Rock-Tenn CO
Form 10-Q
February 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

or

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

Commission File Number 1-12613

Rock-Tenn Company

(Exact Name of Registrant as Specified in Its Charter)

Georgia	62-0342590
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

504 Thrasher Street, Norcross, Georgia	30071
(Address of Principal Executive Offices)	(Zip Code)

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

N/A

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

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller reporting company ¨

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

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

Class	Outstanding as of January 29, 2010
Class A Common Stock, $0.01 par value	38,813,968

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PART I: FINANCIAL INFORMATION

Item 1. ***FINANCIAL STATEMENTS (UNAUDITED)***

ROCK-TENN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In Millions, Except Per Share Data)

	Three Months Ended December 31,	
	2009	2008
Net sales	$ 690.8	$ 703.1
Cost of goods sold (net of alternative fuel tax credit of $20.7 and $0)	512.3	538.3
Gross profit	178.5	164.8
Selling, general and administrative expenses	80.0	81.5
Restructuring and other costs, net	3.0	6.5
Operating profit	95.5	76.8
Interest expense	(21.5)	(26.4)
Gain (loss) on extinguishment of debt and related items	0.5	(2.4)
Interest income and other income, net	0.2	0.4
Equity in income (loss) of unconsolidated entities	0.2	(0.4)
Income before income taxes	74.9	48.0
Income tax expense	(17.3)	(16.7)
Consolidated net income	57.6	31.3
Less: Net income attributable to noncontrolling interests	(1.3)	(0.7)
Net income attributable to Rock-Tenn Company shareholders	$ 56.3	$ 30.6
Basic earnings per share attributable to Rock-Tenn Company shareholders	$ 1.45	$ 0.80
Diluted earnings per share attributable to Rock-Tenn Company shareholders	$ 1.43	$ 0.79
Cash dividends paid per common share	$ 0.15	$ 0.10

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Millions, Except Share Data)

	December 31, 2009	September 30, 2009
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 14.1	$ 11.8
Accounts receivable (net of allowances of $8.9 and $8.8)	264.9	305.5
Inventories	266.7	275.1
Other current assets	79.6	65.9
Total current assets	625.3	658.3
Property, plant and equipment at cost:		
Land and buildings	417.2	413.8
Machinery and equipment	1,865.4	1,857.1
Transportation equipment	13.8	13.5
Leasehold improvements	5.3	5.4
	2,301.7	2,289.8
Less accumulated depreciation and amortization	(1,048.2)	(1,013.7)
Net property, plant and equipment	1,253.5	1,276.1
Goodwill	737.3	736.4
Intangibles, net	148.3	151.3
Investment in unconsolidated entities	23.8	23.8
Other assets	36.4	38.5
	$ 2,824.6	$ 2,884.4
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	$ 63.3	$ 56.3
Accounts payable	203.3	233.9
Accrued compensation and benefits	59.7	88.0
Other current liabilities	70.5	71.1
Total current liabilities	396.8	449.3
Long-term debt due after one year	1,203.2	1,289.3
Hedge adjustments resulting from terminated fair value interest rate derivatives or swaps	3.1	3.8
Total long-term debt	1,206.3	1,293.1
Accrued pension and other long-term benefits	164.2	161.5

Deferred income taxes	160.9	149.2
Other long-term liabilities	39.0	36.7
Commitments and contingencies (Note 13)		
Redeemable noncontrolling interests	7.1	11.5
Equity:		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; no shares outstanding		
Class A common stock, $0.01 par value; 175,000,000 shares authorized; 38,789,506 and 38,707,695 shares outstanding at December 31, 2009 and September 30, 2009, respectively	0.4	0.4
Capital in excess of par value	271.8	264.5
Retained earnings	669.1	620.3
Accumulated other comprehensive loss	(97.9)	(108.4)
Total Rock-Tenn Company shareholders equity	843.4	776.8
Noncontrolling interests	6.9	6.3
Total equity	850.3	783.1
	$ 2,824.6	$ 2,884.4

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Millions)

	Three Months Ended December 31,	
	2009	2008
Operating activities:		
Consolidated net income	$ 57.6	$ 31.3
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation and amortization	37.5	37.9
Deferred income tax expense	3.0	7.7
Share-based compensation expense	3.5	2.1
(Gain) loss on extinguishment of debt and related items	(0.5)	2.4
Gain on disposal of plant, equipment and other, net	(0.1)	(0.4)
Equity in (income) loss of unconsolidated entities	(0.2)	0.4
Pension funding less than expense	7.5	2.3
Alternative fuel tax credit benefit	(20.9)	
Impairment adjustments and other non-cash items	2.2	(0.7)
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	41.5	29.4
Inventories	9.2	(13.8)
Other assets	(0.4)	(0.4)
Accounts payable	(30.9)	(33.7)
Income taxes payable	9.1	5.8
Accrued liabilities and other	(22.5)	(18.3)
Net cash provided by operating activities	95.6	52.0
Investing activities:		
Capital expenditures	(12.3)	(14.2)
Investment in unconsolidated entities	(0.1)	(0.5)
Return of capital from unconsolidated entities	0.2	3.5
Proceeds from sale of property, plant and equipment	2.3	0.5
Net cash used for investing activities	(9.9)	(10.7)
Financing activities:		
Additions to revolving credit facilities	16.1	143.7
Repayments of revolving credit facilities	(7.5)	(41.8)
Additions to debt	2.3	74.0
Repayments of debt	(89.9)	(265.8)
Debt issuance costs	(0.1)	(0.4)
Cash paid for debt extinguishment costs		(2.4)
Restricted cash and investments		19.2
Issuances of common stock, net of related minimum tax withholdings	0.9	0.7
Excess tax benefits from share-based compensation	1.2	
Advances from (repayments to) unconsolidated entity	0.2	(5.3)
Cash dividends paid to shareholders	(5.8)	(3.8)
Cash distributions paid to noncontrolling interest	(0.9)	

Net cash used for financing activities	(83.5)	(81.9)
Effect of exchange rate changes on cash and cash equivalents	0.1	0.5
Increase (decrease) in cash and cash equivalents	2.3	(40.1)
Cash and cash equivalents at beginning of period	11.8	52.8
Cash and cash equivalents at end of period	$ 14.1	$ 12.7
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes, net of refunds	$ 2.4	$ 2.3
Interest, net of amounts capitalized	10.8	19.2

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Month Period Ended December 31, 2009

(Unaudited)

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

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

Note 1. Interim Financial Statements

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

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these interim statements should be read in conjunction with our Fiscal 2009 Form 10-K.

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

Note 2. New Accounting Standards

Recently Adopted Standards

In June 2008, the Financial Accounting Standards Board (**FASB**) issued certain provisions of Accounting Standards Codification (**ASC**) 260, *Earnings per Share* , which state that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of earnings per share under the two-class method as described in ASC 260. These provisions were effective for fiscal years beginning after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. These provisions require all presented prior-period earnings per share data to be adjusted. We adopted ASC 260, as of October 1, 2009. See ***Note 4. Earnings per Share*** to our Condensed Consolidated Financial Statements.

In December 2007, the FASB issued ASC 805, *Business Combinations* . ASC 805 expands the definition of a business combination and requires the fair value of the purchase price of an acquisition, including the issuance of equity securities, to be determined on the acquisition date. ASC 805 also requires that all assets, liabilities, contingent considerations, and, under certain circumstances, contingencies of an acquired business be recorded at fair value at the acquisition date. In addition, ASC 805 requires that acquisition costs generally be expensed as incurred, restructuring costs generally be expensed in periods subsequent to the acquisition date, and changes in deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period impact income tax expense. ASC 805 was effective for fiscal years beginning after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. We adopted ASC 260 as of October 1, 2009. The effect the implementation of ASC 805 will have on our consolidated financial statements will depend upon the facts and circumstances of future acquisitions.

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

In December 2007, the FASB issued certain provisions of ASC 810, *Consolidation*, which change the accounting and reporting for minority interests such that minority interests generally are recharacterized as noncontrolling interests and are required to be reported as a component of equity, unless such interests are subject to redemption outside the control of Rock-Tenn Company. Additionally, ASC 810 requires that purchases or sales of subsidiaries equity interests that do not result in a change in control be accounted for as equity transactions and, upon a loss of control, requires the interest sold, as well as any interest retained, to be recorded at fair value with any gain or loss recognized in earnings. These provisions were effective for fiscal years beginning on or after December 15, 2008 (October 1, 2009 for us) with early adoption prohibited. We adopted ASC 810 as of October 1, 2009 and have revised our Condensed Consolidated Financial Statements and related Notes accordingly.

In February 2008, the FASB amended certain provisions of ASC 820, *Fair Value Measurements and Disclosures* that deferred the effective date of ASC 820 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (that is, at least annually), until fiscal years beginning after November 15, 2008 (October 1, 2009 for us). We adopted the specific provisions related to nonrecurring non-financial assets and non-financial liabilities as of October 1, 2009. The adoption of these provisions did not have a material effect on our consolidated financial statements.

Recently Issued Standards

In June 2009, the FASB issued certain provisions of ASC 860 *Transfers and Servicing*. These provisions require additional disclosures about the transfer and derecognition of financial assets and eliminates the concept of qualifying special-purpose entities. These provisions are effective for fiscal years beginning after November 15, 2009 (October 1, 2010 for us). We are currently evaluating the effect of adopting these provisions of ASC 860 on our consolidated financial statements.

In June 2009, the FASB issued certain provisions of ASC 810 which revises the approach to determining the primary beneficiary of a variable interest entity to be more qualitative in nature and requires companies to more frequently reassess whether they must consolidate a variable interest entity. These provisions are effective for fiscal years beginning after November 15, 2009 (October 1, 2010 for us), for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. We are currently evaluating the effect of these provisions of ASC 810 on our consolidated financial statements.

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

Note 3. Equity and Comprehensive Income

The following is a summary of the changes in total equity for the three months ended December 31, 2009 (in millions):

	Rock-Tenn Company Shareholders Equity	Noncontrolling Interests [1]	Total Equity
Balance at September 30, 2009	$ 776.8	$ 6.3	$ 783.1
Net income	56.3	0.4	56.7
Components of other comprehensive income, net of tax:			
Foreign currency translation gain	3.3	0.2	3.5
Net deferred loss on cash flow hedges	(0.4)		(0.4)
Reclassification adjustment of net loss on cash flow hedges derivatives included in earnings	1.8		1.8
Amortization of net actuarial loss	2.8		2.8
Amortization of prior service cost	0.1		0.1
Income tax benefit from share-based plans	1.2		1.2
Compensation expense under share-based plans	3.5		3.5
Cash dividends (per share - $0.15)	(5.8)		(5.8)
Issuance of Class A common stock, net of stock received for minimum tax withholdings	0.9		0.9
Other equity adjustments	2.9		2.9
Balance at December 31, 2009	$ 843.4	$ 6.9	$ 850.3

(1) Excludes amounts related to contingently redeemable noncontrolling interests which are separately classified outside of permanent equity in the mezzanine section of the Condensed Consolidated Balance Sheets.

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

	Three Months Ended December 31,	
	2009	2008
Consolidated net income	$ 57.6	$ 31.3
Foreign currency translation gain (loss)	3.7	(21.7)
Net deferred loss on cash flow hedges	(0.4)	(13.3)
Reclassification adjustment of net loss (gain) on cash flow hedges included in earnings	1.8	(0.1)
Amortization of net actuarial loss	2.9	1.0
Amortization of prior service cost	0.1	0.1
Other comprehensive income adjustments	(1.7)	
Comprehensive income	64.0	(2.7)
Less: Comprehensive loss attributable to noncontrolling interests	2.8	1.3
Comprehensive income attributable to Rock-Tenn Company shareholders	$ 66.8	$ (1.4)

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

Note 4. Earnings per Share

Effective October 1, 2009, we adopted certain provisions of ASC 260 which clarify that share-based payment awards that entitle their holders to receive nonforfeitable dividends or dividend equivalents before vesting should be considered participating securities. Certain of our restricted stock awards granted are considered participating securities as they received non-forfeitable rights to dividends at the same rate as common stock. As participating securities, we include these instruments in the earnings allocation in computing earnings per share (**EPS**) under the two-class method described in ASC 260. Prior to adoption of these provisions, restricted stock was included in our diluted EPS calculation using the treasury stock method. The dilutive effect of participating securities is now reflected in diluted EPS by application of the more dilutive of the treasury stock method or the two-class method. Pursuant to ASC 260, all prior period EPS data were adjusted retrospectively. The impact of adopting ASC 260 for

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

the period ended December 31, 2008 decreased previously reported basic EPS by $0.01 and had no impact on diluted EPS.

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

	Three Months Ended December 31,	
	2009	2008
Basic earnings per share:		
Numerator:		
Net income attributable to Rock-Tenn Company shareholders	$ 56.3	$ 30.6
Less: Distributed and undistributed income available to participating securities	(0.7)	(0.5)
Distributed and undistributed income available to Rock-Tenn Company common shareholders	$ 55.6	$ 30.1
Denominator:		
Basic weighted average shares outstanding	38.2	37.7
Basic earnings per share	$ 1.45	$ 0.80
Diluted earnings per share:		
Numerator:		
Net income attributable to Rock-Tenn Company shareholders	$ 56.3	$ 30.6
Less: Distributed and undistributed income available to participating securities	(0.7)	(0.4)
Distributed and undistributed income available to Rock-Tenn Company common shareholders	$ 55.6	$ 30.2
Denominator:		
Basic weighted average shares outstanding	38.2	37.7
Effect of dilutive stock options and non-participating securities	0.7	0.5
Diluted weighted average shares outstanding	38.9	38.2
Diluted earnings per share	$ 1.43	$ 0.79

Options to purchase 0.5 million common shares were not included in computing diluted earnings per share in the three months ended December 31, 2008 because the effect would have been antidilutive.

Note 5. Alternative Fuel Tax Credit

In April 2009, we received notification from the Internal Revenue Service that our registration as an alternative fuel mixer had been approved. As a result, we are eligible for a tax credit equal to $0.50 per gallon of alternative fuel used at our Demopolis, Alabama bleached paperboard mill from January 22, 2009 through the December 31, 2009 expiration of the tax credit. The alternative fuel eligible for the tax credit is liquid fuel derived from biomass. We recognized approximately $20.9 million of an alternative fuel tax credit, which is not taxable for federal or state income tax purposes, and reduced cost of goods sold in our Consumer Packaging segment by $20.7 million, net of expenses, in the three months

ended December 31, 2009.

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

Note 6. Restructuring and Other Costs, Net

Summary of Restructuring and Other Initiatives

We recorded pre-tax restructuring and other costs, net, of $3.0 million and $6.5 million for the three months ended December 31, 2009 and 2008, respectively. These amounts are not comparable since the timing and scope of the individual actions associated with a restructuring can vary. We discuss these charges in more detail below.

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

Summary of Restructuring and Other Costs, Net

Segment	Period	Net Property, Plant and Equipment (1)	Severance and Other Employee Related Costs	Equipment and Inventory Relocation Costs	Facility Carrying Costs	Other Costs	Total
Consumer Packaging (a)	Current Qtr.	$	$ 0.1	$	$	$	$ 0.1
	Prior Year Qtr.	0.1	0.1	0.4		1.2	1.8
	Cumulative	1.8	2.9	1.6	0.3	2.8	9.4
	Expected Total	1.8	2.9	1.6	0.3	2.8	9.4
Corrugated Packaging (b)	Current Qtr.						
	Prior Year Qtr.			0.1			0.1
	Cumulative	3.2	0.2	0.4	0.1	1.4	5.3
	Expected Total	3.2	0.2	0.4	0.1	1.4	5.3
Specialty Paperboard Products(c)	Current Qtr.	1.9	0.8			0.2	2.9
	Prior Year Qtr.						
	Cumulative	2.4	1.3	0.1	0.2	0.4	4.4
	Expected Total	2.4	1.5	0.2	0.5	0.6	5.2
Other(d)	Current Qtr.						
	Prior Year Qtr.					4.6	4.6
	Cumulative		0.1			16.4	16.5
	Expected Total		0.1			16.5	16.6
Total	Current Qtr.	$ 1.9	$ 0.9	$	$	$ 0.2	$ 3.0
	Prior Year Qtr.	$ 0.1	$ 0.1	$ 0.5	$	$ 5.8	$ 6.5
	Cumulative	$ 7.4	$ 4.5	$ 2.1	$ 0.6	$ 21.0	$ 35.6
	Expected Total	$ 7.4	$ 4.7	$ 2.2	$ 0.9	$ 21.3	$ 36.5

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

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

[a] The Consumer Packaging segment charges primarily reflect the following folding carton plant closures recorded: Baltimore, Maryland (announced in fiscal 2008 and closed in fiscal 2009), Chicopee, Massachusetts (announced and closed in fiscal 2008) and Stone Mountain, Georgia (announced and closed in fiscal 2007). Although specific circumstances vary, our strategy has generally been to consolidate our business into large well-equipped plants

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

that operate at high utilization rates and take advantage of available capacity created by operational excellence initiatives. Therefore, we transferred a substantial portion of each plant s assets and production to our other folding carton plants. We believe these actions have allowed us to more effectively manage our business. The expenses in the Other Costs column in the prior year quarter, cumulative and expected cost rows primarily reflect the estimated fair value of the liability for future lease payments at our closed leased facilities.

(b) The Corrugated Packaging segment charges primarily reflect the closure of our Greenville, South Carolina sheet plant (announced in fiscal 2008 and closed in fiscal 2009) and the fiscal 2009 impairment of certain assets at one of our consolidated corrugated graphics subsidiaries, including a $1.0 million charge included in Other Costs column in the cumulative row for a customer relationship intangible. We have transferred a substantial portion of Greenville s production to our other corrugated plants.

(c) The Specialty Paperboard Products segment charges primarily reflect the pending fiscal 2010 closure of our Columbus, Indiana laminated paperboard converting operation and Macon, Georgia drum manufacturing operation and closure of our Litchfield, Illinois interior packaging plant (announced and closed in fiscal 2009).

(d) The expenses in the Other Costs column primarily reflect integration and deferred compensation expenses. The prior year quarter reflects $2.5 million of Southern Container integration expenses and $2.1 million of deferred compensation expense for key Southern Container employees. The deferred compensation and retention bonus expense was funded through a purchase price reduction from Southern Container s stockholders. Nearly all of these funds were escrowed and were disbursed in March 2009 following the one year anniversary of the acquisition.

The following table represents a summary of the changes in the restructuring accrual, which is primarily composed of accrued severance and other employee costs, and a reconciliation of the restructuring accrual to the line item **Restructuring and other costs, net** on our Condensed Consolidated Statements of Income for the three months ended December 31, 2009 and 2008 (in millions):

	2009	2008
Accrual at beginning of fiscal year	$ 1.1	$ 3.4
Additional accruals	1.0	1.0
Payments	(0.3)	(1.3)
Adjustments to accruals		0.4
Accrual at December 31,	$ 1.8	$ 3.5

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

	2009	2008
Additional accruals and adjustments to accruals (see table above)	$ 1.0	$ 1.4
Net property, plant and equipment	1.9	0.1
Deferred compensation expense		2.1
Integration expenses		1.9
Severance and other employee costs	0.2	0.2
Equipment relocation		0.5
Other	(0.1)	0.3
Total restructuring and other costs, net	$ 3.0	$ 6.5

Note 7. Tax Provision

We recorded income tax expense of $17.3 million in the three months ended December 31, 2009, compared to $16.7 million in the three months ended December 31, 2008. The 23.1% effective tax rate for the three months ended December 31, 2009 was primarily impacted by the exclusion of the alternative fuel tax credit from taxable income, a $0.8 million tax benefit related to changes in state deferred rates and a $0.4 million tax benefit due to the reduction in the Ontario tax rate. The 34.8% effective rate for the three months ended December 31, 2008 was primarily impacted by a tax benefit of $0.7 million related to the extension of the United States federal research credit, which was partially offset by a $0.4 million deferred tax expense related to changes in state effective rates.

As of December 31, 2009, the gross amount of unrecognized tax benefits was approximately $13.6 million, exclusive of interest and penalties. Of this balance, if we were to prevail on all unrecognized tax benefits recorded, approximately $6.2 million would benefit the effective tax rate. We regularly evaluate, assess and adjust the related liabilities in light of changing facts and circumstances, which could cause the effective tax rate to fluctuate from period to period.

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

We recognize interest and penalties related to unrecognized tax benefits in income tax expense in the Condensed Consolidated Statements of Income, which is consistent with the recognition of these items in prior reporting periods. As of December 31, 2009, we had a recorded liability of $2.8 million for the payment of interest and penalties related to the liability for unrecognized tax benefits.

We file federal, state and local income tax returns in the U.S. and various foreign jurisdictions. With few exceptions, we are no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to fiscal 2006.

Note 8. Inventories

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

	December 31, 2009	September 30, 2009
Finished goods and work in process	$ 147.2	$ 154.2
Raw materials	104.6	107.4
Supplies and spare parts	49.5	49.0
Inventories at FIFO cost	301.3	310.6
LIFO reserve	(34.6)	(35.5)
Net inventories	$ 266.7	$ 275.1

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

Note 9. Debt

With the exception of certain items noted below, there were no significant changes in our debt characteristics during the three months ended December 31, 2009. For more information regarding certain of our debt characteristics, see ***Note 11. Debt*** of the Notes to Consolidated Financial Statements section of the Fiscal 2009 Form 10-K (**Debt Footnote on Form 10-K**).

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

	December 31, 2009	September 30, 2009
Face value of 8.20% secured notes due August 2011, net of unamortized discount of $0.1 and $0.1 [(a)]	$ 154.6	$ 154.6
Hedge adjustments resulting from terminated interest rate derivatives or swaps	2.2	2.6
	156.8	157.2
Face value of 5.625% secured notes due March 2013, net of unamortized discount of $0.1 and $0.1 [(a)]	80.4	99.9
Hedge adjustments resulting from terminated interest rate derivatives or swaps	0.9	1.2
	81.3	101.1
Face value of 9.25% unsecured notes due March 2016, net of unamortized discount of $1.1 and $1.1[(a)]	298.9	298.9
Term loan facilities, net of unamortized discount of $1.2 and $1.3 [(b)]	633.3	643.8
Revolving credit and swing facilities [(b)]	27.8	19.1
Receivables-backed financing facility [(c)]	40.0	100.0
Industrial development revenue bonds, bearing interest at variable rates (2.14% at December 31, 2009 and 2.70% at September 30, 2009); due at various dates through October 2036 [(d)]	18.9	16.9
Other notes	12.6	12.4
Total Debt	1,269.6	1,349.4
Less current portion of debt	63.3	56.3
Long-term debt due after one year	$ 1,206.3	$ 1,293.1

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

	December 31, 2009	September 30, 2009
Face value of debt instruments, net of unamortized discounts	$ 1,266.5	$ 1,345.6
Hedge adjustments resulting from terminated interest rate derivatives or swaps	3.1	3.8
Total Debt	$ 1,269.6	$ 1,349.4

A portion of the debt classified as long-term, which includes the term loans, receivables-backed, revolving and swing facilities, may be paid down earlier than scheduled at our discretion without penalty.

(a) During the quarter ended December 31, 2009, we repurchased $19.5 million of our 5.625% notes due March 2013 (**March 2013 Notes**) at an average price of approximately 98% of par and recorded an aggregate gain on extinguishment of debt of approximately $0.5 million. Interest on our 8.20% notes due August 2011 Notes (**August 2011 Notes**) is payable in arrears each February and August. Interest on our March 2013 Notes is payable in arrears each September and March. Interest on our 9.25% senior notes due March 2016 (**March 2016 Notes**) is payable in arrears each March and September.

(b) On March 5, 2008 we entered into an Amended and Restated Credit Agreement (the **Credit Facility**) with an original maximum principal amount of $1.2 billion. The Credit Facility includes revolving credit, swing, term loan, and letters of credit consisting of a $450 million revolving credit facility, a $550 million

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

term loan A facility and a $200 million term loan B facility. The Credit Facility is pre-payable at any time. Scheduled term loan payments or other term loan payments reduce the facility size. The revolving credit facility and term loan A facility are scheduled to mature on the earlier to occur of (a) March 5, 2013 or (b) if our March 2013 Notes have not been paid in full or refinanced by September 15, 2012, then September 15, 2012; the term loan B facility is scheduled to mature on the earlier to occur of (a) March 5, 2014 or (b) if the March 2013 Notes have not been paid in full or refinanced by September 15, 2012, then September 15, 2012. The Credit Facility provides for up to $100.0 million in Canadian or U.S. Dollar loans to a Canadian subsidiary. At December 31, 2009 and September 30, 2009, the amount committed under the Credit Facility for loans to a Canadian subsidiary was $45.0 million. At December 31, 2009, there were $6.7 million in borrowings by the Canadian subsidiary. At December 31, 2009, available borrowings under the revolving credit portion of the Credit Facility, reduced by outstanding letters of credit not drawn upon of approximately $31.6 million, were approximately $390.6 million.

The applicable margin, in excess of the variable rate, for determining the interest rate of the term loan B is fixed at 1.75% per annum in the case of Base Rate Loans and 2.75% for LIBOR Loans. If we select LIBOR Loans for the term loan B facility, we have agreed to pay term loan B lenders a minimum LIBOR rate of 3.00% plus the applicable margin then in effect. The applicable margin on LIBOR based term loan A and revolving credit loans is dependent upon our Leverage Ratio. For the quarters ended December 31, 2009 and September 30, 2009 the applicable margin was each 1.50%. The variable rate, including the applicable margin, on our term loan A and term loan B facilities, before the effect of interest rate swaps, was 1.74% and 5.75%, respectively, at December 31, 2009 and 1.77% and 5.75%, respectively, at September 30, 2009. We had interest rates on our revolving credit facility for borrowings both in the U.S. and Canada, ranging from 1.73% to 3.75% at December 31, 2009 and from 1.76% to 3.75% at September 30, 2009. Concurrent with our earnings release, we filed our quarterly compliance report with our bank group and, based on the most recent Leverage Ratio, received a 25 basis point decrease prospectively to the applicable credit margin in the Credit Facility. Our obligations under the Credit Facility and under certain related hedging agreements are guaranteed by substantially all of our U.S. subsidiaries, and partially by our Canadian subsidiaries. Obligations under the Credit Facility are secured by a substantial portion of our assets. Certain restrictive covenants govern our maximum availability under this facility, including Minimum Consolidated Interest Ratio Coverage; Maximum Leverage Ratio; and Minimum Consolidated Net Worth as discussed in our Debt Footnote in our Fiscal 2009 Form 10-K. We test and report our compliance with these covenants each quarter. We are in compliance with all of our covenants.

On February 3, 2010, we amended our Credit Facility to among other things adjust our ability to borrow unsecured debt subject to certain conditions outlined in the amendment, including a maximum Leverage Ratio, calculated on a pro forma basis, not to exceed 3.50 to 1.00, if such indebtedness is incurred through and including June 30, 2011, and 3.25 to 1.00 if such indebtedness is incurred at any time thereafter. In conjunction with this amendment, we will repay the $120.0 million outstanding term loan B balance on or before February 12, 2010 with proceeds from our revolving credit facility. We expect to record a loss on extinguishment of debt of approximately $2 million associated with the term loan B repayment primarily for unamortized deferred financing costs.

(c) In fiscal 2009, we amended our existing receivables-backed financing facility (the **Receivables Facility**) to among other things extend the maturity to set it to expire on July 13, 2012 and increase the facility size to $135.0 million. Accordingly, such borrowings are classified as long-term at December 31, 2009 and September 30, 2009. The borrowing rate, which consists of the market rate for asset-backed commercial paper plus a utilization fee, was 2.51% and 2.53% as of December 31, 2009 and September 30, 2009, respectively. Borrowing availability under this facility is based on the eligible underlying accounts receivable and certain covenants. At December 31, 2009 and September 30, 2009, maximum available borrowings under this facility were approximately $122.2 million and $114.6 million, respectively. The carrying amount of accounts receivable collateralizing the maximum available borrowings at December 31, 2009 was approximately $221 million. We test and report our compliance with these covenants monthly. We are in compliance with all of our covenants. One of our covenants is based on the percentage of receivables 31 to 60 days past due, and another is based on the percentage of receivables greater than 61 days past due. Given current economic conditions it is possible that the age of qualifying receivables could exceed the limit in the covenant. If this event were to occur, we would either amend the facility or terminate the facility utilizing available capacity under the revolving credit portion of our existing Credit Facility.

(d) The industrial development revenue bonds (**IDBs**) are issued by various municipalities in which we maintain facilities. Each series of bonds is secured by a direct pay letter of credit, or collateralized by a mortgage interest and collateral interest in specific property or a combination thereof. As of December 31, 2009, the outstanding amount of direct pay letters of credit supporting all industrial development revenue bonds was $19.2 million. The letters of credit are renewable at our request so long as no default or event of

default has occurred under the Credit Facility. During fiscal 2009, $1.9 million of IDBs were tendered by their holders and were not able to be remarketed. These bonds were tendered by the investors as the credit ratings of the bank that issues the letters of credit backing the IDBs were lowered. To maintain the tax advantages associated with these IDBs, we voluntarily purchased these bonds and held them until they were successfully remarketed in November 2009; at which time they were included in debt outstanding.

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

Note 10. Derivatives

We are exposed to interest rate risk, commodity price risk, and foreign currency exchange risk. To manage these risks, from time-to-time and to varying degrees, we enter into a variety of financial derivative transactions and certain physical commodity transactions that are determined to be derivatives. Interest rate swaps may be entered into to manage the interest rate risk associated with a portion of our outstanding debt. Interest rate swaps are either designated as cash flow hedges of floating rate debt or fair value hedges of fixed rate debt, or we may elect not to treat them as accounting hedges. Forward contracts on certain commodities may be entered into to manage the price risk associated with forecasted purchases or sales of those commodities. In addition, certain commodity derivative contracts and physical commodity contracts that are determined to be derivatives are not designated as accounting hedges because either they do not meet the criteria for treatment as accounting hedges under ASC 815, *Derivatives and Hedging*, or we elect not to treat them as accounting hedges under ASC 815. We may also enter into forward contracts to manage our exposure to fluctuations in Canadian foreign currency rates with respect to transactions denominated in Canadian dollars.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. However, we do not expect any of the counterparties to fail to meet their obligations. Our credit exposure related to these financial instruments is represented by the fair value of contracts reported as assets. We manage our exposure to counterparty credit risk through minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk.

Cash Flow Hedges

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

We have entered into interest rate swap agreements that effectively modify our exposure to interest rate risk by converting a portion of our floating rate debt to a fixed rate basis, thus reducing the impact of interest rate changes on future interest expense. These agreements involve the receipt of floating rate amounts in exchange for fixed interest rate payments over the life of the agreements without an exchange of the underlying principal amount. We have designated these swaps as cash flow hedges of the interest rate exposure on an equivalent amount of certain variable rate debt. As of December 31, 2009, our interest rate swap agreements, which terminate in April 2012, require that we pay fixed rates of approximately 4.00% and receive the one-month LIBOR rate on the notional amounts. As of December 31, 2009, the aggregate notional amount of outstanding debt related to these interest rate swaps was $426 million, declining at periodic intervals through April 2012 to an aggregate notional amount of $132 million.

As of December 31, 2009 and September 30, 2009, we had the following outstanding commodity derivatives that were entered into to hedge forecasted sales:

	December 31, 2009		September 30, 2009	
Commodity	Notional Amount	Unit	Notional Amount	Unit
Paperboard, net	24,000	Tons	33,000	Tons

Fair Value Hedges

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in the same line item associated with the hedged item in current earnings. Prior to June 2005, we had a series of interest rate swaps that effectively converted our fixed rate debt to floating rates, thus hedging the fair value of the related fixed rate debt from changes in market interest rates. These interest rate swaps were terminated prior to maturity. The value at termination of these swaps is being amortized to interest expense over the remaining life of the related debt using the effective interest method. During the three months ended December 31, 2009 and 2008, $0.4 million and $0.5 million, respectively, were amortized to earnings as a reduction of interest expense.

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

Derivatives not Designated as Accounting Hedges

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

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

As of December 31, 2009 and September 30, 2009, we had the following outstanding commodity derivatives related to forecasted purchases that were not designated as accounting hedges:

	December 31, 2009		September 30, 2009	
Commodity	Notional Amount	Unit	Notional Amount	Unit
Fiber, net	46,500	Tons	2,100	Tons

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

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	December 31, 2009 Fair Value	September 30, 2009 Fair Value	Balance Sheet Location	December 31, 2009 Fair Value	September 30, 2009 Fair Value
Derivatives designated as hedging instruments:						
Interest rate derivatives	N/A	$	$	Other current liabilities	$ 11.7	$ 12.7
Interest rate derivatives	N/A			Other long-term liabilities	4.9	5.6
Commodity derivatives	Other current assets	0.2	0.4	N/A		
		$ 0.2	$ 0.4		$ 16.6	$ 18.3
Derivatives not designated as hedging instruments:						
Interest rate derivatives	Other assets	$ 1.0	$ 0.5	N/A	$	$
Commodity derivatives	Other current assets	1.6	2.0	Other current liabilities	1.5	1.8
Commodity derivatives	Other assets	0.3	0.6	Other	0.3	0.6

			long-term liabilities		
	$ 2.9	$ 3.1		$ 1.8	$ 2.4
Total derivatives	$ 3.1	$ 3.5		$ 18.4	$ 20.7

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

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

Derivatives in Cash Flow Hedging Relationships	Amount of Gain (Loss) Recognized in OCI on Derivative (Effective Portion)		Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)		Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	2009	2008		2009	2008		2009	2008
For the three months ending:								
Interest rate derivatives	$ (1.0)	$ (21.7)	Interest expense	$ (3.2)	$ 0.2	N/A	$	$
Commodity derivatives	0.3		Net sales	0.3		Net sales	(0.1)	
Total	$ (0.7)	$ (21.7)		$ (2.9)	$ 0.2		$ (0.1)	$

Derivatives Not Designated As Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative	
		2009	2008
For the three months ending:			
Interest rate derivatives	Selling, general and administrative expenses	$ 0.5	$
Commodity derivatives	Interest income and other income		0.4
Commodity derivatives	Net sales	(0.1)	
Total		$ 0.4	$ 0.4

As of December 31, 2009, based on implied forward interest rates associated with our outstanding interest rate derivative cash flow hedges and the remaining amounts in accumulated other comprehensive income related to terminated interest rate swaps, we expect to reclassify pre-tax deferred losses of approximately $8.3 million from accumulated other comprehensive income into earnings as an increase to interest expense within the next twelve months as the probable hedged interest payments occur. As of December 31, 2009, based on implied forward price curves associated with certain commodity derivative cash flow hedges, we expect to reclassify approximately $0.5 million from accumulated comprehensive income to earnings as an increase to net sales within the next twelve months as the probable hedged transactions occur. We believe amounts in accumulated other comprehensive income related to interest rate derivatives and commodity derivatives are appropriately

included as a component of accumulated other comprehensive income because the forecasted transactions related to those amounts are probable of occurring.

We enter into derivative contracts that may contain credit-risk-related contingent features which could result in a counterparty requesting immediate payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. Certain of our interest rate swap derivative contracts contain a provision whereby if we default on the Credit Facility, we may also be deemed in default of the interest rate swap obligation. The aggregate fair value of interest rate swaps under these agreements that are in a liability position on December 31, 2009, is approximately $16.6 million. These interest rate swaps share the same collateral as that of our Credit Facility and no other collateral has been posted against these interest rate swap obligations. If we were to default on these agreements, we may be required to settle our obligations at their termination value of approximately $16.9 million. Certain of our commodity derivative contracts contain contingent provisions that require us to provide the counterparty with collateral if the credit rating on our debt, as provided by major credit rating agencies, falls below certain specified minimums, or if the fair value of our obligation exceeds specified threshold amounts. The aggregate fair value of all commodity derivative instruments with credit-risk-related contingent features that are in a liability position on December 31, 2009, is approximately $1 million. If credit-risk-related contingent features underlying these commodity derivative agreements were triggered, we may be required to post collateral or settle our obligations under the agreements at their termination value, which was approximately $1 million at December 31, 2009.

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

Note 11. Fair Value

Assets and Liabilities Measured at Fair Value

ASC 820 provides a framework for measuring fair value and expands disclosures required about fair value measurements. Specifically, ASC 820 sets forth a definition of fair value and a hierarchy prioritizing the inputs to valuation techniques. ASC 820 defines levels within the hierarchy as follows:

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

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

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

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

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

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

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

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