

RIVERWOOD HOLDING INC

Form 10-K/A

April 14, 2003

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K/A

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal period ended December 31, 2001

or

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: 1-11113

RIVERWOOD HOLDING, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

58-2205241

(I.R.S. employer
identification no.)

3350 Riverwood Parkway, S.E.

Suite 1400

Atlanta, Georgia

(Address of principal executive offices)

30339

(Zip Code)

Registrant's telephone number, including area code:

c/o Riverwood International Corporation (770) 644-3000

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

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

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ☒ No ☐

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As of March 1, 2002, there were 7,066,180 shares and 500,000 shares of the registrant's Class A Common Stock, par value \$0.01 per share (the Class A Common Stock), and Class B Common Stock, par value \$0.01 per share (the Class B Common Stock, and together with the Class A Common Stock, Holding Common Stock), respectively, outstanding.

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As used in this Form 10-K/A, unless the context otherwise requires: RIC refers to the corporation formerly named Riverwood International Corporation; the Predecessor or the Predecessor Company refers to RIC and its subsidiaries in respect of periods prior to the Merger (as defined herein); the Company refers to the registrant, Riverwood Holding, Inc., a Delaware corporation (Holding) and its subsidiaries; RIC Holding refers to RIC Holding, Inc., a Delaware corporation, successor by merger to RIC and a wholly-owned subsidiary of Holding; and Riverwood refers to Riverwood International Corporation, a Delaware corporation formerly named Riverwood International USA, Inc. and a wholly-owned subsidiary of RIC Holding.

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EXPLANATORY NOTE

The Company is, by means of this filing, restating its previously issued 2001 financial statements (including relevant schedules and exhibits) for the year ended December 31, 2001 to report its investment in Rengo Riverwood Packaging, Ltd. (Rengo) using the equity method and has included such restatement on this amended Form 10-K (see Note 27 of the Notes to Consolidated Financial Statements). Unaudited selected quarterly financial information for 2001 is also being restated by means of this filing. See Selected Quarterly Financial Data (Unaudited) in Consolidated Financial Statements.

This amended Form 10-K does not purport to provide a general update or discussion of developments with respect to the Company subsequent to the original filing; such disclosures are contained in the Company's subsequent filings with the SEC.

The filing of this amended Form 10-K shall not be deemed an admission that the original filing, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

PART I

ITEM 1. BUSINESS

Overview

The Company is a leading provider of paperboard packaging solutions and paperboard, either directly or through independent converters, to multinational beverage and consumer products companies, such as Anheuser-Busch Companies, Inc., Miller Brewing Company, numerous Coca-Cola and Pepsi bottling companies, Kraft Foods, Nestle, Unilever, and Mattel, Inc. In the United States, the Company is one of only two major manufacturers of coated unbleached kraft paperboard (CUK Board), which, together with white lined chip board production and our packaging machinery business, comprise our Coated Board business segment. CUK Board, which serves as the principal raw material for the Company's packaging products, is a specialized high-quality grade of paperboard with superior strength characteristics and printability for high-resolution graphics that make it particularly well suited for a variety of packaging applications. The Company's Coated Board business segment accounted for approximately 92% of the Company's net sales for the year ended December 31, 2001. The Company also manufactures and sells linerboard, corrugating medium and kraft paper (collectively, containerboard) through its Containerboard business segment. The Company operates in four geographic areas: the United States, Central and South America, Europe and Asia-Pacific. For business segment and geographic area information for each of the last three fiscal years, see Note 24 to Notes to Consolidated Financial Statements.

Holding, its wholly-owned subsidiary RIC Holding and the corporation formerly named CDRO Acquisition Corporation (Acquisition Corp.) were organized to acquire RIC. Holding, RIC Holding and Acquisition Corp. were incorporated in 1995 under the laws of the State of Delaware. On March 27, 1996, Holding, through its wholly-owned subsidiaries, acquired all of the outstanding shares of common stock of RIC. On such date, Acquisition Corp. was merged (the Merger) into RIC. RIC, as the surviving corporation in the Merger, became a wholly-owned subsidiary of RIC Holding. On March 28, 1996, RIC transferred substantially all of its properties and assets to Riverwood, other than the capital stock of Riverwood, and RIC was merged (the Subsequent Merger) into RIC Holding. Thereupon, Riverwood was renamed Riverwood International Corporation.

Coated Board

Overview

In the Company's Coated Board business segment, it produces CUK board at its mills, prints and cuts, or converts, the CUK board into cartons at the Company's converting plants and manufactures packaging machines designed to package bottles and cans and non-beverage consumer products. The Company installs

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its packaging machines at customer plants under long-term leases and provides support, service and performance monitoring of the machines.

The Company's primary focus is the production and sale of CUK Board for use as multiple packaging beverage cartons (carrierboard) for beer, soft drinks and other beverages, and as consumer products packaging (folding cartonboard) for confectionary, frozen and dry foods, toys and other consumer products. The Company sells carrierboard under the brand name Aqua-Kote® and folding cartonboard under the brand names Pearl-Kote®, Omni-Kote®, Z-Flute® and Multiboard®.

Beverage Multiple Packaging. The Company utilizes almost 90 percent of its carrierboard production in its integrated beverage business and sells the remainder in the open market to independent converters, including licensees of the Company's proprietary carton designs, principally for use in the beverage packaging market. In its integrated beverage business, the Company provides integrated beverage packaging solutions that generally include each of the following elements: (i) the production of carrierboard, (ii) the printing and cutting, or conversion, of carrierboard into beverage cartons for use on packaging machines and (iii) the sale to customers of converted beverage cartons for use on proprietary packaging machines designed, manufactured and installed by the Company. As part of the Company's integrated beverage business, particularly in its international operations, the Company's carrierboard may be sold to and converted by joint ventures and licensees of the Company's beverage carton designs who, in turn, sell converted beverage cartons to end-users for use on the Company's proprietary packaging machines. The Company's integrated beverage business also includes sales of Company produced and converted carrierboard to customers for use on third party packaging machines. In 2001, carrierboard accounted for approximately 65% of the Company's total CUK Board shipments.

Consumer Products Packaging. Historically, the Company produced and sold folding cartonboard principally in the open market to independent converters for use in folding cartons for packaging a variety of consumer products. The Company focuses on folding cartonboard applications for consumer products companies seeking the strength and printability of CUK Board. Historically, the consumer products packaging business has been of secondary importance to the Company, serving primarily as an outlet for excess CUK Board production. The Company has historically manufactured and leased packaging machines to consumer products companies both in the United States and internationally and has converted a portion of its cartonboard into cartons at its international converting plants. In January 2000, the Company adopted a new strategy for its consumer products packaging business and, as a first step, organized this business as a stand-alone operating unit to target non-beverage consumer products packaging markets where the Company has not historically competed and to improve the Company's product mix and margins.

Additionally, at its paper mill in Norrköping, Sweden (the Swedish Mill), the Company manufactures white lined chip board (WLC), a coated 100% recycled paperboard grade used principally in European folding carton applications.

CUK Board Production

The Company produces CUK Board at its West Monroe, Louisiana paper mill (the West Monroe Mill) and its Macon, Georgia paper mill (the Macon Mill). These mills have a current total combined annual production capacity of approximately 1.2 million tons of CUK Board.

The Company's total CUK Board production at its West Monroe Mill was approximately 657,000 tons during the year ended December 31, 2001. Total CUK Board production at its Macon Mill was approximately 454,000 tons of CUK Board during the year ended December 31, 2001.

CUK Board is manufactured from pine and hardwood fibers and, in some cases, recycled fibers, such as old corrugated containers (OCC) and clippings from the Company's converting operations. Virgin fiber is obtained in the form of wood chips or pulp wood acquired through open market purchases. These chips are chemically treated to form softwood and hardwood pulp, which are then blended (together, in some cases, with recycled fibers). In the case of carrierboard, a chemical is added to increase moisture resistance. The pulp is then processed through the mill's paper machines, which consist of a paper-forming section, a press

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section (where water is removed by pressing the wet paperboard between rolls), a drying section and the coating section. Coating on CUK Board, principally a mixture of pigments, binding agents and water, provides a white, smooth finish, and is applied in multiple steps to achieve desired levels of brightness, smoothness and shade. After the CUK Board is coated, it is wound into rolls, which are then shipped to the Company's converting plants or to outside converters.

Converting Operations

The Company converts CUK Board as well as other grades of paperboard into cartons at eleven carton converting plants at ten sites that it operates in the United States, the United Kingdom, Spain, France and Brazil, as well as through converting plants associated with its joint ventures in Japan and Denmark and licensees in other markets outside the United States. The converting plants print, cut and glue paperboard on multi-color printing presses, cutting lines and gluing lines into cartons designed to meet customer specifications.

The Company's U.S. converting plants are dedicated to converting carrierboard produced by the Company into beverage cartons. The Company continues to invest in its converting plants in order to improve their process capabilities. The Company's international converting plants convert carrierboard and folding cartonboard produced by the Company, as well as paperboard supplied by outside producers, into cartons.

Proprietary Packaging Machinery and Carton Designs

The Company employs a pull through marketing strategy in its beverage multiple packaging business, the key elements of which are (i) the design and manufacture of proprietary packaging machines, (ii) the installation of the machines at customer locations under multi-year machinery use arrangements and (iii) the development of proprietary beverage cartons with high-resolution graphics for use on those machines. The Company leases substantially all of its packaging machines to customers, typically under machinery use agreements with original terms of three to six years. Packaging machinery placements during 2001 decreased approximately 24 percent when compared to 2000. The Company expects packaging machinery placements for 2002 to be higher when compared to 2001 and be comparable to 2000 as a result of a 16 percent increase in packaging machinery orders in 2001 when compared to 2000. The Company has been and will continue to be selective in future packaging machinery placements to ensure appropriate returns.

The Company's packaging machines are designed to package Polyethylene Terephthalate (PET) bottles and glass bottles, cans and other primary beverage containers as well as non-beverage consumer products, using cartons designed by the Company, made from the Company's CUK Board and converted into cartons by the Company, its joint venture partners or its licensees. In order to meet customer requirements, the Company has developed an extensive portfolio of packaging machines consisting of several principal machinery lines. The Company's machines package cans and PET or glass bottles in a number of formats including baskets, clips, trays, wraps and fully enclosed cartons. These machines have packaging ranges from 2 to 36 cans per package and have the ability to package cans at speeds of up to 3,000 cans per minute. The Company's consumer product packaging machines are designed to package cans or bottles in wraps or fully enclosed cartons. The Company also manufactures ancillary equipment, such as machines for dividing or turning packages and placing coupons in cartons.

The Company designs cartons and designs, tests and manufactures prototype packaging machinery at its Product Development Center (the PDC) in Marietta, Georgia. At the PDC, the Company integrates carton and packaging machinery designs to create packaging solutions to meet customer needs. The Company manufactures and also designs packaging machinery for beverage multiple packaging and consumer products packaging applications at its principal U.S. manufacturing facility in Crosby, Minnesota and at a facility near Barcelona, Spain. By manufacturing packaging machinery in one U.S. and one European location, the Company expects to improve customer service, simplify its work processes and reduce costs.

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Marketing and Distribution

The Company markets its CUK Board and CUK Board-based products principally to multinational brewers, soft drink bottlers, food companies and other consumer products companies that use printed packaging for retail display, multiple packaging and shipment of their products. The Company also sells CUK Board in the open market to carrierboard and cartonboard converters. The Company markets CUK Board under the names Aqua-Kote®, Pearl-Kote® and Omni-Kote®. The Company reviews a customer's credit history before extending credit to the customer of which the payment terms are generally 30 days domestically, but vary internationally according to local business practices.

Beverage. In its beverage operations, the Company's major customers for beverage cartons include Anheuser-Busch Companies, Inc., Miller Brewing Company, and numerous Coca-Cola and Pepsi bottling companies. The Company also sells carrierboard in the open market to independent converters, including licensees of the Company's proprietary carton designs, for the manufacture of beverage cartons. During 2001, the Company had two customers, Anheuser-Busch Companies, Inc. and Miller Brewing Company, who represented approximately 13 percent and 11 percent respectively, of the Company's net sales.

Consumer Products Packaging. In its consumer products packaging operations, the Company sells substantially all of its folding cartonboard to numerous independent converters that convert the folding cartonboard into cartons for consumer products. The Company has established account relationships with a number of major independent converters. The terms of these arrangements may include certain limitations on the Company's ability to raise the selling prices of its folding cartonboard.

Distribution and Sales. Distribution of carrierboard and folding cartonboard is primarily accomplished through direct sales offices in the United States, Argentina, Australia, Brazil, Denmark, Germany, Hong Kong, Italy, Japan, Mexico, Singapore, Spain, Sweden, and the United Kingdom.

Joint Ventures. The Company is a party to joint ventures with Rengo Company Limited and Danapak Holding A/S, in which it owns 50% and 60%, respectively, to market machinery-based packaging systems in Japan and Scandinavia, respectively. The joint ventures cover CUK Board supply, use of proprietary carton designs and marketing and distribution of packaging systems.

Energy and Raw Materials

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company's manufacturing costs. Until recently, the Company's results had not been significantly affected by the volatility of energy costs. The Company has entered into fixed price contracts designed to mitigate the impact of future energy cost increases through 2002, and will continue to evaluate its hedge position. The Company believes that higher energy costs will continue to negatively impact its results for 2002 but the negative impact is expected to be lower than in 2001. Since negotiated contracts and the market largely determine the pricing for the Company's products, the Company is limited in its ability to pass through to its customers any energy or other cost increases that the Company may incur in the future.

Pine pulpwood, hardwood and recycled fibers, including old corrugated containers, used in the manufacture of paperboard, and various chemicals used in the coating of CUK board, represent the largest components of the Company's variable costs of CUK board and containerboard production. The cost of these materials is subject to market fluctuations caused by factors beyond the Company's control. Old corrugated container pricing tends to be very volatile. With the October 1996 sale of the Company's timberlands, the Company now relies on private landowners and the open market for all of its virgin and recycled fiber requirements, except for CUK board clippings from the Company's converting operations. Under the terms of the sale of those timberlands, the Company and the buyer, Plum Creek Timber Company, L.P., entered into a 20-year supply agreement, with a 10-year renewal option, for the purchase by the Company, at market-based prices, of a majority of the West Monroe Mill's requirements for pine pulpwood and residual chips, as well as a portion of the Company's needs for hardwood pulpwood at the West Monroe Mill. An assignee of Plum Creek supplies residual chips to the Company pursuant to such supply agreement. The Company purchases the remainder of the wood fiber used in CUK Board production at the West Monroe Mill from other private landowners in this

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region. The Company believes that adequate supplies of open market timber currently are available to meet its fiber needs at the West Monroe Mill.

The Macon Mill purchases most of its fiber requirements on the open market, and is a significant consumer of recycled fiber, primarily in the form of clippings from the Company's domestic converting plants as well as OCC and other recycled fibers. The Company has not experienced any significant difficulties obtaining sufficient OCC or other recycled fibers for its Macon Mill operations, which it purchases in part from brokers located in the eastern United States. OCC pricing, however, tends to be very volatile since it is based largely on the demand for this fiber from recycled paper and containerboard mills. The Macon Mill purchases substantially all of its virgin pine and hardwood requirements from private landowners in central and southern Georgia. Because of the adequate supply and large concentration of private landowners in this area, the Company believes that adequate supplies of pine and hardwood timber currently are available to meet its fiber needs at the Macon Mill.

The Company purchases a variety of other raw materials for the manufacture of its paperboard, primarily process chemicals and coating chemicals such as kaolin and titanium dioxide. All such raw materials are readily available, and the Company is not dependent upon any one source of such raw materials.

White Lined Chip Production

The Company produces WLC at its Swedish Mill, which shipped approximately 150,000 tons of such board during 2001. WLC is used for a variety of folding carton applications principally throughout Europe.

Competition

There are only two major producers in the United States of CUK Board, the Company and MeadWestvaco Corporation (MeadWestvaco). The Company faces significant competition in its CUK Board business segment from MeadWestvaco. Like the Company, MeadWestvaco produces and converts CUK Board, designs and places packaging machinery with customers and sells CUK Board in the open market. The Company also faces competition from other manufacturers of packaging machinery.

In the beverage packaging industry, cartons made from CUK Board compete with plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. Although plastics and corrugated packaging generally provide lower cost packaging solutions, the Company believes that cartons made from CUK Board offer advantages over these materials, in areas such as distribution, high quality graphics, carton designs, package performance, environmental friendliness and design flexibility.

In the consumer product markets, the Company's CUK Board competes principally with MeadWestvaco's CUK Board, recycled clay-coated news (CCN) and solid bleached sulphate board (SBS) and, internationally, WLC and folding boxboard (FBB). Folding cartonboard grades compete based on price, strength and printability. CUK Board has generally been priced in a range that is higher than CCN and lower than SBS. CUK Board has slightly better tear strength characteristics than SBS and significantly better printability, tear strength and cross-direction stiffness than CCN. There are a large number of producers of paperboard for the folding cartonboard markets, which are subject to significant competitive and other business pressures.

Containerboard

In the United States, the Company manufactures containerboard, linerboard, corrugating medium and kraft paper, which is sold in the open market. Corrugating medium is combined with linerboard to make corrugated containers. Kraft paper is used primarily to make grocery bags and sacks. The Company's principal paper machines have the capacity to produce both linerboard and CUK Board. The Company has in the past used its CUK Board machines to produce linerboard and expects to continue to produce and sell linerboard to respond to changes in supply and demand in its businesses. The Company also continues to operate paper machines at the West Monroe Mill dedicated to the production of corrugating medium and kraft paper.

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In 2001, the Company shipped approximately 38,000 tons of linerboard from the Macon Mill and approximately 113,000 tons of corrugating medium, 36,000 tons of kraft bag paper and 52,000 tons of linerboard from its West Monroe Mill. In 2001, the Company also shipped approximately 16,000 tons of various other paperboard products reported as part of the Containerboard segment.

The primary customers for the Company's U.S. containerboard production are independent and integrated corrugated converters. The Company sells corrugating medium and linerboard through direct sales offices and agents in the United States. Outside of the United States, linerboard is primarily distributed through independent sales representatives.

The Company's Containerboard business segment operates within a highly fragmented industry. Most products within this industry are viewed as commodities; consequently, selling prices tend to be cyclical, being affected by economic activity and industry capacity.

In addition to the Company's U.S. Containerboard operations, the Company owned 50% of Igaras Papeis e Embalagens S.A. (Igaras), an integrated containerboard producer located in Brazil. On July 1, 2000, Igaras spun off the multiple packaging portion of its business into a newly formed company, of which the Company owned 50 percent. The Igaras multiple packaging operations convert predominantly carrierboard and cartonboard into cartons designed to meet customer specifications. In the Igaras beverage multiple packaging business, packaging machines capable of packaging plastic and glass bottles, cans and other primary containers are installed at beverage customer locations. Additionally, proprietary beverage cartons with high-resolution graphics are developed for use on those machines. On October 3, 2000, the Company, along with its joint venture partner, Cia Suzano de Papel e Celulose, completed the sale of the jointly-held subsidiary Igaras for approximately \$510 million, including the assumption of \$112 million of debt. The Company recognized a gain of \$70.9 million in connection with the sale, and applied the sale proceeds to pay down debt. On October 12, 2000, the Company purchased the remaining 50 percent of the newly formed company for \$12.5 million.

Seasonality

The Company's business is subject to moderate seasonality with demand for its products usually increasing in the spring and summer due to the seasonality of the worldwide beverage multiple packaging markets.

Working Capital

The Company continues to focus on reducing working capital needs and increasing liquidity. The Company's working capital needs arise primarily from maintaining a sufficient amount of inventories to meet the delivery requirements of the Company's customers and its policy to extend credit to customers. The Company reviews a customer's credit history before extending credit of which the payment terms are generally 30 days domestically, but vary internationally according to local business practices.

Research, Development and Engineering

Research, development and engineering expenses were approximately \$5.1 million, \$4.6 million and \$4.1 million in the years ended December 31, 2001, 2000 and 1999, and primarily related to packaging machines and new products.

Patents, Trademarks and Licenses

The Company has a large patent portfolio, presently owning, controlling or holding rights to approximately 2,100 U.S. and foreign patents, with approximately 1,200 patent applications currently pending. The Company's patents fall into two principal categories: packaging machinery and structural carton designs.

Riverwood®, Aqua-Kote®, Pearl-Kote®, Omni-Kote®, Multiboard®, Fridge Vendor®, Z-Flute® and the Company's logo are the Company's pending or registered trademarks. The Company does not hold any material licenses.

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The Company has been a plaintiff in actions instituted on September 17, 1997 in the U.S. District Court for the Northern District of Georgia against MeadWestvaco, successor by merger to The Mead Corporation (Mead), and the R.A. Jones Co. Inc. (R.A. Jones) claiming infringement of the Company's patents for its packaging machines. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity has been appealed to the Court of Appeals for The Federal Circuit. The suit against MeadWestvaco was dismissed by mutual agreement pending the outcome of the appeal of the decision in the case against R.A. Jones.

Employees and Labor Relations

As of December 31, 2001, the Company had approximately 4,100 employees worldwide (excluding employees of joint ventures), approximately 3,000 of whom were members of unions and covered by collective bargaining agreements.

There are four unions representing the Company's U.S. employees, one of which, the Paper, Allied-Industrial, Chemical & Energy Workers International Union - AFL-CIO, CLC, is associated with the West Monroe Mill and converting facility where it represents approximately 1,300 employees, and the Macon Mill where it represents approximately 300 of the 400 union employees.

At the Company's Macon Mill, the current union contract was negotiated and ratified by the union in the second quarter of 1998 and runs through December 31, 2003. Also at the Macon Mill, the International Association of Machinists and Aerospace Workers, and the Brotherhood of Electrical Workers represent certain maintenance employees.

The current union contract covering the West Monroe Mill was negotiated and ratified by the union in February 1997 and covers the six-year period from March 1, 1997 to February 28, 2003. The contract covering employees at the adjacent converting plants was negotiated and ratified by the union in 2000 and covers the five-year period from September 1, 2000 through August 31, 2005.

The Company's other U.S. converting plants, other than its converting facility in Perry, Georgia, are represented by unions. The Clinton, Mississippi converting plant contract was negotiated and ratified by the union in January 1997 and covers the six-year period from February 1, 1997 through January 31, 2003. The Cincinnati, Ohio converting plant completed negotiations for a new five year labor agreement effective from February 1, 2001 through January 31, 2006. The Fort Atkinson, Wisconsin converting plant four year labor agreement was negotiated in 1998 with the Graphic Communication Workers and the International Association of Machinists for the period of September 9, 1998 through September 9, 2002 and September 30, 1998 through September 30, 2002, respectively.

The Company's international employees are represented by unions in Brazil, France, Spain, Sweden and the United Kingdom.

Environmental Matters

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs, which are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations.

In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds.

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Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and toxic chemicals and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of its facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. The Company has been, and in the future may again be, identified as a potentially responsible party at sites under CERCLA and similar state laws.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the cluster rules) that mandate more stringent controls on air and water discharges from the United States pulp and paper mills. The Company estimates that the capital spending that may be required to comply with the cluster rules could reach \$55 million to be spent at its two U.S. paper mills over a seven-year period that began in 2000. The Company estimates that it has spent approximately one-third of that amount for such compliance.

In late 1995, the Louisiana Department of Environmental Quality (DEQ) notified the Predecessor of potential liability for the remediation of hazardous substances at a wood treatment site in Shreveport, Louisiana that the Predecessor or its predecessors previously operated, and at a former oil refinery site in Caddo Parish, Louisiana which is on land that the Company previously owned. In response to these notices, the Company has provided additional information concerning these sites and has commenced its own evaluation of any claims and remediation liabilities for which it may be responsible. Subsequent to receipt in May 1996 of a Special Demand Letter from DEQ to remediate the site in Shreveport, the Company performed a soil and groundwater investigation at the site pursuant to an agreement with DEQ. In August 2001, the Company entered into a Cooperative Agreement for Remedial Action with DEQ and the landowners of the site, as well as a Mutual Release and Settlement Agreement with the landowners. Under the Cooperative Agreement, the Company will develop the remedial design and carry out the specified remediation at the site, which will include, among other things, removing contaminated soils, capping a portion of the site and future operations and maintenance, or O&M. If the Company fails to comply with the requirements of the Cooperative Agreement, including the prescribed time periods, the DEQ can impose stipulated penalties as specified in the Cooperative Agreement ranging from \$250 to \$1,000 per day of non-compliance. The Company has engaged a qualified contractor and expect completion of work by the end of 2002. Total costs for the Shreveport remedial action are approximately \$1.3 million, of which approximately \$0.8 million remain to be paid. These costs could increase if, for example, there is an increase in the amount of contaminated soils found on site. In addition, for the initial five years, O&M costs are estimated to be approximately \$0.1 million and groundwater monitoring costs are estimated to be approximately \$0.1 million. The Company has not estimated O&M or groundwater monitoring cost beyond this initial five-year period because the extent of any such O&M or groundwater monitoring obligation is unknown. In addition, the Company has reached a settlement agreement with another potentially responsible party that provides the Company with reimbursement of certain past costs and certain future costs incurred in connection with the remediation plan.

In September 1996, the Company received a Special Demand Letter from DEQ to remediate the site in Caddo Parish. The Company performed a waste inventory and treatability study at the site and subsequently met with DEQ in October 1999. On July 6, 2000, the Company and DEQ entered into a Settlement Agreement that describes in detail the remedial actions necessary for the Company to obtain full release of all future liability at this site. The Company has contracted with a vendor to perform the remedial actions as outlined in the Settlement Agreement and the work is currently proceeding. The remedial action requires,

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among other things, the neutralization, stabilization and consolidation of sludges and soils at this site, the capping of the consolidated materials, the establishment of a vegetative cover and five years of post-closure care of the capped area. The lump sum contract price with the contractor is approximately \$1.6 million, of which we have already paid approximately \$1.1 million. The Company no longer owns the site since transferring the property to another entity on October 22, 2000. The Company anticipates the remedial actions outlined in the Settlement Agreement will be completed during the second quarter of 2002 and, at that time, expects to be relieved of any future liability.

The Company is involved in environmental remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as the Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. To address these contingent environmental costs, the Company has accrued reserves when such costs are probable and can be reasonably estimated. The Company believes that, based on current information and regulatory requirements, the accruals established by the Company for environmental expenditures are adequate. Based on current knowledge, to the extent that additional costs may be incurred that exceed the accrued reserves, such amounts are not expected to have a material impact on the results of operations, cash flows or financial condition of the Company, although no assurance can be given that significant costs will not be incurred in connection with clean-up activities at these properties, including the Shreveport and Caddo Parish sites referred to above.

Table of Contents**ITEM 2. PROPERTIES****Headquarters**

Holding and RIC Holding are headquartered in Delaware. Riverwood is headquartered and currently leases approximately 70,000 square feet of office space in Atlanta, Georgia.

Manufacturing Facilities

A listing of the major plants and properties owned, or leased, and operated by the Company is set forth below. The Company's buildings are adequate and suitable for the business of the Company. The Company also leases certain facilities, warehouses and office space throughout the United States and in foreign countries.

Type of Facility and Location(1)	Approx. No. of Sq. Feet of Floor Space	Principal Products Manufactured Or Use of Facility
Paperboard Mills:		
West Monroe, LA	1,535,000	CUK Board; linerboard; corrugating medium; kraft paper
Macon, GA	756,000	CUK Board; linerboard
Norrköping, Sweden	417,000	White lined chip board
Converting Plants:		
West Monroe, LA (2 plants)	621,000	Beverage carriers
Cincinnati, OH	241,800	Beverage carriers
Clinton, MS	210,000	Beverage carriers
Perry, GA(2)	130,000	Beverage carriers
Ft. Atkinson, WI	120,000	Beverage carriers
Bristol, Avon, United Kingdom	428,000	Beverage carriers; folding cartons
Igualada, Barcelona, Spain	131,000	Beverage carriers; folding cartons
Beauvois en Cambresis, France	70,000	Folding cartons
Le Pont de Claix, France	120,000	Folding cartons
Jundiai, Sao Paulo, Brazil	95,216	Beverage carriers; folding cartons
Packaging Machinery/ Other:		
Crosby, MN	188,000	Packaging machinery engineering design and manufacturing
Marietta, GA	64,000	PDC Research and development; packaging machinery engineering design and carton engineering design
Igualada, Barcelona, Spain	22,400	Packaging machinery engineering design and manufacturing
Kennesaw, GA	62,500	Development and small scale manufacturing facility for Z-Flute® product

(1) The Company leases the facilities in Marietta, Georgia (3 facilities; leases expire on January 30, 2003, April 30, 2003 and April 30, 2003); Kennesaw, Georgia (lease expires on June 30, 2006); Clinton, Mississippi (part only; lease renewable annually); Beauvois en Cambresis, France (lease expires on December 31, 2006); Le Pont de Claix, France (lease expires on May 1, 2003); and Igualada, Barcelona, Spain (2 facilities; leases expire on May 1, 2004 and October 18, 2010). Generally, leases are subject to extension on renewal at the option of the parties to the lease agreement. The Company owns all other facilities listed.

(2) The facility located in Perry, Georgia is leased from the Middle Georgia Regional Development Authority in consideration of the issuance of industrial development bonds by such entity.

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ITEM 3. LEGAL PROCEEDINGS

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions instituted on September 17, 1997 in the U.S. District Court for the Northern District of Georgia against MeadWestvaco, successor by merger to Mead, and R.A. Jones claiming infringement of the Company's patents for its packaging machines. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity has been appealed to the Court of Appeals for The Federal Circuit. The suit against MeadWestvaco was dismissed by mutual agreement pending the outcome of the appeal of the decision in the case against R.A. Jones.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of 2001, there were no matters submitted to a vote of security holders.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

There is no established public trading market for the Class A Common Stock or Class B Common Stock of the Company. The shares of Class A Common Stock and Class B Common Stock were held of record by 52 stockholders and one stockholder, respectively, at December 31, 2001. The Company did not pay any dividends on either class of Common Stock during 2001, 2000, 1999, 1998 or 1997. The Company's debt instruments restrict the ability of the Company to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition, Liquidity and Capital Resources Covenant Restrictions.

Table of Contents**ITEM 6. SELECTED FIVE-YEAR FINANCIAL DATA**

(In thousands of dollars)	As Restated Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
OPERATIONS					
Net Sales(a)(i)	\$ 1,201,613	\$ 1,192,362	\$ 1,174,665	\$ 1,196,221	\$ 1,207,615
Income from Operations(d)(g)(i)	94,931	220,489	120,463	27,678	6,912
(Loss) Income before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle(d)(g)(i)	(68,669)	40,399	(54,671)	(140,304)	(146,957)
Net (Loss) Income(b)(c)(d)(g)(h)(i)	(77,892)	38,282	(54,671)	(140,304)	(152,473)
FINANCIAL POSITION (as of period end)					
Total Assets(g)(i)	\$ 2,020,601	\$ 2,121,357	\$ 2,363,142	\$ 2,417,601	\$ 2,606,185
Long-Term Debt, less current portion(g)	1,523,082	1,516,881	1,730,898	1,680,415	1,712,944
Redeemable Common Stock	8,061	8,061	7,202	6,205	6,045
Shareholders' Equity(i)	216,220	303,962	279,648	336,769	479,434
ADDITIONAL DATA					
Additions to Property, Plant and Equipment(e)(i)	\$ 57,297	\$ 62,062	\$ 66,018	\$ 48,551	\$ 142,314
Research, Development and Engineering Expense	5,111	4,554	4,078	5,570	5,171
Credit Agreement EBITDA(f)(i)	264,005	300,034	273,475	203,458	165,927

The table below sets forth a reconciliation of Income from Operations to Credit Agreement EBITDA.

	As Restated 2001	2000	1999	1998	1997
(In Thousands of Dollars)					
Reconciliation of Income from Operations to Credit Agreement EBITDA					
Income from Operations(i)	\$ 94,931	\$ 220,489	\$ 120,463	\$ 27,678	\$ 6,912
Add: Depreciation and amortization(i)	137,143	143,541	142,597	146,515	137,384
Dividends from equity investments	710	5,083	4,515	6,963	5,228
Other non-cash charges(j)	31,221	(69,079)	5,900	22,302	16,403
Credit Agreement EBITDA(f)(i)	\$ 264,005	\$ 300,034	\$ 273,475	\$ 203,458	\$ 165,927

Notes:

- (a) The Company has reclassified the presentation of prior period Net Sales and Cost of Sales information to conform with the current presentation format and Emerging Issues Task Force 00-10, Accounting for Shipping and Handling Fees and Costs. Shipping and handling costs totaled \$64.9 million in 2001, \$63.7 million in 2000, \$62.0 million in 1999, \$60.7 million in 1998 and \$68.8 million in 1997. See

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Note 2 in Notes to Consolidated Financial Statements.

- (b) Net (Loss) Income for the years ended December 31, 2001, 2000 and 1997 included an Extraordinary Loss on Early Extinguishment of Debt of \$8.7 million, \$2.1 million, and \$2.5 million, respectively, net of applicable tax (see Note 20 in Notes to Consolidated Financial Statements).
- (c) Net (Loss) Income for the year ended December 31, 1997 included a charge of \$3.1 million, net of tax, for the cumulative effect of a change in accounting for computer systems development project costs.
- (d) Net (Loss) Income for the years ended December 31, 2000 and 1998 included a (credit) charge for the global restructuring program, which is focused in the Company's European operations, of \$(2.6) million and of \$25.6 million, respectively (see Note 23 in Notes to Consolidated Financial Statements).
- (e) Includes amounts invested in packaging machinery and capitalized interest.

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- (f) Credit Agreement EBITDA is defined as consolidated net income (exclusive of non-cash charges resulting from purchase accounting during the periods subsequent to the Merger) before consolidated interest expense, consolidated income taxes, consolidated depreciation and amortization, and other non-cash charges deducted in determining consolidated net income, extraordinary items and the cumulative effect of accounting changes and earnings of, but including dividends from, non-controlled affiliates. The Company believes that Credit Agreement EBITDA provides useful information regarding the Company's debt service ability, but should not be considered in isolation or as a substitute for the Consolidated Statements of Operations or cash flow data. The Company's Credit Agreement definition of EBITDA may not be comparable to other companies' definitions of EBITDA as it is calculated based on the definition of EBITDA as defined in the 2001 Senior Secured Credit Agreement.
- (g) On October 3, 2000, the Company, along with its joint venture partner, completed the sale of the jointly-held subsidiary Igaras for approximately \$510 million, including the assumption of \$112 million of debt. The Company recognized a gain of approximately \$70.9 million in connection with the sale (see Note 6 in Notes to Consolidated Financial Statements).
- (h) Net (Loss) Income for the year ended December 31, 2001 included a charge of \$0.5 million, net of tax for the cumulative effect of a change in accounting principle for derivatives.
- (i) The Company has restated its previously issued 2001 financial statements to report its investment in Rengo using the equity method (see Note 27 in Notes to the Consolidated Financial Statements).
- (j) Other non-cash charges include non-cash charges for last-in, first-out (LIFO) accounting, pension, postretirement and postemployment benefits, and amortization of premiums on hedging contracts deducted in determining net income.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS **Overview**

In connection with the Merger, the Company entered into a credit agreement that provided for senior secured credit facilities consisting of a term loan facility and a \$400 million revolving credit facility. Such credit agreement, term loan facility and revolving facility, as in effect prior to the August 10, 2001 amendment and restatement discussed below, are referred to herein as the Credit Agreement, the Term Loan Facility and the Revolving Facility, respectively. In addition, Riverwood International Machinery, Inc., a wholly-owned subsidiary of Riverwood, entered into a credit agreement providing for a \$140 million secured revolving credit facility (the Machinery Facility) for the purpose of financing or refinancing packaging machinery. In connection with the Merger, the Company also completed an offering of \$250 million aggregate principal amount of 10 1/4 percent Senior Notes due 2006 (the 1996 Senior Notes) and \$400 million aggregate principal amount of 10 7/8 percent Senior Subordinated Notes due 2008 (the 1996 Senior Subordinated Notes) and together with the 1996 Senior Notes, the 1996 Notes).

On July 28, 1997, the Company completed an offering of \$250 million principal amount of 10 5/8 percent Senior Notes due 2007 (the Initial Notes). The net proceeds of this offering were applied to prepay certain revolving credit borrowings under the Revolving Facility (without any commitment reduction) and to refinance certain Tranche A term loans and other borrowings under the Credit Agreement. A registration statement under the Securities Act of 1933, as amended, registering senior notes of the Company identical in all material respects to the Initial Notes (the Exchange Notes) offered in exchange for the Initial Notes became effective October 1, 1997. On November 3, 1997, the Company completed its exchange offer of the Initial Notes for the Exchange Notes. The Initial Notes and the Exchange Notes are referred to herein as the 1997 Notes.

In connection with the sale of Igaras on October 3, 2000, the Company entered into Amendment No. 5 dated September 12, 2000, effective October 3, 2000, to the Credit Agreement. Pursuant to the amendment, the Company applied \$120 million and \$25 million of the sale proceeds to its 2001 and 2002 term loan maturities under the Term Loan Facility, respectively. The Company recognized a loss on the early extinguishment of debt of approximately \$2.1 million in the fourth quarter of 2000. The Company applied the remaining portion of the proceeds (approximately \$48 million) to the Revolving Facility (without any commitment reduction). In connection with Amendment No. 5, the Company canceled its Machinery Facility.

On June 21, 2001, the Company completed an offering of \$250 million principal amount of 10 5/8 percent Senior Notes due 2007 (the Initial 2001 Notes). The Initial 2001 Notes were sold at a price of 103 percent of par. The proceeds from this offering of approximately \$251.5 million, net of approximately \$6 million of transaction fees and expenses, were applied to prepay a portion of the outstanding borrowings under the Term Loan Facility. During the second quarter of 2001, the Company recorded a non-cash, extraordinary charge to earnings of approximately \$2.8 million, net of tax of nil, related to the write-off of the applicable portion of deferred debt issuance costs on the term loans. In connection with this offering, on June 6, 2001, the Company entered into Amendment No. 6 to the Credit Agreement. The amendment modified certain financial and other covenants, including minimum EBITDA (as defined in the Credit Agreement) requirements, in the Credit Agreement to reflect recent financial results and market and operating conditions. A registration statement under the Securities Act registering senior notes of the Company identical in all material respects to the Initial 2001 Notes (the Exchange 2001 Notes) offered in exchange for the Initial 2001 Notes became effective on August 27, 2001. On October 5, 2001, the Company completed its exchange offer of the Initial 2001 Notes for the Exchange 2001 Notes. The Initial 2001 Notes and the Exchange 2001 Notes are referred to herein as the 2001 Notes.

On August 10, 2001, the Company entered into an amendment and restatement of the Credit Agreement (the 2001 Senior Secured Credit Agreement) with certain lenders providing for senior secured credit facilities with aggregate commitments not to exceed \$635 million (the 2001 Facilities), including a \$335 million term loan facility (the 2001 Term Loan Facility) and a \$300 million revolving credit facility

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(the 2001 Revolving Facility). The proceeds of the initial borrowings under the 2001 Facilities of approximately \$386.0 million, including \$51.0 million in revolving credit borrowings, were applied to repay in full the outstanding borrowings under the Term Loan Facility and the Revolving Facility and to pay approximately \$12 million of the \$14 million of fees and expenses incurred in connection with the amendment and restatement of the Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash, extraordinary charge to earnings of approximately \$6.0 million, net of tax of nil, related to the write-off of the applicable remaining deferred debt issuance costs on the Term Loan Facility and the Revolving Facility.

General

The Company reports its results in two business segments: Coated Board and Containerboard. The Coated Board business segment includes (i) the production and sale of coated unbleached kraft paperboard (CUK Board) for packaging cartons from the paper mills in Macon, Georgia (the Macon Mill) and in West Monroe, Louisiana (the West Monroe Mill) and white lined chip board (WLC) at its paper mill in Norrköping, Sweden (the Swedish Mill); (ii) converting operations facilities in the United States, Europe and Brazil; and (iii) the design, manufacture and installation of packaging machinery related to the assembly of beverage cartons. The Containerboard business segment includes the production and sale of linerboard, corrugating medium and kraft paper from paperboard mills in the United States.

The table below sets forth Net Sales, Income from Operations, and Credit Agreement EBITDA. Credit Agreement EBITDA is defined as consolidated net income (exclusive of non-cash charges resulting from purchase accounting during the periods subsequent to the Merger) before consolidated interest expense, consolidated income taxes, consolidated depreciation and amortization, and other non-cash charges deducted in determining consolidated net income, extraordinary items and the cumulative effect of accounting changes and earnings of, but including dividends from, non-controlled affiliates. The Company believes that Credit Agreement EBITDA provides useful information regarding the Company's debt service ability, but should not be considered in isolation or as a substitute for the Consolidated Statements of Operations or cash flow data. The Company's Credit Agreement definition of EBITDA may not be comparable to other companies' definitions of EBITDA as it is calculated based on the definition of EBITDA as defined in the 2001 Senior Secured Credit Agreement.

(In thousands of dollars)	As Restated Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Net Sales (Segment Data)(B):			
Coated Board(B)	\$ 1,107,937	\$ 1,065,813	\$ 1,062,671
Containerboard	93,676	126,549	111,994
Net Sales(B)	<u>\$ 1,201,613</u>	<u>\$ 1,192,362</u>	<u>\$ 1,174,665</u>
Income from Operations (Segment Data)(B):			
Coated Board(B)	\$ 139,808	\$ 161,372	\$ 151,453
Containerboard	(19,366)	5,183	(10,235)
Corporate and Eliminations	(25,511)	53,934	(20,755)
Income from Operations(B)	<u>\$ 94,931</u>	<u>\$ 220,489</u>	<u>\$ 120,463</u>
Credit Agreement EBITDA (Segment Data)(A)(B):			
Coated Board(A)(B)	\$ 276,181	\$ 286,039	\$ 269,509
Containerboard	(986)	20,518	7,000
Corporate and Eliminations(A)	(11,190)	(6,523)	(3,034)
Credit Agreement EBITDA(A)(B)	<u>\$ 264,005</u>	<u>\$ 300,034</u>	<u>\$ 273,475</u>

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The table below sets forth a reconciliation of Income from Operations to Credit Agreement EBITDA.

	As Restated 2001	2000	1999
(In thousands of dollars)			
Reconciliation of Income from Operations to Credit Agreement EBITDA			
Income from Operations(B)	\$ 94,931	\$ 220,489	\$ 120,463
Add: Depreciation and amortization(B)	137,143	143,541	142,597
Dividends from equity investments	710	5,083	4,515
Other non-cash charges	31,221	(69,079)	5,900
Credit Agreement EBITDA(B)	\$ 264,005	\$ 300,034	\$ 273,475

Notes:

- (A) Credit Agreement EBITDA is calculated based on the definitions of EBITDA contained in the Company's Senior Secured Credit Agreement. Credit Agreement EBITDA is defined as consolidated net income (exclusive of non-cash charges resulting from purchase accounting during the periods subsequent to the Merger) before consolidated interest expense, consolidated income taxes, consolidated depreciation and amortization, and other non-cash charges deducted in determining consolidated net income, extraordinary items and the cumulative effect of accounting changes and earnings of, but including dividends from, non-controlled affiliates. The Company believes that Credit Agreement EBITDA provides useful information regarding the Company's ability to service debt, but should not be considered in isolation or as a substitute for the Consolidated Statements of Operations or cash flow data. The Company's Credit Agreement definition of EBITDA may not be comparable to other companies' definitions of EBITDA.
- (B) The Company has restated its previously issued 2001 financial statements to report its investment in Rengo using the equity method (see Note 27 in Notes to the Consolidated Financial Statements).

Business Trends and Initiatives

The Company's cash flow from operations and Credit Agreement EBITDA are influenced by sales volume and selling prices for its products and raw material and energy costs, and are affected by a number of significant business, economic and competitive factors. Many of these factors are not within the Company's control. Historically, in the Coated Board business segment, the Company has experienced stable pricing for its integrated beverage carton products, and moderate cyclical pricing for its folding cartonboard, which is principally sold in the open market. The Company's folding cartonboard sales are affected by competition from competitors' CUK Board and other substrates' solid bleached sulfate (SBS), recycled clay coated news (CCN) and, internationally, WLC as well as by general market conditions.

In the Containerboard business segment, conditions in the cyclical worldwide commodity paperboard markets have a substantial impact on the Company's Containerboard sales. During 2001, the Company elected to take 59 days, or approximately 21,400 tons, of medium and bag market related downtime at its U.S. mills that resulted in approximately \$3.7 million of under-absorbed fixed costs. The Company expects to take 39 days, or approximately 15,000 tons, of medium market related downtime during 2002 on its medium machine, but the amount of downtime could change depending upon market conditions. The downtime results from a number of factors, but principally a weak containerboard market. As a result of the expected downtime during 2002, the Company estimates the impact on earnings at its U.S. mills to be approximately \$2.8 million related to the under-absorption of fixed costs.

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company's manufacturing costs. During 2001, the Company experienced a significant increase in its energy costs compared to 2000, principally at its U.S. mills, equal to approximately \$16 million. Until recently, the Company's results had not been significantly affected by the volatility of energy costs. The Company entered

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into fixed price contracts designed to mitigate the impact of future energy cost increases through 2002, and will continue to evaluate its hedge position.

The Company is pursuing a number of long-term initiatives designed to improve productivity and profitability while continuing to implement its Coated Board business strategy. The Company realigned its business into commercially-focused operating units, implemented a global restructuring program (see below), implemented a number of cost saving measures and effected several management changes. The Company is continuing to implement a global Total Quality Systems (TQS) initiative which uses statistical process control to help design and manage all types of activities including production and maintenance.

In addition, the Company is continuing to implement a strategy focused on the expansion into the high-growth segments of the global consumer packaged goods sector. The Company is targeting segments of the non-beverage consumer products packaging market where it intends to capitalize on its expertise in beverage multiple packaging.

The Company expects capital expenditures will range from \$65 million to \$80 million in 2002 as the Company invests to improve its process capabilities, in packaging machinery, and to comply with environmental cluster rules (see Environmental and Legal Matters). The Company continues to evaluate its current operations and assets with a view to rationalizing its operations and improving profitability, in particular with respect to its international converting assets and strategy. As part of this effort, the Company initiated a \$25.6 million global restructuring program in the fourth quarter of 1998 aimed at achieving annualized savings and cost avoidance of approximately \$20 million when fully implemented. The global restructuring program is focused in the Company's European operations. The Company completed the restructuring activities during 2001 (see Financial Condition, Liquidity and Capital Resources Restructuring Activities). Finally, the Company is continuing to focus on reducing working capital and increasing liquidity.

Packaging machinery placements during 2001 decreased approximately 24 percent when compared to 2000. The Company expects packaging machinery placements for 2002 to be higher when compared to 2001 and be comparable to 2000 as a result of a 16 percent increase in packaging machinery orders in 2001 when compared to 2000. The Company has been and will continue to be selective in future packaging machinery placements to ensure appropriate returns.

Outlook

The Company expects that its 2002 full year Credit Agreement EBITDA will exceed its 2001 Credit Agreement EBITDA, although no assurance can be given in this regard. The achievement of this expectation is dependent upon (among other things) a number of profit improvement initiatives, including increasing worldwide beverage and North American consumer product sales volumes above 2001 levels, improving U.S. mill throughput, continued cost savings from other actions taken to date and stable pricing for the Company's products. In 2002, the Company expects sales volume increases in its worldwide beverage markets, and continued growth in its North American consumer product markets. The Company expects containerboard sales and margins to be negatively affected in 2002 due to the negative market pressures on containerboard pricing and sales volumes. The Company believes that energy costs will continue to negatively impact its results for 2002 but the negative impact is expected to be lower than in 2001.

Table of Contents**AS RESTATED 2001 COMPARED WITH 2000****RESULTS OF OPERATIONS**

The following discussion of the Company's results of operations is based upon the years ended December 31, 2001 (as restated) and 2000. The Company has reclassified the presentation of prior period Net Sales and Cost of Sales information to conform with the current presentation format and Emerging Issues Task Force 00-10, *Accounting for Shipping and Handling Fees and Costs*. Shipping and handling costs totaled \$64.9 million in 2001 and \$63.7 million in 2000.

The Company has restated its previously issued 2001 financial statements to report its investment in Rengo using the equity method (see Note 27 in Notes to the Consolidated Financial Statements).

(In thousands of dollars)	As Restated Year Ended December 31, 2001	% Increase (Decrease) From Prior Period	Year Ended December 31, 2000
Net Sales (Segment Data):			
Coated Board	\$ 1,107,937	4.0%	\$ 1,065,813
Containerboard	93,676	(26.0)	126,549
Net Sales	1,201,613	0.8	1,192,362
Cost of Sales	966,236	4.6	923,851
Gross Profit	235,377	(12.3)	268,511
Selling, General and Administrative	116,510	3.8	112,200
Research, Development and Engineering	5,111	12.2	4,554
Restructuring Credit		NM	(2,600)
Gain on Sale of Investment		NM	(70,863)
Other Expense, Net	18,825	297.9	4,731
Income from Operations	\$ 94,931	(57.0)%	\$ 220,489
Income from Operations (Segment Data):			
Coated Board	\$ 139,808	(13.4)%	\$ 161,372
Containerboard	(19,366)	(100.0)	5,183
Corporate and Eliminations	(25,511)	(100.0)	53,934
Income from Operations	\$ 94,931	(57.0)%	\$ 220,489

Paperboard Shipments

The following represents shipments of Coated Board and Containerboard to outside customers. Shipments of Coated Board represent sales to customers of beverage carrierboard and folding cartonboard. Shipments from the Swedish Mill represent sales to customers of WLC produced at this mill. Shipments of Containerboard represent sales to customers of linerboard, corrugating medium, kraft paper and various other items. Total shipments for the years ended December 31, 2001 and 2000 were as follows:

	As Restated	
(In thousands of tons)	2001	2000

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Coated Board	1,007.6	965.4
Swedish Mill	150.4	150.4
Containerboard	255.3	319.4
	<u>1,413.3</u>	<u>1,435.2</u>

Net Sales

As a result of the factors described below, the Company's Net Sales in 2001 increased by \$9.2 million, or 0.8 percent, compared with 2000. Net Sales in the Coated Board business segment increased by \$42.1 million

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in 2001, or 4.0 percent, to \$1,107.9 million from \$1,065.8 million in 2000, due primarily to higher sales volume in North American beverage carton markets and North American consumer product markets. These increases were somewhat offset by lower sales volumes in international consumer product markets, lower sales volumes in Brazil and the negative impact of foreign currency exchange rates. Net Sales in the Containerboard business segment decreased \$32.8 million, or 26.0 percent, to \$93.7 million in 2001 from \$126.5 million in 2000, due principally to lower volumes and pricing.

Gross Profit

As a result of the factors discussed below, the Company's Gross Profit for 2001 decreased by \$33.1 million, or 12.3 percent, to \$235.4 million from \$268.5 million in 2000. The Company's gross profit margin decreased to 19.6 percent in 2001 from 22.5 percent in 2000. Gross Profit in the Coated Board business segment decreased by \$5.2 million, or 2.8 percent, to \$250.0 million in 2001 from \$255.2 million in 2000, while its gross profit margin decreased to 22.6 percent in 2001 from 23.9 percent in 2000. The decrease in Coated Board Gross Profit was due primarily to increased energy costs and last-in, first-out inventory valuation adjustments somewhat offset by worldwide cost reductions, higher Net Sales and lower depreciation expense. Gross Profit in the Containerboard business segment decreased by \$23.8 million to a loss of \$15.7 million in 2001 from a profit of \$8.1 million in 2000, while its gross profit margin decreased to (16.8) percent in 2001 from 6.4 percent in 2000. The decrease in Containerboard Gross Profit resulted principally from lower volumes and pricing.

Selling, General and Administrative

Selling, General and Administrative expenses increased by \$4.3 million, or 3.8 percent, to \$116.5 million in 2001 from \$112.2 million in 2000, due primarily to higher warehousing expenses recorded in 2001. As a percentage of Net Sales, Selling, General and Administrative expenses increased from 9.4 percent in 2000 to 9.7 percent in 2001.

Research, Development and Engineering

Research, Development and Engineering expenses increased by \$0.5 million, or 12.2 percent, to \$5.1 million in 2001 from \$4.6 million in 2000, due primarily to higher research and development investing relating to the Company's new product Z-Flute(R), packaging machinery and the Swedish Mill.

Restructuring Credit

During 2000, the Company substantially completed the 1998 restructuring plan that related primarily to the restructuring of its European operations, primarily the ongoing rationalization of its international folding carton converting operations (see Restructuring Activities). The Company reduced the restructuring reserve by \$4.8 million. In addition, \$2.2 million of new restructuring activities aligned with the overall objectives of the initial plan were recorded and completed during 2000. The Company completed the 1998 restructuring plan during 2001.

Gain on Sale of Investment

During 2000, the Company recognized a \$70.9 million gain from the sale of Igaras (see Equity in Net Earnings of Affiliate).

Other Expense, Net

Other Expense, Net, was \$18.8 million in 2001 and \$4.7 million in 2000. This change was primarily due to non-recurring operating charges recorded in 2001 primarily relating to a litigation reserve and non-cash asset retirements, and certain non-recurring operating credits recorded in 2000.

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Income from Operations

Primarily as a result of the factors discussed above, the Company's Income from Operations in 2001 decreased by \$125.6 million, or 57.0 percent, to \$94.9 million from \$220.5 million in 2000, while the Company's operating margin decreased to 7.9 percent in 2001 from 18.5 percent in 2000. Income from Operations in the Coated Board business segment decreased by \$21.6 million, or 13.4 percent, to \$139.8 million in 2001 from \$161.4 million in 2000, while the operating margin decreased to 12.6 percent in 2001 from 15.1 percent in 2000, primarily as a result of the factors described above. Income from Operations in the Containerboard business segment decreased \$24.6 million to a loss of \$19.4 million in 2001 from a profit of \$5.2 million in 2000, while the operating margin decreased to (20.7) percent in 2001 from 4.1 percent in 2000, primarily as a result of the factors described above. Income from Operations in the Corporate business segment decreased \$79.4 million to a loss of \$25.5 million in 2001 from a profit of \$53.9 million in 2000 due primarily to the sale of Igaras during 2000.

Fluctuations in U.S. Currency Exchange Rates

The strengthening of the U.S. Dollar against the Japanese Yen, and the Euro and other European currencies had a modest impact on Net Sales, Gross Profit, Income from Operations, and operating expenses during 2001.

INTEREST INCOME, INTEREST EXPENSE, INCOME TAXES, EQUITY IN NET EARNINGS OF AFFILIATES, EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT, AND CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE.

Interest Income

Interest Income increased by \$0.1 million to \$0.9 million in 2001 from \$0.8 million in 2000.

Interest Expense

Interest Expense decreased by \$22.4 million to \$158.9 million in 2001 from \$181.3 million in 2000 due primarily to lower average debt balances and, to a lesser extent, lower average interest rates.

Income Tax Expense

During 2001, the Company recognized an income tax expense of \$6.6 million on a (Loss) before Income Taxes and Equity in Net Earnings of Affiliates of \$(63.0) million. During 2000, the Company recognized an income tax expense of \$3.0 million on Income before Income Taxes and Equity in Net Earnings of Affiliates of \$40.1 million. The income tax expense, in both 2001 and 2000, was due primarily to international operating income. The increase in income tax expense from 2000 to 2001 was due primarily to an increase in international operating income. These income tax expenses differed from the statutory federal income tax rate primarily because of valuation allowances established on net operating loss carryforward tax assets in the U.S. and certain international locations where the realization of such benefits is not more likely than not.

Equity in Net Earnings of Affiliates

In 2000, Equity in Net Earnings of Affiliates was comprised primarily of the Company's equity in net earnings of Igaras. On October 3, 2000, the Company, along with its joint venture partner, completed the sale of the jointly-held subsidiary Igaras for approximately \$510 million, including the assumption of \$112 million of debt. The Company recognized a gain of approximately \$70.9 million in accordance with the sale. Through the date of the sale, Igaras was accounted for under the equity method of accounting. Equity in Net Earnings of Affiliates decreased \$2.4 million to \$1.0 million in 2001 from \$3.4 million in 2000 primarily as a result of the sale of Igaras, somewhat offset by the Company's equity in net earnings of Rengo.

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Extraordinary Loss on Early Extinguishment of Debt

On June 21, 2001, the Company completed an offering of \$250 million principal amount of the Initial 2001 Notes, bearing interest at 10 5/8 percent. The net proceeds of this offering were applied to prepay a portion of the outstanding borrowings under the Term Loan Facility resulting in a non-cash, extraordinary charge to earnings of approximately \$2.8 million, net of tax of nil, related to the write-off of the applicable portion of deferred debt issuance costs on the term loans.

On August 10, 2001, the Company entered into the 2001 Senior Secured Credit Agreement. The proceeds of the initial borrowings under the 2001 Facilities of approximately \$386.0 million, including \$51.0 million in revolving credit borrowings, were applied to repay in full the outstanding borrowings under the Term Loan Facility and the Revolving Facility and to pay approximately \$12 million of the \$14 million of fees and expenses incurred in connection with the amendment and restatement of the Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash, extraordinary charge to earnings of approximately \$6.0 million, net of tax of nil, related to the write-off of the applicable remaining deferred debt issuance costs on the Term Loan Facility and the Revolving Facility.

On October 3, 2000, the Company completed the sale of its 50 percent investment in Igaras. The Company applied \$120 million and \$25 million of the sale proceeds to its 2001 and 2002 term loan maturities under the Term Loan Facility, respectively. The Company recognized a loss on the early extinguishment of debt of approximately \$2.1 million in the fourth quarter of 2000.

Cumulative Effect of a Change in Accounting Principle

The Company is exposed to fluctuations in interest rates on its variable rate debt and fluctuations in foreign currency transaction cash flows. The Company actively monitors these fluctuations and uses derivative instruments from time to time to manage its exposure. In accordance with its risk management strategy, the Company uses derivative instruments only for the purpose of managing risk associated with fluctuations in the cash flow of the underlying exposures identified by management. The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified. The Company's use of derivative instruments may result in short-term gains or losses and may increase volatility in its earnings.

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (SFAS No. 133). SFAS No. 133 requires all derivative instruments to be measured at fair value and recognized on the balance sheet as either assets or liabilities. In addition, all derivative instruments used in hedging relationships must be designated, reassessed and documented pursuant to the provisions of SFAS No. 133. Upon adoption of SFAS No. 133, the Company recognized a one-time after-tax transition adjustment to decrease earnings by approximately \$0.5 million and decrease other comprehensive income by approximately \$1.1 million. These amounts have been presented as a cumulative effect of change in accounting principle in the accompanying Consolidated Statement of Operations and Comprehensive (Loss) Income for the year ended December 31, 2001.

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The following is a summary of the Company's derivative instruments as of December 31, 2001 and the accounting policies it employs for each:

Hedges of Anticipated Cash Flows

The following is a reconciliation of current period changes in the fair value of the interest rate swap agreements, foreign currency forward and option contracts which have been recorded as Accumulated Derivative Instruments Loss in the accompanying Consolidated Balance Sheet at December 31, 2001 and as Derivative Instruments Loss in the accompanying Consolidated Statement of Operations and Comprehensive (Loss) Income for the year ended December 31, 2001.

(In thousands of dollars)	
SFAS No. 133 transition adjustment	\$(1,094)
Reclass to earnings	331
Current period decrease in fair value	(3,807)
Balance at December 31, 2001	\$(4,570)

During the year ended December 31, 2001, there was no ineffective portion related to the changes in fair value of the interest rate swap agreements, foreign currency forward and option contracts and there were no amounts excluded from the measure of effectiveness. The balance of \$4.6 million recorded in Accumulated Derivative Instruments Loss at December 31, 2001 is expected to be reclassified into future earnings, contemporaneously with and offsetting changes in the related hedged exposure. The estimated amount to be reclassified into future earnings as interest expense and other income over the next twelve months through December 31, 2002 is approximately \$5.4 million and \$0.8 million, respectively. The actual amount that will be reclassified to future earnings over the next twelve months will vary from this amount as a result of changes in market conditions. No amounts were reclassified to earnings during the fourth quarter of 2001 in connection with forecasted transactions that were no longer considered probable of occurring.

Derivatives not Designated as Hedges

The Company has foreign currency forward contracts used to hedge the exposure associated with foreign currency denominated receivables. These contracts are presently being marked-to-market through the income statement and will continue to be marked-to-market through the income statement.

Table of Contents**2000 COMPARED WITH 1999****RESULTS OF OPERATIONS**

The following discussion of the Company's results of operations is based upon the years ended December 31, 2000 and 1999. The Company has reclassified the presentation of prior period Net Sales and Cost of Sales information to conform with the current presentation format and Emerging Issues Task Force 00-10, *Accounting for Shipping and Handling Fees and Costs*. Shipping and handling costs totaled \$63.7 million in 2000 and \$62.0 million in 1999.

(In thousands of dollars)	Year Ended December 31, 2000	% Increase (Decrease) From Prior Period	Year Ended December 31, 1999
Net Sales (Segment Data):			
Coated Board	\$ 1,065,813	0.3%	\$ 1,062,671
Containerboard	126,549	13.0	111,994
Net Sales	1,192,362	1.5	1,174,665
Cost of Sales	923,851	(1.1)	933,924
Gross Profit	268,511	11.5	240,741
Selling, General and Administrative	112,200	(1.9)	114,402
Research, Development and Engineering	4,554	11.7	4,078
Restructuring Credit	(2,600)	NM	
Gain on Sale of Investment	(70,863)	NM	
Other Expense, Net	4,731	(100.0)	1,798
Income from Operations	\$ 220,489	83.0%	\$ 120,463
Income from Operations (Segment Data):			
Coated Board	\$ 161,372	6.5%	\$ 151,453
Containerboard	5,183	NM	(10,235)
Corporate and Eliminations	53,934	NM	(20,755)
Income from Operations	\$ 220,489	83.0%	\$ 120,463

Paperboard Shipments

The following represents shipments of Coated Board and Containerboard to outside customers. Shipments of Coated Board represent sales to customers of beverage carrierboard and folding cartonboard. Shipments from the Swedish Mill represent sales to customers of WLC produced at this mill. Shipments of Containerboard represent sales to customers of linerboard, corrugating medium, kraft paper and various other items. Total shipments for the years ended December 31, 2000 and 1999 were as follows:

(In thousands of tons)	2000	1999
Coated Board	965.4	965.6
Swedish Mill	150.4	141.0
Containerboard	319.4	327.8
	1,435.2	1,434.4

Net Sales

As a result of the factors described below, the Company's Net Sales in 2000 increased by \$17.7 million, or 1.5 percent, compared with 1999. Net Sales in the Coated Board business segment increased by \$3.1 million in 2000, or 0.3 percent, to \$1,065.8 million from \$1,062.7 million in 1999, due primarily to higher sales volume in North American consumer product markets due principally to selected switching from competing substrates to the Company's substrate, higher sales volume in international beverage markets due principally to continued market penetration and strong demand in Japan, and slightly improved pricing in North American beverage and North American consumer product markets. These increases were somewhat

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offset by lower sales volumes in Brazil, by lower North American beverage volumes due primarily to lower soft drink demand and the negative impact of foreign currency exchange rates, primarily in Europe. Net Sales in the Containerboard business segment increased \$14.5 million, or 13.0 percent, to \$126.5 million in 2000 from \$112.0 million in 1999, due principally to higher pricing, somewhat offset by lower sales volume primarily in the medium markets.

Gross Profit

As a result of the factors discussed below, the Company's Gross Profit for 2000 increased by \$27.8 million, or 11.5 percent, to \$268.5 million from \$240.7 million in 1999. The Company's gross profit margin increased to 22.5 percent in 2000 from 20.5 percent in 1999. Gross Profit in the Coated Board business segment increased by \$9.9 million, or 4.0 percent, to \$255.2 million in 2000 from \$245.3 million in 1999, while its gross profit margin increased to 23.9 percent in 2000 from 23.1 percent in 1999. The increase in Coated Board Gross Profit was due directly to worldwide cost reductions and higher Net Sales somewhat offset by higher energy costs. Worldwide costs in the Company's Coated Board segment decreased in 2000 as compared to 1999 primarily as a result of savings gained from the Company's TQS initiative and the continued impact of the 1998 global restructuring. Gross Profit in the Containerboard business segment increased by \$12.4 million to a profit of \$8.1 million in 2000 from a loss of \$4.3 million in 1999, while its gross profit margin increased to 6.4 percent in 2000 from (3.8) percent in 1999. The increase in Containerboard Gross Profit resulted principally from improved pricing.

Selling, General and Administrative

Selling, General and Administrative expenses decreased by \$2.2 million, or 1.9 percent, to \$112.2 million in 2000 from \$114.4 million in 1999, due mainly to lower incentive compensation expense somewhat offset by higher depreciation expense, higher stock option compensation expense, expenses related to the TQS initiative, and consulting fees related to a project within the Company's consumer products business designed to review new applications of the Company's CUK board for areas of the consumer products packaging market. As a percentage of Net Sales, Selling, General and Administrative expenses decreased from 9.7 percent in 1999 to 9.4 percent in 2000.

Research, Development and Engineering

Research, Development and Engineering expenses increased by \$0.5 million, or 11.7 percent, to \$4.6 million in 2000 from \$4.1 million in 1999, due primarily to higher research and development investing relating to packaging machinery.

Restructuring Credit

During 2000, the Company substantially completed the 1998 restructuring plan that related primarily to the restructuring of its European operations, primarily the ongoing rationalization of its international folding carton converting operations (see Restructuring Activities). The Company reduced the restructuring reserve by \$4.8 million. In addition, \$2.2 million of new restructuring activities aligned with the overall objectives of the initial plan were recorded and completed during 2000.

Gain on Sale of Investment

During 2000, the Company recognized a \$70.9 million gain from the sale of Igaras (see Equity in Net Earnings of Affiliate).

Other Expense, Net

Other Expense, Net, was \$4.7 million in 2000 and \$1.8 million in 1999. This change was primarily due to non-cash asset retirements recorded in 2000.

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Income from Operations

Primarily as a result of the factors discussed above, the Company's Income from Operations in 2000 increased by \$100.0 million, or 83.0 percent, to \$220.5 million from \$120.5 million in 1999, while the Company's operating margin increased to 18.5 percent in 2000 from 10.3 percent in 1999. Income from Operations in the Coated Board business segment increased by \$9.9 million, or 6.5 percent, to \$161.4 million in 2000 from \$151.5 million in 1999, while the operating margin increased to 15.1 percent in 2000 from 14.3 percent in 1999, primarily as a result of the factors described above. Income from Operations in the Containerboard business segment increased \$15.4 million to a profit of \$5.2 million in 2000 from a loss of \$10.2 million in 1999, while the operating margin increased to 4.1 percent in 2000 from (9.1) percent in 1999, primarily as a result of the factors described above. Income from Operations in the Corporate business segment increased \$74.7 million to a profit of \$53.9 million in 2000 from a loss of \$20.8 million in 1999 due primarily to the sale of Igaras.

Fluctuations in U.S. Currency Exchange Rates

The strengthening of the U.S. Dollar against the Euro and other European currencies did have a modest impact on Net Sales, Gross Profit, Income from Operations, and operating expenses during 2000. However, the impact was somewhat offset by the weakening of the U.S. Dollar against the Japanese Yen.

INTEREST INCOME, INTEREST EXPENSE, INCOME TAXES, EQUITY IN NET EARNINGS OF AFFILIATES, AND EXTRAORDINARY LOSS ON EARLY EXTINGUISHMENT OF DEBT.

Interest Income

Interest Income decreased by \$0.1 million to \$0.8 million in 2000 from \$0.9 million in 1999.

Interest Expense

Interest Expense increased by \$2.1 million to \$181.3 million in 2000 from \$179.2 million in 1999 due primarily to higher average interest rates.

Income Tax Expense

During 2000, the Company recognized an income tax expense of \$3.0 million on Income before Income Taxes and Equity in Net Earnings of Affiliates of \$40.1 million. During 1999, the Company recognized an income tax expense of \$3.9 million on a (Loss) before Income Taxes and Equity in Net Earnings of Affiliates of \$(57.8) million. These income tax expenses differed from the statutory federal income tax rate primarily because of valuation allowances established on net operating loss carryforward tax assets in the U.S. and certain international locations where the realization of such benefits is not more likely than not.

Equity in Net Earnings of Affiliates

Equity in Net Earnings of Affiliates was comprised primarily of the Company's equity in net earnings of Igaras. On October 3, 2000, the Company, along with its joint venture partner, completed the sale of the jointly-held subsidiary Igaras for approximately \$510 million, including the assumption of \$112 million of debt. The Company recognized a gain of approximately \$70.9 million in accordance with the sale. Through the date of the sale, Igaras was accounted for under the equity method of accounting. Equity in Net Earnings of Affiliates decreased \$3.7 million to \$3.4 million in 2000 from \$7.1 million in 1999 primarily as a result of the sale.

Extraordinary Loss on Early Extinguishment of Debt

On October 3, 2000, the Company completed the sale of its 50 percent investment in Igaras. The Company applied \$120 million and \$25 million of the sale proceeds to its 2001 and 2002 term loan maturities under the Term Loan Facility, respectively. The Company recognized a loss on the early extinguishment of debt of approximately \$2.1 million in the fourth quarter of 2000.

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FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company broadly defines liquidity as its ability to generate sufficient cash flow from operating activities to meet its obligations and commitments. In addition, liquidity includes the ability to obtain appropriate debt and equity financing and to convert into cash those assets that are no longer required to meet existing strategic and financial objectives. Therefore, liquidity cannot be considered separately from capital resources that consist of current or potentially available funds for use in achieving long-range business objectives and meeting debt service commitments.

Cash Flows

Cash and Equivalents decreased by approximately \$11.0 million in 2001 primarily as a result of the purchases of property, plant and equipment (\$57.3 million), the payment for settlement of all Louisiana state income tax issues (tax and interest) related to the period ended March 27, 1996 and the nine month period ended December 31, 1996 (\$29.5 million) and net cash used in financing activities (\$9.2 million), somewhat offset by the net cash provided by operating activities (\$87.7 million). Depreciation and amortization during 2001 totaled \$137 million, and is expected to be approximately \$130 million to \$140 million for 2002.

The Company's cash flows from its operations and EBITDA are subject to moderate seasonality with demand usually increasing in the spring and summer due to the seasonality of the worldwide multiple packaging beverage segment.

Liquidity and Capital Resources

The Company's liquidity needs arise primarily from debt service on its substantial indebtedness, and from the funding of its capital expenditures, ongoing operating costs, and working capital.

On June 21, 2001, the Company completed the offering of the Initial 2001 Notes. The proceeds of the offering of \$251.5 million, net of approximately \$6 million of transaction fees and expenses, were applied to prepay a portion of the outstanding borrowings under the Term Loan Facility.

On August 10, 2001, the Company entered into the 2001 Senior Secured Credit Agreement with certain lenders providing for senior secured credit facilities with aggregate commitments not to exceed \$635 million, including the \$335 million 2001 Term Loan Facility and the \$300 million 2001 Revolving Facility. The proceeds of the initial borrowings under the 2001 Facilities of approximately \$386.0 million, including \$51.0 million in revolving credit borrowings, were applied to repay in full the outstanding borrowings under the Term Loan Facility and the Revolving Facility and to pay approximately \$12 million of the \$14 million of fees and expenses incurred in connection with the amendment and restatement of the Credit Agreement.

As of December 31, 2001, the Company had outstanding approximately \$1,525 million of long-term debt, consisting primarily of \$650 million aggregate principal amount of the 1996 Notes, \$250 million of the 1997 Notes, \$250 million of the 2001 Notes, \$335 million outstanding under the 2001 Term Loan Facility and \$35 million under the 2001 Revolving Facility, and other debt issues and facilities.

Debt Service

Principal and interest payments under the 2001 Term Loan Facility and the 2001 Revolving Facility, together with interest payments on the 2001 Notes, 1997 Notes and 1996 Notes, represent significant liquidity requirements for the Company. The 2001 Term Loan Facility amortization requirements are in semi-annual installments of \$37.5 million beginning June 30, 2003 and amounting to \$75 million annually in each of 2003 and 2004, with \$46.25 million due on June 30, 2005, and the remainder due at maturity on December 31, 2005. The 2001 Revolving Facility matures on December 31, 2005. The final maturities of the 2001 Facilities are extendable from December 31, 2005 to December 31, 2006 if the Company refinances the 1996 Senior Notes on specified terms on or prior to December 31, 2005 (in such event, the 2001 Term Loan Facility will continue to amortize in semi-annual installments of \$46.25 million through December 31, 2006). See Note 10 to Notes to Consolidated Financial Statements.

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The loans under the 2001 Facilities bear interest at floating rates based upon the interest rate option elected by the Company. The term loans under the 2001 Term Loan Facility bore interest as of December 31, 2001 at an average rate per annum of 4.85 percent. The 1996 Senior Notes, the 1997 Notes, the 2001 Notes and the 1996 Senior Subordinated Notes bear interest at rates of 10 1/4 percent, 10 5/8 percent, 10 5/8 percent and 10 7/8 percent, respectively.

Interest expense in 2001 totaled \$159 million, including approximately \$8 million of non-cash amortization of deferred debt issuance costs. During 2001, cash paid for interest was approximately \$146 million. Interest expense in 2002 is expected to be approximately \$159 million, including approximately \$7 million of non-cash amortization of deferred debt issuance costs.

The Company expects that its working capital and business needs will require it to continue to have access to the 2001 Revolving Facility or a similar revolving credit facility after the maturity date, and that the Company accordingly will have to extend, renew, replace or otherwise refinance such facility at or prior to such date. No assurance can be given that it will be able to do so. The Company has in the past refinanced and in the future may seek to refinance its debt prior to the respective maturities of such debt.

The Company uses interest rate swap agreements to fix a portion of its variable rate term loans to a fixed rate in order to reduce the impact of interest rate changes on future income. The difference to be paid or received under these agreements is recognized as an adjustment to interest expense related to that debt. At December 31, 2001, the Company had interest rate swap agreements with a notional amount of \$225 million, under which the Company will pay fixed rates of 4.75 percent to 6.53 percent and receive three-month LIBOR.

Covenant Restrictions

The 2001 Senior Secured Credit Agreement imposes restrictions on the Company's ability to make capital expenditures and both the 2001 Senior Secured Credit Agreement and the indentures governing the 1996 Notes, the 1997 Notes and the 2001 Notes limit the Company's ability to incur additional indebtedness. Such restrictions, together with the highly leveraged nature of the Company, could limit the Company's ability to respond to market conditions, meet its capital spending program, provide for unanticipated capital investments or take advantage of business opportunities. The covenants contained in the 2001 Senior Secured Credit Agreement, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness or amend other debt instruments, pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted by Riverwood and its subsidiaries, make capital expenditures and engage in certain transactions with affiliates. The covenants contained in the indentures governing the 1996 Notes, the 1997 Notes and the 2001 Notes also impose restrictions on the operation of the Company's business.

The financial covenants in the 2001 Senior Secured Credit Agreement specify, among other things, the following requirements for each four quarter period ended during the following test periods:

Test Period		Consolidated Debt to EBITDA Leverage Ratio	Consolidated Interest Expense Ratio
September 30, 2001	December 30, 2002	5.85 to 1.00	1.75 to 1.00
December 31, 2002	December 30, 2003	5.50 to 1.00	2.00 to 1.00
December 31, 2003	December 30, 2004	5.00 to 1.00	2.10 to 1.00
December 31, 2004	December 30, 2005	4.70 to 1.00	2.25 to 1.00
December 31, 2005	December 30, 2006	4.40 to 1.00	2.25 to 1.00

At December 31, 2001, the Company was in compliance with the financial covenants in the 2001 Senior Secured Credit Agreement. The Company's ability to comply in future periods with the financial covenants in the 2001 Senior Secured Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of

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which are beyond the Company's control and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies (see Outlook). If a violation of any of the covenants occurred, the Company would attempt to get a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The 2001 Senior Secured Credit Agreement and the indentures governing the 1996 Notes, 1997 Notes and 2001 Notes have covenants as well as certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions.

The 2001 Senior Secured Credit Agreement is collateralized by substantially all of the Company's assets.

Capital Expenditures

Capital spending for 2001 was \$57.3 million, down 7.6 percent from \$62.1 million in 2000. Capital spending during 2001 related primarily to improving the Company's process capabilities, manufacturing packaging machinery and environmental cluster rules compliance. During 2001, the Company had capital spending of approximately \$40.2 million for improving our process capabilities, approximately \$13.5 million for packaging machinery manufacturing and approximately \$3.6 million for compliance with the cluster rules. Total capital spending for 2002 is expected to be between \$65 million and \$80 million, and is expected to relate principally to improving the Company's process capabilities, the production of packaging machinery and environmental cluster rules compliance. The Company estimates that the capital spending that may be required to comply with the cluster rules could reach \$55 million to be spent at its two U.S. paper mills over a seven-year period that began in 2000 (see Environmental and Legal Matters). The Company estimates that it has spent approximately one-third of that amount for such compliance.

Restructuring Activities

In connection with the global restructuring program initiated in the fourth quarter of 1998, the Company began reducing its European workforce by approximately 300 employees and implemented other initiatives designed to improve productivity and profitability across the global organization. The initial cost of this program was approximately \$25.6 million of which approximately \$0.8 million was used in December 1998 and related to severance payments. The following table provides information that details payments on this restructuring plan since December 31, 1998:

(In thousands of dollars)	Severance	Other Exit Costs	Total
Balance at 12/31/98	\$ 21,205	\$ 3,537	\$ 24,742
Charges against accrual in 1999	(11,527)	(791)	(12,318)
Balance at 12/31/99	9,678	2,746	12,424
Net charges against accrual in 2000	(6,669)	(2,499)	(9,168)
Balance at 12/31/00	3,009	247	3,256
Net charges against accrual in 2001	(3,009)	(247)	(3,256)
Balance at 12/31/01	\$	\$	\$

During 2000, the Company substantially completed the restructuring plan and reduced the reserve by \$4.8 million. In addition, \$2.2 million of new restructuring activities aligned with the overall objectives of the initial plan were completed in 2000. These activities related principally to the reduction of employees, outsourcing of production activities and closing of an office. The Company completed this program during 2001 resulting in the reduction of its European workforce related to the 1998 restructuring by approximately 250 employees.

Table of Contents**Financing Sources and Cash Flows**

The 2001 Revolving Facility matures on December 31, 2005, extendable to December 31, 2006 if the Company refinances the 1996 Senior Notes on specified terms on or prior to December 31, 2005. At December 31, 2001, the Company and its U.S. and international subsidiaries had the following amounts of commitments, amounts outstanding and amounts available under revolving credit facilities:

(In thousands of dollars)	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available
2001 Revolving Facility	\$ 300,000	\$ 35,429	\$ 264,571
International Facilities	14,581	10,015	4,566
	<u>\$ 314,581</u>	<u>\$ 45,444</u>	<u>\$ 269,137</u>

The Company anticipates pursuing additional working capital financing for its foreign operations as necessary. The Company believes that cash generated from operations, together with amounts available under its 2001 Revolving Facility and other available financing sources, will be adequate to permit the Company to meet its debt service obligations, capital expenditure program requirements, ongoing operating costs and working capital needs until the maturity of the 2001 Revolving Facility, although no assurance can be given in this regard. The Company's future financial and operating performance, ability to service or refinance its debt and ability to comply with the covenants and restrictions contained in its debt agreements (see **Covenant Restrictions**), will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the Company's control and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies.

Commitments

At December 31, 2001, total commitments of the Company under long-term, non-cancelable contracts were as follows:

(In thousand of dollars)	Payment Due by Period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Long-Term Debt	\$ 1,742	\$ 151,548	\$ 470,506	\$ 901,028	\$ 1,524,824
Operating Leases	13,821	17,975	2,588	946	35,330
Unconditional Purchase Obligations(A)	31,345	16,373	14,693	69,556	131,967
Total Contractual Cash Obligations	<u>\$ 46,908</u>	<u>\$ 185,896</u>	<u>\$ 487,787</u>	<u>\$ 971,530</u>	<u>\$ 1,692,121</u>

(A) Unconditional Purchase Obligations primarily consist of commitments related to wood processing and handling, natural gas and electricity and firm transportation of natural gas.

Environmental and Legal Matters

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs, which are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations.

In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and

requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

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The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds. Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and toxic chemicals and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of its facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. The Company has been, and in the future may again be, identified as a potentially responsible party at sites under CERCLA and similar state laws.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the cluster rules) that mandate more stringent controls on air and water discharges from the United States pulp and paper mills. The Company estimates that the capital spending that may be required to comply with the cluster rules could reach \$55 million to be spent at its two U.S. paper mills over a seven-year period that began in 2000. The Company estimates that it has spent approximately one-third of that amount for such compliance.

In late 1995, the Louisiana Department of Environmental Quality (DEQ) notified the Predecessor of potential liability for the remediation of hazardous substances at a wood treatment site in Shreveport, Louisiana that the Predecessor or its predecessors previously operated, and at a former oil refinery site in Caddo Parish, Louisiana which is on land that the Company previously owned. In response to these notices, the Company has provided additional information concerning these sites and has commenced its own evaluation of any claims and remediation liabilities for which it may be responsible. Subsequent to receipt in May 1996 of a Special Demand Letter from DEQ to remediate the site in Shreveport, the Company performed a soil and groundwater investigation at the site pursuant to an agreement with DEQ. In August 2001, the Company entered into a Cooperative Agreement for Remedial Action with DEQ and the landowners of the site, as well as a Mutual Release and Settlement Agreement with the landowners. Under the Cooperative Agreement, the Company will develop the remedial design and carry out the specified remediation at the site, which will include, among other things, removing contaminated soils, capping a portion of the site and future operations and maintenance, or O&M. If the Company fails to comply with the requirements of the Cooperative Agreement, including the prescribed time periods, the DEQ can impose stipulated penalties as specified in the Cooperative Agreement ranging from \$250 to \$1,000 per day of non-compliance. The Company has engaged a qualified contractor and expects completion of work by the end of 2002. Total costs for the Shreveport remedial action are approximately \$1.3 million, of which approximately \$0.8 million remain to be paid. These costs could increase if, for example, there is an increase in the amount of contaminated soils found on site. In addition, for the initial five years, O&M costs are estimated to be approximately \$0.1 million and groundwater monitoring costs are estimated to be approximately \$0.1 million. The Company has not estimated O&M or groundwater monitoring cost beyond this initial five-year period because the extent of any such O&M or groundwater monitoring obligation is unknown. In addition, the Company has reached a settlement agreement with another potentially responsible party that provides the Company with reimbursement of certain past costs and certain future costs incurred in connection with the remediation plan.

In September 1996, the Company received a Special Demand Letter from DEQ to remediate the site in Caddo Parish. The Company performed a waste inventory and treatability study at the site and subsequently met with DEQ in October 1999. On July 6, 2000, the Company and DEQ entered into a Settlement

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Agreement that describes in detail the remedial actions necessary for the Company to obtain full release of all future liability at this site. The Company has contracted with a vendor to perform the remedial actions as outlined in the Settlement Agreement and the work is currently proceeding. The remedial action requires, among other things, the neutralization, stabilization and consolidation of sludges and soils at this site, the capping of the consolidated materials, the establishment of a vegetative cover and five years of post-closure care of the capped area. The lump sum contract price with the contractor is approximately \$1.6 million, of which we have already paid approximately \$1.1 million. The Company no longer owns the site since transferring the property to another entity on October 22, 2000. The Company anticipates the remedial actions outlined in the Settlement Agreement will be completed during the second quarter of 2002 and, at that time, expects to be relieved of any future liability.

The Company is involved in environmental remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as the Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. To address these contingent environmental costs, the Company has accrued reserves when such costs are probable and can be reasonably estimated. The Company believes that, based on current information and regulatory requirements, the accruals established by the Company for environmental expenditures are adequate. Based on current knowledge, to the extent that additional costs may be incurred that exceed the accrued reserves, such amounts are not expected to have a material impact on the results of operations, cash flows or financial condition of the Company, although no assurance can be given that significant costs will not be incurred in connection with clean-up activities at these properties, including the Shreveport and Caddo Parish sites referred to above.

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions instituted on September 17, 1997 in the U.S. District Court for the Northern District of Georgia against MeadWestvaco, successor by merger to Mead, and R.A. Jones claiming infringement of the Company's patents for its packaging machines. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity has been appealed to the Court of Appeals for The Federal Circuit. The suit against MeadWestvaco was dismissed by mutual agreement pending the outcome of the appeal of the decision in the case against R.A. Jones.

Tax Matters Relating to the Merger

In connection with the Merger, the former majority owner of the Company agreed to bear the cost of a Section 338(h)(10) election for U.S. federal tax purposes and for purposes of state taxes for which the former majority owner and the Company filed returns on a combined basis. The Company agreed to bear the cost of this election for the purposes of other state taxes (stand-alone taxes), including Louisiana income tax. During 1997, the Company paid \$27.5 million in estimated Louisiana stand-alone taxes relating to the election. The Company's calculation of its Louisiana tax was based on state law in effect at the time of the Merger, including a 1993 amendment. In May 1997, the Louisiana Supreme Court declared the 1993 amendment to be void under the Louisiana Constitution, retroactive to 1993. After consultation with Louisiana tax counsel, the Company filed its Louisiana income tax return for the period ended March 27, 1996 in reliance on the Louisiana tax law in effect at the time of the Merger, without the payment of any additional tax due to the voiding of the 1993 amendment.

The State of Louisiana completed its audit of the Company's tax return for the period ended March 27, 1996 and on May 9, 2000, the Company received a Notice of Proposed Tax Due for this period in the amount of \$47.6 million in tax plus statutory interest. On October 12, 2001, the Company entered into a settlement agreement with the Louisiana Department of Revenue to pay \$29.5 million to the State of Louisiana to settle all Louisiana state income tax issues (tax and interest) related to the period ended March 27, 1996 and the

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nine month period ended December 31, 1996. The Company made this payment on October 25, 2001 using funds borrowed under the 2001 Revolving Facility. See Note 15 in Notes to the Consolidated Financial Statements.

International Operations

At December 31, 2001, approximately 10 percent of the Company's total net assets were denominated in currencies other than the U.S. dollar. The Company has significant operations in countries that use the Swedish krona, the British pound sterling, the Japanese yen, the Spanish peseta, or the French franc as their functional currencies. The effect of a generally stronger U.S. Dollar against the currencies of Japan, Sweden, Britain, Germany, Spain, and France produced a net currency translation adjustment loss of approximately \$5.2 million, which was recorded as an adjustment to shareholders' equity for the year ended December 31, 2001. The magnitude and direction of this adjustment in the future depends on the relationship of the U.S. dollar to other currencies. The Company cannot predict major currency fluctuations. The Company's revenues from export sales fluctuate with changes in foreign currency exchange rates. The Company pursues a currency hedging program in order to limit the impact of foreign currency exchange fluctuations on financial results. See Financial Instruments.

Within Europe, eleven of the fifteen member countries of the European Union participated in the European Economic and Monetary Union (the EMU), pursuant to which a new currency, the Euro, was introduced on January 1, 1999. The new currency is in response to the EMU's policy of economic convergence to harmonize trade policy, eliminate business costs associated with currency exchange and to promote the free flow of capital, goods and services.

On January 1, 1999, the participating countries adopted the Euro as their local currency, initially available for currency trading on currency exchanges for use in noncash (banking) transactions. Beginning on January 1, 2002, Euro-denominated bills and coins were issued for cash transactions. Before the end of the first quarter of 2002, the participating countries are expected to withdraw all local currencies and use exclusively the Euro.

Currently, the Company operates in five of the participating countries in the EMU. Nonparticipating European Union countries, such as Great Britain, where the Company also has operations, may eventually join the EMU.

Although the Company will continue to review its pricing strategy throughout Europe due to the increased price transparency created by the Euro, it does not anticipate that any resulting change would have a material effect on its operations. The Company also does not believe that EMU will have a material effect with respect to its derivative and other financial transactions.

Financial Instruments

The functional currency for most of the Company's international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to shareholders' equity. Gains and losses on foreign currency transactions are included in Other Expense (Income), Net for the period in which the exchange rate changes.

The Company pursues a currency hedging program which utilizes derivatives to limit the impact of foreign currency exchange fluctuations on its consolidated financial results. Under this program, the Company has entered into forward exchange and option contracts in the normal course of business to hedge certain foreign currency denominated transactions. Realized and unrealized gains and losses on these forward contracts are included in the measurement of the basis of the related foreign currency transaction when recorded. The premium on an option contract is reflected in Other Expense (Income), Net, during the period in which the contract expires. These instruments involve, to varying degrees, elements of market and credit

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risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company does not hold or issue financial instruments for trading purposes. See Item 7A Quantitative and Qualitative Disclosure About Market Risk.

Impact of Inflation

In the U.S., the inflation rate was approximately 2.8 percent for 2001. In Europe, where the Company has manufacturing facilities, the inflation rate for 2001 was approximately 2.7 percent. Net sales from international operations during the period amounted to approximately \$314 million, or 26 percent of the Company's combined Net Sales in 2001.

Information Concerning Forward-Looking Statements

Certain of the statements contained in this report (other than the financial statements and other statements of historical fact) are forward-looking statements, including, without limitation, (i) the statements in Business Trends and Initiatives concerning (a) the Company's expectation regarding downtime during 2002, (b) the improvements which the Company's long-term initiatives, including, without limitation, its profit center reorganization and global restructuring program, are designed to achieve, (c) the Company's expectation that capital expenditures will range from \$65 million to \$80 million in 2002, and (d) the Company's expectation regarding packaging machinery placements; (ii) the statements in Outlook concerning (a) the Company's expectation that its 2002 EBITDA will exceed its 2001 EBITDA as well as each of the factors which the Company believes support such expectation, (b) the Company's expectations regarding sales volumes in its worldwide beverage markets and continued growth in its North American consumer product markets, (c) the Company's expectation regarding containerboard sales and margins, and (d) the Company's expectations regarding increased energy costs; (iii) the statements in Financial Condition, Liquidity and Capital Resources concerning (a) the Company's expectation that depreciation and amortization for 2002 will be approximately \$130 million to \$140 million, (b) the Company's expectation that 2002 interest expense will be approximately \$159 million including approximately \$7 million of non-cash amortization of deferred debt issuance costs, (c) the Company's expectation that total capital spending for 2002 will range from \$65 million to \$80 million, (d) the Company's belief that cash generated from operations, together with amounts available under available financing sources, will be adequate to permit the Company to meet its debt service obligations, capital expenditure program requirements, ongoing operating costs and working capital needs until the maturity of the Revolving Facility, and (e) the Company's expectations with respect to capital spending that may be required to comply with the cluster rules and that, based on current knowledge, environmental costs are not expected to have a material impact on the results of operations, cash flows or financial condition of the Company, (iv) other statements as to management's or the Company's expectations and beliefs presented in this Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects upon the Company. There can be no assurance that future developments will be in accordance with management's expectations or that the effect of future developments on the Company will be those anticipated by management. The following important factors, and those important factors described elsewhere in this report (including, without limitation, those discussed in Financial Condition, Liquidity and Capital Resources Liquidity and Capital Resources Environmental and Legal Matters, or in other Securities and Exchange Commission filings, could affect (and in some cases have affected) the Company's actual results and could cause such results to differ materially from estimates or expectations reflected in such forward-looking statements:

The Company's substantial amount of debt could have important consequences to the Company. Because of this substantial debt: (i) the Company's ability to obtain additional financing for working capital, capital expenditures, acquisitions, general corporate purposes or other purposes may be impaired in the future; (ii) a substantial portion of the Company's cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available to the Company for other purposes; (iii) certain of the Company's borrowings are at variable

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rates of interest, which exposes the Company to the risk of increased interest rates; and (iv) the Company's flexibility to adjust to changing market conditions and ability to withstand competitive pressures could be limited, and the Company may be more vulnerable to a downturn in general economic conditions or its business or be unable to carry out capital spending that is important to its strategy and productivity improvement programs.

The Company's ability to make scheduled payments or to refinance its obligations with respect to its indebtedness, and to comply with the covenants and restrictions contained in the instruments governing such indebtedness, will depend on its financial and operating performance, which, in turn, is subject to prevailing economic and competitive conditions and to the following financial and business factors beyond its control: operating difficulties, increased operating costs, increased raw materials and energy costs, market cyclicality, product prices, the response of competitors, regulatory developments, and delays in implementing strategic projects.

The Company's ability to meet its debt service and other obligations will depend in significant part on the selling prices that the Company realizes for its products and the extent to which the Company can implement its business strategy (which is subject to significant business, economic and competitive uncertainties and contingencies).

The Company currently estimates that it will take several years for coated board markets to absorb the significant increase in the Company's CUK Board capacity resulting from the upgrade of the second Macon Mill paper machine, which was completed in June 1997. The Company expects to sell a significant portion of its additional CUK Board production in open markets. The Company may not be able to sell additional CUK Board output in these markets or without experiencing price reductions.

All of the Company's CUK Board is produced at its West Monroe and Macon Mills. Any prolonged disruption in either facility's production due to labor difficulties, equipment failures, destruction of or material damage to such facility, or other reasons, could have a material adverse effect on the Company's results of operations.

The Company faces significant competition in its CUK Board business segment from MeadWestvaco, as well as from other manufacturers of packaging machinery. The highly leveraged nature of the Company could limit the Company's ability to respond to market conditions or to make necessary or desirable capital expenditures as effectively as its competitors, which may not be as leveraged as the Company. In addition, the Company could experience increased competition if there are new entrants in the CUK Board market segment. In the beverage multiple packaging industry, cartons made from CUK Board compete with plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. The Company's consumer products packaging cartonboard sales are affected by competition from MeadWestvaco's CUK Board and from other substrates: SBS and CCN and, internationally, WLC and folding boxboard. There are a large number of suppliers of paperboard for folding carton applications. CUK Board competes in niche applications in folding cartonboard open markets, serving only a small portion thereof. The Company may not be able to continue to compete successfully in folding cartonboard open markets.

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company's manufacturing costs. Until recently, the Company's results had not been significantly affected by the volatility of energy costs. The Company entered into fixed price contracts designed to mitigate the impact of future energy cost increases through 2002, and will continue to evaluate its hedge position. The Company believes that higher energy costs will continue to negatively impact its results for 2002. Since negotiated contracts and the market largely determine the pricing for the Company's products, the Company is limited in its ability to pass through to its customers any energy or other cost increases that the Company may incur in the future. Amounts paid by the Company for pine pulpwood, hardwood and recycled fibers, including old corrugated containers, used in the manufacture of paperboard, and various chemicals used in the coating of CUK Board, represent the largest components of the Company's variable costs of CUK Board and containerboard production. The cost of these materials is subject to market fluctuations caused by factors beyond the Company's control.

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Old corrugated container pricing tends to be very volatile. With the October 1996 sale of the Company's timberlands, the Company now relies on private land owners and the open market for all of its virgin and recycled fiber requirements (except for CUK Board clippings from its converting operations). Under the terms of the sale of those timberlands, the Company and the buyer entered into a 20-year supply agreement, with a 10-year renewal option, for the purchase by the Company, at market-based prices, of a majority of the West Monroe Mill's requirements for pine pulpwood and residual chips, as well as a portion of the Company's needs for hardwood pulpwood at the West Monroe Mill. An assignee of Plum Creek supplies residual chips to the Company pursuant to such supply agreement. If the supply agreement was terminated, the Company may not be able to find an alternative, comparable supplier or suppliers capable of providing the Company its pine pulpwood and hardwood needs on terms or in amounts satisfactory to the Company. Moreover, significant increases in the cost of these materials, to the extent not reflected in prices for the Company's products, could have a material adverse effect on the Company's results of operations.

The Company is subject to the following significant risks associated with operating in foreign countries: devaluations and fluctuations in currency exchange rates, imposition of limitations on conversion of foreign currencies into U.S. dollars or remittance of dividends and other payments by foreign subsidiaries, imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries, hyperinflation in certain foreign countries and imposition or increase of investment and other restrictions by foreign governments. If any of the above events were to occur, the Company's results of operations or cash flows could be negatively impacted, possibly materially.

While the Company periodically reassesses material trends and uncertainties affecting the Company's results of operations and financial condition in connection with its preparation of management's discussion and analysis of results of operations and financial condition contained in its quarterly and annual reports, the Company does not intend to review or revise any particular forward-looking statement referenced in this report in light of future events.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

The Company believes the following accounting policies are the most critical since these policies require significant judgment or involve complex estimations that are important to the portrayal of the Company's financial conditions and operating results:

The Company recognizes revenue when pervasive evidence of a sales arrangement exists, delivery has occurred, the price to the buyer is fixed and determinable, and the collectibility of the sales price is reasonably assured which is primarily when goods are shipped to customers. Payments from packaging machinery use agreements received in advance are recognized on a straight-line basis over the term of the agreements. Customer returns and allowances are provided for based on estimates.

The Company's inventories are stated at the lower of cost or market. Cost of inventories is determined principally on the last-in, first-out (LIFO) basis. Average cost basis is used to determine the cost of supplies inventories. Inventories are stated net of an allowance for slow-moving and obsolete inventory, which is based on estimates. If the condition of the inventories or the state of the Company's business would deteriorate, additional allowances may be required which would reduce income.

The Company reviews long-lived assets, including goodwill and certain identifiable intangibles for impairment whenever events or circumstances indicate that the carrying value of an asset may not be

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recoverable. Upon determination that the carrying value of the assets is impaired, the Company would record an impairment charge or loss.

The Company faces uncertainties relating to pending litigation and environmental remediation obligations (see Environmental and Legal Matters). The Company records accruals for such items based on estimates developed in consultation with legal counsel and environmental consultants at the time when the liability is probable and reasonably estimated. While there can be no assurance as to the ultimate outcome of any current lawsuits, claims or investigations relating to such uncertainties, the Company does not believe that such uncertainties will have a material adverse impact on the results of operations, cash flows or financial condition of the Company. However, future uncertainties may have a material adverse impact on the results of operations, cash flows or financial condition of the Company.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141 (SFAS No. 141), *Business Combinations* , which is effective January 1, 2002. SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company adopted SFAS No. 141 on January 1, 2002 and does not believe that the adoption will have a significant impact on its financial position and results of operations.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 142 (SFAS No. 142), *Goodwill and Other Intangible Assets* , which is effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The adoption of SFAS No. 142 will result in the discontinuation of amortization of goodwill recorded at December 31, 2001 of approximately \$8 million annually. Intangible assets with a determinable life will continue to be amortized over that period. The Company will adopt SFAS No. 142 as of January 1, 2002 and does not believe that any impairment charges will result from the adoption.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets* , which is effective January 1, 2002. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, as well as eliminating the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company adopted SFAS No. 144 on January 1, 2002 and the adoption did not have a significant impact on its financial position and results of operations.

Table of Contents**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The Company is exposed to market risk from changes in interest rates, foreign currency and commodity prices. To minimize these risks, the Company enters into various hedging transactions.

INTEREST RATES

The Company is exposed to changes in interest rates, primarily as a result of its short-term and long-term debt with both fixed and floating interest rates. The Company uses interest rate swap agreements effectively to fix the LIBOR rate on \$225,000,000 of variable rate borrowings.

INTEREST RATE SENSITIVITY PRINCIPAL (NOTIONAL) AMOUNT BY EXPECTED**MATURITY AVERAGE INTEREST (SWAP) RATE**

	December 31,							
(In thousands of dollars)	2002	2003	2004	2005	2006	Thereafter	Total	Fair Value
LIABILITIES:								
Long-term debt, including current portion:								
Fixed Rate	1,742	769	779	356	250,000	901,028	1,154,674	1,182,100
Average Interest Rate	8.7	6.5	6.5	6.5	10.3	10.7		
Variable Rate		75,000	75,000	220,150			370,150	373,945
Average Interest Rate, spread range is 2.75%	LIBOR + spread	LIBOR + spread	LIBOR + spread	LIBOR + spread	LIBOR + spread	LIBOR + spread		
INTEREST RATE DERIVATIVE FINANCIAL INSTRUMENTS RELATED TO DEBT:								
Interest rate swap:								
Pay fixed/receive variable	225,000						225,000	(5,389)
Average pay rate	5.55%							
Average receive rate	Three-Month LIBOR							

FOREIGN EXCHANGE RATES

The Company enters into forward exchange contracts to effectively hedge substantially all accounts receivable and certain accounts payable resulting from transactions denominated in foreign currencies. The purpose of these forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from the collection of the hedged accounts receivable or payment of the hedged accounts payable will be adversely affected by changes in exchange rates. The Company also enters into foreign currency options and forward exchange contracts to hedge certain anticipated foreign currency transactions. The purpose of these contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from anticipated foreign currency transactions will be adversely affected by changes in exchange rates.

Table of Contents**FOREIGN EXCHANGE RATES SENSITIVITY CONTRACTUAL AMOUNT BY EXPECTED MATURITY AVERAGE CONTRACTUAL EXCHANGE RATE**

(In thousands of dollars)	December 31, 2001	Fair Value
FORWARD EXCHANGE AGREEMENTS:		
Functional Currency:		
Yen		
Receive \$US/ Pay Yen	7,282	244
Weighted average contractual exchange rate	127.25	
Pay \$US/ Receive Yen	3,608	(89)
Weighted average contractual exchange rate	128.40	
Euro		
Receive \$US/ Pay Euro	9,539	52
Weighted average contractual exchange rate	0.90	
Pay \$US/ Receive Euro	4,398	(40)
Weighted average contractual exchange rate	0.90	
British Pound		
Receive \$US/ Pay GBP	5,800	(52)
Weighted average contractual exchange rate	1.44	
Pay \$US/ Receive GBP	2,010	36
Weighted average contractual exchange rate	1.43	
Australian Dollar		
Receive \$US/ Pay AUD	2,856	(3)
Weighted average contractual exchange rate	0.51	
Pay \$US/ Receive AUD	1,693	(10)
Weighted average contractual exchange rate	0.51	
Other		
Net Receive various/ Pay various	6,249	74
Weighted average contractual exchange rate	Various	

The remaining forward exchange agreements (other than the Yen, Australian Dollar, British Pound and Euro) listed above represent contracts in several other countries' currencies, including the Euro, British Pound, Norway Kroner and the Denmark Kroner. In each instance, the fair value of the net position of the Company's forward exchange agreements in the respective currencies is not material at December 31, 2001.

NATURAL GAS HEDGING CONTRACTS

The Company enters into fixed price natural gas contracts designed to effectively hedge prices for a substantial portion of its natural gas requirements at its two U.S. mills. The purpose of the fixed price natural gas contracts is to eliminate or reduce price risk with a focus on making cash flows more predictable. As of December 31, 2001, the Company had entered into contracts to hedge substantially all of its natural gas requirements for its two U.S. mills through December 31, 2002. The contract price and fair value of these natural gas contracts was approximately \$22.3 million and \$14.9 million, respectively. These contracts are not accounted for as derivative instruments under SFAS No. 133 because they qualify for the normal purchase exemption.

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ITEM 8. FINANCIAL STATEMENTS

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RIVERWOOD HOLDING, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

	As Restated December 31, 2001	December 31, 2000
ASSETS		
Current Assets:		
Cash and Equivalents	\$ 7,369	\$ 18,417
Receivables, Net of Allowances	121,409	137,695
Inventories	180,854	175,972
Prepaid Expenses	5,901	13,594
Total Current Assets	315,533	345,678
Property, Plant and Equipment, at Cost:		
Land and Improvements	38,216	38,801
Buildings	109,988	109,870
Machinery and Equipment	1,800,778	1,782,155
	1,948,982	1,930,826
Less, Accumulated Depreciation	659,597	562,235
Property, Plant and Equipment, Net	1,289,385	1,368,591
Deferred Tax Assets	7,923	1,897
Investments in Net Assets of Equity Affiliates	4,017	5,882
Goodwill, Net of Accumulated Amortization of \$45,494 in 2001 and \$37,753 in 2000	276,482	273,436
Other Assets	127,261	125,873
Total Assets	\$ 2,020,601	\$ 2,121,357
LIABILITIES		
Current Liabilities:		
Short-Term Debt	\$ 11,817	\$ 15,908
Accounts Payable	95,971	100,261
Compensation and Employee Benefits	24,689	31,297
Income Taxes	2,175	1,481
Interest Payable	41,588	33,924
Other Accrued Liabilities	29,885	33,476
Total Current Liabilities	206,125	216,347
Long-Term Debt, Less Current Portion	1,523,082	1,516,881
Deferred Income Taxes	14,422	9,132
Other Noncurrent Liabilities	52,691	66,974
Total Liabilities	1,796,320	1,809,334
CONTINGENCIES AND COMMITMENTS (Note 15)		
	8,061	8,061

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Class A Redeemable Common Stock \$120/share redemption value; 67,180 shares issued, authorized and outstanding at December 31, 2001 and at December 31, 2000

SHAREHOLDERS EQUITY

Common Stock par value \$.01 per share		
Class A Common Stock, 9,000,000 shares authorized; 7,067,180 shares designated; 7,000,000 shares of non-redeemable common stock issued and outstanding	70	70
Class B Common Stock, 3,000,000 shares authorized; 500,000 shares of non-redeemable common stock issued and outstanding	5	5
Capital in Excess of Par Value	748,753	748,813
Accumulated Deficit	(493,767)	(415,875)
Accumulated Derivative Instruments Loss	(4,570)	
Cumulative Currency Translation Adjustment	(34,271)	(29,051)
Total Shareholders Equity	216,220	303,962
Total Liabilities and Shareholders Equity	\$ 2,020,601	\$ 2,121,357

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**RIVERWOOD HOLDING, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME****(In thousands of dollars)**

	As Restated Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Net Sales	\$ 1,201,613	\$ 1,192,362	\$ 1,174,665
Cost of Sales	966,236	923,851	933,924
Selling, General and Administrative	116,510	112,200	114,402
Research, Development and Engineering	5,111	4,554	4,078
Restructuring Credit		(2,600)	
Gain on Sale of Investment		(70,863)	
Other Expense (Income), Net	18,825	4,731	1,798
Income from Operations	94,931	220,489	120,463
Interest Income	944	848	889
Interest Expense	158,910	181,285	179,197
(Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates	(63,035)	40,052	(57,845)
Income Tax Expense	6,627	3,009	3,936
(Loss) Income before Equity in Net Earnings of Affiliates	(69,662)	37,043	(61,781)
Equity in Net Earnings of Affiliates	993	3,356	7,110
(Loss) Income before Extraordinary Item and Cumulative Effect of a Change in Accounting Principle	(68,669)	40,399	(54,671)
Extraordinary Loss on Early Extinguishment of Debt, Net of Tax of \$0	(8,724)	(2,117)	
(Loss) Income before Cumulative Effect of a Change in Accounting Principle	(77,393)	38,282	(54,671)
Cumulative Effect of a Change In Accounting Principle Net of Tax of \$0	(499)		
Net (Loss) Income	(77,892)	38,282	(54,671)
Other Comprehensive (Loss) Income, Net of Tax:			
Derivative Instruments:			
Transition Adjustment	(1,094)		
Derivative Loss, Net	(3,476)		
Foreign Currency Translation Adjustments	(5,220)	(13,620)	62
Comprehensive (Loss) Income	\$ (87,682)	\$ 24,662	\$ (54,609)

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**RIVERWOOD HOLDING, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands of dollars)**

	As Restated Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (Loss) Income	\$ (77,892)	\$ 38,282	\$ (54,671)
Noncash Items Included in Net (Loss) Income:			
Depreciation and Amortization	137,143	143,541	142,597
Cumulative Effect of a Change in Accounting Principle	499		
Extraordinary Loss on Early Extinguishment of Debt	8,724	2,117	
Deferred Income Taxes	(731)	(2,538)	(586)
Pension, Postemployment and Postretirement Benefits Expense, Net of Contributions	4,908	1,822	4,761
Restructuring Credit		(2,600)	
Gain on Sale of Investment		(70,863)	
Net Gain on Sale of Assets		(691)	
Equity in Net Earnings of Affiliates, Net of Dividends	(283)	1,727	(2,596)
Amortization of Deferred Debt Issuance Costs	7,564	10,261	10,268
LIFO Valuation Adjustments	12,335	(6,936)	(4,876)
Other	5,719		1,426
Net (Loss) of International Entities for the Month of December 1999 (See Note 2)			(1,573)
Changes in Operating Assets & Liabilities			
Receivables	17,261	15,677	(16,884)
Inventories	(13,799)	1,904	(12,426)
Prepaid Expenses	2,839	(3,181)	(2,242)
Accounts Payable	(4,742)	5,582	(13,674)
Compensation and Employee Benefits	(11,471)	(7,606)	(10,642)
Income Taxes	614	1,024	(786)
Other Accrued Liabilities	(1,494)	(26,927)	(10,445)
Other Noncurrent Liabilities	505	(1,741)	(11,010)
Net Cash Provided by Operating Activities	87,699	98,854	16,641
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of Property, Plant and Equipment	(57,297)	(62,062)	(66,018)
Payment for Acquisitions		(12,500)	
Payment for Settlement of Tax Matters Relating to the Merger	(29,500)		
Proceeds from Sales of Assets, Net of Selling Costs		205,714	5,324
Increase in Other Assets	(3,185)	(3,849)	(7,062)
Net Cash (Used in) Provided by Investing Activities	(89,982)	127,303	(67,756)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings under Revolving Credit Facilities	523,910	373,400	368,750
Payment on Revolving Credit Facilities	(617,637)	(445,690)	(312,850)
Payments on Debt	(488,972)	(151,469)	(6,290)
Proceeds from Issuance of Debt	592,500		
Increase in Debt Issuance Costs	(18,983)		
(Repurchases) of Redeemable Common Stock, Net	(360)	(48)	(2,927)

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Issuance of Redeemable Common Stock	300	560	2,985
	<u> </u>	<u> </u>	<u> </u>
Net Cash (Used in) Provided by Financing Activities	(9,242)	(223,247)	49,668
	<u> </u>	<u> </u>	<u> </u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH	477	1,399	1,715
	<u> </u>	<u> </u>	<u> </u>
Net (Decrease) Increase in Cash and Equivalents	(11,048)	4,309	268
Cash and Equivalents at Beginning of Period	18,417	14,108	13,840
	<u> </u>	<u> </u>	<u> </u>
CASH AND EQUIVALENTS AT END OF PERIOD	\$ 7,369	\$ 18,417	\$ 14,108
	<u> </u>	<u> </u>	<u> </u>

The accompanying notes are an integral part of the consolidated financial statements.

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RIVERWOOD HOLDING, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands of dollars)

	Class A		Class B			As Restated	As Restated		As Restated
	Non-Redeemable Common Stock		Non-Redeemable Common Stock		Capital in Excess of Par Value	Retained Earnings (Accumulated Deficit)	Cumulative Currency Translation Adjustment	Accumulated Derivative Instruments Loss	Total Shareholders Equity
	Shares	Amount	Shares	Amount					
BALANCES AT DECEMBER 31, 1998	7,000,000	\$ 70	500,000	\$ 5	\$ 750,100	\$(397,913)	\$(15,493)	\$	\$ 336,769
Net (Loss)						(54,671)			(54,671)
Net (Loss) of International Entities for the Month of December 1999 (See Note 2)						(1,573)			(1,573)
Currency Translation Adjustment							62		62
Adjustment to Redemption Value of Redeemable Common Stock, Net of (Repurchases) Issuance					(939)				(939)
BALANCES AT DECEMBER 31, 1999	7,000,000	\$ 70	500,000	\$ 5	749,161	(454,157)	(15,431)		279,648
Net Income						38,282			38,282
Currency Translation Adjustment							(13,620)		(13,620)
Adjustment to Redemption Value of Redeemable Common Stock, Net of (Repurchases) Issuance					(348)				(348)
BALANCES AT DECEMBER 31, 2000	7,000,000	\$ 70	500,000	\$ 5	748,813	(415,875)	(29,051)		303,962
Net (Loss), As Restated						(77,892)			(77,892)
Accumulated Derivative Instruments Loss								(4,570)	(4,570)
Currency Translation Adjustment, As Restated (Repurchases) Issuance of Redeemable Common Stock, Net					(60)		(5,220)		(5,220)

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BALANCES AT DECEMBER 31, 2001, As Restated	7,000,000	\$ 70	500,000	\$ 5	\$ 748,753	\$(493,767)	\$(34,271)	\$(4,570)	\$216,220
	_____	_____	_____	_____	_____	_____	_____	_____	_____

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION**

Riverwood Holding, Inc. (Riverwood Holding) and its wholly-owned subsidiary RIC Holding, Inc. (RIC Holding) and the corporation formerly named CDRO Acquisition Corporation were incorporated in 1995 to acquire the stock of our predecessor, the corporation formerly named Riverwood International Corporation (RIC).

On March 27, 1996, Riverwood Holding, through its wholly-owned subsidiaries, acquired all of the outstanding shares of common stock of RIC. On such date, Acquisition Corp. was merged into RIC. RIC, as the surviving corporation in the Merger, became a wholly-owned subsidiary of RIC Holding. On March 28, 1996, RIC transferred substantially all of its properties and assets to Riverwood International USA, Inc., other than the capital stock of Riverwood International USA, Inc., and RIC was merged into RIC Holding. Thereupon, Riverwood International USA, Inc., was renamed Riverwood International Corporation. Upon consummation of the Subsequent Merger, RIC Holding, as the surviving corporation in the Subsequent Merger, became the parent company of Riverwood International Corporation (Riverwood International).

Riverwood Holding and RIC Holding, Inc., a wholly-owned subsidiary, conducted no significant business and have no independent assets or operations other than in connection with the Merger and related transactions through March 27, 1996. Riverwood Holding and RIC Holding, Inc. fully and unconditionally guarantee substantially all of the debt of Riverwood International.

In connection with the Merger, the purchase method of accounting was used to establish and record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair market values of the assets acquired and liabilities assumed was recorded as goodwill.

References to the Company are to Riverwood Holding and its subsidiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company.

(A) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include all of the accounts of Riverwood Holding, Inc. and its majority-owned and controlled subsidiaries. The accompanying consolidated financial statements include the worldwide operations of the Coated Board segment which includes the paperboard, packaging, and packaging machinery businesses and the Containerboard segment. All significant transactions and balances between the consolidated operations have been eliminated.

Effective December 1, 1999, the Company changed its international subsidiaries fiscal year end to December 31. Previously, the Company's international subsidiaries were principally consolidated and reported on the basis of fiscal years ending November 30. Accordingly, the net activity for the month of December 1999 for the international entities is shown as an adjustment to retained earnings in the accompanying financial statements. The following represents summarized international results for the month of December 1999:

(In thousands of dollars)	Month Ended December 31, 1999
Net Sales	\$22,370
Net (Loss)	\$ (1,573)

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) CASH AND EQUIVALENTS

Cash and equivalents include time deposits, certificates of deposit and other marketable securities with original maturities of three months or less.

(C) INVENTORIES

Inventories are stated at the lower of cost or market. Cost of inventories is determined principally on the last-in, first-out (LIFO) basis. Average cost basis is used to determine the cost of supplies inventories. Inventories are stated net of an allowance for slow-moving and obsolete inventory.

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Betterments, renewals and extraordinary repairs that extend the life of the asset are capitalized; other repairs and maintenance charges are expensed as incurred. The Company's cost and related accumulated depreciation applicable to assets retired or sold are removed from the accounts and the gain or loss on disposition is recognized in income.

Costs directly associated with the development and testing of computer information systems for internal use are deferred and included in property, plant and equipment. Such costs are amortized on a straight-line basis over the expected useful life of 5 years. Costs indirectly associated with such projects and ongoing maintenance costs are expensed as incurred. A total of \$1.4 million and \$1.8 million in costs relating to software development were capitalized in 2001 and 2000, respectively, and were included in property, plant and equipment at December 31, 2001 and December 31, 2000.

Interest is capitalized on major projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Capitalized interest was approximately \$2.1 million, \$1.3 million, and \$1.4 million in the years ended December 31, 2001, 2000, and 1999, respectively.

(E) DEPRECIATION AND AMORTIZATION

Depreciation and amortization are principally computed using the straight-line method based on the following estimated useful lives of the related assets:

Buildings	10 to 40 years
Land improvements	3 to 20 years
Machinery and equipment	2 to 40 years
Furniture and fixtures	1 to 12 years
Automobiles and light trucks	2 to 5 years

For certain major capital additions, the Company computes depreciation on the units-of-production method until the asset's designed level of production is achieved and sustained.

The Company assesses its long-lived assets other than goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects future cash flows, undiscounted and before interest, over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets. The Company assesses the appropriateness of the useful life of its long-lived assets periodically.

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill is amortized on a straight-line basis over 40 years. The cost of patents, licenses and trademarks is amortized on a straight-line basis over 15 to 20 years. The related amortization expense is included in Other Expense (Income), Net. The Company assesses goodwill for impairment whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects future cash flows, undiscounted and before interest, over the remaining life of the goodwill. If these projected cash flows are less than the carrying amount of the goodwill, an impairment would be recognized, resulting in a write down of goodwill with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount of the goodwill and the undiscounted future cash flows before interest (see Note 26).

(F) INTERNATIONAL CURRENCY

The functional currency for most of the international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to Shareholders' Equity. Gains and losses on foreign currency transactions are included in Other Expense (Income), Net for the period in which the exchange rate changes.

The Company enters into forward exchange contracts to hedge certain foreign currency denominated exposures and option contracts to hedge anticipated transactions denominated in foreign currency. Realized and unrealized gains and losses on these contracts are included in Other Expense (Income), Net. The discount or premium on an option or forward exchange contract is included in the measurement of the basis of the related foreign currency transaction when recorded.

(G) INCOME TAXES

The Company accounts for income taxes under the asset and liability method whereby the effect of changes in corporate tax rates on deferred income taxes is recognized currently as an adjustment to income tax expense. The asset and liability method also requires that deferred tax assets or liabilities be recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A valuation allowance is established for deferred tax assets when it is more likely than not that the benefits of such assets will not be realized.

(H) REVENUE RECOGNITION

The Company recognizes revenue when pervasive evidence of a sales arrangement exists, delivery has occurred, the price to the buyer is fixed and determinable, and the collectibility of the sales price is reasonably assured which is primarily when goods are shipped to customers. Payments from packaging machinery use agreements received in advance are recognized on a straight-line basis over the term of the agreements. Customer returns and allowances have been provided for based on estimates.

(I) SHIPPING AND HANDLING COSTS

During 2000, the Emerging Issues Task Force (EITF) issued EITF 00-10, Accounting for Shipping and Handling Fees and Costs. Previously, the Company recognized shipping and handling costs as a reduction to Net Sales. EITF 00-10 requires shipping and handling costs to be included in Cost of Sales. Accordingly, shipping and handling costs have been reclassified to Cost of Sales for all periods presented. Such costs totaled approximately \$64.9 million in 2001, \$63.7 million in 2000 and \$62.0 million in 1999.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)***(J) INSURANCE RESERVES*

It is the Company's policy to self-insure or fund a portion of certain expected losses related to group health benefits. Provisions for losses expected are recorded based on the Company's estimates, on an undiscounted basis, of the aggregate liabilities for known claims and estimated claims incurred but not reported.

(K) ENVIRONMENTAL REMEDIATION RESERVES

The Company records accruals for environmental obligations based on estimates developed in consultation with environmental consultants and legal counsel. Accruals for environmental liabilities are established in accordance with the American Institute of Certified Public Accountants Statement of Position 96-1, *Environmental Remediation Liabilities*. The Company records a liability at the time when it is probable and can be reasonably estimated. Such liabilities are not reduced for potential recoveries from insurance carriers. Costs of future expenditures are not discounted to their present value.

(L) RECLASSIFICATION

The Company has reclassified the presentation of certain prior period information to conform with the current presentation format.

(M) USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE 3 RECEIVABLES

The components of receivables at December 31 were as follows:

(In thousands of dollars)	As Restated 2001	2000
Trade	\$ 118,650	\$ 136,192
Less, allowance	3,294	2,769
	<u>115,356</u>	<u>133,423</u>
Other	6,053	4,272
	<u>\$ 121,409</u>	<u>\$ 137,695</u>

NOTE 4 FINANCIAL INSTRUMENTS

The Company has financial instruments which include foreign currency option and forward exchange contracts and interest rate swap agreements. These instruments involve, to varying degrees, elements of market and credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company does not hold or issue such financial instruments for trading purposes.

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The Company enters into forward exchange contracts to effectively hedge substantially all accounts receivable and certain accounts payable resulting from transactions denominated in foreign currencies. The purpose of the forward exchange contracts is to protect the Company from the risk that the eventual functional

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 FINANCIAL INSTRUMENTS (Continued)

currency cash flows resulting from the collection of the hedged accounts receivable or payment of the hedged accounts payable will be adversely affected by changes in exchange rates. At December 31, 2001 and 2000, the Company had various foreign currency forward exchange contracts, with maturities ranging up to one year. When aggregated and measured in U.S. dollars at year-end exchange rates, the notional amount of these forward currency exchange contracts totaled approximately \$20.0 million and \$29.7 million at December 31, 2001 and 2000, respectively. Generally, unrealized gains and losses resulting from these contracts are recognized currently in operations and approximately offset corresponding unrealized gains and losses recognized on the hedged accounts receivable or accounts payable.

During 2001 and 2000, the Company entered into option contracts and forward exchange contracts to hedge certain anticipated foreign currency transactions. The purpose of the option contracts and forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from anticipated foreign currency transactions will be adversely affected by changes in exchange rates. At December 31, 2001, no option contracts existed. At December 31, 2000, various option contracts existed, which expired on various dates through the year 2001. When measured in U.S. dollars at year-end exchange rates, the year 2000 notional amount of the purchased option contracts totaled approximately \$37.1 million. Gains and losses, if any, related to these contracts are recognized in income when the anticipated transaction affects income. As of December 31, 2001 and 2000, when aggregated and measured in U.S. dollars at year-end exchange rates, the notional amount of these forward exchange contracts totaled approximately nil and \$33.4 million, respectively.

The Company uses interest rate swap agreements to fix a portion of its variable rate Term Loan Facility to a fixed rate in order to reduce the impact of interest rate changes on future income. The differential to be paid or received under these agreements is recognized as an adjustment to interest expense related to the debt. At December 31, 2001, the Company had interest rate swap agreements with a notional amount of \$225 million, which expire on various dates through the year 2002, under which the Company will pay fixed rates of 4.75 percent to 6.53 percent and receive three-month LIBOR. At December 31, 2000, the Company had interest rate swap agreements with a notional amount of \$200 million, which expire on various dates through the year 2002, under which the Company paid fixed rates of 6.53 percent to 6.92 percent and receive three-month LIBOR.

The Company's customers are not concentrated in any specific geographic region, but are concentrated in certain industries. Customers of the Coated Board business segment include the beverage and packaged foods industries. Customers of the Containerboard business segment include integrated and non-integrated containerboard converters. During 2001, the Company had one customer who accounted for approximately 13 percent of the Company's net sales and another customer who accounted for approximately 11 percent of the Company's net sales. During 2000, the Company had two customers who each accounted for approximately 11 percent of the Company's net sales. During 1999, one customer accounted for approximately 11 percent of the Company's net sales. There were no significant accounts receivable from a single customer at December 31, 2001 or 2000. The Company reviews a customer's credit history before extending credit. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

The Company enters into fixed price natural gas contracts designed to effectively hedge prices for a substantial portion of its natural gas requirements at its two U.S. mills. The purpose of the fixed price natural gas contracts is to eliminate or reduce price risk with a focus on making cash flows more predictable. As of December 31, 2001, the Company had entered into contracts to hedge substantially all of its natural gas requirements for its two U.S. mills through December 31, 2002. The contract price and fair value of these natural gas contracts was approximately \$22.3 million and \$14.9 million, respectively. These contracts are not accounted for as derivative instruments under Statement of Financial Accounting Standards (SFAS)

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 4 FINANCIAL INSTRUMENTS (Continued)**

No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities* (SFAS No. 133), as they qualify for the normal purchase exemption.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate that value:

NONTRADE RECEIVABLES AND SHORT TERM BORROWINGS

The carrying amount of these instruments approximates fair value due to their short-term nature.

LONG-TERM DEBT

The fair value of long-term debt is based on quoted market prices.

FORWARD EXCHANGE AND OPTION CONTRACTS

The fair value of forward and option contracts is based on quoted market prices.

INTEREST RATE SWAP AGREEMENTS

The fair value of interest rate swap agreements is based on quoted market prices by counter parties.

The carrying amounts and estimated fair value of the Company's financial instruments as of December 31 were as follows:

(In thousands of dollars)	2001		2000	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
Nontrade receivables	\$ 6,053	\$ 6,053	\$ 4,272	\$ 4,272
Short-term borrowings	\$ 10,075	\$ 10,075	\$ 15,192	\$ 15,192
Long-term debt	\$ 1,524,824	\$ 1,556,045	\$ 1,517,597	\$ 1,473,433
Currency forward exchange contracts	\$ 212	\$ 212	\$ 686	\$ 686
Currency option contracts	\$	\$	\$ 1,027	\$ 528
Interest rate swap contracts	\$ (5,389)	\$ (5,389)	\$	\$ (1,094)

NOTE 5 INVENTORIES

The major classes of inventories at December 31 were as follows:

(In thousands of dollars)	As Restated 2001	2000
Finished goods	\$ 87,277	\$ 88,101
Work-in progress	12,194	9,967

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Raw materials	45,656	40,374
Supplies	35,727	37,530
	<u> </u>	<u> </u>
	\$ 180,854	\$ 175,972
	<u> </u>	<u> </u>

Inventories in the amount of \$38.9 million and \$37.7 million at December 31, 2001 and 2000, respectively, were valued using the first-in, first-out (FIFO) or average cost method. The balance of the inventories was valued using the LIFO method. The shortage of FIFO values over amounts for financial

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 5 INVENTORIES (Continued)**

reporting purposes (LIFO) was \$5.9 million and \$14.8 million at December 31, 2001 and 2000, respectively. During the years ended December 31, 2001, 2000 and 1999, the Company recognized a charge (credit) relating to LIFO valuation of \$12.3 million, \$(6.9) million, and \$(4.9) million, respectively.

In connection with the Merger, the Company adjusted its inventory balances to its estimated fair value which resulted in a write-up to inventory of approximately \$13.6 million and is being charged to cost of sales when the March 27, 1996 LIFO base inventory layers are liquidated. There was no write-up of inventories charged to cost of sales during the three years in the period ended December 31, 2001. At December 31, 2001 and 2000, \$11.5 million of the write-up remained in Inventory on the Consolidated Balance Sheets.

NOTE 6 INVESTMENTS IN NET ASSETS OF EQUITY AFFILIATES

Investments are accounted for using the equity method of accounting. The most significant of these investments was Igaras, an integrated containerboard producer located in Brazil of which the Company owned 50 percent. On July 1, 2000, Igaras spun off the multiple packaging portion of its business into a newly formed company, of which the Company owned 50 percent. On October 3, 2000, the Company, along with its joint venture partner, Cia Suzano de Papel e Celulose, completed the sale of the jointly-held subsidiary Igaras for approximately \$510 million, including the assumption of \$112 million of debt. The Company recognized a gain of \$70.9 million, in connection with the sale. On October 12, 2000, the Company purchased the remaining 50 percent of the newly formed company for \$12.5 million.

During 2001 and 2000, the Company received dividends from its equity investment in Rengo Riverwood Packaging, Ltd. (Rengo) totaling \$0.6 million and \$0.5 million, respectively, net of taxes of \$0.1 million and \$0.1 million, respectively.

NOTE 7 OTHER ASSETS

Other Assets included intangible assets at December 31, and consisted of the following:

(In thousands of dollars)	As Restated 2001	2000
Patents, licenses and trademarks	\$ 67,148	\$ 66,314
Less, accumulated amortization	(20,353)	(16,628)
	46,795	49,686
Deferred debt issuance costs, net	32,385	29,713
Pension assets	13,594	14,431
Capitalized spare parts	23,303	21,717
Deferred design costs	1,985	3,025
Other	9,199	7,301
	\$ 127,261	\$ 125,873

NOTE 8 SHORT-TERM DEBT

Short-Term Debt at December 31, consisted of the following:

(In thousands of dollars)	2001	2000
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Short-term borrowings	\$ 10,075	\$ 15,192
Current portion of long-term debt	1,742	716
	<u> </u>	<u> </u>
	\$ 11,817	\$ 15,908
	<u> </u>	<u> </u>

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 SHORT-TERM DEBT (Continued)

Short-term borrowings are principally at the Company's international subsidiaries. The weighted average interest rate on Short-term borrowings as of December 31, 2001 and 2000 was 3.4 percent and 2.6 percent, respectively.

In connection with the Merger, the Company called \$125 million of Convertible Subordinated Notes, of which \$0.2 million was not redeemed at December 31, 2001 and 2000, and is included in Current portion of long-term debt.

NOTE 9 COMPENSATION AND EMPLOYEE BENEFITS

Accruals for future compensated employee absences, principally vacation, were \$12.1 million and \$11.4 million at December 31, 2001 and 2000, respectively, and were included in Compensation and Employee Benefits on the Consolidated Balance Sheets.

NOTE 10 LONG-TERM DEBT

In connection with the Merger, the Company entered into a credit agreement that provided for senior secured credit facilities consisting of a term loan facility and a \$400 million revolving credit facility. Such credit agreement, term loan facility and revolving facility, as in effect prior to the August 10, 2001 amendment and restatement discussed below, are referred to herein as the Credit Agreement, the Term Loan Facility and the Revolving Facility, respectively. In addition, Riverwood International Machinery, Inc., a wholly-owned subsidiary of Riverwood, entered into a credit agreement providing for a \$140 million secured revolving credit facility (the Machinery Facility) for the purpose of financing or refinancing packaging machinery. In connection with the Merger, the Company also completed an offering of \$250 million aggregate principal amount of 10 1/4 percent Senior Notes due 2006 (the 1996 Senior Notes) and \$400 million aggregate principal amount of 10 7/8 percent Senior Subordinated Notes due 2008 (the 1996 Senior Subordinated Notes) and together with the 1996 Senior Notes, the 1996 Notes).

On July 28, 1997, the Company completed an offering of \$250 million principal amount of 10 5/8 percent Senior Notes due 2007 (the Initial Notes). The net proceeds of this offering were applied to prepay certain revolving credit borrowings under the Revolving Facility (without any commitment reduction) and to refinance certain Tranche A term loans and other borrowings under the Credit Agreement. A registration statement under the Securities Act of 1933, as amended, registering senior notes of the Company identical in all material respects to the Initial Notes (the Exchange Notes) offered in exchange for the Initial Notes became effective October 1, 1997. On November 3, 1997, the Company completed its exchange offer of the Initial Notes for the Exchange Notes. The Initial Notes and the Exchange Notes are referred to herein as the 1997 Notes.

In connection with the sale of Igaras on October 3, 2000, the Company entered into Amendment No. 5 dated September 12, 2000, effective October 3, 2000, to the Credit Agreement. Pursuant to the amendment, the Company applied \$120 million and \$25 million of the sale proceeds to its 2001 and 2002 term loan maturities under the Term Loan Facility, respectively. The Company recognized a loss on the early extinguishment of debt of approximately \$2.1 million in the fourth quarter of 2000. The Company applied the remaining portion of the proceeds (approximately \$48 million) to the Revolving Facility (without any commitment reduction). In connection with Amendment No. 5, the Company canceled its Machinery Facility. In addition, certain of the financial covenants included in the Credit Agreement were amended.

On June 21, 2001, the Company completed an offering of \$250 million principal amount of 10 5/8 percent Senior Notes due 2007 (the Initial 2001 Notes). The Initial 2001 Notes were sold at a price of 103 percent of par. The proceeds from this offering of approximately \$251.5 million, net of approximately \$6 million of transaction fees and expenses, were applied to prepay a portion of the outstanding borrowings under the Term

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 LONG-TERM DEBT (Continued)

Loan Facility. During the second quarter of 2001, the Company recorded a non-cash, extraordinary charge to earnings of approximately \$2.8 million, net of tax of nil, related to the write-off of the applicable portion of deferred debt issuance costs on the term loans. In connection with this offering, on June 6, 2001, the Company entered into Amendment No. 6 to the Credit Agreement. The amendment modified certain financial and other covenants, including minimum EBITDA (as defined in the Credit Agreement) requirements, in the Credit Agreement to reflect recent financial results and market and operating conditions. A registration statement under the Securities Act registering senior notes of the Company identical in all material respects to the Initial 2001 Notes (the Exchange 2001 Notes) offered in exchange for the Initial 2001 Notes became effective on August 27, 2001. On October 5, 2001, the Company completed its exchange offer of the Initial 2001 Notes for the Exchange 2001 Notes. The Initial 2001 Notes and the Exchange 2001 Notes are referred to herein as the 2001 Notes.

On August 10, 2001, the Company entered into an amendment and restatement of the Credit Agreement (the 2001 Senior Secured Credit Agreement) with certain lenders providing for senior secured credit facilities with aggregate commitments not to exceed \$635 million (the 2001 Facilities), including a \$335 million term loan facility (the 2001 Term Loan Facility) and a \$300 million revolving credit facility (the 2001 Revolving Facility). The proceeds of the initial borrowings under the 2001 Facilities of approximately \$386.0 million, including \$51.0 million in revolving credit borrowings, were applied to repay in full the outstanding borrowings under the Term Loan Facility and the Revolving Facility and to pay approximately \$12 million of the estimated \$14 million of fees and expenses incurred in connection with the amendment and restatement of the Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash, extraordinary charge to earnings of approximately \$6.0 million, net of tax of nil, related to the write-off of the applicable remaining deferred debt issuance costs on the Term Loan Facility and the Revolving Facility.

The 2001 Senior Secured Credit Agreement imposes restrictions on the Company's ability to make capital expenditures and both the 2001 Senior Secured Credit Agreement and the indentures governing the 1996 Notes, the 1997 Notes and the 2001 Notes limit the Company's ability to incur additional indebtedness. Such restrictions, together with the highly leveraged nature of the Company, could limit the Company's ability to respond to market conditions, meet its capital spending program, provide for unanticipated capital investments or take advantage of business opportunities. The covenants contained in the 2001 Senior Secured Credit Agreement, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness or amend other debt instruments, pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted by Riverwood and its subsidiaries, make capital expenditures and engage in certain transactions with affiliates. The covenants contained in the indentures governing the 1996 Notes, the 1997 Notes and the 2001 Notes also impose restrictions on the operation of the Company's business.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 LONG-TERM DEBT (Continued)**

The financial covenants in the 2001 Senior Secured Credit Agreement specify, among other things, the following requirements for each four quarter period ended during the following test periods:

Test Period		Consolidated Debt to EBITDA(a) Leverage Ratio	Consolidated Interest Expense Ratio
September 30, 2001	December 30, 2002	5.85 to 1.00	1.75 to 1.00
December 31, 2002	December 30, 2003	5.50 to 1.00	2.00 to 1.00
December 31, 2003	December 30, 2004	5.00 to 1.00	2.10 to 1.00
December 31, 2004	December 30, 2005	4.70 to 1.00	2.25 to 1.00
December 31, 2005	December 30, 2006	4.40 to 1.00	2.25 to 1.00

Note:

(a) EBITDA as defined in the 2001 Senior Secured Credit Agreement

At December 31, 2001, the Company was in compliance with the financial covenants in the 2001 Senior Secured Credit Agreement. The Company's ability to comply in future periods with the financial covenants in the 2001 Senior Secured Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company's control and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies. If a violation of any of the covenants occurred, the Company would attempt to get a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The 2001 Senior Secured Credit Agreement and the indentures governing the 1996 Notes, 1997 Notes and 2001 Notes have covenants as well as certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions.

At December 31, 2001, the Company and its U.S. and international subsidiaries had the following amounts available under revolving credit facilities:

(In thousands of dollars)	Total Amount of Commitments	Total Amount Outstanding at December 31, 2001	Total Amount Available at December 31, 2001
Revolving Facility	\$ 300,000	\$ 35,429	\$ 264,571
International Facilities	14,581	10,015	4,566
	<u>\$ 314,581</u>	<u>\$ 45,444</u>	<u>\$ 269,137</u>

The Company anticipates pursuing additional working capital financing for its foreign operations as necessary. The Company believes that cash generated from operations, together with amounts available under its 2001 Revolving Facility and other available financing sources, will be adequate to permit the Company to meet its debt service obligations, capital expenditure program requirements, ongoing operating costs and working capital needs until the maturity of the 2001 Revolving Facility, although no assurance can be given in this regard. The Company's future financial and operating performance, ability to service or refinance its debt and ability to comply with the covenants and restrictions contained in its debt agreements, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond the

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Company's control and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 LONG-TERM DEBT (Continued)**

Long-Term Debt at December 31 consisted of the following:

(In thousands of dollars)	2001	2000
Senior Notes with interest payable semi-annually at 10.625 percent, payable in 2007	\$ 250,000	\$ 250,000
Senior Notes with interest payable semi-annually at 10.25 percent, payable in 2006	250,000	250,000
Senior Subordinated Notes with interest payable semi-annually at 10.875 percent, payable in 2008	400,000	400,000
Senior Secured Term Loan Facility with interest payable at various dates less than one year at floating rates (9.25 percent to 10.25 percent at December 31, 2000)		488,118
Senior Secured Term Loan Facility with interest payable at various dates less than one year at floating rates (4.85 percent at December 31, 2001), payable through 2005	335,000	
Senior Notes with interest payable semi-annually at 10.625 percent, payable in 2007	250,000	
Senior Secured Revolving Facility with interest payable at various dates less than one year at floating rates (4.67 percent to 6.5 percent at December 31, 2001) payable in 2005	35,150	
Senior Secured Revolving Facility with interest payable at various dates less than one year at floating rates (9.14 percent to 10.5 percent at December 31, 2000)		124,550
Senior Subordinated Notes with interest payable semi-annually at 11.25 percent, payable in 2002	804	804
Convertible Subordinated Notes with interest payable semi-annually at 6.75 percent, payable in 2002, convertible beginning March 27, 1996	209	209
Pollution control revenue bonds with interest payable semi-annually at 6.25 percent, payable through 2007	1,000	1,000
International Notes payable to banks with interest payable at various dates at interest rates of 7.79 percent to 10.0 percent at December 31, 2001, payable through 2004	533	99
Capitalized leases with interest payable of 3.6 percent, payable through 2005	2,099	2,785
Other	29	32
	<u>1,524,824</u>	<u>1,517,597</u>
Less, current portion	<u>1,742</u>	<u>716</u>
	<u>\$ 1,523,082</u>	<u>\$ 1,516,881</u>

The 2001 Term Loan Facility and the 2001 Revolving Facility were collateralized by substantially all of the net assets (including the capital stock of certain international subsidiaries) of the Company.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 10 LONG-TERM DEBT (Continued)**

Long-term debt maturities and expirations of funded long-term working capital commitments at December 31, 2001, were as follows:

(In thousands of dollars)	
2002	\$ 1,742
2003	75,769
2004	75,779
2005	220,506
2006	250,000
After 2006	901,028
	\$ 1,524,824

NOTE 11 REDEEMABLE COMMON STOCK

During the nine months ended December 31, 1996, Riverwood Holding completed an offering of Riverwood Holding Common Stock to certain members of management and key employees of the Company. As of December 31, 1996, the Company had issued 111,900 shares of Riverwood Holding Class A Common Stock to Management Investors at fair value for gross cash proceeds of \$11.2 million. During 2000, the Company issued 5,000 shares of additional Redeemable Common Stock to Management Investors at fair value for gross cash proceeds of \$0.6 million. The common stock held by Management Investors is mandatorily redeemable at fair market value as determined by the Executive Committee of the Board of Directors and in certain circumstances the Management Investors can require the Company to repurchase the Riverwood Holding Class A Common Stock. These shares are classified as Redeemable Common Stock on the Consolidated Balance Sheets and are carried at their redemption value of \$120 per share at December 31, 2001 and 2000. Accordingly, during 2001 and 2000, the Company recorded a charge to Capital in Excess of Par Value of nil and \$0.3 million, respectively, due to a change in the redemption value from the beginning of the year compared to the end of the year as determined considering a wide variety of factors including a valuation report from an independent outside firm and approved by the Executive Committee of the Board of Directors. During 2001 and 2000, the Company repurchased 3,000 and 450 shares of Redeemable Common Stock at a weighted average price of \$120.00 per share and \$106.67 per share, respectively.

In connection with the issuance of Redeemable Common Stock to Management Investors, the Company has guaranteed loans, with full recourse, from a bank to certain Management Investors totaling approximately \$0.3 million and \$0.7 million at December 31, 2001 and 2000, respectively.

NOTE 12 NONREDEEMABLE COMMON STOCK

On March 27, 1996, Riverwood Holding completed an offering of 7,000,000 shares of Class A Common Stock with a par value of \$0.01 per share to certain institutional investors for \$700 million. Total Class A Common Stock authorized for issuance at December 31, 2001 was 9,000,000 shares, of which amount 7,067,180 shares were outstanding, including 67,180 shares issued to Management Investors as Redeemable Common Stock (see Note 11). Also on March 27, 1996, Riverwood Holding completed an offering of 500,000 shares of Class B Common Stock with a par value of \$0.01 per share to an institutional investor for \$50 million. Total Class B Common Stock, which is non-voting, authorized for issuance at December 31, 2001 was 3,000,000 shares, of which 500,000 shares were outstanding.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 13 STOCK INCENTIVE PLANS**

In 1996, the Company developed a Long-Term Incentive Plan (LTP) designed to provide certain key executives and management options to purchase shares of redeemable Class A Common Stock. Additionally, in 1999 the Company developed a Supplemental Long-Term Incentive Plan (SLTP) to provide additional options to certain key executives and management. The following table summarizes information pertaining to options outstanding and exercisable at December 31, 2001:

Plan	Grant Date	Number Outstanding	Granted Weighted Average Exercise Price	Vesting Reference	Number Exercisable(8)	Exercisable Weighted Average Exercise Price
LTP	November 2000	4,800	\$ 115	(1)	1,600	\$ 115
SLTP	November 2000	5,000	115	(2)	1,667	115
SLTP	May-Dec, 1999	180,500	100	(3)	81,929	100
LTP	June-Dec, 1999	50,200	100	(4)	14,480	100
LTP	August 1998	22,500	100	(5)	9,600	100
LTP	March 1997	225,000	75	(6)	172,833	75
LTP	June 1996	57,410	100	(7)	50,660	100
	Total	545,410	\$ 89.96		332,769	\$ 87.16

Notes:

- (1) Options vest in five equal annual installments on the first five anniversaries of the date of grant, subject to continuous employment.
- (2) Options vest based upon a range of certain financial goals for two years. Each year, the vesting starts at 30% for achievement of a minimum financial target, and increases to a maximum of 50% per year, prorated on a straight-line basis for achievement of certain results above the minimum. Those options which do not vest in this period will vest, assuming the employee is still employed, nine years and six months following the date of grant.
- (3) Options vest based upon a range of certain financial goals over the next three years. Each year, the vesting starts at 20% for achievement of a minimum financial target, and increases to a maximum of 33 1/3% per year, prorated on a straight-line basis for achievement of certain financial results above the minimum. Those options which do not vest in this three-year period, will vest, assuming the employee is still employed at the Company, on December 31, 2008.
- (4) 35,600 of the options will vest in five equal annual installments on each of the first five anniversaries of the date of grant, subject to continuous employment. The remaining 14,600 options vest on the date that the Company achieves certain financial targets. Should those options not vest as described above, they will vest assuming the employee is still employed at the Company, nine years and six months following the date of grant.
- (5) 15,000 of the options will vest in four annual installments, on each of the first four anniversaries of the date of grant, subject to continuous employment, and the remaining 7,500 options will vest based on achievement of certain financial goals or on February 19, 2008, whichever occurs first.
- (6) 112,500 of these options will vest in five annual installments on each of the first five anniversaries of the date of grant, subject to continuous employment, and the remaining 112,500 have accelerated vesting based on achievement of certain financial goals or on September 30, 2006, whichever occurs first.

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- (7) 50,660 of the options will vest in five equal annual installments on the first five anniversaries of the date of grant, subject to continuous employment. The remaining 6,750 options vest on the date that the Company

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achieves certain financial targets. Should those options not vest as described above, they will vest assuming the employee is still employed at the Company, nine years and six months following the date of grant.

- (8) As of December 31, 2000 and 1999, there was exercisable options in the amount of 277,397 and 157,241, respectively.

A summary of option activity during the three years ended December 31, 2001 is as follows:

		Shares	Exercise Price
Outstanding	December 31, 1998	348,346	\$ 83.85
Granted		237,300	100.00
Exercised		(6,000)	(100.00)
Canceled		(25,736)	(100.00)
Outstanding	December 31, 1999	553,910	\$ 89.84
Granted		13,000	115.00
Exercised			
Canceled		(1,700)	(100.00)
Outstanding	December 31, 2000	565,210	\$ 90.39
Granted			
Exercised		(7,069)	(120.00)
Canceled		(12,731)	(103.77)
Outstanding	December 31, 2001	545,410	\$ 89.70

The weighted average contractual life of the outstanding options at December 31, 2001, is 6 years. The Company applies APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations in accounting for the Stock Options. Accordingly, the Company recognizes compensation expense for Stock Options when the exercise price is less than the related fair value at the date of grant or when the performance criteria is met. During the years ended December 31, 2001, 2000 and 1999, the Company recognized compensation expense of \$1.5 million, \$1.8 million, and \$0.7 million, respectively, related to Stock Options. Had compensation expense for the Company's grants of Stock Options been determined in accordance with Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123), the Company's Net (Loss) Income for the years ended December 31, 2001, 2000, and 1999, would have been approximately \$(78.3) million, \$37.8 million, and \$(57.0) million, respectively. The weighted average fair value of the stock options was estimated to be \$30.91 per option on the date of grant for stock options granted in 2000, and \$28.03 per option on the date of grant for stock options granted in 1999. The Company used the Black-Scholes option-pricing model to value the Stock Options with the following assumptions: dividend yield of zero, no volatility, risk-free interest rates ranging from 5.304 to 6.75 percent, a zero forfeiture rate and an expected life of 3 to 10 years.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 14 CURRENCY TRANSLATION ADJUSTMENT**

An analysis of changes in the Cumulative Currency Translation Adjustment included in Shareholders' Equity at December 31 was as follows:

(In thousands of dollars)	As Restated 2001	2000	1999
Cumulative currency translation adjustment at beginning of period	\$ (29,051)	\$ (15,431)	\$ (15,493)
Currency translation adjustments	(5,220)	(13,620)	62
	\$ (34,271)	\$ (29,051)	\$ (15,431)

NOTE 15 CONTINGENCIES AND COMMITMENTS

Total rental expense was approximately \$10.4 million, \$11.7 million, and \$16.6 million for the years ended December 31, 2001, 2000, and 1999.

At December 31, 2001, total commitments of the Company under long-term, non-cancelable contracts were as follows:

(In thousands of dollars)	Payment Due by Period				Total
	Less than 1 year	1-3 years	4-5 years	After 5 years	
Long-Term Debt	\$ 1,742	\$ 151,548	\$ 470,506	\$ 901,028	\$ 1,524,824
Operating Leases	13,821	17,975	2,588	946	35,330
Unconditional Purchase Obligations(A)	31,345	16,373	14,693	69,556	131,967
Total Contractual Cash Obligations	\$ 46,908	\$ 185,896	\$ 487,787	\$ 971,530	\$ 1,692,121

(A) Unconditional Purchase Obligations primarily consist of commitments related to wood processing and handling, natural gas and electricity and firm transportation of natural gas.

As of December 31, 2001, the Company had approximately 4,100 employees worldwide (excluding employees of joint ventures), approximately 3,000 of whom were members of unions and covered by collective bargaining agreements.

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs, which are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations.

In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

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The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds. Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and toxic chemicals and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of its facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 CONTINGENCIES AND COMMITMENTS (Continued)

The federal Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. The Company has, and in the future may again be, identified as a potentially responsible party at sites under CERCLA and similar state laws.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the cluster rules) that mandate more stringent controls on air and water discharges from the United States pulp and paper mills. The Company estimates that the capital spending that may be required to comply with the cluster rules could reach \$55 million to be spent at its two U.S. paper mills over a seven-year period that began in 2000. The Company estimates that it has spent approximately one-third of that amount for such compliance.

In late 1995, the Louisiana Department of Environmental Quality (DEQ) notified the Predecessor of potential liability for the remediation of hazardous substances at a wood treatment site in Shreveport, Louisiana that the Predecessor or its predecessors previously operated, and at a former oil refinery site in Caddo Parish, Louisiana which is on land that the Company previously owned. In response to these notices, the Company has provided additional information concerning these sites and has commenced its own evaluation of any claims and remediation liabilities for which it may be responsible. Subsequent to receipt in May 1996 of a Special Demand Letter from DEQ to remediate the site in Shreveport, the Company performed a soil and groundwater investigation at the site pursuant to an agreement with DEQ. In August 2001, the Company entered into a Cooperative Agreement for Remedial Action with DEQ and the landowners of the site, as well as a Mutual Release and Settlement Agreement with the landowners. Under the Cooperative Agreement, the Company will develop the remedial design and carry out the specified remediation at the site, which will include, among other things, removing contaminated soils, capping a portion of the site and future operations and maintenance, or O&M. If the Company fails to comply with the requirements of the Cooperative Agreement, including the prescribed time periods, the DEQ can impose stipulated penalties as specified in the Cooperative Agreement ranging from \$250 to \$1,000 per day of non-compliance. The Company has engaged a qualified contractor and expects completion of work by the end of 2002. Total costs for the Shreveport remedial action are approximately \$1.3 million, of which approximately \$0.8 million remain to be paid. These costs could increase if, for example, there is an increase in the amount of contaminated soils found on site. In addition, for the initial five years, O&M costs are estimated to be approximately \$0.1 million and groundwater monitoring costs are estimated to be approximately \$0.1 million. The Company has not estimated O&M or groundwater monitoring cost beyond this initial five-year period because the extent of any such O&M or groundwater monitoring obligation is unknown. In addition, the Company has reached a settlement agreement with another potentially responsible party that provides the Company with reimbursement of certain past costs and certain future costs incurred in connection with the remediation plan.

In September 1996, the Company received a Special Demand Letter from DEQ to remediate the site in Caddo Parish. The Company performed a waste inventory and treatability study at the site and subsequently met with DEQ in October 1999. On July 6, 2000, the Company and DEQ entered into a Settlement Agreement that describes in detail the remedial actions necessary for the Company to obtain full release of all future liability at this site. The Company has contracted with a vendor to perform the remedial actions as outlined in the Settlement Agreement and the work is currently proceeding. The remedial action requires, among other things, the neutralization, stabilization and consolidation of sludges and soils at this site, the capping of the consolidated materials, the establishment of a vegetative cover and five years of post-closure care of the capped area. The lump sum contract price with the contractor is approximately \$1.6 million, of which we have already paid approximately \$1.1 million. The Company no longer owns the site since transferring the property to another entity on October 22, 2000. The Company anticipates the remedial actions outlined in the Settlement Agreement will be completed during the second quarter of 2002 and, at that time, expects to be relieved of any future liability.

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RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 CONTINGENCIES AND COMMITMENTS (Continued)

The Company is involved in environmental remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as the Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. To address these contingent environmental costs, the Company has accrued reserves when such costs are probable and can be reasonably estimated. The Company believes that, based on current information and regulatory requirements, the accruals established by the Company for environmental expenditures are adequate. Based on current knowledge, to the extent that additional costs may be incurred that exceed the accrued reserves, such amounts are not expected to have a material impact on the results of operations, cash flows or financial condition of the Company, although no assurance can be given that significant costs will not be incurred in connection with clean-up activities at these properties, including the Shreveport and Caddo Parish sites referred to above.

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions instituted on September 17, 1997 in the U.S. District Court for the Northern District of Georgia against The MeadWestvaco Corporation, successor by merger to The Mead Corporation, and R.A. Jones claiming infringement of the Company's patents for its packaging machines. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity has been appealed to the Court of Appeals for The Federal Circuit. The suit against MeadWestvaco was dismissed by mutual agreement pending the outcome of the appeal of the decision in the case against R.A. Jones.

In connection with the Merger, the former majority owner of the Company agreed to bear the cost of a Section 338(h)(10) election for U.S. federal tax purposes and for purposes of state taxes for which the former majority owner and the Company filed returns on a combined basis. The Company agreed to bear the cost of this election for the purposes of other state taxes (stand-alone taxes), including Louisiana income tax. During 1997, the Company paid \$27.5 million in estimated Louisiana stand-alone taxes relating to the election. The Company's calculation of its Louisiana tax was based on state law in effect at the time of the Merger, including a 1993 amendment. In May 1997, the Louisiana Supreme Court declared the 1993 amendment to be void under the Louisiana Constitution, retroactive to 1993. After consultation with Louisiana tax counsel, the Company filed its Louisiana income tax return for the period ended March 27, 1996 in reliance on the Louisiana tax law in effect at the time of the Merger, without the payment of any additional tax due to the voiding of the 1993 amendment.

The State of Louisiana completed its audit of the Company's tax return for the period ended March 27, 1996 and on May 9, 2000, the Company received a Notice of Proposed Tax Due for this period in the amount of \$47.6 million in tax plus statutory interest. On October 12, 2001, the Company entered into a settlement agreement with the Louisiana Department of Revenue to pay \$29.5 million to the State of Louisiana to settle all Louisiana state income tax issues (tax and interest) related to the period ended March 27, 1996 and the nine month period ended December 31, 1996. As required by accounting principles generally accepted in the United States of America, the Company recorded the settlement as an increase to Goodwill, Net of Accumulated Amortization. The Company made this payment on October 25, 2001 using funds borrowed under its revolving credit facility. See Consolidated Statements of Cash Flows.

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 16 PENSIONS****U.S. HOURLY AND SALARIED PENSION PLANS**

All of the Company's U.S. hourly union employees are participants in the Company's noncontributory defined benefit hourly plan (the Hourly plan). The pension expense of the Hourly plan is based primarily on years of service and the pension rate near retirement. The Company's U.S. salaried and nonunion hourly employees are participants in the Company's noncontributory defined benefit plan that was established during 1992 (the Salaried plan).

The Company's funding policies with respect to its U.S. pension plans are to contribute funds to trusts as necessary to at least meet the minimum funding requirements of the U.S. Internal Revenue Code. Plan assets are invested primarily in equities and fixed income securities.

(A) PENSION EXPENSE

The pension expense related to the Hourly plan and Salaried plan consisted of the following:

(In thousands of dollars)	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Components of net periodic pension cost (credit):			
Service cost	\$ 5,142	\$ 4,806	\$ 5,395
Interest cost	16,106	15,444	14,231
Expected return on plan assets	(21,019)	(22,101)	(20,454)
Amortizations:			
Prior service cost	1,029	1,026	1,023
Actuarial (gain)/ loss	(10)	(2,039)	53
Net periodic pension cost (credit)	<u>\$ 1,248</u>	<u>\$ (2,864)</u>	<u>\$ 248</u>

Certain assumptions used in determining the pension expense related to the Hourly plan and Salaried plan were as follows:

	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Assumptions:			
Discount rate	7.50%	7.50%	6.50%
Rate of increase in future compensation levels	4.50%	4.50%	4.50%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 16 PENSIONS (Continued)****(B) FUNDED STATUS**

The funded status of the Company's U.S. Hourly plan and Salaried plan as of December 31, were as follows:

(In thousands of dollars)	2001	2000
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 220,881	\$ 206,445
Service cost	5,142	4,806
Interest cost	16,106	15,444
Actuarial (gain) loss	(504)	6,085
Amendments	130	1,423
Benefits paid	(13,511)	(13,322)
	<u>\$ 228,244</u>	<u>\$ 220,881</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 253,831	\$ 266,455
Actual return on plan assets	(12,783)	670
Employer contributions	29	28
Benefits paid	(13,511)	(13,322)
	<u>\$ 227,566</u>	<u>\$ 253,831</u>
Plan assets (less than) in excess of projected benefit obligation	\$ (678)	\$ 32,950
Unrecognized net actuarial loss (gain)	9,252	(24,055)
Unrecognized prior service cost	2,206	3,105
	<u>\$ 10,780</u>	<u>\$ 12,000</u>
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid pension cost	\$ 13,601	\$ 14,468
Accrued pension liability	(2,821)	(2,468)
	<u>\$ 10,780</u>	<u>\$ 12,000</u>
Assumptions:		
Discount rate	7.50%	7.50%
Rates of increase in future compensation levels	4.50%	4.50%

Table of Contents**RIVERWOOD HOLDING, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 16 PENSIONS (Continued)****INTERNATIONAL PENSION PLANS***(A) PENSION EXPENSE*

The international defined benefit pension plans are both noncontributory and contributory and are funded in accordance with applicable local laws. Assets of the funded plans are invested primarily in equities and fixed income securities. The pension or termination benefits are based primarily on years of service and the employees' compensation.

The pension expense related to the international plans consisted of the following:

(In thousands of dollars)	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Components of net periodic pension cost:			
Service cost	\$ 431	\$ 1,229	\$ 1,647
Interest cost	5,210	4,697	4,788
Expected return on plan assets	(5,485)	(5,384)	(5,406)
Amortizations:			
Actuarial loss	2,072		