plus a utilization fee, was 1.65% and 5.15% as of March 31, 2009 and September 30, 2008, respectively. Borrowing availability under this facility is based on the eligible underlying accounts receivable and certain covenants. We test and report our compliance with these covenants monthly. We are in compliance with all of our covenants. One of our covenants is based on the percentage of receivables 31 to 60 days past due, and another is based on the percentage of receivables 60 to 90 days past due. Given current economic conditions it is possible that the age of qualifying receivables could exceed the limit in the covenant. If this event were to occur, we would either amend the facility or terminate the facility utilizing available capacity under the revolving credit portion of our existing Credit Facility. At March 31, 2009 and September 30, 2008, maximum available borrowings under this facility were approximately \$134.7 million and \$166.3 million, respectively. The carrying amount of accounts receivable collateralizing the maximum available borrowings at March 31, 2009 was approximately \$234 million. At March 31, 2009, available borrowings under the revolving credit portion of the Credit Facility were \$359.3 million. We are currently evaluating options to refinance our Receivables Facility and expect this to be completed during the third quarter of fiscal 2009. The agreement governing the Receivables Facility contains restrictions, including, among others, creation of certain liens on the underlying collateral.
- (d) Cash payable to sellers was for the liability associated with cash held by us to support certain indebtedness of our Solvay Paperboard subsidiary, and an agreed upon payment to the sellers related to the Code section 338(h)(10) election. These items were paid in November 2008. Of these amounts, \$68.7 million was refinanced on the revolving credit portion of our Credit Facility and accordingly was recorded in long-term debt at September 30, 2008 since it was refinanced on a long-term basis.
- (e) The industrial development revenue bonds (**IDBs**) are issued by various municipalities in which we maintain facilities. Each series of bonds is secured by a direct pay letter of credit, or collateralized by a mortgage interest and collateral interest in specific property or



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a combination thereof. At September 30, 2008 the remaining principal balance of the Solvay Paperboard IDBs ( **Solvay IDBs** ) was \$128.6 million. On November 3, 2008, the first call date of Solvay IDBs, we repaid the Solvay IDBs using cash and cash equivalents, restricted cash and marketable debt securities aggregating approximately \$70 million and proceeds from the revolving portion of our Credit Facility. Accordingly, \$70 million of these bonds was classified as current at September 30, 2008. During the first quarter of fiscal 2009, we recorded a loss on extinguishment of debt of \$2.4 million related to amounts paid in excess of carrying value to redeem the Solvay IDBs. The loss was funded by the former Southern Container stockholders.

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**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 10. Derivatives**

We are exposed to certain risks relating to our ongoing business operations, including interest rate risk, commodity price risk, and foreign currency exchange risk. To manage these risks, from time-to-time and to varying degrees, we enter into a variety of financial derivative transactions and certain physical commodity transactions that are determined to be derivatives. Interest rate swaps may be entered into to manage the interest rate risk associated with a portion of our outstanding debt. In accordance with SFAS 133, interest rate swaps are either designated as cash flow hedges of floating rate debt or fair value hedges of fixed rate debt, or we may elect not to treat them as accounting hedges under SFAS 133. Forward contracts on certain commodities may be entered into to manage the price risk associated with forecasted purchases of those commodities. In addition, certain commodity derivative contracts and physical commodity contracts that are determined to be derivatives are not designated as accounting hedges because either they do not meet the criteria for treatment as accounting hedges under SFAS 133 or we elect not to treat them as accounting hedges under SFAS 133. We may also enter into forward contracts to manage our exposure to fluctuations in Canadian foreign currency rates with respect to our receivables denominated in Canadian dollars.

**Cash Flow Hedges**

For derivative instruments that are designated as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction, and in the same period or periods during which the forecasted transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings.

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting a portion of our floating rate debt to a fixed rate basis, thus reducing the impact on interest rate changes to future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed interest rate payments over the life of the agreements without an exchange of the underlying principal amount. As of March 31, 2009, our interest rate swap agreements, which terminate in April 2012, require that we pay fixed rates of approximately 4.00% and receive the one-month LIBOR rate on the notional amounts. As of March 31, 2009, the aggregate notional amount of outstanding debt related to these interest rate swaps was \$505 million, declining at periodic intervals through April 2012 to an aggregate notional amount of \$132 million.

During the six months ended March 31, 2008, we reclassified a net loss of \$0.6 million (\$0.4 million net of tax) from other comprehensive income to earnings as a result of the discontinuance of certain cash flow hedges because it was probable the related forecasted transactions being hedged would not occur.

**Fair Value Hedges**

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the same line item associated with the hedged item in current earnings. Prior to June 2005, we had a series of interest rate swaps that effectively converted our fixed rate debt to floating rates, thus hedging the fair value of the related fixed rate debt from changes in market interest rates. These interest rate swaps have been terminated. The value at termination of these swaps is being amortized to interest expense over the remaining life of the related debt using the effective interest method. During the three months ended March 31, 2009 and 2008, \$0.5 million and \$0.5 million respectively, was amortized to earnings resulting in a reduction of interest expense. During the six months ended March 31, 2009 and 2008, \$1.0 million and \$1.0 million respectively, was amortized to earnings resulting in a reduction of interest expense.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Derivatives not Designated as Accounting Hedges**

On March 20, 2009 we entered into a pay-fixed, receive-floating interest rate swap agreement with a total notional amount of \$14 million. The fixed rate of interest paid is 3.73% and the floating interest rate received is the three-month LIBOR rate. This interest rate swap agreement has a forward-starting date of December 15, 2011 and a ten-year term. However, the agreement has a mandatory early termination date of December 15, 2011, at which time we will either receive a lump-sum from or pay a lump-sum to our counterparty to terminate the swap. This interest rate swap has not been designated as an accounting hedge, and accordingly, the gain or loss is recognized in current earnings.

We have various commodity derivative instruments and physical commodity contracts that are determined to be derivatives. The gain or loss on these derivatives is recognized in the same line item associated with the economically hedged item in current earnings.

As of March 31, 2009 and September 30, 2008, we had the following outstanding commodity derivatives that were entered into as economic hedges of forecasted transactions:

Commodity	March 31, 2009		September 30, 2008	
	Notional Amount	Unit	Notional Amount	Unit
Fiber purchases, net	300	Tons	10,100	Tons

The following table summarizes the location and amounts of our outstanding derivative instruments fair values in the Condensed Consolidated Balance Sheets segregated by type of contract, by assets and liabilities and by designation (in millions):

	Balance Sheet Location	Asset Derivatives		Liability Derivatives		
		March 31,		Balance Sheet Location	March 31, 2009	September 30, 2008
		2009 Fair Value	September 30, 2008 Fair Value			
<b>Derivatives designated as hedging instruments:</b>						
Interest rate derivatives	N/A	\$	\$	Other current liabilities	\$ 14.0	\$
Interest rate derivatives	N/A	\$	\$	Other long-term liabilities	\$ 9.8	\$ 5.2
<b>Derivatives not designated as hedging instruments:</b>						
Interest rate derivatives	N/A	\$	\$	Other long-term liabilities	\$ 0.2	\$
Commodity derivatives	Other current assets	2.1	0.7	Other current liabilities	2.0	0.9
Commodity derivatives	Other assets	1.6	0.4	Other long-term liabilities	1.6	0.3
		\$ 3.7	\$ 1.1		\$ 3.8	\$ 1.2
<b>Total derivatives</b>		<b>\$ 3.7</b>	<b>\$ 1.1</b>		<b>\$ 27.6</b>	<b>\$ 6.4</b>



**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

The following table summarizes the location and amount of gains and losses on derivative instruments in the Condensed Consolidated Statements of Income segregated by type of contract and designation for the three and six months ended March 31, (in millions):

Derivatives in	Amount of Gain (Loss) Recognized in		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2008		2009	2008		2009	2008
For the three months ending:								
Interest rate derivatives	\$ (3.0)	\$ (5.9)	Interest expense	\$ (2.8)	\$ 0.4	N/A	\$	\$
Commodity derivatives			Interest income and other income (expense)		(0.1)	N/A		
Commodity derivatives		0.5	Net sales		(0.4)	N/A		
<b>Total</b>	<b>\$ (3.0)</b>	<b>\$ (5.4)</b>		<b>\$ (2.8)</b>	<b>\$ (0.1)</b>		<b>\$</b>	<b>\$</b>
For the six months ending:								
Interest rate derivatives	\$ (24.7)	\$ (6.3)	Interest expense	\$ (2.7)	\$ 0.8	N/A	\$	\$
Commodity derivatives			interest income and other income (expense)		(0.2)	N/A		
Commodity derivatives		1.1	Net sales		(0.2)	N/A		
<b>Total</b>	<b>\$ (24.7)</b>	<b>\$ (5.2)</b>		<b>\$ (2.7)</b>	<b>\$ 0.4</b>		<b>\$</b>	<b>\$</b>

Derivatives Not Designated	Location of Gain (Loss) Recognized in	Amount of Gain (Loss) Recognized in	
		Income on Derivative 2009	Income on Derivative 2008
As Hedging Instruments			
Under SFAS 133			
For the three months ending:			
	Interest income and other		
Interest rate derivatives	income (expense)	\$ (0.2)	\$
Commodity derivatives	Net sales	\$ (0.1)	\$
For the six months ending:			
Interest rate derivatives	Interest income and other	\$ (0.2)	\$

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	income (expense)	
Commodity derivatives	Net sales	\$ 0.2 \$

As of March 31, 2009, based on implied forward interest rates associated with our outstanding interest rate swaps and the remaining amounts in accumulated other comprehensive income related to terminated interest rate swaps, we expect to reclassify pre-tax amounts of approximately \$9.4 million (\$5.8 million net of tax) from accumulated other comprehensive income into earnings as a net increase to interest expense within the next twelve months as the probable hedged interest payments occur. We believe amounts in accumulated other comprehensive income related to interest rate swaps are appropriately recorded in accumulated other comprehensive income because the forecasted transactions related to those amounts are probable of occurring.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. However, we do not expect any of the counterparties to fail to meet their obligations. Our credit exposure related to these financial instruments is represented by the fair value of contracts reported as assets. To manage credit risk, we select and periodically review counterparties based on credit ratings.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

We enter into derivative contracts that may contain credit-risk-related contingent features which could result in a counterparty requesting immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. Certain of our interest rate swap derivative contracts contain a provision whereby if we default on the Credit Facility, we may also be deemed in default of the interest rate swap obligation. The aggregate fair value of interest rate swaps under these agreements that are in a liability position on March 31, 2009, is approximately \$24 million. These interest rate swaps share the same collateral as that of our Credit Facility and no other collateral has been posted against these interest rate swap obligations. If we were to default on these agreements, we may be required to settle our obligations at their termination value of approximately \$25 million. Certain of our commodity derivative contracts contain contingent provisions that require us to provide the counterparty with collateral if the credit rating on our debt, as provided by major credit rating agencies, falls below certain specified minimums, or if the fair value of our obligation exceeds specified threshold amounts. The aggregate fair value of all commodity derivative instruments with credit-risk-related contingent features that are in a liability position on March 31, 2009, is approximately \$1.3 million. We have posted collateral, in the form of a letter of credit, of approximately \$1 million against one of these positions, which was triggered by the related obligation exceeding a specified threshold amount. If additional credit-risk-related contingent features underlying these commodity derivative agreements were triggered, we may be required to settle our obligations under the agreements at their termination value, which was \$1.4 million at March 31, 2009.

**Note 11. Fair Value**

On October 1, 2008, we adopted SFAS 157 for our financial assets and liabilities. FSP No. 157-2 delayed the adoption date of SFAS 157 for nonfinancial assets and liabilities that are remeasured at fair value on a nonrecurring basis until our fiscal year beginning October 1, 2009. SFAS 157 provides a framework for measuring fair value and expands disclosures required about fair value measurements. Specifically, SFAS 157 sets forth a definition of fair value and a hierarchy prioritizing the inputs to valuation techniques. The adoption of this statement did not have a material impact on our financial statements. SFAS 157 defines levels within the hierarchy as follows:

Level 1 Unadjusted quoted prices for identical assets and liabilities in active markets;

Level 2 Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in inactive markets, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities; and

Level 3 Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable. Such inputs typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

We have rabbi trusts which hold assets of our supplemental retirement savings plans (the **Supplemental Plans**) that are nonqualified deferred compensation plans. The assets of our Supplemental Plans are invested primarily in mutual funds and are reported at fair value based on quoted prices in active markets. The fair value of our Supplemental Plans is designated as Level 1.

We value our interest rate derivatives using a widely accepted valuation technique based on discounted cash flow analysis, which reflects the terms of the derivatives and, for all significant assumptions, uses observable market-based inputs, including LIBOR forward interest rate curves. The fair value of our interest rate derivatives is designated as Level 2.

We value our commodity derivatives based on discounted cash flow analysis using forward price curves derived from market price quotations with internal and external fundamental data inputs. Market price quotations are obtained from independent derivatives brokers and from direct communication with market participants. As our commodity derivatives trade in less liquid markets or may have limited observable forward prices, we have designated the fair value of our commodity derivatives as Level 3.

We incorporate credit valuation adjustments to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in our fair value measurements.





**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

As of March 31, 2009, the fair value of our financial assets and liabilities that are measured at fair value on a recurring basis, for each hierarchy level, is summarized in the following table (in millions):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Supplemental Plans	\$ 2.0	\$	\$	\$ 2.0
Commodity derivatives	\$	\$	\$ 3.7	\$ 3.7
<b>Liabilities:</b>				
Interest rate derivatives	\$	\$ 24.0	\$	\$ 24.0
Commodity derivatives	\$	\$	\$ 3.6	\$ 3.6

The following table provides a summary of the net changes in the fair values of our Level 3 derivatives for the six months ended March 31, 2009 (in millions):

	Total
Beginning balance	\$ 0.3
Total realized and unrealized net gains included in net sales	0.2
Purchases, issuances and settlements, net	(0.4)
Ending balance	\$ 0.1

Unrealized losses included in net sales attributable to the change in fair value of Level 3 derivatives held at March 31, 2009 were less than \$0.1 million for the six months ended March 31, 2009.

**Note 12. Retirement Plans**

We have five qualified defined benefit pension plans ( **U.S Qualified Plans** ). In addition, under several labor contracts, we make payments based on hours worked into multi-employer pension plan trusts established for the benefit of certain collective bargaining employees in facilities both inside and outside the United States. We also have a Supplemental Executive Retirement Plan that provides unfunded supplemental retirement benefits to certain of our executives.

The following table represents a summary of the components of net pension cost (in millions):

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
Service cost	\$ 1.9	\$ 2.1	\$ 4.0	\$ 4.6
Interest cost	6.0	5.4	11.9	10.7
Expected return on plan assets	(5.6)	(6.9)	(11.2)	(13.6)
Amortization of prior service cost	0.5		0.7	0.1
Amortization of net actuarial loss	2.4	0.9	4.0	1.6
Company defined benefit plan expense	5.2	1.5	9.4	3.4
Multi-employer plans for collective bargaining employees	0.4	0.2	0.8	0.4

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Net pension cost	\$ 5.6	\$ 1.7	\$ 10.2	\$ 3.8
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During the three and six months ended March 31, 2009, we contributed an aggregate of \$4.0 million and \$6.2 million, respectively, to our U.S. Qualified Plans. Based on our current assumptions, we anticipate contributing approximately \$24 million in fiscal 2009 to the U.S. Qualified Plans. However, it is possible that our assumptions may change, actual market performance may vary or we may decide to contribute greater amounts. Therefore, the amount we contribute may vary materially. During the three and six months ended March 31, 2008, we contributed an aggregate of \$8.7 million and \$11.6 million, respectively, to our U.S. Qualified Plans.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 13. Shareholders' Equity****Stock Options**

During the second quarter of fiscal 2009, we granted options to purchase 252,800 shares of stock to certain employees. These options vest over three years. These grants were valued at \$9.76 per share using the Black-Scholes option pricing model. The significant assumptions used were: an expected term of 4.90 years, an expected volatility of 46.39%, expected dividends of 1.37% and a risk free rate of 1.54%. We amortize these costs using the accelerated attribution method.

The aggregate intrinsic value of options exercised during the three months ended March 31, 2009 and 2008 was \$2.7 million and \$1.3 million, respectively, and during the six months ended March 31, 2009 and 2008 it was \$2.8 million and \$1.3 million, respectively.

The table below summarizes the changes in all stock options during the six months ended March 31, 2009:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at September 30, 2008	1,285,035	\$ 22.09		
Granted	252,800	26.43		
Exercised	(173,400)	11.29		
Expired	(13,478)	33.70		
Forfeited	(17,555)	31.79		
Outstanding at March 31, 2009	1,333,402	\$ 24.07	7.1 years	\$ 6.9
Exercisable at March 31, 2009	695,321	\$ 18.79	5.2 years	\$ 6.6

**Restricted Stock**

During the second quarter of fiscal 2009, 27,500 shares of restricted stock, which vest over one year, were granted to our non-employee directors and target awards of 341,550 shares of restricted stock, which vest over three years were granted to certain employees pursuant to our 2004 Incentive Stock Plan, as amended. The employee grants included 70,175 shares with a service condition and 271,375 shares with a service and performance condition.

The table below summarizes the changes in unvested restricted stock awards during the six months ended March 31, 2009:

	Shares	Weighted Average Grant Date Fair Value
Unvested at September 30, 2008	856,525	\$ 22.44
Granted <sup>(1)</sup>	369,050	26.78
Vested	(36,096)	25.72

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Forfeited	(39,579)		20.97
Unvested at March 31, 2009	1,149,900	\$	23.78

<sup>(1)</sup> Fiscal 2009 target awards of 271,375 shares may be increased to 150% of the target or decreased to zero, subject to the level of performance attained. The awards are reflected in the table at the target award. For additional information about our share-based payment awards, refer to **Note 15. Shareholders Equity** of the Notes to Consolidated Financial Statements section of the Fiscal 2008 Form 10-K.

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**Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

**Note 14. Commitments and Contingencies**

***Environmental and Other Matters***

We are subject to various federal, state, local and foreign environmental laws and regulations, including, among others, the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Air Act (as amended in 1990), the Clean Water Act, the Resource Conservation and Recovery Act and the Toxic Substances Control Act. These environmental regulatory programs are primarily administered by the US Environmental Protection Agency. In addition, some states in which we operate have adopted equivalent or more stringent environmental laws and regulations or have enacted their own parallel environmental programs, which are enforced through various state administrative agencies.

We believe that future compliance with these environmental laws and regulations will not have a material adverse effect on our results of operations, financial condition or cash flows. However, our compliance and remediation costs could increase materially. In addition, we cannot currently assess with certainty the impact that the future emissions standards and enforcement practices associated with changes to regulations promulgated under the Clean Air Act will have on our operations or capital expenditure requirements. However, we believe that any impact or capital expenditures will not have a material adverse effect on our results of operations, financial condition or cash flows.

We have been identified as a potentially responsible party ( **PRP** ) at eight active superfund sites pursuant to Superfund legislation. Based upon currently available information and the opinions of our environmental compliance managers and general counsel, although there can be no assurance, we have reached the following conclusions with respect to these eight sites:

With respect to one site, while we have been identified as a PRP, our records reflect no evidence that we are associated with the site. Accordingly, if we are considered to be a PRP, we believe that we should be categorized as an unproven PRP.

With respect to each of seven sites, we preliminarily determined that, while we may be associated with the site and while it is probable that we have incurred a liability with respect to the site, one of the following conclusions was applicable:

With respect to each of three sites, we determined while it was not estimable, the potential liability was reasonably likely to be a *de minimis* amount and immaterial.

With respect to three sites, we have preliminarily determined the potential liability was best reflected by a range of reasonably possible liabilities, all of which we expect to be *de minimis* and immaterial.

With respect to one site, we have preliminarily determined that it is probable that we have incurred a liability with respect to this site. The status of the site is unknown, pending further investigation.

In addition to the above mentioned sites, four of our current or former locations are being investigated under various state regulations. These investigations may lead to remediation costs; however, we believe such costs, if any, would be immaterial.

Additional information on these four sites follows:

Contamination was discovered at the time of the Gulf States acquisition in June 2005 at two sites we acquired. We did not assume any environmental liabilities as part of the acquisition, but have limited indemnification rights with respect to this contamination. We

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would expect to assert various defenses under applicable laws with respect to this contamination.

One of these sites is one of our former locations that is involved in an investigation under the state hazardous waste sites program. It is expected that any potential issues will be handled through administrative controls, such as a deed restriction, rather than remediation.

It is believed that the contamination discovered at one of the sites was due to an oil release by a previous owner. The previous owner is obligated to indemnify us for any contamination caused by the oil release.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

Except as stated above, we can make no assessment of our potential liability, if any, with respect to any site. Further, there can be no assurance that we will not be required to conduct some remediation in the future at any of these sites and that the remediation will not have a material adverse effect on our results of operations, financial condition or cash flows. We believe that we can assert claims for indemnification pursuant to existing rights we have under settlement and purchase agreements in connection with certain of these sites. There can be no assurance that we will be successful with respect to any claim regarding these indemnification rights or that, if we are successful, any amounts paid pursuant to the indemnification rights will be sufficient to cover all costs and expenses.

During the first quarter of fiscal 2008, we received approximately \$1.7 million in recovery of previously expensed environmental remediation costs from a third party for a site we previously acquired. The recovery reduced the line item cost of goods sold on our condensed consolidated statements of income.

***Guarantees***

We have made the following guarantees as of March 31, 2009:

We have a 49% ownership interest in Seven Hills Paperboard, LLC ( *Seven Hills* ). The partners guarantee funding of net losses in proportion to their share of ownership.

As part of the Southern Container acquisition we have acquired two unconsolidated entities for which we guarantee or are co-borrowers on less than \$5 million in debt. We also have certain guarantees, primarily for bank loans, in proportion to our share of ownership in another unconsolidated entity in an amount less than \$3 million.

We lease certain manufacturing and warehousing facilities and equipment under various operating leases. A substantial number of these leases require us to indemnify the lessor in the event that additional taxes are assessed due to a change in the tax law. We are unable to estimate our maximum exposure under these leases because it is dependent on changes in the tax law.

We have disposed of assets and/or subsidiaries and have assumed liabilities pursuant to asset and stock purchase and sale agreements. These agreements contain various representations and warranties relating to matters such as title to assets; accuracy of financial statements; legal proceedings; contracts; employee benefit plans; compliance with environmental laws; patent and trademark infringement; taxes; and products, as well as various covenants. These agreements may also provide specific indemnities for breaches of representations, warranties, or covenants and may contain specific indemnification provisions. These indemnification provisions address a variety of potential losses, including, among others, losses related to liabilities other than those assumed by the buyer and liabilities under environmental laws. These indemnification provisions may be affected by various conditions and external factors. Many of the indemnification provisions have expired either by operation of law or as a result of the terms of the agreement. Our specified maximum aggregate potential liability (on an undiscounted basis) is approximately \$7.1 million, other than with respect to certain specified liabilities, including liabilities relating to title, taxes, and certain environmental matters, with respect to which there may be no limitation. We estimate the fair value of our aggregate liability for outstanding indemnities, including the indemnities described above with respect to which there are no limitations, to be a *de minimis* amount.

***Insurance Placed with Kemper***

During fiscal 1985 through 2002, Kemper Insurance Companies/Lumbermens Mutual provided us with workers' compensation insurance, auto liability insurance and general liability insurance. Kemper has made public statements that they are uncertain that they will be able to pay all of their claims liabilities in the future. At present, based on public comments made by Kemper, we believe it is reasonably possible they will not be able to pay some or all of the future liabilities associated with our open and reopened claims. However, we cannot reasonably estimate the amount that Kemper may be unable to pay. Additionally, we cannot reasonably estimate the impact of state guarantee funds and any facultative and treaty reinsurance that may be available to pay such liabilities. If Kemper is ultimately unable to pay such liabilities, we believe the range of our liability is between approximately \$0 and \$2 million, and we are unable to estimate the liability more specifically because of the factors described above.





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**Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)**

***Note Receivable***

We have a note payable to and a note receivable from an obligor who has filed for Chapter 11 bankruptcy protection. We have offset these notes on our condensed consolidated balance sheets for the periods ending March 31, 2009 and September 30, 2008. Based on the terms of the note, we do not believe that it is probable a loss will be incurred. If we ultimately do suffer a loss, we believe the loss could range from \$0 to \$4 million.

***Seven Hills Option***

Seven Hills commenced operations on March 29, 2001. Our partner has the option to require us to purchase its interest in Seven Hills, at a formula price, effective on the sixth or any subsequent anniversary of the commencement date by providing us notice two years prior to any such anniversary. The earliest date on which we could be required to purchase our partner's interest is March 29, 2012. We have not recorded any liability for this unexercised option. We currently project this contingent obligation to purchase our partner's interest (based on the formula) to be approximately \$14 million at March 31, 2009, which would result in a purchase price of approximately 60% of our partner's net equity reflected on Seven Hills' March 31, 2009 balance sheet.

**Table of Contents****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Note 15. Segment Information**

The following table shows certain operating data for our segments (in millions). We do not allocate certain of our income and expenses to our segments and, thus, the information that management uses to make operating decisions and assess performance does not reflect such amounts. We report these items as non-allocated expenses or in other line items in the table below after Total segment income.

	Three Months Ended March 31,		Six Months Ended March 31,	
	2009	2008	2009	2008
<b>Net sales (aggregate):</b>				
Consumer Packaging	\$ 362.9	\$ 394.8	\$ 731.7	\$ 769.5
Corrugated Packaging	176.5	112.0	379.7	173.4
Merchandising Displays	82.9	94.3	157.7	176.3
Specialty Paperboard Products	70.2	99.8	145.5	191.6
<b>Total</b>	<b>\$ 692.5</b>	<b>\$ 700.9</b>	<b>\$ 1,414.6</b>	<b>\$ 1,310.8</b>
<b>Less net sales (intersegment):</b>				
Consumer Packaging	\$ 4.7	\$ 4.3	\$ 11.3	\$ 8.5
Corrugated Packaging	9.7	7.2	19.8	13.5
Merchandising Displays	0.2	0.2	0.2	0.2
Specialty Paperboard Products	1.6	3.3	3.9	6.4
<b>Total</b>	<b>\$ 16.2</b>	<b>\$ 15.0</b>	<b>\$ 35.2</b>	<b>\$ 28.6</b>
<b>Net sales (unaffiliated customers):</b>				
Consumer Packaging	\$ 358.2	\$ 390.5	\$ 720.4	\$ 761.0
Corrugated Packaging	166.8	104.8	359.9	159.9
Merchandising Displays	82.7	94.1	157.5	176.1
Specialty Paperboard Products	68.6	96.5	141.6	185.2
<b>Total</b>	<b>\$ 676.3</b>	<b>\$ 685.9</b>	<b>\$ 1,379.4</b>	<b>\$ 1,282.2</b>
<b>Segment income:</b>				
Consumer Packaging	\$ 39.2	\$ 32.5	\$ 70.7	\$ 61.2
Corrugated Packaging	41.6	4.4	92.2	8.7
Merchandising Displays	9.7	13.8	14.8	21.8
Specialty Paperboard Products	6.2	6.6	9.0	14.0
<b>Total segment income</b>	<b>96.7</b>	<b>57.3</b>	<b>186.7</b>	<b>105.7</b>
Restructuring and other costs, net	(3.2)	(0.8)	(9.7)	(3.8)
Non-allocated expenses	(8.9)	(6.5)	(16.0)	(13.4)
Interest expense	(24.6)	(19.7)	(51.0)	(31.5)
Loss on extinguishment of debt		(1.9)	(2.4)	(1.9)
Interest income and other (expense) income, net	(0.5)	0.1		