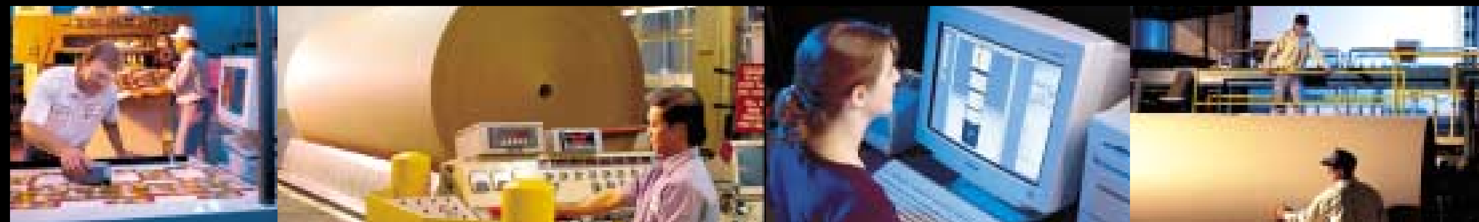
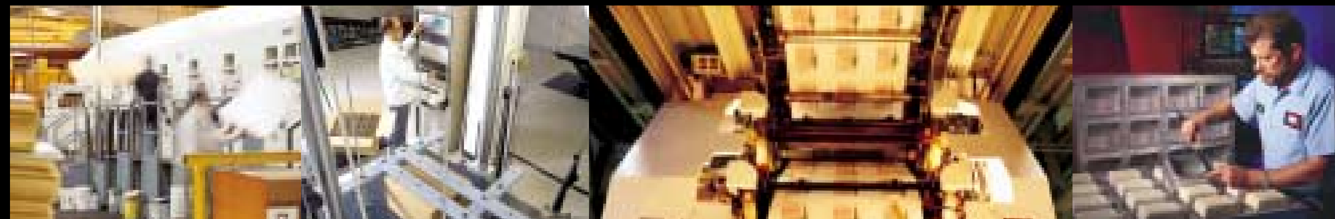
RELENTLESS PERFORMANCE





Packaging | *Displays* | *Paperboard*

ROCK-TENN COMPANY

2001 Annual Report

In our 2000 annual report, we said that we planned to raise the bar on our own expectations and performance. **Our 2001 results speak for themselves:**

STRONG EARNINGS: UP 15%

Our net income is up 15% before plant closing and other one-time costs.

EBITDA: $181 MILLION

*EBITDA is up $8 million from last year.**

FOLDING CARTON OPERATING INCOME: UP 61%

We consolidated our operations and improved our business mix.

CONTINUED GROWTH AT ALLIANCE: SALES UP 19%

Alliance sales increases drove operating income of our Merchandising Displays and Corrugated Packaging Segment up 9%

IMPRESSIVE PERFORMANCE IN PLASTICS: SALES UP 20%

Plastic Packaging achieved a 20% increase in sales.

REDUCED DEBT: $49 MILLION

We used our free cash flow to repay $49 million in debt.

OUTSTANDING SAFETY RECORD: 2.24

At 2.24 incidents per 200,000 man hours, our OSHA recordable incident rate is now the lowest it has been in our history.

This is **RELENTLESS PERFORMANCE.**

**EBITDA represents earnings before interest, taxes, depreciation and amortization, and plant closing and other one-time charges.*

James A. Rubright
Chairman and Chief Executive Officer

Q&A with Jim Rubright

What was Rock-Tenn's most significant achievement in 2001?

I believe the fact that we were able to continue our strong capital investment program and still reduce debt by $49 million and pay $10 million in dividends shows the significant financial strength of this company and that we can generate substantial free cash flow.

DEAR SHAREHOLDERS:

Satisfy our customers completely. Invest for competitive advantage. Empower action and change. Commit to high performance. Simple but powerful fundamentals that are driving our results.

Last year we announced our commitment to high performance and told you that we saw encouraging evidence of improvement ahead for Rock-Tenn. At the time we published our 2000 annual report, the signs of the economic downturn were all around us, and we may have appeared optimistic. Nonetheless, in 2001 we made our first down payment on our commitment. During a year when all of our markets faced serious downturns, the U.S. entered a recession and we and our competitors struggled with the effects of decreasing volumes and intense pressure on margins, Rock-Tenn increased core earnings per share (excluding plant closing costs) by 15%. We also significantly increased cash flow to continue our capital expenditure program, repay $49 million in debt and pay our shareholders $10 million in dividends. These results encourage us to stay with our strategy in 2002.

This year, with the recession in full swing, we are committed to doing even better. In this report we will trace the reasons we improved in 2001 and mark the initiatives that we believe will lead to even better results in 2002.

Relentless Efforts Provide Results

There are many specific achievements that contributed to the results of 2001, some of which we detail in this report, but they all evidence one trait imbedded in our culture – we are relentless. Relentless in the pursuit of customer satisfaction, relentless in the pursuit of product and process innovation, relentless about lowering our costs and relentless in our commitment to high performance. Our culture is not for everyone. We have lost good people, but our culture has energized so many people and attracted so many more to our company who thrive on our culture that we are a much stronger company today than we were before. We are a home to people who are committed to working for a great company and who will do all they can to make Rock-Tenn just that.

Packaging Products Segment Logs Significant Improvement

Rock-Tenn's commitment to performance means commitment to increasing the value of our shares. That means growth in earnings power. Within our Packaging Products Segment, the Folding Carton Division is Rock-Tenn's largest business, with over $600 million in sales. Sales in 2001 were up 1% even though we closed four plants and consolidated the business into other, more efficient operations. To achieve this sales increase in the face of declining market conditions, we needed to retain almost all of our existing business despite these plant closings and deliver some strong new sales – and we did it.

Operating Cash Flow
(in millions of dollars)

EBITDA
Excluding plant closing and other one-time costs (in millions of dollars)

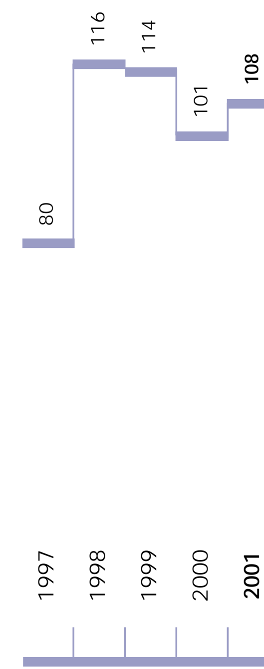
Doing so in a much more efficient operating environment drove folding carton operating income up 61% in 2001, approaching our near-term goal of a return on sales of 5% across this business.

This improving performance reflects the success of the consolidation program we implemented over the past two years. We have reduced the number of plants from 21 to 17 at a one-time cash cost of $13.5 million. The remaining folding carton plants provide expanded capabilities to serve the needs of both national and regional customers across the United States and Canada.

Our folding carton customer base includes over 1,100 customers with our top 10 customers accounting for less than 30% of total folding carton sales. We feel that we are now positioned to grow in the folding carton business as opportunities arise, and we plan to invest approximately $10 million to add high-speed capacity in two of our folding carton plants during fiscal 2002.

Rock-Tenn's relentless performance this past year was also evident in our plastic packaging business. Earnings grew significantly as we completed the transformation of this business to a low-cost leader in the high-end, custom thermoformed plastics market. Our Plastic Packaging Division continued to grow during fiscal 2001 to $77 million in annual sales. This increase reflects the continued focus of this team on identifying specific customer market needs and meeting them with high-value custom packaging products. This includes the successful DuraFresh™ rigid case ready tray line, which continues to attract new business from meat, poultry and seafood processors. In January of fiscal 2002, our expanded capacity will be 400 million trays per year, up from 300 million per year.

While we are pleased with the performance of these two divisions, the results of our RTS Packaging joint venture with Sonoco were unsatisfactory. Volumes declined 10% primarily due to our failure to retain the business of one major glass producer with whom we have had a long-term contract. At the end of the year we further consolidated operations by eliminating one Midwestern plant, which we believe will lead to stronger results in 2002.



Operating Income
Excluding plant closing and other one-time costs (in millions of dollars)

Merchandising Displays and Corrugated Packaging Segment: Alliance Growth Still Strong

Our focus on opportunities to expand our merchandising and display business led to another year of growth at Alliance. In 2001, our sales grew 19% with a comparable increase in earnings as the Alliance team continued to consolidate their market leadership position. Alliance capitalizes on the shift of promotional dollars into direct-to-consumer, in-store advertising. Alliance's Concept-to-Consumer® strategy has proven to be highly attractive to consumer products companies as they continue to seek more service from single-source vendors. Our sales at Alliance increased from $153 million to $181 million during fiscal 2001. We are excited about the prospects of continued expansion in 2002 as Alliance continues to find new avenues for meeting the growing market-driven needs of consumer products companies.

Our Corrugated Packaging Division continues to provide outstanding service to customers in the Southeast. While our sales and profits declined somewhat during fiscal 2001, reflecting general conditions in the corrugated packaging industry as a whole, we continue to earn attractive returns in this business and are evaluating opportunities to expand these operations during fiscal 2002.

Paperboard Segment: Mixed Results

Our coated paperboard mills produced very good results in an extremely difficult marketplace in 2001. In the face of weak demand for coated boxboard and intense price pressure, our Coated Paperboard Division actually increased operating income 24% to $37 million. Intense focus on operating excellence and product quality and a favorable cost environment for recycled fiber combined to produce these exceptional results.

Within the Specialty Paperboard Division, we had our challenges during 2001, with two areas of our business adversely affecting our performance. In our laminated paperboard products converting business, very weak demand for ready-to-assemble furniture components and for book covers led to poor operating results for these converting operations, as well as adversely affecting our specialty mills through lower demand for

Can Rock-Tenn continue to increase earnings in 2002?

Many of the operating improvements and capital investments we made in 2001 will gain traction in 2002. We also should see continuing growth at Alliance and in the Folding Carton Division's results. With all of these drivers in place, our employees should be able to produce even better results in 2002.

Do you think investing in yourselves is still the best strategy?

We will invest in ourselves to achieve competitive advantage and be a market leader in all of our businesses. Take that as a given. However, I think we have achieved the financial capacity to take advantage of more of the opportunities that may arise in the future. I see us being more outwardly focused on growth opportunities over time as the improvements we have made at Rock-Tenn gain momentum.

Capital Expenditures
(in millions of dollars)

paperboard. In December 2000, we idled the No.1 paper machine at our Lynchburg Mill, which helped increase operating rates at our other specialty mills to 96% for the fiscal year. However, the costs of idling this machine, as well as higher than expected start-up costs at the rebuilt No. 2 machine, which we have contributed to the Seven Hills joint venture, significantly reduced the operating income for our specialty mills. During fiscal 2002 we expect to bring our Seven Hills joint venture with Lafarge Corporation up to full production. When production for Lafarge fully ramps up during 2002, we will produce over 70,000 tons per year of gypsum paperboard liner for Lafarge's United States gypsum wallboard plants. We expect this venture to be accretive to earnings in fiscal 2002.

New Initiatives for 2002

Over the past year, we have undertaken a number of initiatives that will support our culture of relentless performance. For fiscal 2002, we have instituted a new financial measure for all of our decision-making based on the concept of return over capital costs. Stated simply, we assess a financial charge on all of our operations for the assets they employ, and measure performance by comparing operating income to the capital charge. We believe this new measure will foster much greater long-term accountability all down the line for the decisions we make in allocating capital expenditures and investing in our business.

During the past fiscal year, we also began an ongoing process of systematically asking our customers how satisfied they are with our products and services. The results of this initiative will give us an objective yardstick to measure our performance. Even in its early days we have gathered a wealth of data to improve our performance. Our goal is to satisfy our customers completely, every time, and become our customers' unquestioned supplier of choice. We are so committed to this measure of customer satisfaction that we have added it to financial performance and safety performance as the measures for our management incentive bonus plans. We are committed to continuously improving our customer satisfaction.

Do you think any changes in Rock-Tenn's culture are needed?

Our culture is our most important asset. As long as we stay committed to empowering our employees in a decentralized environment and relentlessly pursuing high performance, we will continue to retain and attract employees who will deliver superior results.

Net Sales
(in millions of dollars)

During fiscal 2001 we also instituted the Six Sigma quality and process improvement program as a company-wide initiative. We currently have 12 black belts in training and will add 12 more in 2002. Each black belt will spend two years exclusively devoted to quality and process improvement projects. This is a very significant commitment of people and money for our company that we believe will produce breakthrough gains in quality, productivity and process effectiveness.

In 2002 We Will Stay With Our Strategy

Our results in fiscal 2001 confirm our commitment to our strategy for 2002. As we said last year – our strategy is very straightforward. We will invest in ourselves for competitive advantage and growth. We will execute consistently with a relentless pursuit of improvement, and create a culture of high performance and innovation to maximize our return on invested capital and create market leaders. We made progress on all fronts in 2001, but much remains to be done in 2002, and we all look forward to the opportunities ahead for further progress this year.

I want to thank Rock-Tenn's employees for their relentless efforts during a difficult economic time and for proving that this company has what it takes to be great. I look forward to working with all of you to make that goal a reality.

Sincerely,

James A. Rubright
Chairman and Chief Executive Officer

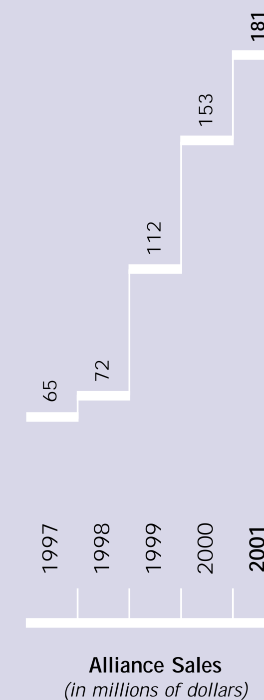
Randy Sexton Retires from Board

At our January shareholders' meeting, Randy Sexton will retire as a director of Rock-Tenn Company. Randy has been a director since 1967 and throughout that time has been a highly valued advisor, thoughtful contributor to our decisions and a good friend. We all thank Randy for his great service to Rock-Tenn Company.

"The growing number of magazines, television channels and other advertising outlets means that ads featured in those mediums are reaching ever-smaller individual audiences. As a result, a growing number of consumer products companies are shifting their advertising dollars to in-store advertising, where consumers really make up their minds. As that trend continues, we expect our business to only get better."

Jim Einstein, *Executive Vice President and General Manager,* Alliance Division

RELENTLESS PERFORMANCE MEANS RELENTLESS GROWTH

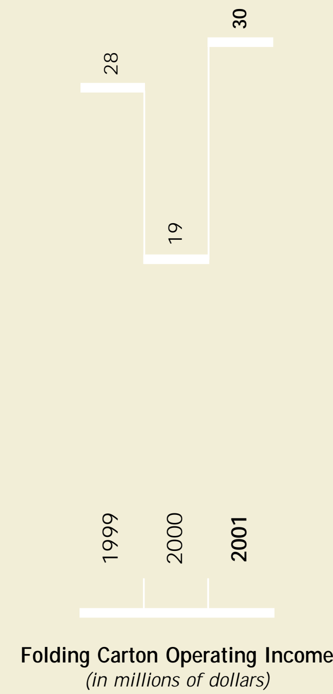


Alliance Sales
(in millions of dollars)

Alliance continues growth

Hard work. Excellent sales and marketing. Strong customer relationships. Impeccable quality. Superb service. Those qualities, which are the essence of Rock-Tenn's Alliance Division, helped Alliance realize significant increases in volume, operating in a highly fragmented, $17 billion point-of-purchase market. The division's growth has significantly outpaced the industry – 20% annually vs. 7% for the industry.

Alliance provides a fully integrated, Concept-to-Consumer® point-of-sale display solution with complete design, manufacturing, pack-out and distribution services. In 2001, the division's design of a countertop display for Procter & Gamble's "Visionary Light" line of Olay® cosmetics received the top award among hundreds of entries at the Point of Purchase Advertising International's annual meeting.



Folding Carton Operating Income
(in millions of dollars)

CONSOLIDATION SHARPENS PROFITS

"There are three factors that typify the Folding Carton Division. One is a high-performing culture. The second is a focus on technology, which has enabled us to make giant leaps in productivity. And the third is innovative employees, who have created ingenious products like the new MillMask™ System, a patent-pending technological alternative to fluorochemicals that prevents oil and grease from staining the surface of folding cartons and other paper-board substrates."

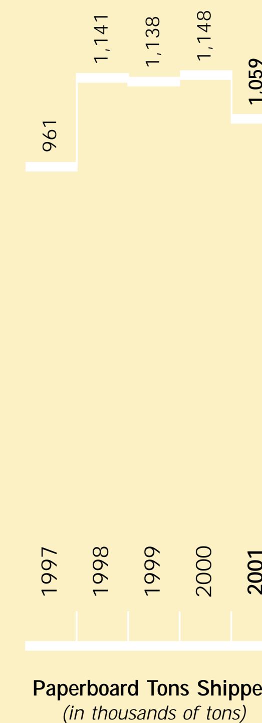
Nick George, *Executive Vice President and General Manager,* Folding Carton Division

Folding Carton executes

During 2000 and 2001, Rock-Tenn's Folding Carton Division closed four plants in order to optimize production in more efficient operations. Folding Carton, like other Rock-Tenn business units, is focused on being the low-cost leader and on specialty product categories that offer higher-than-average returns. And by doing more with less – management and overhead – the Folding Carton Division anticipates improving profit margins and strengthening its competitiveness in a fragmented and highly competitive marketplace.

> "Our new joint venture with Lafarge Corporation produces the highest-quality and lowest-cost gypsum paperboard liner available in North America."
>
> **Paul England,** *Executive Vice President and General Manager,* Specialty Paperboard Division of Rock-Tenn (left) *and* **Tony Colak,** *Vice President of Manufacturing,* Lafarge Gypsum Corporation

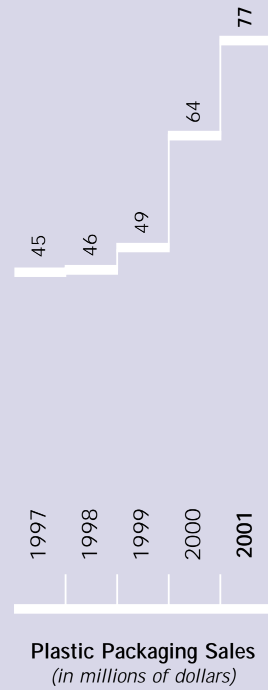
PARTNERSHIPS OPEN NEW SPECIALTY MARKETS



Paperboard Tons Shipped
(in thousands of tons)

Joint venture excels

In 2001, Seven Hills Paperboard, LLC, a joint venture between Rock-Tenn and Lafarge Corporation, a leading gypsum wallboard manufacturer, completed the rebuilding of a paperboard machine at Rock-Tenn's Lynchburg, Virginia mill. The new joint venture machine will produce lightweight gypsum paperboard liner for sale to Lafarge's gypsum wallboard operations. Strategic joint ventures like Seven Hills allow Rock-Tenn to enter new marketplaces with breakthrough technologies to establish market-leading positions.



Plastic Packaging Sales
(in millions of dollars)

RETURN ON CAPITAL PAYS OFF WITH ENHANCED VALUE

"Our customers' markets demand that their products and our packaging solutions be innovative and be delivered fast. Our exceptional technical teams swiftly turn great packaging ideas into prototypes that we can quickly move into full production. Our quick turnarounds are a big competitive advantage."

Vince D'Amelio, *Executive Vice President and General Manager,* Plastic Packaging Division

Plastic Packaging expands

A leading provider of thermoformed plastic packaging and extruded plastic roll stock, Rock-Tenn's Plastic Packaging Division is one of its smallest, yet fastest-growing businesses. Sales from Plastic Packaging have grown more than 20% per year since 1999, while the growth rate of the industry as a whole has been about 6%. Profits have risen along with sales over the same period. With its emphasis on introducing new and innovative custom packaging solutions, Plastic Packaging is becoming a significant contributor to Rock-Tenn's bottom line.

PACKAGING TAKES OFF

Thousands of North American companies manufacture products that consumers buy every day, from candy to cosmetics and from processed meat to medical supplies. These companies demand inventive and cost-effective packaging for their products. Recognizing Rock-Tenn's relentless pursuit of quality, innovation and customer service, consumer products companies and manufacturers throughout North America rely on Rock-Tenn to help bring their products to market with creative, imaginative and attractively priced packaging and point-of-purchase displays.

Packaging Products

Providing innovative solutions to customers' paperboard and plastic packaging needs.

Merchandising Displays and Corrugated Packaging

Offering Concept-to-Consumer® services for in-store merchandising and displays and corrugated packaging.

Paperboard

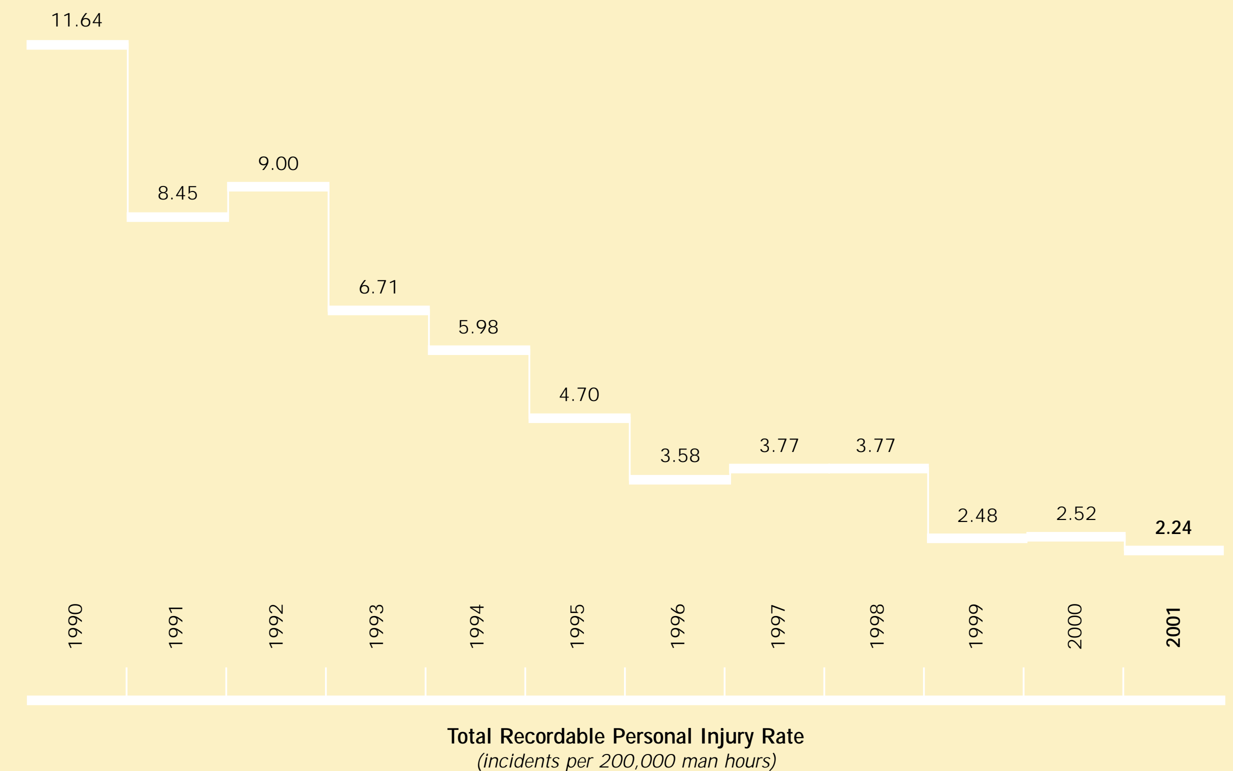
Making it ourselves allows us to control the quality of the product that we use throughout Rock-Tenn.

"Safety is the ultimate people issue in a manufacturing company, and nothing is more important than to be relentless about helping each person work safely. People who work safely and are in an environment that encourages safe work habits produce better quality products, have better productivity and take care of customers better."

Star Evans, *Human Resource and Safety Director,* Specialty Paperboard Division, Lynchburg, Virginia

SAFETY RULES

The relentless pursuit of a safe work environment began over a decade ago. Rock-Tenn's focus is plain and simple: we do not believe that people have to get hurt. This approach goes beyond compliance and is built on the strong belief that all injuries are preventable. Efforts and initiatives are varied across the business units, but a strong top down and bottom up accountability structure assures continued success and even greater results. Rock-Tenn will continue to focus its resources on the creation of a safe work environment for its employees.



Total Recordable Personal Injury Rate
(incidents per 200,000 man hours)

ENVIRONMENT RECYCLES

Wastepaper Sourced by Rock-Tenn Company*
(in thousands of tons)

Preserving and conserving the environment concerns many consumers and businesses alike as they enter the 21st century. Recovering and recycling paper plays an important role in protecting the environment since recovered paper is diverted from the solid waste stream and made into new products.

Rock-Tenn has turned an environmentally friendly activity into a vital part of its business. Operating 14 paper-collecting facilities and twelve 100%-recycled paperboard mills throughout the United States, each year the company handles over one and a half million tons of recovered paper – including corrugated containerboard, newsprint and office papers – to produce recycled paperboard for its own divisions as well as for other companies. Products produced from recovered paper range from packaging for pasta and overnight mailing envelopes to coverboard for books, binders and notepads.

**Includes wastepaper purchased by Rock-Tenn mills and wastepaper sourced by the Recycled Fiber Division for third parties.*

ROCK-TENN COMPANY

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ROCK-TENN COMPANY
FINANCIAL REVIEW

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FIVE-YEAR SELECTED FINANCIAL AND OPERATING HIGHLIGHTS

(In Thousands, Except Per Share Amounts)	2001	2000	1999	1998	1997[e]
	Year Ended September 30,				
Net sales	$ 1,441,632	$ 1,463,288	$ 1,313,371	$ 1,297,360	$ 1,113,883
Plant closing and other one-time costs	16,893	65,630	6,932	1,997	16,251
Income (loss) before income taxes	52,134	(4,346)	70,253	74,613	37,756
Net income (loss)	30,523	(15,916)	39,698	42,020	16,101
Diluted earnings (loss) per common share[a]	0.91	(0.46)	1.13	1.20	0.47
Diluted earnings per common share excluding plant closing and other one-time costs[a]	1.17	1.02	1.25	1.23	0.90
Dividends paid per common share[a]	0.30	0.30	0.30	0.30	0.30
Book value per common share[a]	12.00	11.57	12.36	11.49	10.80
Total assets	1,164,413	1,158,963	1,161,470	1,111,481	1,113,686
Debt, including hedge adjustment[b]	494,242	534,820	498,845	508,338	533,622
Shareholders' equity	402,760	386,303	432,164	397,415	371,212
EBITDA[c]	181,418	173,502	180,448	181,487	142,193
Cash provided by operating activities	146,027	102,444	112,416	125,688	106,377
Goodwill amortization[d]	8,569	9,069	9,410	9,429	7,070
Capital expenditures	72,561	94,640	92,333	81,666	87,016
Cash contributed to joint venture investment	9,627	7,133	–	–	–
Cash paid for purchases of businesses	–	–	–	–	301,287

Notes:

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

(b) Includes adjustment for the fair value hedge in the amount of $8,603,000 as of September 30, 2001.

(c) EBITDA represents earnings before interest, taxes, depreciation and amortization, and plant closing and other one-time charges. EBITDA as presented may not be comparable to similarly titled measures reported by other companies.

(d) Amount not deductible for income tax purposes was $6,189,000, $6,550,000, $6,900,000, $6,928,000 and $4,760,000 in fiscal 2001, 2000, 1999, 1998 and 1997, respectively.

(e) Reflects (i) the results of operations of Waldorf Corporation, Rite Paper Products Inc. and The Davey Company beginning from the respective dates of acquisition and (ii) the results of operations of RTS Packaging, LLC from the date of formation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of Results of Operations and Financial Condition

Segment and Market Information

We report our results in three industry segments: (1) packaging products, (2) merchandising displays and corrugated packaging, and (3) paperboard. No customer accounts for more than 5% of our consolidated net sales.

The packaging products segment consists of facilities that produce folding cartons, interior packaging and thermoformed plastic packaging. We compete with a significant number of national, regional and local packaging suppliers. During fiscal 2001, we sold packaging products to approximately 3,100 customers. We sell packaging products to a number of large national customers; however, the majority of our packaging products sales are to smaller national and regional customers. 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 merchandising displays and corrugated packaging segment consists of facilities that produce merchandising displays and flexographic and litho-laminated corrugated packaging. We compete with a number of national, regional and local suppliers of those goods and services in this segment. During fiscal 2001, we sold display products and corrugated packaging to approximately 1,100 customers. Due to the highly competitive nature of the merchandising displays and corrugated packaging business, 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 collect recovered paper and that manufacture 100% recycled clay-coated and specialty paperboard, corrugating medium, and laminated paperboard products. In our clay-coated and specialty paperboard divisions, we compete with integrated and non-integrated national, regional and local companies manufacturing various grades of paperboard. In our laminated paperboard products division, 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 2001, we sold recycled paperboard, corrugating medium, laminated paperboard products and recovered paper to approximately 2,100 customers. A significant percentage of our sales of recycled paperboard is made to our packaging products and merchandising displays and corrugated packaging segments and to our laminated paperboard products division. Our paperboard segment's sales volumes may therefore be directly impacted by changes in demand for our packaging and laminated paperboard products.

Income and expenses that are not reflected in the information used by management to make operating decisions and assess operating performance are reported as non-allocated expenses. These include elimination of intersegment profit and certain corporate expenses.

Previously reported segment income results have been restated for all years presented in order to conform to changes in internal reporting measures used by management. Segment operating income now reflects adjustments to record inventory on the last-in, first-out, or "LIFO," method, reallocation of corporate expenses due to a change in methodology and non-allocation of goodwill amortization expense.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(In Millions)	2001	2000	1999
	Fiscal Year Ended September 30,		
Net sales (aggregate):			
Packaging Products	$ 806.1	$ 797.4	$ 749.9
Merchandising Displays and Corrugated Packaging	263.4	238.8	180.9
Paperboard	524.5	588.5	529.0
Total	$ 1,594.0	$ 1,624.7	$ 1,459.8
Net sales (intersegment):			
Packaging Products	$ 3.5	$ 5.3	$ 3.5
Merchandising Displays and Corrugated Packaging	5.6	5.3	4.3
Paperboard	143.3	150.8	138.6
Total	$ 152.4	$ 161.4	$ 146.4
Net sales (unaffiliated customers):			
Packaging Products	$ 802.6	$ 792.1	$ 746.4
Merchandising Displays and Corrugated Packaging	257.8	233.5	176.6
Paperboard	381.2	437.7	390.4
Total	$ 1,441.6	$ 1,463.3	$ 1,313.4
Segment income:			
Packaging Products	$ 48.1	$ 39.7	$ 48.6
Merchandising Displays and Corrugated Packaging	30.2	27.6	22.2
Paperboard	41.6	51.4	60.3
	119.9	118.7	131.1
Goodwill amortization	(8.6)	(9.1)	(9.4)
Plant closing and other one-time costs	(16.9)	(65.6)	(6.9)
Non-allocated expenses	(5.4)	(8.2)	(7.7)
Interest expense	(35.0)	(35.5)	(31.2)
Interest and other income	0.5	0.4	0.4
Minority interest in income of consolidated subsidiary	(2.4)	(5.0)	(6.0)
Income (loss) before income taxes	$ 52.1	$ (4.3)	$ 70.3

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 2001 decreased 1.5% to $1,441.6 million from $1,463.3 million for fiscal 2000. Net sales decreased as a result of decreased volumes in specialty paperboard and laminated paperboard products as well as price decreases in recycled fiber. These price and volume declines were partially offset by price and volume increases in displays and plastic packaging.

Net sales for fiscal 2000 increased 11.4% to $1,463.3 million from $1,313.4 million for fiscal 1999. Net sales increased primarily as a result of increased volumes and price increases in merchandising displays, corrugated packaging and plastic packaging.

Net Sales (Aggregate) – Packaging Products Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1999	$ 185.7	$ 180.7	$ 186.9	$ 196.6	$ 749.9
2000	192.9	195.1	202.8	206.6	797.4
2001	195.6	206.9	198.6	205.0	806.1

Net sales of the packaging products segment before intersegment eliminations for fiscal 2001 increased 1.1% to $806.1 million from $797.4 million for fiscal 2000.

Net sales of the packaging products segment before intersegment eliminations for fiscal 2000 increased 6.3% to $797.4 million from $749.9 million for fiscal 1999.

Net Sales (Aggregate) by Division – Packaging Products Segment

(In Millions)	Folding Carton	RTS Packaging	Plastic Packaging
1999	$ 565.3	$ 136.0	$ 48.6
2000	597.4	136.4	63.6
2001	602.7	126.5	76.9

The increase in net sales of the packaging products segment before intersegment eliminations for fiscal 2001 as compared to fiscal 2000 was primarily the result of increased prices and volumes in our plastic packaging business offset by lower volumes in our interior packaging business.

The increase in net sales of the packaging products segment before intersegment eliminations for fiscal 2000 as compared to fiscal 1999 was primarily the result of increased volumes in our plastic packaging division and increased prices and volumes in our folding carton group.

Net Sales (Aggregate) – Merchandising Displays and Corrugated Packaging Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1999	$ 37.8	$ 41.4	$ 45.0	$ 56.7	$ 180.9
2000	52.3	59.2	59.1	68.2	238.8
2001	**57.8**	**65.8**	**65.8**	**74.0**	**263.4**

Net sales within this segment before intersegment eliminations for fiscal 2001 increased 10.3% to $263.4 million from $238.8 million for fiscal 2000.

Net sales within this segment before intersegment eliminations for fiscal 2000 increased 32.0% to $238.8 million from $180.9 million for fiscal 1999.

Net Sales (Aggregate) by Division – Merchandising Displays and Corrugated Packaging Segment

(In Millions)	Alliance Display	Corrugated Packaging
1999	$ 112.0	$ 68.9
2000	152.7	86.1
2001	**181.1**	**82.3**

The increase in net sales of the merchandising displays and corrugated packaging segment before intersegment eliminations for fiscal 2001 as compared to fiscal 2000 was the result of increased volumes and increases in pricing of displays offset by lower volumes in our corrugated packaging business due to generally weaker market conditions.

The increase in net sales of the merchandising displays and corrugated packaging segment before intersegment eliminations for fiscal 2000 as compared to fiscal 1999 was the result of increased volumes and increases in pricing of merchandising displays and corrugated packaging.

Net Sales (Aggregate) – Paperboard Segment

(In Millions)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1999	$ 122.5	$ 127.0	$ 134.5	$ 145.0	$ 529.0
2000	144.3	154.7	148.9	140.6	588.5
2001	**131.5**	**133.1**	**130.5**	**129.4**	**524.5**

Net sales of the paperboard segment before intersegment eliminations for fiscal 2001 decreased 10.9% to $524.5 million from $588.5 million for fiscal 2000.

Net sales of the paperboard segment before intersegment eliminations for fiscal 2000 increased 11.2% to $588.5 million from $529.0 million for fiscal 1999.

Net Sales (Aggregate) by Division – Paperboard Segment

(In Millions)	Coated Paperboard	Specialty Paperboard	Recycled Fiber	Laminated Paperboard Products
1999	$ 268.5	$ 85.6	$ 28.0	$ 146.9
2000	304.0	100.3	48.4	135.8
2001	**295.4**	**83.2**	**33.0**	**112.9**

The decrease in net sales of the paperboard segment before intersegment eliminations for fiscal 2001 as compared to fiscal 2000 was the result of a significant decline in recycled fiber prices as well as volume declines due to a general weakening in the book and ready-to-assemble furniture industries. Reduced volumes at our interior packaging business over fiscal 2000 further contributed to the sales decline.

The increase in net sales of the paperboard segment before intersegment eliminations for fiscal 2000 as compared to fiscal 1999 was the result of increased volumes and prices in the recycled fiber and coated and specialty paperboard divisions.

Cost of Goods Sold

Cost of goods sold for fiscal 2001 decreased 2.6% to $1,144.8 million from $1,174.8 million for fiscal 2000. Cost of goods sold as a percentage of net sales for fiscal 2001 decreased to 79.4% from 80.3% for fiscal 2000. The decrease in cost of goods sold as a percentage of net sales resulted from lower average recovered paper costs offset by higher energy expenses.

Cost of goods sold for fiscal 2000 increased 15.3% to $1,174.8 million from $1,019.2 million for fiscal 1999. Cost of goods sold as a percentage of net sales for fiscal 2000 increased to 80.3% from 77.6% for fiscal 1999. The increase in cost of goods sold as a percentage of net sales resulted from higher average recovered paper costs and higher operating costs at several plants, some of which were related to the start-up of certain new equipment, and higher energy and freight costs.

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 first-in, first-out, or "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.

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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.

	2001		2000		1999	
(In Millions)	LIFO	FIFO	LIFO	FIFO	LIFO	FIFO
Cost of goods sold	$ 1,144.8	$ 1,147.7	$ 1,174.8	$ 1,169.5	$ 1,019.2	$ 1,019.0
Net (loss) income	30.5	28.7	(15.9)	(12.6)	39.7	39.8

Gross Profit

(% of Net Sales)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Fiscal Year
1999	23.0	22.1	22.3	22.3	22.4
2000	20.8	19.9	18.8	19.4	19.7
2001	19.1	20.1	21.4	21.6	20.6

Gross profit for fiscal 2001 increased 2.9% to $296.8 million from $288.5 million for fiscal 2000. Gross profit as a percentage of net sales increased to 20.6% for fiscal 2001 from 19.7% for fiscal 2000.

Gross profit for fiscal 2000 decreased 1.9% to $288.5 million from $294.2 million for fiscal 1999. Gross profit as a percentage of net sales decreased to 19.7% for fiscal 2000 from 22.4% for fiscal 1999. See also Cost of Goods Sold.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal 2001 increased 1.3% to $180.3 million from $178.0 million for fiscal 2000. Selling, general and administrative expenses as a percentage of net sales for fiscal 2001 increased to 12.5% from 12.2% for fiscal 2000. The increase in selling, general and administrative expenses as a percentage of net sales for fiscal 2001 resulted primarily from increased compensation expenses in relation to net sales.

Selling, general and administrative expenses for fiscal 2000 increased 4.2% to $178.0 million from $170.8 million for fiscal 1999. Selling, general and administrative expenses as a percentage of net sales for fiscal 2000 decreased to 12.2% from 13.0% for fiscal 1999. The decrease in selling, general and administrative expenses as a percentage of net sales for fiscal 2000 resulted primarily from decreased compensation expenses in relation to net sales.

Plant Closing and Other Costs

During fiscal 2001, 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 plant closing costs include the closing of a folding carton plant in Augusta, Georgia and an interior packaging plant in Eaton, Indiana. The closures resulted in the termination of approximately 210 employees. In connection with these closings, we incurred charges of $6.2 million during fiscal 2001, which consisted mainly of asset impairment, severance, equipment relocation, disposal costs and related expenses. Payments of $0.8 million were made in fiscal 2001. The remaining liability at September 30, 2001 is $1.5 million. Plant closing and other costs are not allocated to the respective segments for financial reporting purposes. Had these costs been allocated, $6.2 million would have been charged to the packaging products segment. We have consolidated the operations of the Augusta folding plant and the Eaton interior packaging plant into other existing facilities.

During fiscal 2000, we closed a laminated paperboard products plant in Lynchburg, Virginia and folding carton plants in Chicago, Illinois, Norcross, Georgia and Madison, Wisconsin. The closures resulted in the termination of approximately 550 employees. In connection with these closings, we incurred charges of $61.1 million during fiscal 2000, which consisted mainly of asset impairment, severance, equipment relocation, lease write-downs and other related expenses, including business interruption and other inefficiencies. Of the $61.1 million, $46.0 million represented asset impairment charges related to the determination of material diminution in the value of assets, including goodwill of $25.4 million (which is not deductible for tax purposes), relating to our two folding carton plants that use web offset technology, as well as assets relating to the other closed facilities. We made payments of $2.4 million and $12.6 million in fiscal 2001 and fiscal 2000, respectively, and made an accrual adjustment of $0.6 million to increase the liability during fiscal 2001. The remaining liability at September 30, 2001 is $0.7 million. Plant closing and other costs are not allocated to the respective segments for financial reporting purposes. Had these costs been allocated, $50.2 million would have been charged to the packaging products segment, $9.3 million would have been charged to the paperboard segment and $1.6 million would have been non-allocated in fiscal 2000. We have consolidated the operations of these closed plants into other existing facilities.

During fiscal 2000, we decided to remove certain equipment from service primarily in our laminated paperboard products division. As a result of this decision, we incurred impairment charges of $4.6 million related to this equipment.

During fiscal 1999, we closed a folding carton plant in Taylorsville, North Carolina, a laminated paperboard products operation in Otsego, Michigan and an uncoated paper mill 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 during fiscal 1999, which consisted mainly of severance, equipment relocation, expected losses on the disposition of the facility and related expenses. We made payments of $0.3 million and $4.1 million in fiscal 2000 and 1999, respectively, incurred losses of $0.2 million and $0.8 million in connection with the disposal of inventory and other assets during fiscal 2000 and 1999, respectively, made an adjustment of $0.1 million to reduce the liability during fiscal 2000 and reduced the carrying value of the Jersey City facility by $1.0 million during fiscal 1999. We do not have any remaining liability at September 30, 2001. 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 paperboard segment in fiscal 1999 and $2.4 million of expense would have been charged to the packaging products segment in fiscal 1999. We have consolidated the operations of these closed plants into other existing facilities.

Segment Operating Income

Operating Income – Packaging Products Segment

(In Millions, Except Percentages)	Net Sales (Aggregate)	Operating Income	Return on Sales
First Quarter	$ 185.7	$ 9.0	4.8%
Second Quarter	180.7	7.5	4.2
Third Quarter	186.9	13.6	7.3
Fourth Quarter	196.6	18.5	9.4
Fiscal 1999	$ 749.9	$ 48.6	6.5%
First Quarter	$ 192.9	$ 7.6	3.9%
Second Quarter	195.1	9.0	4.6
Third Quarter	202.8	10.9	5.4
Fourth Quarter	206.6	12.2	5.9
Fiscal 2000	$ 797.4	$ 39.7	5.0%
First Quarter	$ 195.6	$ 10.8	5.5%
Second Quarter	206.9	11.7	5.7
Third Quarter	198.6	12.8	6.4
Fourth Quarter	205.0	12.8	6.2
Fiscal 2001	$ 806.1	$ 48.1	6.0%

Operating income attributable to the packaging products segment for fiscal 2001 increased 21.2% to $48.1 million from $39.7 million for fiscal 2000. Operating margin for fiscal 2001 was 6.0% compared to 5.0% for fiscal 2000. The increase in operating margin primarily resulted from operational efficiencies in our folding carton operations gained through plant consolidations in fiscal 2000 and 2001.

Operating income attributable to the packaging products segment for fiscal 2000 decreased 18.3% to $39.7 million from $48.6 million for fiscal 1999. Operating margin for fiscal 2000 was 5.0% compared to 6.5% for fiscal 1999. The decrease in operating margin resulted from higher raw material costs, significant losses in our web offset folding carton operations and operational inefficiencies attributable in part to the start-up of new equipment.

Operating Income – Merchandising Displays and Corrugated Packaging Segment

(In Millions, Except Percentages)	Net Sales (Aggregate)	Operating Income	Return on Sales
First Quarter	$ 37.8	$ 8.1	21.4%
Second Quarter	41.4	9.4	22.7
Third Quarter	45.0	2.3	5.1
Fourth Quarter	56.7	2.4	4.2
Fiscal 1999	$ 180.9	$ 22.2	12.3%
First Quarter	$ 52.3	$ 6.0	11.5%
Second Quarter	59.2	7.4	12.5
Third Quarter	59.1	6.4	10.8
Fourth Quarter	68.2	7.8	11.4
Fiscal 2000	$ 238.8	$ 27.6	11.6%
First Quarter	$ 57.8	$ 2.8	4.8%
Second Quarter	65.8	8.5	12.9
Third Quarter	65.8	8.3	12.6
Fourth Quarter	74.0	10.6	14.3
Fiscal 2001	$ 263.4	$ 30.2	11.5%

Operating income attributable to this segment for fiscal 2001 increased 9.4% to $30.2 million from $27.6 million for fiscal 2000. Operating margin for fiscal 2001 decreased to 11.5% from 11.6% in fiscal 2000. The decrease in operating margin resulted from lower sales volumes in our corrugated packaging business due to generally weaker market conditions.

Operating income attributable to this segment for fiscal 2000 increased 24.3% to $27.6 million from $22.2 million for fiscal 1999. Operating margin for fiscal 2000 decreased to 11.6% from 12.3% in fiscal 1999. The decrease in operating margin was primarily the result of higher raw material costs.

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Operating Income – Paperboard Segment

	Net Sales (Aggregate) (In Millions)	Operating Income (In Millions)	Return on Sales	Recycled Paperboard Tons Shipped (In Thousands)	Average Recycled Paperboard Price (Per Ton)	Corrugated Medium Tons Shipped (In Thousands)	Average Corrugated Medium Price (Per Ton)	Weighted Average Recovered Paper Cost (Per Ton)
First Quarter	$ 122.5	$ 14.6	11.9%	230.7	$ 403	45.2	$ 288	$ 53
Second Quarter	127.0	12.9	10.2	229.0	399	43.5	328	52
Third Quarter	134.5	17.3	12.9	249.4	398	45.3	340	58
Fourth Quarter	145.0	15.5	10.7	249.8	406	44.7	380	76
Fiscal 1999	$ 529.0	$ 60.3	11.4%	958.9	$ 401	178.7	$ 336	$ 60
First Quarter	$ 144.3	$ 16.3	11.3%	250.4	$ 420	42.4	$ 386	$ 83
Second Quarter	154.7	15.5	10.0	257.1	426	44.7	403	91
Third Quarter	148.9	8.6	5.8	242.0	445	40.9	419	108
Fourth Quarter	140.6	11.0	7.8	228.7	449	42.2	407	88
Fiscal 2000	$ 588.5	$ 51.4	8.7%	978.2	$ 435	170.2	$ 403	$ 92
First Quarter	$ 131.5	$ 10.3	7.8%	216.7	$ 451	41.5	$ 393	$ 65
Second Quarter	133.1	10.3	7.7	222.3	445	39.8	385	58
Third Quarter	130.5	10.5	8.0	223.4	437	42.0	369	53
Fourth Quarter	129.4	10.5	8.1	227.1	434	45.9	368	53
Fiscal 2001	$ 524.5	$ 41.6	7.9%	889.5	$ 442	169.2	$ 378	$ 57

Operating income attributable to the paperboard segment for fiscal 2001 decreased 19.1% to $41.6 million from $51.4 million for fiscal 2000. Operating margin for fiscal 2001 decreased to 7.9% from 8.7% in fiscal 2000. The decrease in operating margin was primarily the result of higher energy costs that were not fully passed on to customers, as well as a general economic downturn in the book and ready-to-assemble furniture industries. The significant decline in recycled fiber prices further contributed to the decrease in operating margin for the paperboard segment.

Operating income attributable to the paperboard segment for fiscal 2000 decreased 14.8% to $51.4 million from $60.3 million for fiscal 1999. Operating margin for fiscal 2000 decreased to 8.7% from 11.4% in fiscal 1999. The decrease in operating margin was primarily the result of raw material, energy and freight cost increases that were not fully passed on to customers, costs associated with the start-up of new equipment and operational inefficiencies at certain paper mills.

Interest Expense

Interest expense for fiscal 2001 decreased to $35.0 million from $35.5 million for fiscal 2000 and increased to $35.5 million for fiscal 2000 from $31.2 million for fiscal 1999. The decrease for fiscal 2001 primarily resulted from a decrease in the average outstanding borrowings and lower interest rates. The increase in fiscal 2000 primarily resulted from an increase in average outstanding borrowings and higher interest rates.

Minority Interest

Minority interest in income of our consolidated subsidiary for fiscal 2001 decreased 52.0% to $2.4 million from $5.0 million for fiscal 2000. The decline was due to decreased income in the joint venture resulting from reduced volumes in the interior packaging business primarily due to the loss of one large customer with whom we have had a long-term contract.

Minority interest in income of our consolidated subsidiary for fiscal 2000 decreased 16.7% to $5.0 million from $6.0 million for fiscal 1999. The decline was due to decreased income in the joint venture resulting from higher raw material costs which were not fully passed on to customers.

Provision for Income Taxes

Provision for income taxes for fiscal 2001 increased to $21.9 million from $11.6 million for fiscal 2000. Provision for income taxes for fiscal 2000 decreased to $11.6 million from $30.6 million for fiscal 1999. Excluding the effect of the $25.4 million non-cash write-off during fiscal 2000 of the goodwill associated with the impairment of assets at two facilities acquired in the Waldorf acquisition, which is non-deductible for tax purposes, our effective tax rate decreased to 42.0% for fiscal 2001 compared to 54.9% for fiscal 2000 and increased to 54.9% for fiscal 2000 compared to 43.5% for fiscal 1999. The decrease in the effective tax rate in fiscal 2001 primarily resulted from non-tax-deductible goodwill amortization comprising a lower percentage of pre-tax net income. The increase in the effective tax rate in fiscal 2000 was primarily due to higher non-tax-deductible goodwill amortization as a percentage of pre-tax net income.

Net Income (Loss) and Diluted Earnings (Loss) Per Common Share

Net income for fiscal 2001 was $30.5 million compared to a net loss of $15.9 million for fiscal 2000. Net income as a percentage of net sales was 2.1% for fiscal 2001 compared to net loss as a percentage of net sales of 1.1% for fiscal 2000. Diluted earnings per share for fiscal 2001 was $0.91 compared to diluted loss per share of $0.46 for fiscal 2000.

Net loss for fiscal 2000 was $15.9 million compared to net income of $39.7 million for fiscal 1999. Net loss as a percentage of net sales was 1.1% for fiscal 2000 compared to net income as a percentage of net sales of 3.0% for fiscal 1999. Diluted loss per share for fiscal 2000 was $0.46 compared to diluted earnings per share of $1.13 for fiscal 1999.

Market Risk-Sensitive Instruments and Positions

We are exposed to market risk from changes in interest rates, foreign exchange rates and commodity prices. To mitigate these risks, we enter into various hedging transactions. The sensitivity analyses presented below 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. Ineffectiveness related to our derivative transactions is not material. We include in operations amounts received or paid when the underlying transaction settles. Derivatives are included in other long-term liabilities and other assets on the balance sheet. We do not enter into or hold derivatives for trading or speculative purposes.

From time to time, 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 is 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 of the related debt instrument over the remaining term of the original contract life of terminated swap agreements.

From time to time, 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 production. 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 Rate

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. From time to time, we use interest rate agreements effectively to cap the LIBOR rate on portions of the amount outstanding under our revolving credit facility. If market interest rates averaged 1% more than actual rates in 2001, our interest expense, after considering the effects of interest rate swap agreements, would have increased and income before taxes would have decreased by approximately $4.1 million. Comparatively, if market interest rates averaged 1% more than actual rates in fiscal 2000, our interest expense, after considering the effects

MANAGEMENT'S DISCUSSION AND ANALYSIS

of interest rate swap and cap agreements, would have increased and income before taxes would have decreased by approximately $4.7 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 principally use forward contracts to limit exposure to fluctuations in Canadian foreign currency rates, our largest exposure. For fiscal 2001, a uniform 10% 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 $0.5 million for fiscal 2001. Comparatively, for fiscal 2000, a uniform 10% 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 $0.6 million for fiscal 2000. 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 prices and OCC 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 estimate market risk as a hypothetical 10% decrease in selling prices or a 10% increase in raw material costs. Without the effect of our medium swaps, such a decrease would have resulted in lower sales of $3.1 million during fiscal 2001. Without the effect of our OCC swaps, such an increase would have resulted in higher costs of purchases of $0.3 million during fiscal 2001.

In 2000, we estimated market risk as a hypothetical 10% decrease in selling prices or a 10% increase in raw material costs. Without the effect of our medium swaps, such a decrease would have resulted in lower sales of $2.9 million during fiscal 2000. Without the effect of our OCC swaps, such an increase would have resulted in higher costs of purchases of $0.9 million during fiscal 2000.

We purchase and sell a variety of commodities that 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 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. During fiscal 2001, we sold $250 million of 8.20% notes due in 2011. The proceeds from the sale were used to repay borrowings outstanding under our revolving credit agreement. In conjunction with the issuance of these notes, we amended our revolving credit facility to reduce the aggregate borrowing availability to $300 million through fiscal 2005. At September 30, 2001, we had $8.0 million outstanding under our revolving credit facility. Cash and cash equivalents, $5.2 million at September 30, 2001, decreased from $5.4 million at September 30, 2000.

Net cash provided by operating activities for fiscal 2001 was $146.0 million compared to $102.4 million for fiscal 2000. This increase was primarily the result of increased earnings before depreciation and amortization and a positive change in operating assets and liabilities during fiscal 2001 over fiscal 2000. Net cash used for investing activities was $79.9 million for fiscal 2001 compared to $101.3 million for fiscal 2000 and consisted primarily of capital expenditures in both years. Net cash used for financing activities aggregated $66.6 million for fiscal 2001 and consisted primarily of net repayments of debt and quarterly dividend payments.

Net cash provided by operating activities for fiscal 2000 was $102.4 million compared to $112.4 million for fiscal 1999. This decrease was primarily the result of decreased earnings before depreciation and amortization, non-cash impairment charges and a larger change

in operating assets and liabilities during fiscal 2000 than fiscal 1999. Net cash used for investing activities was $101.3 million for fiscal 2000 compared to $91.2 million for fiscal 1999 and consisted primarily of capital expenditures in both years. Net cash used for financing activities aggregated $0.1 million for fiscal 2000 and consisted primarily of purchases of common stock and quarterly dividend payments, offset by additional borrowings under our revolving credit facility. Net cash used for financing activities aggregated $22.8 million for fiscal 1999 and consisted primarily of repayments of debt and quarterly dividend payments.

Our capital expenditures aggregated $72.6 million for fiscal 2001. 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 million in fiscal 2002. We intend to use these expenditures for the purchase and upgrading of machinery and equipment and for building expansions and improvements. 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 2002 could be higher than currently anticipated.

We anticipate that we will be able to fund our capital expenditures, 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.

Joint Venture

On February 18, 2000, we formed a joint venture with Lafarge Corporation to produce gypsum paperboard liner for Lafarge's U.S. drywall manufacturing plants. The joint venture, Seven Hills Paperboard, LLC, owns and operates a paperboard machine located at our Lynchburg, Virginia mill. We have contributed a portion of our existing Lynchburg assets valued at approximately $4 million to the venture and contributed cash of $16.8 million, which was used primarily to rebuild the paperboard machine. Lafarge owns 51% and we own 49% of the joint venture. During fiscal 2001, our share of the operating loss incurred at Seven Hills Paperboard amounted to $2.0 million.

Stock Repurchase Program

In November 2000, the Executive Committee of the Board of Directors amended our stock repurchase plan to allow for the repurchase from time to time prior to July 31, 2003 of up to 2.1 million shares of common stock, including shares of Class A common stock, in open market transactions on the New York Stock Exchange or in private transactions, and shares of Class B common stock in private transactions, including repurchases pursuant to certain first offer rights contained in our Restated and Amended Articles of Incorporation. During fiscal 2001, we repurchased 0.3 million shares of Class A common stock, of which 4,300 shares were repurchased since the amendment. We repurchased 2.1 million and zero shares of Class A common stock during fiscal 2000 and 1999, respectively. We did not repurchase any shares of Class B common stock during fiscal 2001, 2000 or 1999.

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.

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We estimate that we will spend $1.0 to $2.0 million for capital expenditures during fiscal year 2002 in connection with matters relating to environmental compliance. Over the next twelve months, we will also need to upgrade or replace a boiler at one of our facilities in Texas to comply with new state air pollution control requirements. We estimate the cost for upgrading or replacing that boiler to be in the range of $0.3 million to $3.5 million. In the event we are not able to upgrade or replace the boiler prior to the new air pollution control requirements going into effect, we may have to temporarily suspend a portion of our operations at our Dallas, Texas facility. We do not believe that such a disruption, if it were to occur, would have a material adverse effect on our results of operations.

In addition, we may need 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 could cost from $4.0 to $9.0 million. If required, we anticipate those costs to be incurred within the next three years.

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 alleged that we were 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 alleged that we exceeded several numerical limitations for chemical parameters outlined in the wastewater permit and violated other wastewater discharge criteria. The MDEQ further alleged that we are liable for contamination contained on the facility property as well as for contributing contamination to the Kalamazoo River site. The letter requested 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 entered into an administrative consent order pursuant to which improvements are being made to the facility's wastewater treatment system and we have paid a $75,000 settlement amount. We have also agreed to pay an additional $30,000 for past and future oversight costs incurred by the State of Michigan. This payment will be made in three equal installments over the next two years, the first of which has already been made. The cost of making upgrades to the wastewater treatment systems is estimated to be approximately $1.4 million, of which we have incurred $0.5 million as of September 30, 2001. Nothing contained in the order constitutes an admission of liability or any factual finding, allegation or legal conclusion on our part. The order was completed during the first quarter of fiscal 2001. To date, the MDEQ has not made any other demand regarding our alleged liability for contamination at the Kalamazoo River site.

We have been identified as a potentially responsible party, which we refer to as a PRP, at eight active "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.

New Accounting Standards

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 is effective for fiscal years beginning after December 15, 2001. We expect to adopt SFAS 144 as of October 1, 2002 and are currently assessing the impact of the pronouncement on the consolidated financial statements.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141, "Business Combinations." This statement eliminates the pooling method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. We will adopt this accounting standard for business combinations initiated after June 30, 2001.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." This statement changes the accounting for goodwill from an amortization method to an impairment-only approach. During fiscal 2001, we incurred $7.8 million of goodwill amortization expense, net of taxes. We have elected to adopt this statement in the first quarter of fiscal 2002 and are currently evaluating the impact of the pronouncement on the consolidated financial statements.

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 special hedge accounting treatment. SFAS 133 was adopted in the first quarter of fiscal 2001 and resulted in a $0.3 million charge, net of tax, from a cumulative effect of a change in accounting principle.

In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, “Revenue Recognition.” This bulletin provides guidance on the recognition, presentation and disclosure of revenue in financial statements. This bulletin was adopted in fiscal 2001 and did not have a material impact on our consolidated financial statements.

Forward-Looking Statements

Statements herein regarding, among other things, estimated capital expenditures for fiscal 2002 and expected expenditures for environmental 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 estimated cost of compliance with environmental laws, the expected resolution of various pending environmental matters and competitive conditions in our businesses and general economic conditions. These forward-looking statements are subject to certain risks including, among others, that the amount of capital expenditures has been underestimated and that the impact on our results of those capital expenditures has been overestimated; 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 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 OPERATIONS

(In Thousands, Except Per Share Data)	2001	2000	1999
	Year Ended September 30,		
Net sales	$ 1,441,632	$ 1,463,288	$ 1,313,371
Cost of goods sold	1,144,801	1,174,837	1,019,214
Gross profit	296,831	288,451	294,157
Selling, general and administrative expenses	180,280	177,961	170,779
Amortization of goodwill	8,569	9,069	9,410
Plant closing and other one-time costs	16,893	65,630	6,932
Income from operations	91,089	35,791	107,036
Interest expense	(35,042)	(35,575)	(31,179)
Interest and other income	530	418	391
Loss from unconsolidated joint venture	(2,004)	–	–
Minority interest in income of consolidated subsidiary	(2,439)	(4,980)	(5,995)
Income (loss) before income taxes	52,134	(4,346)	70,253
Provision for income taxes (Note 7)	21,897	11,570	30,555
Income (loss) before cumulative effect of a change in accounting principle	30,237	(15,916)	39,698
Cumulative effect of a change in accounting principle (net of $179 income taxes)	286	–	–
Net income (loss)	$ 30,523	$ (15,916)	$ 39,698
Basic earnings (loss) per share (Note 1)	$ 0.92	$ (0.46)	$ 1.14
Diluted earnings (loss) per share (Note 1)	$ 0.91	$ (0.46)	$ 1.13

See accompanying notes.

CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share and Per Share Data)	September 30, 2001	2000
Assets		
Current assets:		
Cash and cash equivalents	$ 5,191	$ 5,449
Accounts receivable (net of allowances of $5,400 and $3,732)	157,782	156,155
Inventories (Note 1)	102,011	99,589
Other current assets	6,098	8,050
Total current assets	271,082	269,243
Property, plant and equipment, at cost (Note 1):		
Land and buildings	206,069	200,444
Machinery and equipment	902,769	855,714
Transportation equipment	11,526	13,222
Leasehold improvements	9,159	8,561
	1,129,523	1,077,941
Less accumulated depreciation and amortization	(540,870)	(485,403)
Net property, plant and equipment	588,653	592,538
Goodwill, net	259,660	268,526
Other assets	45,018	28,656
	$ 1,164,413	$ 1,158,963
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	$ 79,596	$ 77,852
Accrued compensation and benefits	35,863	35,403
Current maturities of debt (Note 4)	97,152	20,328
Other current liabilities	46,636	26,792
Total current liabilities	259,247	160,375
Long-term debt due after one year (Note 4)	388,487	514,492
Adjustment for fair value hedge (Note 4)	8,603	–
Total long-term debt, less current maturities	397,090	514,492
Deferred income taxes (Note 7)	87,993	81,384
Other long-term items	17,323	16,409
Commitments and contingencies (Notes 6 and 10)		
Shareholders' equity (Note 3):		
Preferred stock, $.01 par value; 50,000,000 shares authorized; no shares outstanding	–	–
Class A common stock, $.01 par value; 175,000,000 shares authorized; 22,968,317 and 22,031,024 outstanding at September 30, 2001 and 2000, respectively. Class B common stock, $.01 par value; 60,000,000 shares authorized; 10,601,346 and 11,352,739 outstanding at September 30, 2001 and 2000, respectively	335	334
Capital in excess of par value	130,640	127,682
Deferred compensation	(1,421)	–
Retained earnings	282,117	262,872
Accumulated other comprehensive loss	(8,911)	(4,585)
Total shareholders' equity	402,760	386,303
	$ 1,164,413	$ 1,158,963

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(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	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at October 1, 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)
Issuance 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
Comprehensive loss:							
Net loss	–	–	–	–	(15,916)	–	(15,916)
Foreign currency translation adjustments	–	–	–	–	–	(1,064)	(1,064)
Comprehensive loss							(16,980)
Cash dividends – $.30 per share	–	–	–	–	(10,384)	–	(10,384)
Issuance of common stock	551,449	5	3,743	–	–	–	3,748
Purchases of Class A common stock	(2,125,268)	(21)	(8,109)	–	(14,115)	–	(22,245)
Balance at September 30, 2000	33,383,763	334	127,682	–	262,872	(4,585)	386,303
Comprehensive income:							
Net income	–	–	–	–	30,523	–	30,523
Foreign currency translation adjustments	–	–	–	–	–	(3,587)	(3,587)
Net unrealized loss on derivative instruments	–	–	–	–	–	(274)	(274)
Minimum pension liability	–	–	–	–	–	(465)	(465)
Comprehensive income							26,197
Income tax benefit from exercise of stock options	–	–	60	–	–	–	60
Shares granted under restricted stock plan	140,000	1	1,574	(1,575)	–	–	–
Compensation expense under restricted stock plan	–	–	–	154	–	–	154
Cash dividends – $.30 per share	–	–	–	–	(10,007)	–	(10,007)
Issuance of common stock	320,200	3	2,374	–	–	–	2,377
Purchases of Class A common stock	(274,300)	(3)	(1,050)	–	(1,271)	–	(2,324)
Balance at September 30, 2001	**33,569,663**	**$ 335**	**$ 130,640**	**$ (1,421)**	**$ 282,117**	**$ (8,911)**	**$ 402,760**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)	2001	2000	1999
	Year Ended September 30,		
Operating activities:			
Net income (loss)	$ 30,523	$ (15,916)	$ 39,698
Items in income (loss) not affecting cash:			
Depreciation and amortization	77,593	77,061	72,475
Deferred income taxes	6,609	316	3,383
Deferred compensation expense	154	–	–
(Gain) loss on disposal of plant and equipment and other, net	(432)	(517)	746
Minority interest in income of consolidated subsidiary	2,439	4,980	5,995
Impairment loss and other non-cash charges	6,443	49,700	–
Equity in loss from joint venture	2,004	–	–
Change in operating assets and liabilities:			
Accounts receivable	(2,218)	(17,374)	(20,469)
Inventories	(3,565)	(5,362)	(6,102)
Other assets	2,971	(2,151)	(2,883)
Accounts payable	1,976	11,690	20,180
Accrued liabilities	21,530	17	(607)
Cash provided by operating activities	146,027	102,444	112,416
Investing activities:			
Capital expenditures	(72,561)	(94,640)	(92,333)
Cash contributed to joint venture	(9,627)	(7,133)	–
Proceeds from sale of property, plant and equipment	1,034	2,209	1,127
Decrease (increase) in unexpended industrial revenue bond proceeds	1,264	(1,779)	–
Cash used for investing activities	(79,890)	(101,343)	(91,206)
Financing activities:			
Proceeds from issuance of public bonds	250,000	–	–
Net (repayments) additions to revolving credit facilities	(385,000)	32,147	(7,000)
Additions to debt	120,540	5,454	3,034
Repayments of debt	(34,720)	(1,626)	(5,527)
Debt issuance costs	(2,936)	(1,811)	(80)
Sales of common stock	2,377	3,748	3,148
Purchases of common stock	(2,324)	(22,245)	–
Cash dividends paid to shareholders	(10,007)	(10,384)	(10,450)
Distribution to minority interest	(4,480)	(5,425)	(5,950)
Cash used for financing activities	(66,550)	(142)	(22,825)
Effect of exchange rate changes on cash	155	(48)	384
(Decrease) increase in cash and cash equivalents	(258)	911	(1,231)
Cash and cash equivalents at beginning of year	5,449	4,538	5,769
Cash and cash equivalents at end of year	$ 5,191	$ 5,449	$ 4,538
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Income taxes, net of refunds	$ 7,138	$ 16,655	$ 28,899
Interest, net of amounts capitalized	31,676	36,228	31,190

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

Description of Business and Summary of Significant Accounting Policies

Description of Business

Rock-Tenn Company ("the Company") manufactures and distributes folding cartons, solid fiber interior packaging, plastic packaging, corrugated containers, merchandising displays, laminated paperboard products, 100% recycled clay-coated and specialty 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.

Investment in Corporate Joint Venture

The Company uses the equity method to account for its 49% investment in Seven Hills Paperboard, LLC, a joint venture with Lafarge Corporation. Under the equity method, the investment is initially recorded at cost, then reduced by distributions and increased or decreased by the investor's proportionate share of the investee's net earnings or loss.

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 may 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 on 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. Ineffectiveness related to the Company's derivative transactions is not material. The Company includes in operations amounts received or paid when the underlying transaction settles. Derivatives are included in other long-term liabilities and other assets on the balance sheet. The Company does not enter into or hold derivatives for trading or speculative purposes.

From time to time, 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 is 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 of the related debt instrument over the remaining term of the original contract life of terminated swap agreements.

From time to time, 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 production. 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 valued 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 12.8% and 13.6% of FIFO cost at September 30, 2001 and 2000, respectively.

Inventories at September 30, 2001 and 2000 are as follows:

	September 30,	
(In Thousands)	2001	2000
Finished goods and work in process	$ 79,357	$ 74,422
Raw materials	35,488	40,353
Supplies	11,631	12,159
Inventories at FIFO cost	126,476	126,934
LIFO reserve	(24,465)	(27,345)
Net inventories	$ 102,011	$ 99,589

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. During fiscal 2001, 2000 and 1999, the Company capitalized interest of approximately $1,541,000, $1,097,000 and $931,000, 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 2001, 2000 and 1999 was approximately $67,020,000, $66,267,000 and $61,435,000, respectively.

Basic and Diluted Earnings (Loss) Per Share

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

	Year Ended September 30,		
	2001	2000	1999
Numerator:			
Income (loss) before cumulative effect of a change in accounting principle	$ 30,237,000	$ (15,916,000)	$ 39,698,000
Cumulative effect of a change in accounting principle, net of tax	286,000	–	–
Net income (loss)	$ 30,523,000	$ (15,916,000)	$ 39,698,000
Denominator:			
Denominator for basic earnings (loss) per share – weighted average shares	33,297,123	34,523,827	34,801,541
Effect of dilutive stock options and restricted stock awards	132,082	–	405,929
Denominator for diluted earnings (loss) per share – weighted average shares and assumed conversions	33,429,205	34,523,827	35,207,470
Basic earnings (loss) per share			
Income (loss) before cumulative effect of a change in accounting principle	$ 0.91	$ (0.46)	$ 1.14
Cumulative effect of a change in accounting principle, net of tax	0.01	–	–
Net income (loss) per share – basic	$ 0.92	$ (0.46)	$ 1.14
Diluted earnings (loss) per share			
Income (loss) before cumulative effect of a change in accounting principle	$ 0.90	$ (0.46)	$ 1.13
Cumulative effect of a change in accounting principle, net of tax	0.01	–	–
Net income (loss) per share – diluted	$ 0.91	$ (0.46)	$ 1.13

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Common stock equivalents were antidilutive in fiscal 2000 and, therefore, were excluded from the computation of weighted average shares used in computing diluted loss per share.

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. Net goodwill as a percentage of total assets was 22.3% and 23.2% at September 30, 2001 and 2000, respectively. Net goodwill as a percentage of shareholders' equity was 64.5% and 69.5% at September 30, 2001 and 2000, respectively. Accumulated amortization relating to goodwill at September 30, 2001 and 2000 was $44,454,000 and $36,057,000, 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 $8,405,000 and $6,483,000 at September 30, 2001 and 2000, 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" ("SFAS 121"). 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

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS 121. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company expects to adopt SFAS 144 as of October 1, 2002 and is currently assessing the impact of the pronouncement on the consolidated financial statements.

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In December 1999, the Securities and Exchange Commission released Staff Accounting Bulletin No. 101, "Revenue Recognition." This bulletin provides guidance on the recognition, presentation and disclosure of revenue in financial statements. This bulletin was adopted in fiscal 2001 and did not have a material 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.

NOTE 2

Plant Closings, Joint Venture and Other Matters

During fiscal 2001, 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. These plant closing costs include the closing of a folding carton plant in Augusta, Georgia and an interior packaging plant in Eaton, Indiana. The closures resulted in the termination of approximately 210 employees. In connection with these closings, the Company incurred charges of $6,191,000 during fiscal 2001, which consisted mainly of asset impairment, severance, equipment relocation, disposal costs and related expenses. Payments of $792,000 were made in fiscal 2001. The remaining liability at September 30, 2001 is $1,474,000. Facilities closed during fiscal 2001 had combined revenues of $24,623,000, $36,943,000 and $39,359,000, for fiscal years 2001, 2000 and 1999, respectively. Operating losses incurred at the Augusta folding plant amounted to $288,000, $326,000 and $691,000 for fiscal 2001, 2000 and 1999, respectively. Operating income at the Eaton partition plant was $646,000, $1,909,000, and $2,675,000 for fiscal years 2001, 2000 and 1999, respectively. The Company has consolidated the operations of the Augusta folding plant and the Eaton interior packaging plant into other existing facilities.

On February 18, 2000, the Company formed a joint venture with Lafarge Corporation to produce gypsum paperboard liner for Lafarge's U.S. drywall manufacturing plants. The joint venture, Seven Hills Paperboard, LLC, owns and operates a paperboard machine located at the Company's Lynchburg, Virginia mill. The Company has contributed a portion of its existing Lynchburg assets valued at approximately $4,000,000 to the venture and cash of $16,760,000, which was used primarily to rebuild the paperboard machine. Lafarge owns 51% and the Company owns 49% of the joint venture. During fiscal 2001, the Company's share of the operating loss incurred at Seven Hills Paperboard amounted to $2,004,000.

During fiscal 2000, the Company closed a laminated paperboard products plant in Lynchburg, Virginia and folding carton plants in Chicago, Illinois, Norcross, Georgia and Madison, Wisconsin. The closures resulted in the termination of approximately 550 employees. In connection with these closings, the Company incurred charges of $61,130,000 during fiscal 2000, which consisted mainly of asset impairment, severance, equipment relocation, lease write-downs and other related expenses, including business interruption and other inefficiencies. Of the $61,130,000, $46,037,000 represented asset impairment charges related to the determination of material diminution in the value of assets, including goodwill of $25,432,000 (which is not deductible for tax purposes), relating to the Company's two folding carton plants that use web offset technology, as well as assets relating to the other closed facilities. The Company made payments of $2,380,000 and $12,593,000 in fiscal 2001 and fiscal 2000, respectively, and made an accrual adjustment of $597,000 to increase the liability during fiscal 2001. The remaining liability at September 30, 2001 is $717,000. Facilities closed during fiscal 2000 had combined revenues and operating losses of $72,037,000 and $5,587,000, respectively, in fiscal 2000 and $98,314,000 and $5,814,000, respectively, in fiscal 1999. The Company has consolidated the operations of these closed plants into other existing facilities.

During fiscal 2000, the Company decided to remove certain equipment from service primarily in its laminated paperboard products division. As a result of this decision, the Company incurred impairment charges of $4,622,000 related to this equipment.

During fiscal 1999, the Company closed a folding carton plant in Taylorsville, North Carolina, a laminated paperboard products operation in Otsego, Michigan and an uncoated paper mill serving its 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 during fiscal 1999, which consisted mainly of severance, equipment relocation, expected losses on the disposition of the facility and related expenses. The Company made payments of $310,000 and $4,134,000 in fiscal 2000 and 1999, respectively, incurred losses of $186,000 and $764,000 in connection with the disposal of inventory and other assets during fiscal 2000 and 1999, respectively, made an adjustment of $122,000 to reduce the liability during fiscal 2000 and reduced the carrying value of the Jersey City facility by $1,000,000 during fiscal 1999. The Company does not have any remaining liability at September 30, 2001. Facilities closed during fiscal 1999 had combined revenues and operating losses of $16,585,000 and $1,501,000, respectively, in fiscal 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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 ten 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. During fiscal 2001, 2000 and 1999, respectively, approximately 752,000, 285,000, and 213,000 Class B Common shares were converted to 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 Repurchase Plan
In November 2000, the Executive Committee of the Board of Directors amended the Company's current stock repurchase plan to allow for the repurchase from time to time prior to July 31, 2003 of a maximum of 2,143,332 shares in aggregate of Class A Common or Class B Common. During fiscal 2001 the Company repurchased 274,300 shares of Class A Common of which 4,300 were purchased under this amended plan. The Company repurchased 2,125,268 and no shares of Class A Common during fiscal 2000 and 1999, respectively.

Stock Option Plans
The Company's 2000 Incentive Stock Plan, approved in January 2001, allows for the granting of options to certain key employees for the purchase of a maximum of 2,200,000 shares of Class A Common. Options which have been granted under this plan vest in increments over a period of up to three years and have ten-year terms.

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 which have been granted under this plan vest in increments over a period of up to three years and have ten-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 2001, 2000 and 1999, respectively: risk-free interest rate of 3.5%, 5.9% and 4.8%, a dividend yield of 3.0% for fiscal 2001 and 2.0% for fiscal 2000 and 1999, volatility factor of the expected market price of the Company's common stock of 42.2%, 41.4% and 40.0%, and an expected life of the option of eight years for fiscal 2001 and ten years for fiscal 2000 and 1999.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which 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 value of the options are amortized to expense over the options' vesting period. The Company's pro forma information follows:

(In Thousands, Except for Earnings Per Share Information)	2001	2000	1999
Pro forma net income (loss)	$ 27,028	$ (19,609)	$ 37,339
Pro forma earnings (loss) per share			
Basic	0.81	(0.57)	1.07
Diluted	0.81	(0.57)	1.06

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 October 1, 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
Exercised or forfeited	(120,379)	$ 4.33–7.45	$ 5.57	(486,560)	$ 4.32–20.31	$ 9.83
Granted	–	–	–	1,003,600	$ 8.93–14.25	$ 9.19
Options outstanding at September 30, 2000	45,540	$ 6.09–7.45	$ 6.78	3,517,280	$ 6.06–20.31	$ 13.65
Exercised or forfeited	(6,600)	$ 6.09–7.45	$ 6.77	(864,856)	$ 6.06–20.31	$ 14.25
Granted	–	–	–	866,450	$ 0.00–11.90	$ 9.63
Options outstanding at September 30, 2001	38,940	$ 6.09–7.45	$ 6.78	3,518,874	$ 0.00–20.31	$ 12.34
Options exercisable at September 30, 2001	38,940	$ 6.09–7.45	$ 6.78	1,873,903	$ 6.06–20.31	$ 14.29
Options available for future grant at September 30, 2001	–	–	–	2,283,750	–	–

The following table summarizes information concerning options outstanding and exercisable at September 30, 2001:

	Class B Common		Class A Common				
Range of Exercise Prices	Number Outstanding and Exercisable	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Both Classes)
$ 6.06–7.45	38,940	$ 6.78	93,060	$ 6.80	93,060	$ 6.80	0.9
$ 8.00–8.94	–	–	686,264	$ 8.91	211,226	$ 8.94	8.4
$ 10.25–11.90	–	–	1,252,450	$ 11.20	361,417	$ 11.12	8.5
$ 14.25–16.59	–	–	1,014,100	$ 14.96	735,200	$ 15.04	6.0
$ 18.30–20.31	–	–	473,000	$ 19.43	473,000	$ 19.43	4.9
	38,940	$ 6.78	3,518,874	$ 12.83	1,873,903	$ 14.29	7.0

The estimated weighted average fair value of options granted during fiscal 2001, 2000 and 1999 with option prices equal to the market price on the date of grant was $4.21, $4.41, and $6.72, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Restricted Stock Plan

Pursuant to the Company's 2000 Incentive Stock Plan, the Company can award up to 500,000 shares of restricted Class A Common stock to employees. Sales of the stock awarded is restricted for two to five years from the date of grant, depending on vesting. Vesting of the stock occurs in increments of one-third beginning on the third anniversary of the date of grant. Accelerated vesting of a portion of the grant may occur based on the Company's performance. For the year ended September 30, 2001, the Company awarded 140,000 shares of Class A Common stock, which had a fair value at the date of grant of $1,575,000. Compensation under the plan is charged to earnings over the restriction period and amounted to $154,000 for the year.

Employee Stock Purchase Plan

During fiscal 2001, the 1993 Employee Stock Purchase Plan was amended to increase by 1,000,000 the number of shares of Class A Common available for grant under the plan. Under the Amended and Restated 1993 Employee Stock Purchase Plan, 765,865 and 59,419 shares of Class A Common were available for purchase as of September 30, 2001 and 2000, respectively. In fiscal 2001, 2000 and 1999, approximately 294,000, 314,000 and 284,000 shares, respectively, were purchased by employees under this plan.

NOTE 4
Debt

Debt at September 30, 2001 and 2000 consists of the following:

(In Thousands)	September 30, 2001	2000
8.20% notes, due August 2011, net of unamortized discount of $672[(a)]	$ 249,328	$ –
7.25% notes, due August 2005, net of unamortized discount of $53 and $67[(b)]	99,947	99,933
Asset securitization facility[(c)]	88,600	–
Industrial revenue bonds, bearing interest at variable rates (3.70% at September 30, 2001), due through October 2036[(d)]	37,500	40,000
Revolving credit facility[(e)]	8,000	393,000
Other notes	2,264	1,887
	485,639	534,820
Less current maturities of debt	97,152	20,328
Long-term debt due after one year	$ 388,487	$ 514,492

(a) In August 2001, the Company sold $250,000,000 in aggregate principal amount of its 8.20% notes due August 15, 2011 (the "2011 Notes"), the proceeds of which were used to repay borrowings outstanding under its revolving credit agreement. The 2011 Notes are not redeemable prior to maturity and are not subject to any sinking fund requirements. The 2011 Notes are unsubordinated, unsecured obligations. The indenture related to the 2011 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. The 2011 Notes were issued at a discount of $682,500 which is being amortized over its term. Debt issuance costs of approximately $2,136,000 are also being amortized over its term. Giving effect to the amortization of the original issue discount and the debt issuance costs, the effective interest rate of the 2011 Notes is approximately 8.31%.

(b) In August 1995, the Company sold $100,000,000 in aggregate principal amount of its 7.25% notes due August 1, 2005 (the "2005 Notes"). The 2005 Notes are not redeemable prior to maturity and are not subject to any sinking fund requirements. The 2005 Notes are unsubordinated, unsecured obligations. The indenture related to the 2005 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 2005 Notes. In May 1995, the Company entered into an interest rate adjustment transaction in order to effectively fix the interest rate on the 2005 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 2005 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 2005 Notes is approximately 7.51%.

(c) In November 2000, the Company entered into a $125 million receivables-backed financing transaction (the "Receivables Financing Facility"), the proceeds of which were used to repay borrowings outstanding under its revolving credit agreement. A bank provides a back-up liquidity facility. The effective interest rate was 3.53% as of September 30, 2001. Both the Receivables Financing Facility and the back-up liquidity facility are 364-day vehicles.

(d) Payments of principal and interest on these industrial revenue bonds are guaranteed by a letter of credit issued by a bank. Restrictions on the Company similar to those described in (e) below 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.

(e) The Company has a revolving credit facility, provided by a syndicate of banks, which provides aggregate borrowing availability of up to $300,000,000 through 2005. Borrowings outstanding under the facility bear interest based upon LIBOR plus an applicable margin. Annual facility fees range from .125% to .375% of the aggregate borrowing availability, based on the Company's consolidated funded debt to EBITDA ratio. The all-in rate was 4.81% and 8.04% at September 2001 and 2000, respectively. 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 August 2001, the Company entered into two interest rate swap agreements to convert $100 million of the 2011 Notes fixed obligations to a floating rate. This floating rate is three-month LIBOR plus an average of 2.28%. In August 2001, the Company entered into an interest rate swap agreement to convert all of the fixed rate 2005 Notes to a floating rate. This floating rate is three-month LIBOR plus 2.035%. The fair value of the interest rate swap agreements was $8,603,000 at September 30, 2001.

In May 1999, the Company entered into an interest rate swap agreement to effectively fix the LIBOR rate on $100,000,000 of variable rate borrowings at 5.84% per annum until May 2002. In January 2000, the Company terminated this swap agreement. The resulting gain of $2,136,170 is being amortized over the original contract life as a reduction of interest expense.

In April 1998, the Company entered into an interest rate swap agreement to effectively 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.

Unrealized gains on derivative instruments recorded in other comprehensive income related to interest rate swap terminations amounted to $1,201,000, net of tax, at September 30, 2001.

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.

As of September 30, 2001, the aggregate maturities of debt for the succeeding five years are as follows:

(In Thousands)	
2002	$ 97,152
2003	858
2004	286
2005	100,272
2006	6,032
Thereafter	281,039
Total debt	$ 485,639

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, 2001 and 2000, there were no amounts outstanding under this facility.

NOTE 5

Financial Instruments

At September 30, 2001 and 2000, the fair market value of the 2005 Notes was approximately $101,546,000 and $97,550,000, respectively, based on quoted market prices. At September 30, 2001, the fair market value of the 2011 Notes was approximately $250,113,000 based on quoted market price. At September 30, 2001 and 2000, the carrying amount for variable rate long-term debt approximates fair market value since the interest rates on these instruments are reset periodically.

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 21,000 tons of recycled corrugating medium each quarter and expire during fiscal 2002 and fiscal 2003. Other agreements hedge the raw material costs on a total of 12,000 tons of old corrugated containers, or "OCC," each quarter and expire during fiscal 2002 and fiscal 2003. At September 30, 2001, the fair value of these swap agreements was a liability of $2,399,000.

Unrealized losses on derivative instruments recorded in other comprehensive income related to the fair market value of commodity swaps outstanding amounted to $1,475,000, net of tax, at September 30, 2001.

NOTE 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, 2001, future minimum lease payments, including certain maintenance charges on transportation equipment, under all noncancelable leases, are as follows:

(In Thousands)	
2002	$ 8,096
2003	7,094
2004	4,932
2005	2,504
2006	1,782
Thereafter	5,946
Total future minimum lease payments	$ 30,354

Rental expense for the years ended September 30, 2001, 2000 and 1999 was approximately $16,670,000, $16,157,000 and $13,685,000, respectively, including lease payments under cancelable leases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 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:

	Year Ended September 30,		
(In Thousands)	2001	2000	1999
Current income taxes:			
Federal	$ 12,470	$ 8,259	$ 23,824
State	1,196	1,228	2,383
Foreign	1,622	1,767	965
Total current	15,288	11,254	27,172
Deferred income taxes:			
Federal	5,861	96	2,791
State	503	8	239
Foreign	245	212	353
Total deferred	6,609	316	3,383
Provision for income taxes	$ 21,897	$ 11,570	$ 30,555

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

	Year Ended September 30,		
	2001	2000	1999
Statutory federal tax rate	35.0%	35.0%	35.0%
State taxes, net of federal benefit	2.9	(1.0)	3.5
Non-deductible amortization and write-off of goodwill (See Note 2)	4.1	(283.3)	3.7
Other, net (primarily non-taxable items)	–	(16.9)	1.3
Effective tax rate	42.0%	(266.2%)	43.5%

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

	September 30,	
(In Thousands)	2001	2000
Deferred income tax assets:		
Accruals and allowances	$ 8,723	$ 9,996
Other	2,498	1,790
Total	11,221	11,786
Deferred income tax liabilities:		
Property, plant and equipment	84,898	80,882
Deductible intangibles	3,146	2,822
Inventory and other	11,170	9,466
Total	99,214	93,170
Net deferred income tax liability	$ 87,993	$ 81,384

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

The components of the income (loss) before income taxes are:

	Year Ended September 30,		
(In Thousands)	2001	2000	1999
United States	$ 46,319	$ (10,516)	$ 66,173
Cumulative effect of a change in accounting principle	(465)	–	–
	45,854	(10,516)	66,173
Foreign	6,280	6,170	4,080
Income (loss) before income taxes	$ 52,134	$ (4,346)	$ 70,253

NOTE 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, 2001	2000
Projected benefit obligation at beginning of year	$ 175,093	$ 168,653
Service cost	6,044	6,358
Interest cost on projected benefit obligations	14,358	13,268
Amendments	1,933	163
Acquisitions	(90)	–
Actuarial loss (gain)	2,113	(6,433)
Benefits paid	(8,006)	(6,916)
Projected benefit obligation at end of year	$ 191,445	$ 175,093
Fair value of assets at beginning of year	$ 201,245	$ 209,871
Actual loss on plan assets	(11,824)	(2,332)
Employer contribution	1,310	622
Benefits paid	(8,006)	(6,916)
Fair value of assets at end of year	$ 182,725	$ 201,245
Funded status	$ (8,720)	$ 26,152
Net unrecognized asset	–	(201)
Net unrecognized loss (gain)	6,741	(25,921)
Unrecognized prior service cost (income)	174	(834)
Net accrued pension cost included in consolidated balance sheets	$ (1,805)	$ (804)

The amounts required to be recognized in the consolidated statements of operations are as follows:

(In Thousands)	Year Ended September 30, 2001	2000	1999
Service cost	$ 6,044	$ 6,358	$ 7,592
Interest cost on projected benefit obligations	14,358	13,268	12,487
Expected return on plan assets	(17,822)	(18,595)	(17,169)
Net amortization of the initial asset	(198)	(330)	(378)
Net amortization of loss (gain)	(403)	(1,867)	(222)
Net amortization of prior service cost (income)	(54)	(97)	(105)
Curtailment loss	386	–	–
Total Company defined benefit plan expense (income)	2,311	(1,263)	2,205
Multi-employer plans for collective bargaining employees	255	254	239
Net periodic pension cost (income)	$ 2,566	$ (1,009)	$ 2,444

The discount rate used in determining the actuarial present value of the projected benefit obligations was 7.8%, 8.0% and 7.8% as of September 30, 2001, 2000 and 1999, 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, 2001, 2000 and 1999. The expected long-term rate of return on assets used in determining pension expense was 9.0% for all years presented. The projected benefit obligations, accumulated benefit obligation and fair value of assets for underfunded plans was $35,770,000, $32,064,000, and $27,768,000, respectively, as of September 30, 2001. As a result, the Company recorded an intangible asset in the amount of $1,528,000 and made an adjustment to accumulated other comprehensive income of $465,000, net of tax. There were no underfunded plans as of September 30, 2000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company maintains 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 2001, 2000 and 1999, the Company recorded matching expense, net of forfeitures, of $4,169,000, $3,357,000 and $3,982,000, respectively, related to the plan.

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 $148,000, $161,000 and $137,000 was recorded for the years ended September 30, 2001, 2000 and 1999, respectively. Amounts accrued as of September 30, 2001 and 2000 related to the plan were $1,113,000 and $976,000, respectively.

NOTE 9
Related Party Transactions

A director of the Company is the chairman and a significant shareholder of the insurance agency that brokers a portion of 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, 2001, 2000 and 1999, payments were approximately $2,923,000, $2,565,000 and $4,458,000, respectively.

NOTE 10
Commitments and Contingencies

Capital Additions

Estimated costs for completion of authorized capital additions under construction as of September 30, 2001 total approximately $10,000,000.

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 its 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.

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 alleged that the Company was 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 alleged that the Company exceeded several numerical limitations for chemical parameters outlined in the wastewater permit and violated other wastewater discharge criteria. The MDEQ further alleged 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 requested 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 entered into an administrative consent order pursuant to which improvements are being made to the facility's wastewater treatment system and the Company has paid a $75,000 settlement amount. The Company has also agreed to pay an additional $30,000 for past and future oversight costs incurred by the State of Michigan. This payment will be made in three equal installments over the next two years, the first of which has already been made. The cost of making upgrades to the wastewater treatment systems is estimated to be approximately $1,400,000. Nothing contained in the order constitutes an admission of liability or any factual finding, allegation or legal conclusion on the part of the Company. The order was completed during the first quarter of fiscal 2001. To date, the MDEQ has not made any other demand regarding our alleged liability for contamination at the Kalamazoo River site.

The Company has been identified as a potentially responsible party, which it refers to as a PRP, at eight active "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 its results of operations, financial condition or cash flows.

NOTE 11

Segment Information

The Company reports three business segments. The packaging products segment consists of facilities that produce folding cartons, interior packaging and thermoformed plastic products. The merchandising displays and corrugated packaging segment consists of facilities that produce displays and corrugated containers. The paperboard segment consists of facilities that manufacture 100% recycled clay-coated and specialty paperboard, corrugating medium and laminated paperboard products and that collect recovered paper. Certain operations included in the packaging products and paperboard segments are located in foreign countries and had operating income of $7,411,000, $7,179,000 and $5,620,000 for fiscal years ended September 30, 2001, 2000 and 1999, respectively. For fiscal 2001, foreign operations represented approximately 5.6%, 6.2% and 5.9% of total net sales to unaffiliated customers, total income from operations and total identifiable assets, respectively. For fiscal 2000, foreign operations represented approximately 5.1%, 19.7% and 5.9% of total net sales to unaffiliated customers, total income from operations and total identifiable assets, 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. As of September 30, 2001, 2000 and 1999, the Company had foreign long-lived assets of $34,578,000, $33,756,000 and $34,556,000, 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. Intersegment sales are accounted for at prices that approximate market prices. Intercompany profit is eliminated at the consolidated level.

Reported segment results have been restated for all years presented in order to conform to changes in internal reporting measures used by management. These changes reflect the following: (1) segment level adjustments to record inventory on the last-in, first-out, or "LIFO," method, (2) a corporate charge reallocation due to a change in methodology made to better focus on the drivers of certain corporate expenses, and (3) non-allocation of goodwill amortization expense in order to provide more comparative information given the impending adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In Thousands)	Years Ended September 30, 2001	2000	1999
Net sales (aggregate):			
Packaging Products	$ 806,107	$ 797,399	$ 749,850
Merchandising Displays and Corrugated Packaging	263,395	238,822	180,892
Paperboard	524,551	588,489	529,014
Total	$ 1,594,053	$ 1,624,710	$ 1,459,756
Less net sales (intersegment):			
Packaging Products	$ 3,474	$ 5,294	$ 3,424
Merchandising Displays and Corrugated Packaging	5,615	5,334	4,338
Paperboard	143,332	150,794	138,623
Total	$ 152,421	$ 161,422	$ 146,385
Net sales (unaffiliated customers):			
Packaging Products	$ 802,633	$ 792,105	$ 746,426
Merchandising Displays and Corrugated Packaging	257,780	233,488	176,554
Paperboard	381,219	437,695	390,391
Total	$ 1,441,632	$ 1,463,288	$ 1,313,371
Segment income:			
Packaging Products	$ 48,074	$ 39,724	$ 48,641
Merchandising Displays and Corrugated Packaging	30,246	27,629	22,178
Paperboard	41,633	51,380	60,257
	119,953	118,733	131,076
Goodwill amortization	(8,569)	(9,069)	(9,410)
Plant closing and other costs	(16,893)	(65,630)	(6,932)
Other non-allocated expenses	(5,406)	(8,243)	(7,698)
Interest expense	(35,042)	(35,575)	(31,179)
Interest and other income	530	418	391
Minority interest in consolidated subsidiary	(2,439)	(4,980)	(5,995)
Income (loss) before income taxes	$ 52,134	$ (4,346)	$ 70,253
Identifiable assets:			
Packaging Products	$ 423,041	$ 429,422	$ 459,933
Merchandising Displays and Corrugated Packaging	132,122	130,126	107,267
Paperboard	582,364	585,985	585,138
Corporate	26,886	13,430	9,132
Total	$ 1,164,413	$ 1,158,963	$ 1,161,470
Depreciation and amortization (excluding goodwill):			
Packaging Products	$ 28,819	$ 29,868	$ 27,841
Merchandising Displays and Corrugated Packaging	8,658	7,702	6,486
Paperboard	28,627	27,246	25,505
Corporate	2,920	3,176	3,233
Total	$ 69,024	$ 67,992	$ 63,065
Goodwill amortization:			
Packaging Products	$ 1,138	$ 1,537	$ 1,878
Merchandising Displays and Corrugated Packaging	1,425	1,425	1,425
Paperboard	6,006	6,107	6,107
Total	$ 8,569	$ 9,069	$ 9,410
Capital expenditures:			
Packaging Products	$ 33,983	$ 48,094	$ 37,059
Merchandising Displays and Corrugated Packaging	10,097	14,238	11,544
Paperboard	26,784	29,815	40,473
Corporate	1,697	2,493	3,257
Total	$ 72,561	$ 94,640	$ 92,333

NOTE 12

Financial Results by Quarter (Unaudited)

(In Thousands, Except Per Share Data)

2001	First Quarter[(a)]	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 345,169	$ 367,410	$ 357,065	$ 371,988
Gross profit	65,970	74,010	76,557	80,294
Plant closing and other one-time costs	1,865	3,175	2,523	9,330
Income before cumulative effect of a change in accounting principle	4,505	7,318	9,120	9,294
Net income	4,791	7,318	9,120	9,294
Basic earnings per share	0.14	0.22	0.27	0.28
Diluted earnings per share	0.14	0.22	0.27	0.28

2000	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 346,821	$ 369,940	$ 370,545	$ 375,982
Gross profit	72,197	73,637	69,630	72,987
Plant closing and other one-time costs	2,474	52,725	4,876	5,555
Net income (loss)	8,610	(33,256)	2,605	6,125
Basic earnings (loss) per share	0.25	(0.96)	0.08	0.18
Diluted earnings (loss) per share	0.24	(0.96)	0.07	0.18

1999	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 311,442	$ 312,718	$ 330,477	$ 358,734
Gross profit	71,587	68,955	73,788	79,827
Plant closing and other one-time costs	2,053	1,085	2,763	1,031
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

The interim earnings (loss) 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 (loss) per share by quarter will not necessarily total the annual basic and diluted earnings (loss) per share.

(a) Includes income of $286,000, net of tax, or $0.01 per diluted share, cumulative effect of a change in accounting principle from the adoption of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended.

REPORT OF INDEPENDENT AUDITORS

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, 2001 and 2000, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended September 30, 2001. 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 auditing standards generally accepted in the United States. 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, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2001, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Atlanta, Georgia
October 23, 2001

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL INFORMATION

Rock-Tenn Company

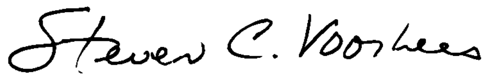
The management of Rock-Tenn Company has the responsibility for preparing the accompanying consolidated financial statements and for their integrity and objectivity. The statements were prepared in accordance with generally accepted accounting principles in the United States. The financial statements 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. 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 control 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, 2001, the Company's system of internal control is adequate to accomplish the objectives discussed herein.



Steven C. Voorhees
Executive Vice President and
Chief Financial Officer

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Rock-Tenn Company
Atlanta, Georgia

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Atlanta, Georgia

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James W. Johnson[3]
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Chairman and Chief Executive Officer
Rock-Tenn Company
Norcross, Georgia

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Principal
Sexton-Talbert Products
Vero Beach, Florida

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Vice Chairman and
Chief Financial Officer
SunTrust Banks, Inc.
Atlanta, Georgia

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(2) Audit Committee
(3) Compensation and Options Committee

OFFICERS

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Executive Vice President and
Chief Financial Officer

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Senior Vice President,
General Counsel and Secretary

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Vice President of Finance and Control

Jodi Littlestone
Vice President of Employee and
Organizational Effectiveness

Larry S. Shutzberg
Vice President of Information Systems

David T. Jones
Controller

Suzanne G. Smith
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Packaging Products Segment

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General Manager
Plastic Packaging Division

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

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

Merchandising Displays and Corrugated Packaging Segment

Russell M. Currey
Executive Vice President and
General Manager
Corrugated Packaging Division

James L. Einstein
Executive Vice President and
General Manager
Alliance Division

Paperboard Segment

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Executive Vice President and
General Manager
Paperboard Group

Terry W. Durham
Executive Vice President and
General Manager
Laminated Paperboard Products Division

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

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

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