FIVE YEAR HIGHLIGHTS

(In Thousands, Except Ratios and Per Share Amounts)	**1999**[c]	1998[d]	1997	1996[e], [f]	1995
Net Sales	**$1,310,368**	$1,293,606	$1,109,693	$876,111	$902,878
Income before income taxes	**70,253**	74,613	37,756	82,469	67,922
Net Income	**39,698**	42,020	16,101	51,125	41,432
Diluted earnings per common share[a]	**1.13**	1.20	.47	1.50	1.21
Dividends paid per common share[a]	**.30**	.30	.30	.27	.27
Book value per common share[a]	**12.36**	11.49	10.80	10.54	9.29
Total assets	**1,161,470**	1,111,481	1,113,686	581,688	555,254
Long-term debt, including current maturities	**498,845**	508,338	533,622	146,604	162,087
Shareholders' equity	**432,164**	397,415	371,212	349,155	307,898
Cash provided by operating activities	**112,416**	125,688	106,377	123,530	77,604
Goodwill amortization	**9,410**	9,429	7,070	2,723	1,887
Capital expenditures	**92,233**	81,666	87,016	71,795	73,844
Cash paid for purchases of businesses	—	—	301,287	—	61,579

Notes:

(a) Gives effect to a 10% stock dividend paid on November 15, 1996.

(b) Amount not deductible for income tax purposes was $6,900,000, $6,928,000, $4,760,000, $0 and $0 in fiscal 1999, 1998, 1997, 1996 and 1995, respectively.

(c) Reflects $6,932,000 in pre-tax charges to earnings for plan closings and other costs.

(d) Reflects $1,997,000 in pre-tax charges to earnings for plan closings and other costs.

(e) Effective October 1, 1996, we changed our method of depreciation for assets placed in service after September 30, 1996 to the straight-line method. This change was applied on a prospective basis to such assets acquired after that date. The effect of this change was to increase net income by $3,011,000 in fiscal 1997.

(f) Reflects (i) the results of operations of Waldorf Corporation, Rite Paper Products, Inc., and The Davey Company beginning from the respective dates of acquisition, (ii) the results of operations of RTS Packaging, LLC from the date of formation and (iii) a $16.2 million charge to earnings for plant closing and other costs.

MANAGEMENT COMMITTEE, OFFICERS & BOARD OF DIRECTORS

Management Committee and Officers:

James A. Rubright
Chairman and Chief Executive Officer

Jay Shuster
President and Chief Operating Officer

Edward E. Bowns
Executive Vice President and General Manager
Industrial Products Group

Russell M. Currey
Senior Vice President
Marketing & Planning

Vincent J. DíAmelio
Executive Vice President and General Manager
Plastic Packaging Division

David E. Dreibelbis
Executive Vice President and General Manager
Mill Group

Paul J. England
Executive Vice President and General Manager
Uncoated Paperboard Division

Stephen P. Flanagan
Executive Vice President and General Manager
Recycled Fiber Division

Nicholas G. George
Executive Vice President and General Manager
Folding Carton Division

James K. Hansen
Executive Vice President and General Manager
Coated Paperboard Division

R. Evan Hardin
Treasurer

Robert B. McIntosh
Vice President, General Counsel and
Assistant Secretary

John H. Morrison
Executive Vice President and General Manager
Corrugated Packaging & Display Division

David C. Nicholson
Senior Vice President, Chief Financial Officer
and Secretary

Paul G. Saari
Vice President of Finance and Assistant Secretary

John D. Skelton II
Executive Vice President and General Manager
Laminated Paperboard Products Division

Richard E. Steed
President and Chief Executive Officer
RTS Packaging, LLC

Board of Directors:

Stephen G. Anderson, M.D.
Winston-Salem, North Carolina
Audit Committee

J. Hyatt Brown
Chairman and Chief Executive Officer
Brown & Brown, Inc.
Daytona Beach, Florida
Executive Committee

Bradley Currey, Jr.
Chairman
Rock-Tenn Company
Norcross, Georgia
Executive Committee

Robert B. Currey
Chief Executive Officer
Currey & Company, Inc.
Atlanta, Georgia

A.D. Frazier, Jr.
President and Chief Executive Officer
Invesco, Inc.
Atlanta, Georgia
Audit Committee

Eugene U. Frey
Chairman
Wabash Management, Inc.
Minneapolis, Minnesota
Audit Committee

L.L. Gellerstedt III
Chairman
Children's Healthcare of Atlanta
Atlanta, Georgia
Compensation and Options Committee

John D. Hopkins
Senior Vice President and General Counsel
Jefferson Pilot Corporation
Greensboro, North Carolina
Executive Committee

Lou Brown Jewell
Private Investor

Atlanta, Georgia
Compensation and Options Committee

James W. Johnson
President
McCranie Tractor Company
Unadilla, Georgia
Compensation and Options Committee

James A. Rubright
Vice Chairman and Chief Executive Officer
Rock-Tenn Company
Norcross, Georgia

Charles R. Sexton
Principal
Sexton-Talbert Products
Vero Beach, Florida

Jay Shuster
President and Chief Operating Officer
Rock-Tenn Company
Norcross, Georgia
Executive Committee

John W. Spiegel
Executive Vice President and Chief Financial Officer
SunTrust Banks, Inc.
Atlanta, Georgia
Executive Committee and Audit Committee

SHAREHOLDER INFORMATION

Home Office:
504 Thrasher St.
Norcross, GA 30071
770-448-2193
www.rocktenn.com

Transfer Agent and Registrar:
Wachovia Bank of North Carolina, N.A.
c/o Boston Equiserve, L.P.
P.O. Box 8217
Boston, MA 02266-8217
800-633-4236

Investor Relations:
Investor Relations Department
P.O. Box 4098
Norcross, GA 30091
770-448-2193
Fax: 770-263-3582
For more information or an investor relations kit, contact investorrel@rocktenn.com. Be sure to include your full name,

mailing address and phone number.

Annual Meeting:
Northeast Atlanta Hilton
5993 Peachtree Industrial Blvd.
Norcross, GA 30092
Friday, January 28, 2000
9:00 A.M.

Auditors:
Ernst & Young LLP
600 Peachtree St.
Suite 2800
Atlanta, GA 30308

Direct Deposit of Dividends:
Rock-Tenn shareholders may have their quarterly cash dividends automatically deposited to checking, savings or money market accounts through the automatic clearinghouse system. If you wish to participate in the program, please contact:
Boston Equiserve, L.P.
P.O. Box 8217
Boston, MA 02266-8217
800-633-4236

Common Stock:
Rock-Tenn Class A common stock trades on the New York Stock Exchange under the symbol RKT. There is not an established public trading market for the Company's Class B common stock.

As of December 3, 1999, there were approximately 4,191 Class A common shareholders of record and 130 Class B common shareholders of record.

Form 10-K Report:
A copy of the Company's annual report on Form 10-K for the year ended September 30, 1999, as filed with the Securities and Exchange Commission is available at no charge to shareholders of record, by writing to:
Investor Relations
Rock-Tenn Company
P.O. Box 4098
Norcross, GA 30091
email: investorrel@rocktenn.com

SHAREHOLDERS LETTER

**TO OUR SHAREHOLDERS
FROM THE CHAIRMAN**

We ended fiscal 1999 strong. As the year came to a close, packaging and other converting operations picked up and paperboard mills ran closer to their full capacity. Prices also began to recover from weaker levels in the first half. Our business is in excellent shape today. Every division is stronger and contributing to operating income. All have excellent prospects for fiscal 2000.

After net sales declined for the first half of fiscal 1999 by 3.3%, the Company recorded a modest net sales increase for the third quarter over the same quarter of fiscal 1998 and an 8.7% net sales increase for the fourth quarter resulting in net sales for the year of just over $1.3 billion, a small increase over fiscal 1998. Net income for the year was $39.7

million. Excluding plant closings and other costs, net income rose slightly to $44.0 million, an increase of 1.6%.

As Rock-Tenn entered 1999, an important goal for the year was to replace a couple of large accounts that we lost in fiscal 1998. The folding carton team has secured new business in excess of $100 million, more than enough to replace the business lost in 1998. Many of these accounts began running in our plants during 1999, but we expect to enjoy more of the impact in fiscal year 2000. These accounts will impact not only the folding carton business but also the paperboard business.

Currey to Retire; Rubright Elected Vice Chairman and CEO

At its meeting in September, the board elected Jim Rubright vice chairman and chief executive officer. Brad Currey announced his plan to retire as chairman in January 2000 but will continue as a director. Before being named CEO of Rock-Tenn, Jim Rubright was executive vice president of Sonat, Inc., a diversified energy company in Birmingham, Alabama. Jim was responsible for the company's interstate natural gas pipeline group and energy services businesses. Before join-ing Sonat in 1994, he was a partner in the Atlanta office of the law firm of King & Spalding. We are fortunate to have a new CEO with Jim's proven abilities and experience to lead us into the next century.

We have faced up to our most difficult operating problems. In 1999, several plants that were losing money in previous years have turned profitable. We closed three plants in two of our divisions where capacity was greater than demand, in order to consolidate operations in lower cost, more produc-tive and better-located facilities.

We achieved our best ever safety performance. Injuries were reduced by almost one-third, a good start on our way to a long-term goal of eliminating serious injuries in our plants. The current rate of personal injuries puts us among the best in American industry and among the top companies in the paper and packaging industry. Safety performance is an excellent indicator of manufacturing effectiveness and long-term operating performance.

We have every reason to be proud of where we are today and how we are positioned. Still, in order to be a player in the global economy of the future, we are looking at every aspect of our business, even as we are healthy. We are finding new products and markets that can grow sales. There are tremendous opportunities for Rock-Tenn to grow and change as the world changes around us. At the same time, we are holding on to the bedrock values so important to all of us: the safety and security of every member of the Rock-Tenn team, an entrepreneurial sense of responsibility and accountability, the willingness to set high goals and standards and then the determination to do whatever it takes to achieve them.

In September, I announced my plan to retire in January 2000. Our board of directors elected Jim Rubright as vice chairman of the board and chief executive officer. Jim is a great new leader for this team and brings new knowledge and experi-ence to Rock-Tenn to help us meet the challenges ahead. He now heads the finest collection of young, able, experienced talent in this industry, second to none.

Thank you to the people who make up the Rock-Tenn team. We started the year with great plants, great technology, and most of all, great people. Today the team is stronger still. Their experience, creativity and commitment to our customers assure this Company of a great future.

Bradley Currey, Jr.
Chairman

December 14, 1999

**TO OUR SHAREHOLDERS
FROM THE VICE CHAIRMAN
AND CHIEF EXECUTIVE OFFICER
AND THE PRESIDENT AND
CHIEF OPERATING OFFICER**

We enter this year committed to creating value for Rock-Tenn Company's shareholders. Brad Currey's leadership and vision will be missed. His legacy is a company full of opportunity and a team full of people charged up and ready to make 2000 a great year.

We believe that the capital invested and the customers gained in the last two years enhance our competitiveness and position our Company to capitalize on our improving markets – and deliver very good results to our shareholders.

"Our earnings are improving. Our paperboard mills operated at 93% of full capacity."

Improving Earnings, Accelerating Sales

Our performance in the last half of the year shows our earnings are improving and our sales are accel-erating. We earned 3.9% more in the final quarter of 1999 than in the same quarter of 1998, and our sales were up 8.7%. Our paperboard mills produced a record 287,000 tons during the fourth quarter and operated at 93% of full capacity. Our packaging and other converting operations were very busy across the board.

This year we will focus on executing our plans to drive down our costs, improve product quality and customer service, raise operating efficiency and continue the sales growth that began in the second half of 1999. A key goal is to turn around operating results at the remaining plants that lost money last year.

Two divisions, Corrugated Packaging and Display and Plastic Packaging, led the team in sales growth. We will do everything necessary to support these growing businesses in 2000. Their high-value products and services are meeting new and growing needs among our customers.

We believe our shareholders should expect us to deliver consistent, double-digit earnings growth. Our job is to ensure that our people and assets deliver in fiscal 2000 while we lay the groundwork to continue delivering reliable earnings growth in future years. To do this, we are driving down our costs and working to be the best in our businesses at customer service, product quality and operating efficiency. We are concentrating on our sales of high value-added products and services in order to capture opportunities in growing and profitable markets as well as to reduce our exposure to cyclicality in our businesses.

"We believe our shareholders should expect us to deliver consistent, double-digit earnings growth."

In the next year we expect to secure long-term commitments for critical business that will strengthen the positions of our mills and plants. We have exe-cuted financial hedges on about half of our corrugated medium output, taking advantage of the opportunity to ensure that we realize good margins on our output. We will pursue other opportunities to reduce the volatility of our most price and cost sensitive operations.

"We are concentrating on increasing our sales of high value-added products and services in order to capture opportunities in growing and profitable markets."

Rewarding Initiative

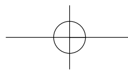
We are starting to see great returns on what we call "Totally New Thinking" as we recognize and reward employees for new innovations that drive value. Our program to recognize and reward sales that cross divisional lines and that create new opportunities for different business with existing customers continues to show growing results. We are giving clear signs to our people that we encourage their initiative and empower them to drive change in our business.

We have great people on the Rock-Tenn team. Leaders have emerged at all levels of our business in the last three years of difficult operating conditions for the Company. Our assets are well positioned. Our commitment is to ensure that together we produce the results that our shareholders expect. We enter this year excited about our opportunities and as focused as can be on making them realities. Thank you for your interest in Rock-Tenn and your support as shareholders. We are committed to your success.

"We are giving clear signs to our people that we encourage their initiative and empower them to drive change in our business."

James A Rubright
Vice Chairman and Chief Executive Officer

Jay Shuster
President and Chief Operating Officer



Rock-Tenn Company Financial Review

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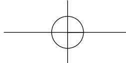

FIVE YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

ROCK-TENN COMPANY

(In Thousands, Except Per Share Amounts)	Year Ended September 30, 1999[c]	1998[d]	1997[e],[f]	1996	1995
Net sales	$1,310,368	$1,293,606	$1,109,693	$876,111	$902,878
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Notes:

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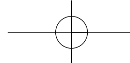


Segment and Market Information

We report our results in three industry segments: packaging products, paperboard and a segment combining the results of our laminated paperboard products division, plastic packaging division and recycled fiber division.

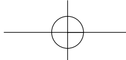
The packaging products segment consists of facilities that produce folding cartons, solid fiber partitions, corrugated containers and corrugated displays. We compete with a significant number of national, regional and local packaging suppliers. During fiscal 1999, we sold packaging products to approximately 5,000 customers with no customer accounting for more than 5% of our net sales. We sell packaging products to several large national customers with sales to an individual customer ranging as high as $55 million during fiscal 1999. The majority of our packaging products sales are to smaller national and regional customers that annually purchase less than $10 million of packaging products from the Company. The packaging business is highly competitive. As a result, we regularly bid for sales opportunities to customers for new business or for renewal of existing business. The loss of business or the award of new business from our larger customers may have a significant impact on our results of operations.

The paperboard segment consists of facilities that manufacture 100% recycled clay-coated and uncoated paperboard, which we refer to as boxboard, and corrugating medium, which we refer to as medium. In the paperboard segment, we compete with integrated and non-integrated national, regional and local companies manufacturing various grades of paperboard. During fiscal 1999, we sold paperboard to approximately 700 customers. A significant percentage of our sales of boxboard are made to our packaging products segment and laminated paperboard products division. Our paperboard segment's sales volumes may therefore be directly impacted by changes in demand for the Company's packaging and laminated paperboard products.

The laminated paperboard, plastic packaging and recycled fiber segment consists of facilities that produce laminated paperboard products and thermoformed plastic products and that collect recovered paper. In our laminated paperboard products and thermoformed plastic products divisions, we compete with a small number of national, regional and local companies offering highly specialized products. We also compete with foreign companies in the book cover market. Our recycled fiber division competes with national, regional and local companies. During fiscal 1999, we sold laminated paperboard, plastic packaging and recycled fiber to approximately 2,400 customers.

Income and expenses that are not reflected in the information used by management to make operating decisions and assess performance are reported as non-allocated expenses. These include adjustments to record inventory on the last-in, first-out, or "LIFO," method compared to the first-in, first-out or, "FIFO," method, elimination of intersegment profit, plant closing and related expenses and certain corporate expenses.

	Year Ended September 30,		
(In Millions)	1999	1998	1997
Net sales (aggregate):			
Packaging Products	$ 872.0	$ 856.8	$ 763.9
Paperboard	419.9	434.2	364.8
Laminated Paperboard, Plastic Packaging and Recycled Fiber	258.9	275.7	238.0
Total	$1,550.8	$1,566.7	$1,366.7
Net sales (intersegment):			
Packaging Products	$ 0.9	$ 0.7	$ 0.7
Paperboard	200.7	230.0	223.8
Laminated Paperboard, Plastic Packaging and Recycled Fiber	38.8	42.4	32.5
Total	$ 240.4	$ 273.1	$ 257.0
Net sales (unaffiliated customers):			
Packaging Products	$ 871.1	$ 856.1	$ 763.2
Paperboard	219.2	204.2	141.0
Laminated Paperboard, Plastic Packaging and Recycled Fiber	220.1	233.3	205.5
Total	$1,310.4	$1,293.6	$1,109.7
Segment income:			
Packaging Products	$ 60.7	$ 47.1	$ 39.3
Paperboard	52.3	67.0	44.5
Laminated Paperboard, Plastic Packaging and Recycled Fiber	6.9	6.4	(0.6)
	119.9	120.5	83.2
Non-allocated expenses	(12.8)	(6.6)	(19.0)
Income from operations	107.1	113.9	64.2
Interest expense	(31.2)	(35.0)	(26.8)
Interest and other income	0.4	1.0	0.7
Minority interest in income of consolidated subsidiary	(6.0)	(5.3)	(0.4)
Income before income taxes	$ 70.3	$ 74.6	$ 37.7



Results of Operations

We provide quarterly information in the following tables to assist in evaluating trends in our results of operations. For additional discussion of quarterly information, see our quarterly reports on Form 10-Q filed with the Securities and Exchange Commission.

Net Sales (Unaffiliated Customers)

Net sales for fiscal 1999 increased 1.3% to $1,310.4 million from $1,293.6 million for fiscal 1998. Net sales increased primarily as a result of increased volume of corrugated promotional displays and price increases implemented during the fourth quarter of fiscal 1999.

Net sales for fiscal 1998 increased 16.6% to $1,293.6 million from $1,109.7 million for fiscal 1997. Net sales increased primarily as a result of the acquisitions completed during fiscal 1997 and price increases offset by lower volumes for operations owned during both periods.

Net Sales (Aggregate) – Packaging Products Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1997	$146.8	$190.6	$208.1	$218.4	$763.9
1998	209.8	214.3	213.5	219.2	856.8
1999	209.6	208.0	217.3	237.1	872.0

Net sales of packaging products before intersegment eliminations for fiscal 1999 increased 1.8% to $872.0 million from $856.8 million for fiscal 1998. The increase mainly resulted from increased volumes of corrugated promotional displays and price increases implemented during the fourth quarter of fiscal 1999 that were offset in part by volume and price decreases in folding cartons. In order to better utilize our capacity, we aggressively pursued additional long-term folding carton volume during fiscal 1999, which resulted in lower average selling prices for the folding carton division. The volume decreases were partially attributable to lower sales to two national customers.

Net sales of packaging products before intersegment eliminations for fiscal 1998 increased 12.2% to $856.8 million from $763.9 million for fiscal 1997. The increase primarily resulted from acquisitions completed during fiscal 1997 and price increases.

Net Sales (Aggregate) – Paperboard Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1997	$ 62.0	$ 94.2	$102.3	$106.3	$364.8
1998	113.6	112.0	105.7	102.9	434.2
1999	101.2	98.2	107.7	112.8	419.9

Net sales of paperboard before intersegment eliminations for fiscal 1999 decreased 3.3% to $419.9 million from $434.2 million for fiscal 1998. The decrease resulted from price decreases reflecting weakness in the markets for boxboard. In order to better utilize our capacity, we aggressively pursued additional long-term paperboard volume during fiscal 1999, which resulted in lower average selling prices for the paperboard segment. See Operating Income – Paperboard Segment.

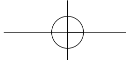
Net sales of paperboard before intersegment eliminations for fiscal 1998 increased 19.0% to $434.2 million from $364.8 million for fiscal 1997. The increase resulted from the acquisition of Waldorf Corporation, which we refer to as Waldorf (See Note 2 of Notes to Consolidated Financial Statements), significant price and volume increases on medium and price increases on boxboard. See Operating Income – Paperboard Segment. The increase was offset in part by volume decreases in the latter part of fiscal 1998, attributable to lower volume with one national customer within the packaging products segment.

Net Sales (Aggregate) – Laminated Paperboard, Plastic Packaging and Recycled Fiber Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1997	$ 48.3	$ 56.8	$58.9	$74.0	$238.0
1998	69.6	72.2	66.0	67.9	275.7
1999	59.5	60.5	64.9	74.0	258.9

Net sales within this segment before intersegment eliminations for fiscal 1999 decreased 6.1% to $258.9 million from $275.7 million for fiscal 1998. The decrease resulted from reduced volumes of laminated paperboard products and lower recovered paper selling prices.

Net sales within this segment before intersegment eliminations for fiscal 1998 increased 15.8% to $275.7 million from $238.0 million for fiscal 1997. The increase resulted from acquisitions completed during fiscal 1997 and price increases.



Cost of Goods Sold

Cost of goods sold for fiscal 1999 increased 0.6% to $950.9 million from $945.1 million for fiscal 1998. Cost of goods sold as a percentage of net sales for fiscal 1999 decreased to 72.6% from 73.1% for fiscal 1998. The decrease in cost of goods sold as a percentage of net sales resulted from lower average recovered paper costs, energy and workers' compensation expenses and increased manufacturing efficiencies, which were offset somewhat by increases in health insurance costs.

Cost of goods sold for fiscal 1998 increased 13.1% to $945.1 million from $835.9 million for fiscal 1997. Cost of goods sold as a percentage of net sales for fiscal 1998 decreased to 73.1% from 75.3% for fiscal 1997. The decrease in cost of goods sold as a percentage of net sales mainly resulted from higher average selling prices and increased manufacturing efficiencies, which were partially offset by increased costs of recovered paper. See Operating Income – Paperboard Segment.

Substantially all of our U.S. inventories are valued at the lower of cost or market with cost determined on the LIFO inventory valuation method, which we believe generally results in a better matching of current costs and revenues than under the 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.

The following table illustrates the comparative effect of LIFO and FIFO accounting on our results of operations. These supplemental FIFO earnings reflect the after-tax effect of eliminating the LIFO adjustment each year.

	Year Ended September 30,					
	1999		1998		1997	
(In Millions)	LIFO	FIFO	LIFO	FIFO	LIFO	FIFO
Cost of goods sold	$950.9	$950.7	$945.1	$943.9	$835.9	$835.9
Net income	39.7	39.8	42.0	42.7	16.1	16.1

Gross Profit

(% of Net Sales)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1997	25.7%	23.9%	24.6%	24.7%	24.7%
1998	26.0	26.0	27.9	27.9	26.9
1999	27.9	27.1	27.5	27.3	27.4

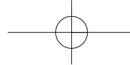
Gross profit for fiscal 1999 increased 3.2% to $359.5 million from $348.5 million for fiscal 1998. Gross profit as a percentage of net sales increased to 27.4% for fiscal 1999 from 26.9% for fiscal 1998. See Cost of Goods Sold.

Gross profit for fiscal 1998 increased 27.3% to $348.5 million from $273.8 million for fiscal 1997. Gross profit as a percentage of net sales increased to 26.9% for fiscal 1998 from 24.7% for fiscal 1997. See Cost of Goods Sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal 1999 increased 5.8% to $236.1 million from $223.2 million for fiscal 1998. Selling, general and administrative expenses as a percentage of net sales for fiscal 1999 increased to 18.0% from 17.3% for fiscal 1998. The increase in selling, general and administrative expenses as a percentage of net sales for fiscal 1999 resulted primarily from increased compensation expenses.

Selling, general and administrative expenses for fiscal 1998 increased 19.8% to $223.2 million from $186.3 million for fiscal 1997. Selling, general and administrative expenses as a percentage of net sales for fiscal 1998 increased to 17.3% from 16.8% for fiscal 1997. The increase in selling, general and administrative expenses as a percentage of net sales for fiscal 1998 resulted from increased incentive compensation expenses.



Plant Closings and Other Costs

During fiscal 1999, we incurred plant closing and other costs related to announced facility closings. We generally accrue the cost of employee terminations at the time of notification to the employees. Certain other costs, such as moving and relocation costs, are expensed as incurred. These costs include the closing of a folding carton plant in Taylorsville, North Carolina, a laminated paperboard products operation in Otsego, Michigan, and an uncoated papermill serving our coverboard converting operations in Jersey City, New Jersey. The closures resulted in the termination of approximately 280 employees. In connection with these closings, we incurred charges of $6.3 million, which consisted mainly of employee termination, equipment relocation, expected losses on the disposition of the facility and related expenses. Of the $6.3 million, approximately $4.1 million was paid in fiscal 1999, losses of $0.8 million were incurred in connection with disposal of inventory and other assets and the carrying value of the Jersey City facility was reduced by $1.0 million, leaving a remaining liability of approximately $0.4 million at September 30, 1999. Plant closing and other costs are not allocated to the respective segments for financial reporting purposes. Had these costs been allocated, $3.9 million would have been charged to the laminated paperboard, plastic packaging and recycled fiber segment and $2.4 million would have been charged to the packaging products segment. We have consolidated the operations of these closed plants into other existing facilities. In November 1999, we announced the closing of our Lynchburg, Virginia, laminated paperboard products plant. Severance, equipment relocation, and other one-time operational costs in connection with this closing are expected to reduce net income by approximately $5.5 million during the fiscal year ending September 2000. We expect that this consolidation will result in significantly lower costs on an ongoing basis. No amounts have been accrued at September 30, 1999 with respect to the Lynchburg closing.

During fiscal 1998, we began implementing certain cost reduction initiatives designed to reduce overhead and production costs and improve operating efficiency. In connection with these cost reduction initiatives, we terminated approximately 40 employees and recorded $0.6 million and $2.0 million of costs related to these terminations during fiscal 1999 and 1998, respectively. We made payments of approximately $1.2 million and a nominal amount during fiscal 1999 and 1998, respectively, related to these terminations. The remaining liability at September 30, 1999 is $1.3 million, which is expected to be paid over the next two years. Plant closing and other costs are not allocated to the respective segments for financial reporting purposes. Had these costs been allocated, $0.6 million and $0.3 million would have been charged to the laminated paperboard, plastic packaging and recycled fiber segment in fiscal 1999 and 1998, respectively, and $1.7 million would have been charged to the packaging products segment in fiscal 1998.

During fiscal 1997, in connection with the Waldorf acquisition, we decided to close our folding carton plant at Mundelein, Illinois. The Mundelein facility was acquired in the acquisition of Olympic Packaging. In connection with this closing, we incurred a charge of approximately $12.8 million during fiscal 1997 that consisted primarily of the non-cash write-off of goodwill associated with our Olympic Packaging subsidiary. The write-off of goodwill was required based upon our decision to close the Mundelein facility and our determination, based on an analysis of estimated future cash flows, that we could not recover this goodwill. We incurred additional costs of approximately $1.6 million during fiscal 1997 principally for employee termination and related charges associated with closing the Mundelein facility, which were paid during fiscal 1998 and 1999. In addition, during fiscal 1997, we decided to close a plastics recycling facility located in Indianapolis, Indiana. As a result, we recorded charges of approximately $1.8 million related to the losses on disposal of machinery and equipment.

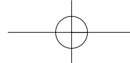
Segment Operating Income

Operating Income – Packaging Products Segment

(In Millions, Except Percentages)	Net Sales (Aggregate)	Operating Income	Return on Sales
First Quarter	$146.8	$ 5.9	4.0%
Second Quarter	190.6	8.3	4.4
Third Quarter	208.1	10.1	4.9
Fourth Quarter	218.4	15.0	6.9
Fiscal 1997	$763.9	$39.3	5.1%
First Quarter	$209.8	$ 9.0	4.3%
Second Quarter	214.3	10.0	4.7
Third Quarter	213.5	11.7	5.5
Fourth Quarter	219.2	16.4	7.5
Fiscal 1998	$856.8	$47.1	5.5%
First Quarter	$209.6	$13.9	6.6%
Second Quarter	208.0	14.0	6.7
Third Quarter	217.3	13.7	6.3
Fourth Quarter	237.1	19.1	8.1
Fiscal 1999	$872.0	$60.7	7.0%

Operating income attributable to the packaging products segment for fiscal 1999 increased 28.9% to $60.7 million from $47.1 million for fiscal 1998. Operating margin for fiscal 1999 was 7.0% and 5.5% for fiscal 1998. The increase in operating margin resulted from increased manufacturing efficiencies from improved operating rates, higher sales in the second half of fiscal 1999 and a higher percentage of corrugated promotional display sales. This increase was offset somewhat by lower average selling prices for certain business in the folding carton division.

Operating income attributable to the packaging products segment for fiscal 1998 increased 19.8% to $47.1 million from $39.3 million for fiscal 1997. Operating margin for fiscal 1998 was 5.5% and 5.1% for fiscal 1997. The increase in operating margin resulted from average selling price increases and operating efficiencies.

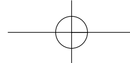


Operating Income – Paperboard Segment

	Net Sales (Aggregate) *(In Millions)*	Operating Income *(In Millions)*	Return on Sales	Boxboard Tons Shipped *(In Thousands)*	Average Boxboard Price *(Per Ton)*	Medium Tons Shipped *(In Thousands)*	Average Medium Price *(Per Ton)*	Weighted Average Recovered Paper Cost *(Per Ton)*
First Quarter	$ 62.0	$10.7	17.3%	160.3	$389	–	$ –	$52
Second Quarter	94.2	11.5	12.2	221.6	400	24.8	234	57
Third Quarter	102.3	12.4	12.1	241.3	397	29.8	217	50
Fourth Quarter	106.3	9.9	9.3	240.4	399	43.2	275	64
Fiscal 1997	$364.8	$44.5	12.2%	863.6	$397	97.8	$247	$56
First Quarter	$113.6	$16.9	14.9%	242.0	$420	45.0	$330	$70
Second Quarter	112.0	17.4	15.5	236.2	420	45.6	347	68
Third Quarter	105.7	17.9	16.9	225.3	417	40.8	338	59
Fourth Quarter	102.9	14.8	14.4	220.0	414	43.9	318	58
Fiscal 1998	$434.2	$67.0	15.4%	923.5	$418	175.3	$332	$64
First Quarter	$101.2	$13.6	13.4%	221.7	$403	45.2	$288	$53
Second Quarter	98.2	10.7	10.9	218.5	399	43.5	328	52
Third Quarter	107.7	15.3	14.2	238.5	398	45.3	340	58
Fourth Quarter	112.8	12.7	11.3	242.5	406	44.7	380	76
Fiscal 1999	$419.9	$52.3	12.5%	921.2	$401	178.7	$336	$60

Operating income attributable to the paperboard segment for fiscal 1999 decreased 21.9% to $52.3 million from $67.0 million for fiscal 1998. Operating margin for fiscal 1999 decreased to 12.5% from 15.4% in fiscal 1998. The decrease in operating margin primarily resulted from lower average selling prices and volumes for boxboard, which was partially offset by lower average recovered paper costs. Beginning in the latter part of fiscal 1999, recovered paper costs increased and we began implementing price increases to recover these costs.

Operating income attributable to the paperboard segment for fiscal 1998 increased 50.6% to $67.0 million from $44.5 million for fiscal 1997. Operating margin for fiscal 1998 increased to 15.4% from 12.2% in fiscal 1997. These increases mainly resulted from the Waldorf acquisition, significant price and volume increases for medium and price increases for boxboard, which were offset somewhat by higher weighted average recovered paper costs.



Operating Income – Laminated Paperboard, Plastic Packaging and Recycled Fiber Segment

(In Millions, Except Percentages)	Net Sales (Aggregate)	Operating Income	Return on Sales
First Quarter	$ 48.3	$(1.9)	(3.9)%
Second Quarter	56.8	(0.5)	(0.9)
Third Quarter	58.9	(0.2)	(0.3)
Fourth Quarter	74.0	2.0	2.7
Fiscal 1997	$238.0	$(0.6)	(0.3)%
First Quarter	$ 69.6	$ 0.4	0.6%
Second Quarter	72.2	2.4	3.3
Third Quarter	66.0	1.9	2.9
Fourth Quarter	67.9	1.7	2.5
Fiscal 1998	$275.7	$ 6.4	2.3%
First Quarter	$ 59.5	$ 0.1	0.2%
Second Quarter	60.5	1.5	2.5
Third Quarter	64.9	1.7	2.6
Fourth Quarter	74.0	3.6	4.9
Fiscal 1999	$258.9	$ 6.9	2.7%

Operating income attributable to this segment for fiscal 1999 increased 7.8% to $6.9 million from $6.4 million for fiscal 1998. Operating margin for fiscal 1999 increased to 2.7% from 2.3% in fiscal 1998. The increase in operating margin mainly resulted from improvements in average selling prices and manufacturing efficiencies in the plastic packaging division offset in part by lower volumes and average selling prices and reduced manufacturing efficiencies in the laminated paperboard products division. A portion of the reduced manufacturing efficiencies was a result of disruptions associated with plant closings in Otsego, Michigan, and Jersey City, New Jersey. In November 1999, we announced the closing of our Lynchburg, Virginia, laminated paperboard products plant. See Plant Closings and Other Costs.

Operating income attributable to this segment for fiscal 1998 was $6.4 million compared to $(0.6) million for fiscal 1997. Operating margin for fiscal 1998 increased to 2.3% from (0.3)% in fiscal 1997. These increases primarily resulted from higher average selling prices and increased manufacturing efficiencies in the laminated paperboard products division.

Interest Expense

Interest expense for fiscal 1999 decreased to $31.2 million from $35.0 million for fiscal 1998 and increased to $35.0 million for fiscal 1998 from $26.8 million for fiscal 1997. The decrease for fiscal 1999 primarily resulted from a decrease in average outstanding borrowings and lower interest rates. The increase in fiscal 1998 was primarily due to an increase in the outstanding borrowings during such period resulting from the Waldorf acquisition and the acquisition of Rite Paper Products, Inc., which we refer to as Rite Paper (See Note 2 of Notes to Consolidated Financial Statements).

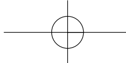
Provision for Income Taxes

Provision for income taxes for fiscal 1999 decreased to $30.6 million from $32.6 million for fiscal 1998. Provision for income taxes for fiscal 1998 increased to $32.6 million from $21.7 million for fiscal 1997. Excluding the effect of the $12.8 million non-cash write-off of the goodwill associated with the Olympic Packaging acquisition during fiscal 1997, which we cannot deduct for tax purposes, our effective tax rate decreased to 43.5% for fiscal 1999 compared to 43.7% for fiscal 1998 and increased to 43.7% for fiscal 1998 from 42.8% for fiscal 1997. The decrease in the effective tax rate in fiscal 1999 primarily resulted from a decrease in our effective state tax rate. The increase in the effective tax rate in fiscal 1998 primarily resulted from the effect of amortization of goodwill that is not deductible for income tax purposes.

Net Income and Diluted Earnings Per Common Share

Net income for fiscal 1999 decreased 5.5% to $39.7 million from $42.0 million for fiscal 1998. Net income as a percentage of net sales decreased to 3.0% for fiscal 1999 from 3.2% for fiscal 1998. Diluted earnings per share for fiscal 1999 decreased to $1.13 from $1.20 for fiscal 1998.

Net income for fiscal 1998 increased 160.9% to $42.0 million from $16.1 million for fiscal 1997. Net income as a percentage of net sales increased to 3.2% for fiscal 1998 from 1.5% for fiscal 1997. Diluted earnings per share for fiscal 1998 increased to $1.20 from $.47 for fiscal 1997.



Market Risk Sensitive Instruments and Positions

We are exposed to market risk from changes in interest rates, foreign exchange rates and commodity prices. To modify the risk from these interest rate, exchange rate and commodity price fluctuations, we enter into various hedging transactions. The sensitivity analyses presented do not consider the effect of possible adverse changes in the economy generally, nor do they consider additional actions management may take to mitigate its exposure to such changes.

Derivative Instruments

We enter into a variety of derivative transactions. Generally, we designate at inception that derivatives hedge risks associated with specific assets, liabilities or future commitments and monitor each derivative to determine if it remains an effective hedge. The effectiveness of the derivative as a hedge is based on a high correlation between changes in its value and changes in value of the underlying hedged item. We include in operations amounts received or paid when the underlying transaction settles. We do not enter into or hold derivatives for trading or speculative purposes.

We use interest rate cap agreements and interest rate swap agreements to manage synthetically the interest rate characteristics of a portion of our outstanding debt and to limit our exposure to rising interest rates. Amounts to be received or paid as a result of interest rate cap agreements and interest rate swap agreements are accrued and recognized as an adjustment to interest expense related to the designated debt. The cost of purchasing interest rate caps are amortized to interest expense ratably during the life of the agreement. Gains or losses on terminations of interest rate swap agreements are deferred and amortized as an adjustment to interest expense related to the debt over the remaining term of the original contract life of terminated swap agreements. In the event of the early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income at the time of the extinguishment.

We use forward contracts to limit our exposure to fluctuations in Canadian foreign currency rates with respect to our receivables denominated in Canadian dollars. The forward contracts are settled monthly and resulting gains or losses are recognized at the time of settlement.

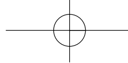
We use commodity swap agreements to limit our exposure to falling selling prices and rising raw material costs for a portion of our recycled corrugating medium business. Amounts to be received or paid as a result of these swap agreements are recognized in the period in which the related sale is made.

Interest Rates

We are exposed to changes in interest rates, primarily as a result of our short-term and long-term debt with both fixed and floating interest rates. We use interest rate agreements to effectively cap the LIBOR rate on portions of the amount outstanding under our revolving credit facility. In addition, we have used an interest rate swap agreement to effectively fix the LIBOR rate on $100,000,000 of variable rate borrowings. If market interest rates had averaged 1.0% more than actual rates in fiscal 1999, our interest expense, after considering the effects of interest rate swap and cap agreements, would have increased, and income before taxes would have decreased, by approximately $3.0 million. Comparatively, if market interest rates had averaged 1.0% more than actual rates in fiscal 1998, our interest expense, after considering the effects of interest rate swap and cap agreements, would have increased, and income before taxes would have decreased, by approximately $1.6 million. These amounts are determined by considering the impact of the hypothetical interest rates on our borrowing costs and interest rate swap and cap agreements. These analyses do not consider the effects of the reduced level of overall economic activity that could exist in such an environment.

Foreign Currency

We are exposed to changes in foreign currency rates with respect to our foreign currency-denominated operating revenues and expenses. We use forward contracts to limit exposure to fluctuations in Canadian foreign currency rates, our largest exposure to foreign currency rates. For fiscal 1999, a uniform 10.0% strengthening in the value of the dollar relative to the currency in which our sales are denominated would have resulted in an increase in gross profit of $0.4 million for fiscal 1999. Comparatively, for fiscal 1998, a uniform 10.0% strengthening in the value of the dollar relative to the currency in which our sales are denominated would have resulted in an increase in gross profit of $0.3 million for fiscal 1998. This calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar.



In addition to the direct effect of changes in exchange rates on the dollar value of the resulting sales, changes in exchange rates also affect the volume of sales or the foreign currency sales price as competitors' products become more or less attractive. Our sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

Commodities

We sell recycled medium to various customers. The principal raw material used in the production of medium is old corrugated containers, or "OCC." Medium and OCC prices and costs fluctuate widely due to changing market forces. As a result, we make use of swap agreements to limit our exposure to falling selling prices and rising raw material costs of a portion of our recycled medium business. We are exposed to market risk related to these instruments if selling prices rise above the fixed selling price of our swap agreements or if raw material costs fall below the fixed raw material cost of our swap agreements. We estimate market risk as a hypothetical 10.0% increase in selling prices or a 10% decrease in raw material costs. Based on 1999 medium sales prices, such an increase would have resulted in lower sales of $1.7 million during fiscal 1999 because of our swaps on medium prices. Based on 1999 OCC costs, such a decrease would have resulted in higher costs of purchases of $0.7 million during fiscal 1999 because of our swaps on OCC costs. We purchase and sell a variety of commodities which are not subject to derivative commodity instruments including OCC, paperboard and recovered paper. Fluctuations in market prices of these commodities could have a material effect on our results of operations. Such fluctuations are not reflected in the results above.

Liquidity and Capital Resources

Working Capital and Capital Expenditures

We have funded our working capital requirements and capital expenditures, including acquisitions, from net cash provided by operating activities, borrowings under term notes and bank credit facilities and proceeds received in connection with the issuance of industrial revenue bonds and debt and equity securities. In fiscal 1997, we entered into a revolving credit facility under which we have aggregate borrowing availability of $450.0 million. At September 30, 1999, we had $362.0 million outstanding under our revolving credit facility. Cash and cash equivalents, $4.5 million at September 30, 1999, decreased from $5.8 million at September 30, 1998.

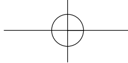
Net cash provided by operating activities for fiscal 1999 was $112.4 million compared to $125.7 million for fiscal 1998. This decrease primarily resulted from a larger change in operating assets and liabilities during fiscal 1999 than fiscal 1998. Net cash used by financing activities aggregated $22.8 million for fiscal 1999 and consisted primarily of repayments of debt and quarterly dividend payments. Net cash used by financing activities aggregated $44.7 million for fiscal 1998 and consisted primarily of repayments of debt and quarterly dividend payments. Net cash used for investing activities was $91.2 million for fiscal 1999 compared to $78.4 million for fiscal 1998 and consisted primarily of capital expenditures in both years.

Net cash provided by operating activities for fiscal 1998 was $125.7 million compared to $106.4 million for fiscal 1997. This increase primarily resulted from increased earnings before depreciation and amortization and a smaller change in operating assets and liabilities during fiscal 1998 than in fiscal 1997. Net cash used by financing activities aggregated $44.7 million for fiscal 1998 and consisted primarily of repayments of debt and quarterly dividend payments. Net cash provided by financing activities aggregated $233.7 million for fiscal 1997 and consisted primarily of borrowings under our $450.0 million revolving credit facility, net of scheduled repayments of long-term debt, repayments of certain acquired indebtedness of Waldorf and The Davey Company, which we refer to as Davey (See Note 2 of Notes to Consolidated Financial Statements), and quarterly dividend payments. Net cash used for investing activities was $78.4 million for fiscal 1998 compared to $387.5 million for fiscal 1997 and consisted primarily of capital expenditures for fiscal 1998 and cash paid for the Waldorf acquisition and capital expenditures for fiscal 1997.

Our capital expenditures aggregated $92.3 million for fiscal 1999. We used these expenditures primarily for the purchase and upgrading of machinery and equipment.

We currently estimate that our capital expenditures will aggregate approximately $70.0 million in fiscal 2000. We intend to use these expenditures for the purchase and upgrading of machinery and equipment and for building expansions and improvements in one of our divisions. We believe that our financial position would support higher levels of capital expenditures, if justified by opportunities to increase revenues or reduce costs, and we continuously review new investment opportunities. Accordingly, it is possible that our capital expenditures in fiscal 2000 could be higher than previously anticipated.

We anticipate that we will be able to fund our capital expenditures, acquisitions, interest payments, stock repurchases, dividends and working capital needs for the foreseeable future from cash generated from operations, borrowings under our revolving credit facility, proceeds from the issuance of debt or equity securities or other additional long-term debt financing.



Acquisitions

On January 21, 1997, we completed the Waldorf acquisition for approximately $239.0 million in cash. In addition, in connection with the Waldorf acquisition, we (1) made certain payments on the closing date aggregating $32.6 million, relating to the settlement of a contingent interest agreement with a former creditor of Waldorf and the termination of Waldorf's Stock Appreciation Rights Plan and (2) accrued as a cost of the purchase $5.3 million in connection with the planned termination of approximately 120 employees of Waldorf, principally certain senior executives and other employees at the Waldorf corporate office. We financed the Waldorf acquisition with available cash and borrowings under our revolving credit facility.

On June 9, 1997, we completed the Rite Paper acquisition. We financed this acquisition with borrowings under our revolving credit facility.

On July 9, 1997, we completed the Davey acquisition. We financed the acquisition through the issuance of 867,510 shares of our Class A common stock.

On September 5, 1997, we combined our fiber partition business assets with Sonoco Company's fiber partition business assets to form RTS Packaging. Pursuant to the agreement, we own 65% of the outstanding interests of RTS Packaging.

Stock Repurchase Program

The Board of Directors has authorized the repurchase from time to time prior to July 31, 2003 of up to 1.5 million shares of Class A common stock in open market transactions on the New York Stock Exchange. In addition, the Board has authorized the repurchase from time to time of shares of Class B common stock pursuant to certain first offer rights contained in our Restated and Amended Articles of Incorporation, provided that the aggregate number of shares of Class A and Class B common stock purchased under this plan may not exceed 1.5 million shares. During fiscal 1998, we repurchased 290,100 shares of Class A common stock and no Class B common stock under this plan. There were no repurchases of shares in fiscal 1999.

Year 2000

We have used both internal and external resources to evaluate the potential impact of the situation commonly referred to as the "Year 2000 problem." The Year 2000 problem, which is common to most businesses, concerns the inability of certain computer systems and devices to properly recognize and process date-sensitive information when the year changes to 2000. We depend upon our information technology ("IT") and non-IT systems (used to run manufacturing equipment that contain embedded hardware or software that must handle dates and may not properly record dates after 1999) to conduct and manage our business. Unless remediated, Year 2000 related issues may materially adversely affect our results of operations, financial condition and cash flows as well as that of one or more of our suppliers or customers. While we obtain raw materials, equipment and services from a number of suppliers and sell our products to a number of customers for a wide variety of applications, if a sufficient number of these suppliers or customers experience Year 2000 problems that prevent or substantially impair their ability to continue to transact business with us as they currently do, we would be required to find alternative suppliers and/or customers for these products. Any delay or inability in finding such alternatives could have a material adverse effect on our results of operations, financial condition and cash flows.

We currently have a team dedicated to identifying, evaluating and resolving our potential Year 2000 issues. Our Year 2000 program included six stages: education, inventory, assessment, remediation, testing and implementation. The education stage involved identifying Year 2000 leaders at each of our facilities and educating our personnel on the specific issues associated with the Year 2000 problem. During the inventory stage, our personnel identified any system (IT and non-IT) that could potentially have a Year 2000 problem and developed software that is now being used to centrally track these identified systems. The assessment stage involved determining if there was a Year 2000 problem with the specific system (IT and non-IT). Remediation involved deciding what action to take if there was a Year 2000 problem, such as modifying or replacing the system, and actually fixing the problem. We tested each affected system once the remediation was complete. When it was determined that the system was Year 2000 compliant, the system was implemented. As of September 30, 1999, all of our mission-critical systems had been remediated and tested for the Year 2000, including all business systems.

We currently believe that we have modified, upgraded or replaced all of our critical IT and non-IT systems affected by the Year 2000 problem. In the event that we have not adequately remediated our material Year 2000 problems, we may be unable to, among other things, take customer orders, manufacture and ship products, invoice customers or collect payments. Under a number of our supply agreements, we are required to indemnify and hold harmless customers for damages incurred by such customers arising from our failure to resolve our Year 2000 problems. The amount of any potential liability and/or lost revenue cannot be reasonably estimated at this time; however, such amounts could be material.

In connection with our Year 2000 program, we have analyzed the need for contingent arrangements. To the extent we experience a Year 2000 problem, we intend to respond appropriately. We have multiple vendors for all critical raw materials, higher inventories of spare parts for our critical machinery, multiple facilities with the ability to shift manufacturing among facilities, multiple vendors to deliver products to customers as well as alternative methods of distribution and higher inventories in some product lines to meet customer demand in the event of a disruption. However, if we experience a Year 2000 problem, we cannot guarantee that our response will be timely or effective to prevent an adverse impact on our results of operations, financial condition and cash flows during the period in which we are remediating the problem. Any such impact could be material.

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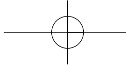


We have conducted a program to assess the Year 2000 readiness of our suppliers. This program has involved identifying suppliers that are critical to our operations as well as suppliers that would be difficult to replace and conducting a survey of these suppliers to assess their Year 2000 readiness. We have received assurances from substantially all suppliers of business-critical goods and services that they are or will be Year 2000 ready, although we cannot guarantee that this will be the case. We cannot reasonably estimate the magnitude of the impact on us of the Year 2000 problems that may be experienced by any of our suppliers; however, the impact of any such problems could have a material adverse effect on our results of operations, financial condition and cash flows.

We have not assessed the Year 2000 problems, if any, of our customers. To the extent customers experience Year 2000 problems that are not remediated on a timely basis, we anticipate potential material fluctuations in the demand for our products.

While we believe the occurrence of such a scenario is unlikely, a possible worst-case scenario might include the inadvertent failure to adequately remediate the process controllers (which are non-IT systems) on one or more of our paper machines. Depending on the number of machines affected, such an event could have an adverse impact on our ability to manufacture paperboard and to supply our converting operations, which, depending on its duration, could have a material adverse effect on our results of operations, financial condition and cash flows.

Costs associated with the Year 2000 program (excluding costs relating to capital improvements to IT and non-IT systems that are not directly related to remediating Year 2000 problems in such systems) have been expensed as incurred. We have financed the expenses with cash from operations. These expenses represent approximately 20% of the Company's Information Systems budget. To date, we have spent approximately $0.4 million in the education and inventory stages, $0.4 million in the assessment stage, $2.0 million in the remediation stage, $0.4 million in the testing stage and $0.8 million in the implementation stage and we expect to spend an additional $0.5 million to complete our Year 2000 program. There can be no assurance that we will not incur additional costs for unanticipated Year 2000 problems. Certain other system-related projects have been deferred due to the Year 2000 program.

Expenditures for Environmental Compliance

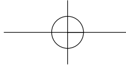
We are subject to various Federal, state, local and foreign environmental laws and regulations, including those regulating the discharge, storage, handling and disposal of a variety of substances. These laws and regulations include, among others, the Comprehensive Environmental Response, Compensation and Liability Act, which we refer to as CERCLA, the Clean Air Act (as amended in 1990), the Clean Water Act, the Resource Conservation and Recovery Act (including amendments relating to underground tanks) and the Toxic Substances Control Act. These environmental regulatory programs are primarily administered by the U.S. Environmental Protection Agency. In addition, some states in which we operate have adopted equivalent or more stringent environmental laws and regulations, or have enacted their own parallel environmental programs, which are enforced through various state administrative agencies.

We do not believe that future compliance with these environmental laws and regulations will have a material adverse effect on our results of operations, financial condition or cash flows. However, environmental laws and regulations are becoming increasingly stringent. Consequently, our compliance and remediation costs could increase materially. In addition, we cannot currently assess with certainty the impact that the future emissions standards and enforcement practices under the 1990 amendments to the Clean Air Act will have on our operations or capital expenditure requirements. However, we believe that any such impact or capital expenditures will not have a material adverse effect on our results of operations, financial condition or cash flows.

We estimate that we will spend $1.0 to $3.0 million for capital expenditures during fiscal year 2000 in connection with matters relating to environmental compliance.

In addition, we may choose to modify or replace the coal fired boilers at two of our facilities in order to operate cost effectively while complying with emissions regulations under the Clean Air Act. We estimate these improvements will cost approximately $9.0 million.

We have been identified as a potentially responsible party, which we refer to as a PRP, at nine "superfund" sites pursuant to CERCLA or comparable state statutes. No remediation costs or allocations have been determined with respect to such sites other than costs that were not material to us. Based upon currently available information and the opinions of our environmental compliance managers and general counsel, although there can be no assurance, we believe that any liability we may have at any site will not have a material adverse effect on our results of operations, financial condition or cash flows.



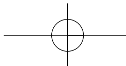
On February 9, 1999, we received a letter from the Michigan Department of Environmental Quality, which we refer to as MDEQ, in which the MDEQ alleges that we are in violation of the Michigan Natural Resources and Environmental Protection Act, as well as the facility's wastewater discharge permit at one of our Michigan facilities. The letter alleges that we exceeded several numerical limitations for chemical parameters outlined in the wastewater permit and violated other wastewater discharge criteria. The MDEQ further alleges that we are liable for contamination contained on the facility property as well as for contributing contamination to the Kalamazoo River site. The letter requests that we commit, in the form of a binding agreement, to undertake the necessary and appropriate response activities and response actions to address contamination in both areas. We have agreed to enter into an administrative consent order pursuant to which improvements will be made to the facility's wastewater treatment system and we will pay a $75,000 fine for the alleged violations. We have also agreed to pay an additional $30,000 for past and future oversight costs incurred by the State of Michigan. We will pay this additional amount in three equal payments over the next three years. The cost of making upgrades to the process waste system and wastewater treatment systems is estimated to be approximately $1,000,000. Nothing contained in the order will constitute an admission of liability or any factual finding, allegation or legal conclusion on our part. The order is expected to be completed during the second quarter of fiscal 2000.

New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." This statement requires the fair value of derivatives to be recorded as assets or liabilities. Gains or losses resulting from changes in the fair values of derivatives would be accounted for currently in earnings or comprehensive income depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. SFAS 133 is required to be adopted in fiscal 2001. We are currently evaluating SFAS 133 and have not yet determined its impact on our consolidated financial statements.

Forward-Looking Statements

Statements herein regarding, among other things, estimated capital expenditures for fiscal 2000, the anticipated impact and cost of remediating Year 2000 problems and expected expenditures for environmental law compliance, constitute forward-looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Such statements are subject to certain risks and uncertainties that could cause actual amounts to differ materially from those projected. With respect to these forward-looking statements, management has made assumptions regarding, among other things, the amount and timing of expected capital expenditures, the extent of our and certain third parties' Year 2000 problems, the costs to remedy such problems, the estimated cost of compliance with environmental laws, the expected resolution of various pending environmental matters, competition conditions in our businesses and general economic conditions. These forward-looking statements are subject to certain risks including, among others, that the amount of necessary capital expenditures has been underestimated; the extent of our Year 2000 problems and the costs to remedy, and the likely impact of, such problems has been underestimated; the cost of compliance with environmental laws has been underestimated; and expected outcomes of various pending environmental matters are inaccurate. In addition, our performance in future periods is subject to other risks including, among others, decreases in demand for our products, increases in raw material costs, fluctuations in selling prices, the adverse actions of our customers, the adverse actions of our competitors and our suppliers and adverse changes in general market and industry conditions. We believe these estimates are reasonable; however, undue reliance should not be placed on such estimates which are based on current expectations.

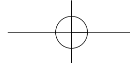


CONSOLIDATED STATEMENTS OF INCOME

ROCK-TENN COMPANY

(In Thousands, Except Per Share Data)	1999	Year Ended September 30, 1998	1997
Net sales	$1,310,368	$1,293,606	$1,109,693
Cost of goods sold	950,855	945,086	835,877
Gross profit	359,513	348,520	273,816
Selling, general and administrative expenses	236,135	223,158	186,319
Amortization of goodwill	9,410	9,429	7,070
Plant closing and other costs	6,932	1,997	16,251
Income from operations	107,036	113,936	64,176
Interest expense	(31,179)	(35,024)	(26,787)
Interest and other income	391	974	718
Minority interest in income of consolidated subsidiary	(5,995)	(5,273)	(351)
Income before income taxes	70,253	74,613	37,756
Provision for income taxes (Note 7)	30,555	32,593	21,655
Net income	$ 39,698	$ 42,020	$ 16,101
Basic earnings per share (Note 1)	$ 1.14	$ 1.21	$ .48
Diluted earnings per share (Note 1)	$ 1.13	$ 1.20	$ .47

See accompanying notes.

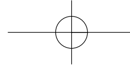


CONSOLIDATED BALANCE SHEETS

ROCK-TENN COMPANY

(In Thousands, Except Share and Per Share Data)	September 30, 1999	1998
Assets		
Current assets:		
Cash and cash equivalents	$ 4,538	$ 5,769
Accounts receivable (net of allowances of $3,610 and $3,817)	139,034	118,164
Inventories (Note 1)	94,501	88,019
Other current assets	5,308	4,200
Total current assets	243,381	216,152
Property, plant and equipment, at cost (Note 1):		
Land and buildings	194,903	178,168
Machinery and equipment	805,537	740,498
Transportation equipment	14,738	14,957
Leasehold improvements	7,242	4,386
	1,022,420	938,009
Less accumulated depreciation and amortization	(429,681)	(376,470)
Net property, plant and equipment	592,739	561,539
Goodwill, net	308,283	317,389
Other assets	17,067	16,401
	$1,161,470	$1,111,481
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 66,271	$ 45,924
Accrued compensation and benefits	36,977	42,040
Current maturities of long-term debt (Note 4)	41,435	43,462
Other current liabilities	24,227	21,054
Total current liabilities	168,910	152,480
Long-term debt due after one year (Note 4)	457,410	464,876
Deferred income taxes (Note 7)	85,631	82,248
Other long-term items	17,355	14,462
Commitments and contingencies (Notes 6 and 10)		
Shareholders' equity (Note 3):		
Preferred stock, $.01 par value; 50,000,000 shares authorized; no shares outstanding at September 30, 1999 and 1998	–	–
Class A common stock, $.01 par value; 175,000,000 shares authorized; 23,411,395 outstanding at September 30, 1999 and 22,851,838 outstanding at September 30, 1998, Class B common stock, $.01 par value; 60,000,000 shares authorized; 11,546,187 outstanding at September 30, 1999 and 11,724,972 outstanding at September 30, 1998	350	346
Capital in excess of par value	132,048	128,904
Retained earnings	303,287	274,039
Accumulated other comprehensive income	(3,521)	(5,874)
Total shareholders' equity	432,164	397,415
	$1,161,470	$1,111,481

See accompanying notes.

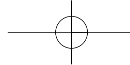


CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

ROCK-TENN COMPANY

(In Thousands, Except Share and Per Share Data)	Class A and Class B Common Stock Shares	Class A and Class B Common Stock Amount	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at September 30, 1996	33,127,410	$331	$109,879	$239,561	$ (616)	$349,155
Comprehensive income:						
Net income	–	–	–	16,101	–	16,101
Foreign currency translation adjustments	–	–	–	–	(520)	(520)
Pension adjustments	–	–	–	–	49	49
Comprehensive income						15,630
Cash dividends – $.30 per share	–	–	–	(10,070)	–	(10,070)
Sales of common stock	383,416	4	4,055	–	–	4,059
Income tax benefit from exercise of stock options	–	–	272	–	–	272
Stock issued in conjunction with acquisition	863,500	9	12,157	–	–	12,166
Balance at September 30, 1997	34,374,326	344	126,363	245,592	(1,087)	371,212
Comprehensive income:						
Net income	–	–	–	42,020	–	42,020
Foreign currency translation adjustments	–	–	–	–	(4,787)	(4,787)
Comprehensive income						37,233
Cash dividends – $.30 per share	–	–	–	(10,388)	–	(10,388)
Sales of common stock	532,584	5	3,771	–	–	3,776
Purchases of Class A common stock	(330,100)	(3)	(1,230)	(3,185)	–	(4,418)
Balance at September 30, 1998	34,576,810	346	128,904	274,039	(5,874)	397,415
Comprehensive income:						
Net income	–	–	–	39,698	–	39,698
Foreign currency translation adjustments	–	–	–	–	2,353	2,353
Comprehensive income						42,051
Cash dividends – $.30 per share	–	–	–	(10,450)	–	(10,450)
Sales of common stock	380,772	4	3,144	–	–	3,148
Balance at September 30, 1999	34,957,582	$350	$132,048	$303,287	$(3,521)	$432,164

See accompanying notes.

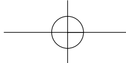


CONSOLIDATED STATEMENTS OF CASH FLOWS

ROCK-TENN COMPANY

	Year Ended September 30,		
(In Thousands)	1999	1998	1997
Operating activities:			
Net income	$ 39,698	$ 42,020	$ 16,101
Items in income not affecting cash:			
Depreciation and amortization	72,475	70,827	62,117
Deferred income taxes	3,383	3,974	5,017
Loss on disposal of plant and equipment and other, net	746	604	14,313
Minority interest in income of consolidated subsidiary	5,995	5,273	351
Change in operating assets and liabilities (excluding acquisitions):			
Accounts receivable	(20,469)	(3,866)	(7,343)
Inventories	(6,102)	5,223	(253)
Other assets	(2,883)	1,219	17,408
Accounts payable	20,180	(8,224)	7,484
Accrued liabilities	(607)	8,638	(8,818)
Cash provided by operating activities	112,416	125,688	106,377
Financing activities:			
Net (repayments) additions to revolving credit facilities	(7,000)	(17,000)	385,570
Additions to long-term debt	3,034	–	5,000
Repayments of long-term debt	(5,527)	(8,285)	(150,775)
Debt issuance costs	(80)	–	(124)
Sales of common stock	3,148	3,776	4,059
Purchases of common stock	–	(4,418)	–
Cash dividends paid to shareholders	(10,450)	(10,388)	(10,070)
Distribution to minority interest	(5,950)	(8,400)	–
Cash (used for) provided by financing activities	(22,825)	(44,715)	233,660
Investing activities:			
Cash paid for purchases of businesses, net of cash received	–	–	(301,287)
Capital expenditures	(92,333)	(81,666)	(87,016)
Proceeds from sale of property, plant and equipment	1,127	2,700	1,364
Decrease (increase) in unexpended industrial revenue bond proceeds	–	610	(610)
Cash used for investing activities	(91,206)	(78,356)	(387,549)
Effect of exchange rate changes on cash	384	(193)	(19)
(Decrease) increase in cash and cash equivalents	(1,231)	2,424	(47,531)
Cash and cash equivalents at beginning of year	5,769	3,345	50,876
Cash and cash equivalents at end of year	$ 4,538	$ 5,769	$ 3,345
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes, net of refunds	$ 28,899	$ 25,916	$ 784
Interest, net of amounts capitalized	31,190	37,258	29,249

See accompanying notes.



1 Description of Business and Summary of Significant Accounting Policies

Description of Business

The Company manufactures and distributes folding cartons, fiber partitions, corrugated containers and displays, laminated paperboard products, plastic packaging, 100% recycled coated and uncoated paperboard and recycled corrugating medium primarily to nondurable goods producers. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral. Receivables generally are due within 30 days. The Company serves a diverse customer base primarily in North America and, therefore, has limited exposure from credit loss to any particular customer or industry segment.

Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates and the differences could be material.

Revenue Recognition

The Company generally recognizes revenue at the time of shipment. In limited circumstances, the Company ships goods under a consignment basis and recognizes revenue when title to the goods passes to the buyer.

Derivatives

The Company enters into a variety of derivative transactions. Generally, the Company designates at inception that derivatives hedge risks associated with specific assets, liabilities or future commitments and monitors each derivative to determine if it remains an effective hedge. The effectiveness of the derivative as a hedge is based on a high correlation between changes in its value and changes in the value of the underlying hedged item. The Company includes in operations amounts received or paid when the underlying transaction settles. The Company does not enter into or hold derivatives for trading or speculative purposes.

The Company uses interest rate cap agreements and interest rate swap agreements to manage synthetically the interest rate characteristics of a portion of its outstanding debt and to limit the Company's exposure to rising interest rates. Amounts to be received or paid as a result of interest rate cap agreements and interest rate swap agreements are accrued and recognized as an adjustment to interest expense related to the designated debt. The cost of purchasing interest rate caps are amortized to interest expense ratably during the life of the agreement. Gains or losses on terminations of interest rate swap agreements are deferred and amortized as an adjustment to interest expense related to the debt over the remaining term of the original contract life of terminated swap agreements. In the event of the early extinguishment of a designated debt obligation, any realized or unrealized gain or loss from the swap would be recognized in income at the time of the extinguishment.

The Company uses forward contracts to limit exposure to fluctuations in Canadian foreign currency rates with respect to its receivables denominated in Canadian dollars. The forward contracts are settled monthly and resulting gains or losses are recognized at the time of settlement.

The Company uses commodity swap agreements to limit the Company's exposure to falling sales prices and rising raw material costs for a portion of its recycled corrugating medium business. Amounts to be received or paid as a result of these swap agreements are recognized in the period in which the related sale is made.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less from the date of purchase to be cash equivalents. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate fair market values.

Inventories

Substantially all U.S. inventories are stated at the lower of cost or market, with cost determined on the last-in, first-out (LIFO) basis. All other inventories are valued at lower of cost or market, with cost determined using methods which approximate cost computed on a first-in, first-out (FIFO) basis. These other inventories represent approximately 12.6% and 13.1% of FIFO cost at September 30, 1999 and 1998, respectively.

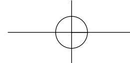
Inventories at September 30, 1999 and 1998 are as follows (in thousands):

	September 30, 1999	September 30, 1998
Finished goods and work in process	$ 67,934	$ 68,735
Raw materials	37,029	29,139
Supplies	11,608	12,048
Inventories at FIFO cost	116,571	109,922
LIFO reserve	(22,070)	(21,903)
Net inventories	$ 94,501	$ 88,019

It is impracticable to segregate the LIFO reserve between raw materials, finished goods and work in process.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Cost includes major expenditures for improvements and replacements which extend useful lives or increase capacity and interest costs associated



with significant capital additions. During fiscal 1999, 1998 and 1997, the Company capitalized interest of approximately $931,000, $888,000 and $1,214,000, respectively. For financial reporting purposes, depreciation and amortization are provided on both the declining balance and straight-line methods over the estimated useful lives of the assets as follows:

Buildings and building improvements	15-40 years
Machinery and equipment	3-20 years
Transportation equipment	3-8 years
Leasehold improvements	Term of lease

Depreciation expense for fiscal 1999, 1998 and 1997 was approximately $61,435,000, $59,525,000 and $53,698,000, respectively.

Basic and Diluted Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Year Ended September 30, 1999	1998	1997
Numerator:			
Net income	$39,698,000	$42,020,000	$16,101,000
Denominator:			
Denominator for basic earnings per share – weighted average shares	34,801,541	34,595,662	33,513,557
Effect of dilutive stock options	405,929	547,880	829,841
Denominator for diluted earnings per share – weighted average shares and assumed conversions	35,207,470	35,143,542	34,343,398
Basic earnings per share	$ 1.14	$ 1.21	$ .48
Diluted earnings per share	$ 1.13	$ 1.20	$ .47

Goodwill and Other Intangible Assets

The Company has classified as goodwill the excess of the acquisition cost over the fair values of the net assets of businesses acquired. Goodwill is amortized on a straight-line basis over periods ranging from 20 to 40 years. Accumulated amortization relating to goodwill at September 30, 1999 and 1998 was approximately $29,259,000 and $19,740,000, respectively.

Other intangible assets primarily represent costs allocated to non-compete agreements, financing costs and patents. These assets are amortized on a straight-line basis over their estimated useful lives. Accumulated amortization relating to intangible assets, excluding goodwill, was approximately $5,660,000 and $4,512,000 at September 30, 1999 and 1998, respectively.

Asset Impairment

The Company generally accounts for long-lived asset impairment under Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset. If the sum of the estimated expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. Measurement of an impairment loss is based on the estimated fair value of the asset. Long-lived assets to be disposed of are generally recorded at the lower of their carrying amount or estimated fair value less cost to sell.

Foreign Currency Translation

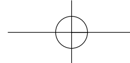
Assets and liabilities of the Company's foreign operations are generally translated from the foreign currency at the rate of exchange in effect as of the balance sheet date. Earnings from foreign operations are indefinitely reinvested in the respective operations. Revenues and expenses are generally translated at average monthly exchange rates prevailing during the year. Resulting translation adjustments are reflected in shareholders' equity.

New Accounting Standards

As of October 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income." SFAS 130 establishes new rules for the reporting and display of comprehensive income and its components; however, the adoption of this Statement had no impact on the Company's net income or shareholders' equity. SFAS 130 requires the Company's foreign currency translation adjustments and other such items, which prior to the adoption were reported separately in shareholders' equity, to be included in other comprehensive income. Prior year financial statements have been reclassified to conform to the requirements of SFAS 130.

As of September 30, 1999, the Company adopted Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures About Segments of an Enterprise and Related Information." SFAS 131 establishes standards for disclosures of segment information about products and services, geographic areas, major customers, and certain interim disclosures of segment information that were not required by accounting standards previously used by the Company. Prior year financial statements have been reclassified to conform to the requirements of SFAS 131.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities." This statement requires the fair value of derivatives to be recorded as assets or liabilities. Gains or losses resulting from changes in the fair values of derivatives would be accounted for currently in earnings or comprehensive income, depending on the purpose of the derivatives and whether they qualify for hedge accounting treatment. SFAS 133 is required



to be adopted in fiscal 2001. The Company is currently evaluating SFAS 133 and has not yet determined its impact on the Company's consolidated financial statements.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with the current year presentation.

2 Acquisitions of Businesses and Other Matters

On January 21, 1997, the Company acquired all of the outstanding capital stock of the parent of Waldorf Corporation ("Waldorf"), a manufacturer of folding cartons and 100% recycled paperboard and a manufacturer of recycled corrugating medium, for approximately $239,000,000, financed primarily with borrowings under the Company's credit facility. In addition, the Company (i) made certain payments aggregating $32,600,000 in connection with the settlement of a contingent interest agreement with a former creditor of Waldorf and the termination of Waldorf's Stock Appreciation Rights Plan and (ii) accrued as a cost of the purchase $5,293,000 in connection with the planned termination of approximately 120 employees of Waldorf, principally certain senior executives and other employees at the Waldorf corporate office. The Company paid $5,261,000 related to these terminations.

On June 9, 1997, the Company acquired substantially all of the assets of Rite Paper Products, Inc. ("Rite Paper"), a manufacturer of component paperboard pieces primarily for the ready-to-assemble furniture industry.

On July 9, 1997, the Company acquired substantially all of the assets and certain of the liabilities of The Davey Company ("Davey"), a manufacturer of recycled paperboard book covers used by the book manufacturing industry. The acquisition was financed through the issuance of 867,510 shares of the Company's Class A common stock (with a fair value of $12,200,000).

On September 5, 1997, the Company and Sonoco Products Company combined their respective fiber partition business assets into a new entity named RTS Packaging, LLC ("RTS Packaging"). The Company owns 65% of RTS Packaging.

The consolidated statements of income for fiscal 1997 include the results of operations of Waldorf, Rite Paper, Davey and RTS Packaging from the respective dates of acquisition or formation, as the case may be, and the transactions have been accounted for under the purchase method of accounting. The goodwill arising from these purchase transactions is being amortized over forty years. The assets acquired and liabilities assumed are as follows (in thousands):

Value of assets acquired	$ 575,997
Deferred tax and other liabilities	(102,264)
Long-term debt assumed	(147,226)
Net purchase price	$ 326,507

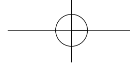
The following pro forma information gives effect to the acquisitions of Waldorf and Davey as if both had occurred at the beginning of fiscal 1997. The pro forma information is provided for informational purposes only. It is based on historical information and does not necessarily reflect the actual results of operations that would have occurred had such acquisitions actually occurred at the beginning of fiscal 1997 nor is it necessarily indicative of future results of operations of the combined enterprise (in thousands, except per share data, unaudited):

	Year Ended September 30, 1997
Net sales	$1,231,215
Net income	14,402
Diluted earnings per share	.41

The Rite Paper and RTS Packaging transactions are immaterial for pro forma presentation purposes and are not reflected in the aforementioned pro forma financial information.

During fiscal 1999, the Company incurred plant closing and other costs related to announced facility closings. The cost of employee terminations is generally accrued at the time of notification to the employees. Certain other costs, such as moving and relocation costs, are expensed as incurred. Included in these costs are the closing of a folding carton plant in Taylorsville, North Carolina, a laminated paperboard products operation in Otsego, Michigan, and an uncoated papermill, serving the Company's coverboard converting operations, in Jersey City, New Jersey. The closures resulted in the termination of approximately 280 employees. In connection with these closings, the Company incurred charges of $6,357,000, which consisted primarily of employee termination, equipment relocation, expected losses on the disposition of the facility and related expenses. Of the $6,357,000, approximately $4,134,000 was paid in fiscal 1999, losses of $764,000 were incurred in connection with disposal of inventory and other assets and the carrying value of the Jersey City facility was reduced by $1,000,000, leaving a remaining liability of approximately $436,000 at September 30, 1999. Facilities closed during fiscal 1999 had combined revenues and operating losses of $16,585,000 and $1,501,000, respectively, in fiscal 1999, $63,323,000 and $745,000, respectively, in fiscal 1998 and $49,947,000 and $2,573,000, respectively, in fiscal 1997. The Company has consolidated the operations of these closed plants into other existing facilities.

During fiscal 1998, the Company began implementing certain cost reduction initiatives designed to reduce overhead and production costs and improve operating efficiency. In connection with these cost reduction initiatives, the Company terminated approximately 40 employees and recorded $575,000 and $1,997,000 of costs related to these terminations during fiscal 1999 and 1998, respectively. The Company made payments of approximately $1,246,000 and $23,000 during fiscal 1999 and 1998, respectively, related to these terminations. The remaining liability at September 30, 1999 is $1,303,000, which is expected



to be paid over the next two years. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Forward-Looking Statements."

During fiscal 1997, in connection with the Waldorf acquisition, management decided to close the Company's folding carton plant at Mundelein, Illinois. The Mundelein facility was acquired in the acquisition of Olympic Packaging. In connection with this closing, the Company incurred a charge of approximately $12,784,000 during fiscal 1997, which represented the non-cash write-off of goodwill associated with the Company's Olympic Packaging subsidiary. The write-off of goodwill was required based upon the decision to close the Mundelein facility and the determination, based on an analysis of estimated future cash flows, that such goodwill would not be recoverable. During fiscal 1997, the Company charged to expense approximately $1,622,000 principally for the termination of approximately 150 employees and other related charges associated with closing the Mundelein facility. Of the $1,622,000, losses of $207,000 were incurred in fiscal 1997 and payments of approximately $186,000 and $1,029,000 were made in fiscal 1998 and 1997, respectively. The remaining accrual was adjusted in fiscal 1998. The Mundelein facility had revenue and operating losses of $19,032,000 and $1,242,000, respectively, in fiscal 1997 and $30,440,000 and $1,197,000, respectively, in fiscal 1996. In addition, during fiscal 1997, management decided to close a plastics recycling facility located in Indianapolis, Indiana. During fiscal 1997, the Company charged to expense approximately $1,750,000 related to this closing, primarily relating to losses on disposal of the equipment. Severance costs were immaterial. Revenue and operating losses were immaterial to the overall consolidated financial statements.

3 Shareholders' Equity

Capitalization

The Company's capital stock consists of Class A common stock ("Class A Common") and Class B common stock ("Class B Common"). Holders of Class A Common have one vote per share and holders of Class B Common have 10 votes per share. Holders of Class B Common are entitled to convert their shares into Class A Common at any time on a share-for-share basis, subject to certain rights of first refusal by the Company and its management committee. The Company's Class A Common is publicly traded on the New York Stock Exchange. There is not an established public trading market for Class B Common. During fiscal 1999, 1998 and 1997, respectively, approximately 213,000, 157,000 and 172,000 Class B Common shares were converted into Class A Common shares.

The Company also has authorized preferred stock, of which no shares have been issued. The terms and provisions of such shares will be determined by the Board of Directors upon any issuance of such shares.

Stock Option Plans

The Company's 1993 Stock Option Plan allows for the granting of options to certain key employees for the purchase of a maximum of 3,700,000 shares of Class A Common. Options that have been granted under this plan vest in increments over a period of up to three years and have 10-year terms.

The Incentive Stock Option Plan, the 1987 Stock Option Plan and the 1989 Stock Option Plan provided for the granting of options to certain key employees for an aggregate of 4,320,000 shares of Class A Common and 1,440,000 shares of Class B Common. The Company will not grant any additional options under the Incentive Stock Option Plan, the 1987 Stock Option Plan or the 1989 Stock Option Plan.

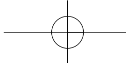
The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, generally no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by FASB Statement No. 123, "Accounting for Stock-Based Compensation," which also requires that the information be determined as if the Company had accounted for its employee stock options granted subsequent to September 30, 1995, under the fair-value method of that Statement. The fair values for the options granted subsequent to September 30, 1995, were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions for fiscal 1999, 1998 and 1997, respectively: risk-free interest rate of 4.78%, 4.8% and 6.3%, a dividend yield of 2.0% for all three years, volatility factor of the expected market price of the Company's common stock of 40.0%, 32.0% and 28.0%, and an expected life of the option of 10 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair values estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair values of its employee stock options.

For purposes of pro forma disclosures, the estimated fair values of the options are amortized to expense over the options' vesting periods. The Company's pro forma information follows (in thousands, except for earnings per share information):

	1999	1998	1997
Pro forma net income	$37,339	$40,395	$14,856
Pro forma earnings per share:			
Basic	1.07	1.17	.44
Diluted	1.06	1.15	.43

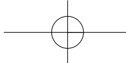


The table below summarizes the changes in all stock options during the periods indicated:

	Class B Common			Class A Common		
	Shares	Price Range	Weighted Average Exercise Price	Shares	Price Range	Weighted Average Exercise Price
Options outstanding at September 30, 1996	315,959	$2.52-7.45	$4.78	1,345,080	$ 2.50-16.59	$ 9.41
Exercised or forfeited	(14,080)	$2.52-3.27	$2.74	(124,520)	$ 2.50-18.30	$ 4.21
Granted	–	–	–	757,100	$17.50-20.31	$19.49
Options outstanding at September 30, 1997	301,879	$2.52-7.45	$4.87	1,977,660	$ 2.50-20.31	$13.60
Exercised or forfeited	(99,660)	$2.52-7.45	$3.62	(246,420)	$ 2.50-18.30	$ 3.71
Granted	–	–	–	519,200	$11.13-18.75	$11.48
Options outstanding at September 30, 1998	202,219	$3.27-7.45	$5.49	2,250,440	$ 3.26-20.31	$14.19
Exercised or forfeited	(36,300)	$3.27-4.33	$3.60	(72,400)	$ 3.26-20.31	$ 4.95
Granted	–	–	–	822,200	$11.44-15.19	$14.59
Options outstanding at September 30, 1999	165,919	$4.33-7.45	$5.90	3,000,240	$ 4.32-20.31	$14.52
Options exercisable at September 30, 1999	165,919	$4.33-7.45	$5.90	1,366,240	$ 4.32-20.31	$14.50
Options available for future grant at September 30, 1999	–	–	–	933,200	–	–

The following table summarizes information concerning options outstanding and exercisable at September 30, 1999:

	Class B Common		Class A Common				
			Outstanding		Exercisable		
	Number Outstanding and Exercisable	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Both Classes)
$4.32-7.45	165,919	$5.90	313,040	$ 5.91	313,040	$ 5.91	2.1
$11.13-11.44	–	–	555,200	11.16	–	–	9.0
$14.31-17.50	–	–	1,374,400	15.09	609,650	15.39	7.9
$18.30-20.31	–	–	757,600	19.51	443,550	19.33	7.4
	165,919	5.90	3,000,240	14.52	1,366,240	14.50	7.1



The estimated weighted average fair value of options granted during fiscal 1999, 1998 and 1997 with option prices equal to the market price on the date of grant was $6.72, $4.46 and $7.61, respectively.

Employee Stock Purchase Plan

Under the Amended and Restated 1993 Employee Stock Purchase Plan, 1,320,000 shares of Class A Common are reserved for purchase by substantially all qualifying employees of the Company. In fiscal 1999, 1998 and 1997, approximately 284,000, 207,000 and 196,000 shares, respectively, were purchased by employees under this plan.

4 Long-term Debt

Long-term debt at September 30, 1999 and 1998 consists of the following:

(In Thousands)	September 30, 1999	1998
Revolving credit facility (a)	$362,000	$369,000
7.25% notes, due August 2005, net of unamortized discount of $81 and $94(b)	99,919	99,906
Industrial revenue bonds, bearing interest at variable rates (4.40% at September 30, 1999), due through December 2037(c)	34,650	32,150
Other notes	2,276	7,282
	498,845	508,338
Less current maturities of long-term debt	41,435	43,462
Long-term debt due after one year	$457,410	$464,876

(a) The Company has a revolving credit facility, provided by a syndicate of banks, which provides aggregate borrowing availability of up to $450,000,000 through 2002. Borrowings outstanding under the facility bear interest based upon LIBOR plus an applicable margin. This rate was 6.18% and 6.38% at September 30, 1999 and 1998, respectively. Annual facility fees range from 0.075% to 0.3% of the aggregate borrowing availability, based on the Company's consolidated funded debt-to-total capitalization ratio. Under the agreements covering this loan, restrictions exist as to the maintenance of financial ratios, creation of additional long-term and short-term debt, certain leasing arrangements, mergers, acquisitions, disposals and other matters. The Company is in compliance with such restrictions.

In October 1997, the Company entered into two interest rate agreements effectively to cap the LIBOR rate on portions of the amount outstanding under the revolving credit facility. Under the agreements, $75,000,000 is capped at 8.00% per annum until October 7, 2000, while another $75,000,000 is capped at 7.50% per annum until October 7, 1999. The costs associated with these interest rate agreements are being amortized over the terms of the agreements.

In April 1998, the Company entered into an interest rate swap agreement effectively to fix the LIBOR rate on $100,000,000 of variable rate borrowings at 5.79% per annum until April 2005. In May 1999, the Company terminated this swap agreement. The resulting gain of $1,034,000 is being amortized over the original contract life as a reduction of interest expense.

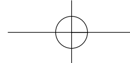
In May 1999, the Company entered into an interest rate swap agreement effectively to fix the LIBOR rate on $100,000,000 of variable rate borrowings at 5.84% per annum until May 2002.

The Company is exposed to counterparty credit risk for nonperformance and, in the unlikely event of nonperformance, to market risk for changes in interest rates. The Company manages exposure to counterparty credit risk through minimum credit standards, diversification of counterparties and procedures to monitor concentrations of credit risk. The Company does not anticipate nonperformance of the counterparties.

(b) In August 1995, the Company sold $100,000,000 in aggregate principal amount of its 7.25% notes due August 1, 2005 (the "Notes"). The Notes are not redeemable prior to maturity and are not subject to any sinking fund requirements. The Notes are unsubordinated, unsecured obligations. The indenture related to the Notes restricts the Company and its subsidiaries from incurring certain liens and entering into certain sale and leaseback transactions, subject to a number of exceptions. Debt issuance costs of approximately $908,000 are being amortized over the term of the Notes. In May 1995, the Company entered into an interest rate adjustment transaction in order to effectively fix the interest rate on the Notes subsequently issued in August 1995. The costs associated with the interest rate adjustment transaction of $1,530,000 are being amortized over the term of the Notes. Giving effect to the amortization of the original issue discount, the debt issuance costs and the costs associated with the interest rate adjustment transaction, the effective interest rate on the Notes is approximately 7.51%.

(c) Payments of principal and interest on the industrial revenue bonds are guaranteed by a letter of credit issued by a bank. Restrictions on the Company similar to those described in (a) above exist under the terms of the agreements. The bonds are remarketed periodically based on the interest rate period selected by the Company. In the event the bonds cannot be remarketed, the bank has agreed to extend long-term financing to the Company in an amount sufficient to retire the bonds.

As of September 30, 1999, $321,000,000 of the $362,000,000 outstanding under the revolving credit facility has been classified as long-term debt since the Company has the ability to continue to finance this amount pursuant to the terms of the revolving credit facility and does not intend to repay this amount with cash



from operations during the ensuing year. As of September 30, 1999, the aggregate maturities of long-term debt for the succeeding five years are as follows (in thousands):

2000	$ 41,435
2001	307
2002	321,327
2003	350
2004	284
Thereafter	135,142
Total debt	$498,845

One of the Company's Canadian subsidiaries has a revolving credit facility with a Canadian bank. The facility provides borrowing availability of up to Canadian $2,000,000 and can be renewed on an annual basis. There are no facility fees related to this arrangement. As of September 30, 1999 and 1998, there were no amounts outstanding under this facility.

5 Financial Instruments

At September 30, 1999 and 1998, the fair market value of the Notes was approximately $96,003,000 and $100,250,000, respectively, based on quoted market prices. At September 30, 1999, the carrying amount for variable rate long-term debt approximates fair market value since the interest rates on these instruments are reset periodically.

At September 30, 1999 and 1998, the fair values of the two interest rate cap agreements were immaterial. The fair values of interest rate swap agreements held by the Company were approximately $800,000 and $4,451,000 at September 30, 1999 and 1998, respectively. There were no carrying amounts associated with these instruments.

The Company has swap agreements to limit its exposure to falling prices and rising costs for a portion of its recycled corrugating medium business. Some agreements hedge the selling prices on a total of 12,000 tons of recycled corrugating medium and the cost of related OCC each quarter and expire during fiscal 2002. Other agreements hedge the selling prices on a total of 15,000 tons of recycled corrugating medium each quarter and expire during fiscal 2003. These swap agreements were entered into through privately negotiated transactions for which there is no readily accessible market. It is impracticable to estimate the fair values as they are based upon future costs and prices that cannot be reasonably estimated. There is no carrying amount associated with these instruments.

6 Leases and Other Agreements

The Company leases certain manufacturing and warehousing facilities and equipment (primarily transportation equipment) under various operating leases. Some leases contain escalation clauses and provisions for lease renewal.

As of September 30, 1999, future minimum lease payments, including certain maintenance charges on transportation equipment, under all noncancelable leases, are as follows (in thousands):

2000	$ 7,093
2001	5,691
2002	4,590
2003	3,923
2004	2,620
Thereafter	2,876
Total future minimum lease payments	$26,793

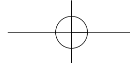
Rental expense for the years ended September 30, 1999, 1998 and 1997 was approximately $13,685,000, $12,264,000 and $10,503,000, respectively, including lease payments under cancelable leases.

7 Income Taxes

The Company accounts for income taxes under the liability method, which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. The recognition of future tax benefits is required to the extent that realization of such benefits is more likely than not.

The provisions for income taxes consist of the following components (in thousands):

	Year Ended September 30,		
	1999	1998	1997
Current income taxes:			
Federal	$23,824	$25,360	$13,676
State	2,383	2,498	2,694
Foreign	965	761	268
Total current	27,172	28,619	16,638
Deferred income taxes:			
Federal	2,791	3,359	3,989
State	239	265	349
Foreign	353	350	679
Total deferred	3,383	3,974	5,017
Provision for income taxes	$30,555	$32,593	$21,655



The differences between the statutory federal income tax rate and the Company's effective income tax rate are as follows:

	Year Ended September 30,		
	1999	1998	1997
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	3.5	3.7	3.9
Non-deductible amortization and write-off of goodwill (See Note 2)	3.7	3.5	18.3
Other, net (primarily non-taxable items)	1.3	1.5	0.2
Effective tax rate	43.5%	43.7%	57.4%

The tax effects of temporary differences that give rise to significant portions of deferred income tax assets and liabilities consist of the following (in thousands):

	September 30,	
	1999	1998
Deferred income tax assets:		
Accruals and allowances	$ 9,843	$ 9,092
Other	2,829	5,955
Total	12,672	15,047
Deferred income tax liabilities:		
Property, plant and equipment	82,586	77,266
Deductible intangibles	2,550	2,343
Inventory and other	13,167	17,686
Total	98,303	97,295
Net deferred income tax liability	$85,631	$82,248

The Company has not recorded any valuation allowances for deferred income tax assets.

The components of the income before income taxes are (in thousands):

	Year Ended September 30,		
	1999	1998	1997
United States	$66,173	$71,356	$34,916
Foreign	4,080	3,257	2,840
Income before income taxes	$70,253	$74,613	$37,756

8 Retirement Plans

The Company has a number of defined benefit pension plans covering essentially all employees who are not covered by certain collective bargaining agreements. The benefits are based on years of service and, for certain plans, compensation. The Company's practice is to fund amounts deductible for federal income tax purposes.

In addition, under several labor contracts the Company makes payments based on hours worked into multi-employer pension plan trusts established for the benefit of certain collective bargaining employees.

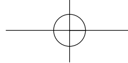
The Company's projected benefit obligation, fair value of assets and net periodic pension cost includes the following components (in thousands):

	Year Ended September 30,	
	1999	1998
Projected benefit obligation at beginning of year	$166,189	$146,808
Service cost	7,592	7,460
Interest cost on projected benefit obligations	12,487	11,008
Amendments	3,829	(8,410)
Actuarial (gain) loss	(15,266)	12,714
Acquisitions and other	–	1,861
Benefits paid	(6,178)	(5,252)
Projected benefit obligation at end of year	$168,653	$166,189
Fair value of assets at beginning of year	$195,062	$159,048
Actual return on plan assets	20,987	35,945
Acquisitions and other	–	2,427
Employer contribution	–	2,894
Benefits paid	(6,178)	(5,252)
Fair value of assets at end of year	$209,871	$195,062
Funded status	$ 41,218	$ 28,873
Net unrecognized asset	(531)	(909)
Net unrecognized gain	(42,282)	(23,420)
Unrecognized prior service income	(1,095)	(5,029)
Net accrued pension cost included in consolidated balance sheets	$ (2,690)	$ (485)

The amounts recognized in the consolidated income statements are as follows (in thousands):

	Year Ended September 30,		
	1999	1998	1997
Service cost	$ 7,592	$ 7,460	$ 6,027
Interest cost on projected benefit obligations	12,488	11,008	9,647
Expected return on plan assets	(17,169)	(14,870)	(10,449)
Net amortization of the initial asset	(378)	(385)	(399)
Net amortization of gain loss	(222)	(110)	(7)
Net amortization of prior service (income) cost	(105)	(436)	445
Total Company defined benefit plan expense	2,206	2,667	5,264
Multi-employer plans for collective bargaining employees	238	237	163
Net periodic pension cost	$ 2,444	$ 2,904	$ 5,427

The discount rate used in determining the actuarial present value of the projected benefit obligations was 7.75%, 7.0% and 7.5% as of September 30, 1999, 1998 and 1997, respectively. The expected increase in compensation levels used in determining the actuarial present value of the projected benefit obligations was



4.0% as of September 30, 1999, 1998 and 1997. The expected long-term rate of return on assets used in determining pension expense was 9% for all years presented. There were no underfunded plans as of September 30, 1999. The projected benefit obligations, accumulated benefit obligation and fair value of assets for underfunded plans was $2,392,000, $2,392,000, and $2,352,000, respectively, as of September 30, 1998.

Effective October 1, 1997, the Company implemented an employee savings plan which permits participants to make contributions by salary reduction pursuant to Section 401(k) of the Internal Revenue Code. The Company matches 50% of contributions up to a maximum of 6% of compensation as defined by the plan. During fiscal 1999 and fiscal 1998, the Company recorded matching expense of $3,982,000 and $4,001,000 related to the plan. As a result of the new employee savings plan effective January 1, 1998, the Company amended its defined benefit plans to lower pension benefits. Net periodic pension cost was approximately $1,600,000 lower during fiscal 1998 as a result of the reduced benefits.

The Company has a Supplemental Executive Retirement Plan (“SERP”) which provides unfunded supplemental retirement benefits to certain executives of the Company. The SERP provides for incremental pension payments to partially offset the reduction in amounts that would have been payable from the Company’s principal pension plan if it were not for limitations imposed by federal income tax regulations. Expense relating to the plan of $137,000, $219,000 and $174,000 was recorded for fiscal 1999, 1998 and 1997, respectively. Amounts accrued as of September 30, 1999 and 1998 related to the plan were $821,000 and $688,000, respectively.

9 Related Party Transactions

A director of the Company is the Chairman and a significant shareholder of the insurance agency that brokers substantially all insurance for the Company. The insurance premiums paid by the Company may vary significantly from year to year with the claims arising during such years. For the years ended September 30, 1999, 1998 and 1997, payments were approximately $4,458,000, $4,898,000 and $3,831,000, respectively.

A director of the Company is the former Chairman of the construction company that built a new building for the Company. For fiscal 1999, 1998 and 1997, payments approximated $118,000, $2,733,000 and $5,335,000, respectively, and were capitalized as property, plant and equipment. The project was completed during fiscal 1999.

10 Commitments and Contingencies

Capital Additions

Estimated costs for completion of authorized capital additions under construction as of September 30, 1999, total approximately $17,000,000.

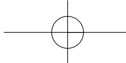
Stock Repurchase Plan

The Board of Directors has approved a stock repurchase plan for the repurchase of a maximum of 1,500,000 shares in aggregate of Class A Common or Class B Common prior to July 31, 2003. During fiscal 1999, the Company repurchased no shares under this plan. During fiscal 1998, the Company repurchased 290,100 shares of Class A Common under this plan. Under a previously authorized plan, which expired on July 31, 1998, the Company repurchased 40,000 and no shares of Class A Common during fiscal 1998 and 1997, respectively.

Environmental and Other Matters

The Company is subject to various Federal, state, local and foreign environmental laws and regulations, including those regulating the discharge, storage, handling and disposal of a variety of substances. These laws and regulations include, among others, the Comprehensive Environmental Response, Compensation and Liability Act, which the Company refers to as CERCLA, the Clean Air Act (as amended in 1990), the Clean Water Act, the Resource Conservation and Recovery Act (including amendments relating to underground tanks) and the Toxic Substances Control Act. These environmental regulatory programs are primarily administered by the U.S. Environmental Protection Agency. In addition, some states in which the Company operates have adopted equivalent or more stringent environmental laws and regulations, or have enacted their own parallel environmental programs, which are enforced through various state administrative agencies.

The Company does not believe that future compliance with these environmental laws and regulations will have a material adverse effect on its results of operations, financial condition or cash flows. However, environmental laws and regulations are becoming increasingly stringent. Consequently, the Company’s compliance and remediation costs could increase materially. In addition, the Company cannot currently assess with certainty the impact that the future emissions standards and enforcement practices under the 1990 amendments to the Clean Air Act will have on our operations or capital expenditure requirements. However, the Company believes that any such impact or capital expenditures will not have a material adverse effect on its results of operations, financial condition or cash flows.



The Company estimates that it will spend $1.0 to $3.0 million for capital expenditures during fiscal year 2000 in connection with matters relating to environmental compliance.

In addition, the Company may choose to modify or replace the coal fired boilers at two of our facilities in order to operate cost effectively while complying with emissions regulations under the Clean Air Act. The Company estimates these improvements will cost approximately $9.0 million.

The Company has been identified as a potentially responsible party, which the Company refers to as a PRP, at nine "superfund" sites pursuant to CERCLA or comparable state statutes. No remediation costs or allocations have been determined with respect to such sites other than costs that were not material to the Company. Based upon currently available information and the opinions of the Company's environmental compliance managers and general counsel, although there can be no assurance, the Company believes that any liability it may have at any site will not have a material adverse effect on the Company's results of operations, financial condition or cash flows.

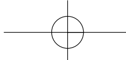
On February 9, 1999, the Company received a letter from the Michigan Department of Environmental Quality, which the Company refers to as MDEQ, in which the MDEQ alleges that the Company is in violation of the Michigan Natural Resources and Environmental Protection Act as well as the facility's wastewater discharge permit at one of the Company's Michigan facilities. The letter alleges that the Company exceeded several numerical limitations for chemical parameters outlined in the wastewater permit and violated other wastewater discharge criteria. The MDEQ further alleges that the Company is liable for contamination contained on the facility property as well as for contributing contamination to the Kalamazoo River site. The letter requests that the Company commit, in the form of a binding agreement, to undertake the necessary and appropriate response activities and response actions to address contamination in both areas. The Company has agreed to enter into an administrative consent order pursuant to which improvements will be made to the facility's wastewater treatment system and the Company will pay a $75,000 fine for the alleged violations. The Company has also agreed to pay an additional $30,000 for past and future oversight costs incurred by the State of Michigan. The Company will pay this additional amount in three equal payments over the next three years. The cost of making upgrades to the process waste system and wastewater treatment systems is estimated to be approximately $1,000,000. Nothing contained in the order will constitute an admission of liability or any factual finding, allegation or legal conclusion on the part of the Company. The order is expected to be completed during the second quarter of fiscal 2000.

11 Segment Information

The Company adopted SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information," in 1999 which changes the way operating segment information is presented. The information for fiscal 1998 and fiscal 1997 has been restated from the prior year's presentation in order to conform to the fiscal 1999 presentation.

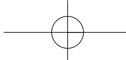
The Company reports three business segments. The packaging products segment consists of facilities that produce folding cartons, fiber partitions, corrugated containers and corrugated displays. The paperboard segment consists of facilities that manufacture 100% recycled clay-coated and uncoated paperboard and corrugating medium. The laminated paperboard, plastic packaging and recycled fiber segment consists of facilities that produce laminated paperboard products and thermoformed plastic products and that collect recovered paper; although these facilities do not meet the aggregation criteria of SFAS 131, they also do not meet the criteria of SFAS 131 for separate reporting and accordingly, have been presented as a single segment. Certain operations included in the packaging products segment are located in foreign countries and had operating income of $5,455,000, $4,293,000 and $4,483,000 during fiscal 1999, 1998 and 1997, respectively. For fiscal 1999, foreign operations represented approximately 4.6%, 5.1% and 5.5% of total net sales to unaffiliated customers, total income from operations and total identifiable assets, respectively. For fiscal 1998, foreign operations represented approximately 4.1%, 3.8% and 5.4% of total net sales to unaffiliated customers, total income from operations and total identifiable assets, respectively. In fiscal 1997, these operations represented approximately 4.8%, 7.0% and 5.3% of total net sales to unaffiliated customers, total income from operations and total identifiable assets, respectively. As of September 30, 1999, 1998 and 1997, the Company had foreign long-lived assets with a net book value of $34,556,000, $28,545,000 and $31,844,000, respectively.

The Company evaluates performance and allocates resources based, in part, on profit or loss from operations before income taxes, interest and other items. The accounting policies of the reportable segments are the same as those described in the Summary of Significant Accounting Policies except that the Company accounts for inventory on the FIFO basis at the segment level compared to a LIFO basis at the consolidated level. Intersegment sales are accounted for at prices that approximate market prices. Intercompany profit is eliminated at the consolidated level.



Following is a tabulation of business segment information for each of the past three fiscal years (in thousands):

	Year Ended September 30,		
	1999	1998	1997
Net sales (aggregate):			
Packaging Products	$ 872,008	$ 856,790	$ 763,856
Paperboard	419,911	434,223	364,815
Laminated Paperboard, Plastic Packaging and Recycled Fiber	258,896	275,700	238,037
Total	$1,550,815	$1,566,713	$1,366,708
Less net sales (intersegment):			
Packaging Products	$ 886	$ 712	$ 686
Paperboard	200,739	230,047	223,755
Laminated Paperboard, Plastic Packaging and Recycled Fiber	38,822	42,348	32,574
Total	$ 240,447	$ 273,107	$ 257,015
Net sales (unaffiliated customers):			
Packaging Products	$ 871,122	$ 856,078	$ 763,170
Paperboard	219,172	204,176	141,060
Laminated Paperboard, Plastic Packaging and Recycled Fiber	220,074	233,352	205,463
Total	$1,310,368	$1,293,606	$1,109,693
Segment income (loss):			
Packaging Products	$ 60,646	$ 47,139	$ 39,276
Paperboard	52,261	67,033	44,501
Laminated Paperboard, Plastic Packaging and Recycled Fiber	6,904	6,395	(587)
	119,811	120,567	83,190
LIFO and intercompany profit	(167)	(1,213)	(250)
Plant closing and other costs	(6,932)	(1,997)	(16,251)
Other non-allocated expenses	(5,676)	(3,421)	(2,513)
Income from operations	107,036	113,936	64,176
Minority interest in consolidated subsidiary	(5,995)	(5,273)	(351)
Interest expense	(31,179)	(35,024)	(26,787)
Interest and other income	391	974	718
Income before income taxes	$ 70,253	$ 74,613	$ 37,756
Indentifiable assets:			
Packaging Products	$ 537,737	$ 499,517	$ 500,822
Paperboard	447,105	436,336	431,391
Laminated Paperboard, Plastic Packaging and Recycled Fiber	167,496	160,822	165,679
Corporate	9,132	14,806	15,794
Total	$1,161,470	$1,111,481	$1,113,686
Depreciation and amortization:			
Packaging Products	$ 35,094	$ 33,973	$ 46,379
Paperboard	23,049	22,599	18,535
Laminated Paperboard, Plastic Packaging and Recycled Fiber	11,099	10,964	9,626
Corporate	3,233	3,291	2,263
Total	$ 72,475	$ 70,827	$ 76,803
Capital expenditures, including assets acquired:			
Packaging Products	$ 45,123	$ 43,377	$ 109,851
Paperboard	28,850	22,011	122,882
Laminated Paperboard, Plastic Packaging and Recycled Fiber	15,103	9,677	30,720
Corporate	3,257	6,601	7,947
Total	$ 92,333	$ 81,666	$ 271,400



12 Financial Results by Quarter (Unaudited)

(In Thousands, Except Per Share Data) 1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$310,795	$312,166	$329,629	$357,778
Gross profit	86,826	84,576	90,504	97,607
Net income	8,758	8,806	9,920	12,214
Basic earnings per share	0.25	0.25	0.28	0.35
Diluted earnings per share	0.25	0.25	0.28	0.35

1998	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$316,475	$327,854	$320,078	$329,199
Gross profit	82,266	85,105	89,157	91,992
Net income	8,677	9,786	11,800	11,757
Basic earnings per share	0.25	0.28	0.34	0.34
Diluted earnings per share	0.25	0.28	0.34	0.34

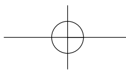
1997	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$208,318	$275,397	$300,302	$325,676
Gross profit	53,593	65,744	73,818	80,661
Net income (loss)	7,399	(7,191)	6,212	9,681
Basic earnings (loss) per share	0.22	(0.22)	0.19	0.28
Diluted earnings (loss) per share	0.22	(0.22)	0.18	0.28

The interim earnings per common and common equivalent share amounts were computed as if each quarter was a discrete period. As a result, the sum of the basic and diluted earnings per share by quarter will not necessarily total the annual basic and diluted earnings per share.

The results of operations for the first, second, third and fourth quarters of fiscal 1999 include expenses of approximately $2,053,000, $1,085,000, $2,763,000 and $1,031,000, respectively, incurred by the Company as a result of the facility closings (See Note 2).

The results of operations for the fourth quarter of fiscal 1998 include expenses of approximately $1,997,000 incurred by the Company as a result of the facility closing (See Note 2).

The results of operations for the second, third and fourth quarters of fiscal 1997 include expenses of approximately $12,784,000, $2,700,000 and $767,000, respectively, incurred by the Company as a result of the facility closings and related items (See Note 2).



REPORT OF INDEPENDENT AUDITORS

ROCK-TENN COMPANY

To the Board of Directors and Shareholders
Rock-Tenn Company

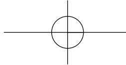
We have audited the accompanying consolidated balance sheets of Rock-Tenn Company as of September 30, 1999 and 1998, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended September 30, 1999. These financial statements are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

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

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

Ernst & Young LLP

Atlanta, Georgia
October 26, 1999



MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL INFORMATION

ROCK-TENN COMPANY

The management of Rock-Tenn Company has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgments. Management also prepared the other information in the annual report and is responsible for its accuracy and consistency with the financial statements.

Rock-Tenn Company has established and maintains a system of internal control to safeguard assets against loss or unauthorized use and to ensure the proper authorization and accounting for all transactions. This system includes appropriate reviews by the Company's internal audit department and management as well as written policies and procedures that are communicated to employees with significant roles in the financial reporting process and updated as necessary.

The Board of Directors, through its Audit Committee, is responsible for ensuring that both management and the independent auditors fulfill their respective responsibilities with regard to the financial statements. The Audit Committee, composed entirely of directors who are not officers or employees of the Company, meets periodically with both management and the independent auditors to assure that each is carrying out its responsibilities. The independent auditors and the Company's internal audit department have full and free access to the Audit Committee and meet with it, with and without management present, to discuss auditing and financial reporting matters.

The Company's financial statements have been audited by Ernst & Young LLP, independent auditors, elected by the shareholders. The opinion of the independent auditors, based upon their audits of the consolidated financial statements, is contained in this Annual Report.

As part of its audit of the Company's financial statements, Ernst & Young LLP considered the Company's internal control structure in determining the nature, timing and extent of audit tests to be applied. Management has considered Ernst & Young LLP's recommendations concerning the Company's system of internal controls and has taken actions that we believe are cost-effective in the circumstances to respond appropriately to these recommendations. Management believes that, as of September 30, 1999, the Company's system of internal controls is adequate to accomplish the objectives discussed herein.

James A. Rubright
Vice Chairman and
Chief Executive Officer

David C. Nicholson
Senior Vice President,
Chief Financial Officer
and Secretary