

ROCK TENN CO
Form 10-K
December 19, 2003

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2003
OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 0-23340

ROCK-TENN COMPANY

(Exact Name of Registrant as Specified in Its Charter)

Georgia
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

30071
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Class A Common Stock, par value \$0.01 per share	New York Stock Exchange

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark if the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

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The aggregate market value of the common equity held by non-affiliates of the registrant as of March 31, 2003, the last business day of the registrant's most recently completed second fiscal quarter (based on the last reported closing price of \$12.80 per share of Class A Common Stock as reported on the New York Stock Exchange on such date), was approximately \$362 million.

As of December 4, 2003, the registrant had 35,040,870 shares of Class A Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on January 23, 2004 are incorporated by reference in Parts II and III.

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PART I

Item 1. BUSINESS

Unless the context otherwise requires, we, us, our or Rock-Tenn refers to the business of Rock-Tenn Company and its subsidiaries, including RTS Packaging, LLC, which we refer to as RTS, and Seven Hills Paperboard, LLC, which we refer to as Seven Hills. We own 65% of RTS and conduct our interior packaging products business through RTS. We own 49% of Seven Hills, a manufacturer of gypsum paperboard liner, which we do not consolidate for purposes of our financial statements.

General

We are a manufacturer of packaging, merchandising displays and 100% recycled clay-coated and specialty paperboard and corrugating medium. Our packaging operations manufacture folding cartons, solid fiber interior packaging, corrugated packaging and corrugated sheet stock. We also produce laminated paperboard products as well as collect and sell recycled fiber. We operate at a total of 90 locations, which include 42 paperboard converting operations, 12 paperboard mills, 12 paper recovery facilities, 23 facilities at which we conduct contract packaging, sales and design, engineering, marketing and brokerage, or fulfillment operations, and our principal executive offices. These facilities are located in 27 states, Canada, Mexico and Chile.

In October 2003, we sold our plastic packaging operations, which manufactured plastic packaging and extruded plastic roll stock. See *Packaging Products Segment Plastic Packaging Products*.

Products

We report our results of operations in three industry segments: (1) packaging products, (2) merchandising displays and corrugated packaging, and (3) paperboard. For financial information relating to our segments, please see Item 8, *Financial Statements and Supplementary Data*. For financial information related to our non-US operations, see Note 16, *Segment Information* of the Notes to Consolidated Financial Statements section of the Financial Statements included herein.

Packaging Products Segment

In our packaging products segment, we manufacture two lines of packaging products: folding cartons and solid fiber interior packaging.

Folding Cartons. We believe that we are the fifth largest producer of folding cartons in North America. Customers use our folding cartons to package paper goods; frozen, dry and perishable food items for the retail sale and quick-serve markets; beverages; automotive products; hardware; pharmaceutical and nutraceutical products; household goods; healthcare and beauty aids; recreational products, textiles; apparel; and other products. We also manufacture express envelopes for the overnight courier industry. Folding cartons typically serve the dual function of protecting customers' products during shipment and distribution and promoting them at retail. We manufacture folding cartons from recycled or virgin paperboard, including high strength paperboard, laminated paperboard and various substrates with specialty characteristics such as grease masking and microwaveability. We print, coat, die-cut and glue the paperboard in accordance with customer specifications. We then ship finished cartons to customers' plants for assembling, filling and sealing. By employing a broad range of offset, flexographic, gravure, hexachrome, backside printing, and double coating technologies, we are able to meet a broad range of folding carton applications. We support our customers in creating new packaging solutions through our product development, graphic design and packaging systems service groups. We operate 19 folding carton plants and one technical center. Sales of folding cartons to unaffiliated customers accounted for 46.5%, 43.5%, and 43.9% of our net sales in fiscal 2003, 2002, and 2001, respectively.

In January 2003, our folding carton division completed its acquisition of Groupe Cartem Wilco (which we refer to as **Cartem Wilco**). We acquired Cartem Wilco to strengthen our presence in the health-and-

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beauty and pharmaceutical packaging markets and to expand our folding carton operations in Canada. The purchase price of this stock acquisition, including out-of-pocket expenses, was approximately \$65.3 million. In August 2003, our folding carton division completed its acquisition of PCPC, Inc., d/b/a Pacific Coast Packaging Corp. (which we refer to as **Pacific Coast Packaging**), a folding carton manufacturer located in Kerman, California. The purchase price of this transaction (including the assumption of debt) was approximately \$15.4 million. We expect to pay additional consideration of approximately \$1.0 million during fiscal 2004, representing an adjustment based on the achievement of certain sales levels for the six month period following the closing of the transaction. We acquired Pacific Coast Packaging both for its geographic significance and for the way it complements our current customer base and growth strategy. Pacific Coast Packaging is our first folding carton operation on the West Coast. It is a low cost producer of folding cartons for the quick serve food, in-store deli, stock and gift box markets. We have accounted for these acquisitions under the purchase method of accounting, which requires us to record Cartem Wilco's and Pacific Coast Packaging's assets and liabilities at their estimated fair value and any excess of the purchase price over fair value as goodwill.

Interior Packaging Products. Our subsidiary, RTS, is a venture formed by the combination of the partition divisions of Rock-Tenn and Sonoco Products Company. Through RTS, we specialize in the design and manufacture of fiber partitions and die-cut paperboard components. We believe that we are the largest manufacturer of solid fiber partitions in North America. We market our solid fiber partitions principally to glass container manufacturers and producers of beer, food, wine, cosmetics and pharmaceuticals. We also manufacture specialty agricultural packaging for specific fruit and vegetable markets and sheeted separation products for various industries. We can also manufacture partitioned shipping cases to include stand-alone point-of-purchase display systems. We manufacture solid fiber interior packaging primarily from 100% recycled specialty paperboard. Our solid fiber interior packaging is made from varying thicknesses of single ply and laminated paperboard to meet different structural requirements, including those required for high speed casing, de-casing and filling lines. We focus on developing high quality, value-added interior packaging products for specific applications to meet customers' packaging needs. We employ primarily proprietary manufacturing equipment developed by our engineering services group. This equipment delivers high-speed production that allows for rapid turnaround on large jobs and specialized capabilities for short-run, custom applications. RTS operates 11 manufacturing plants, eight in the United States, two in Mexico and one in Chile. Sales of interior packaging products to unaffiliated customers accounted for 9.1%, 9.1%, and 9.2% of our net sales in fiscal 2003, 2002, and 2001, respectively.

Plastic Packaging Products. Until October 2003, we manufactured custom thermoformed plastic packaging, the Durafresh® line of rigid plastic trays, and extruded plastic roll stock at two plastic packaging plants. Effective October 27, 2003, we sold our plastic packaging operations to Pactiv Corporation. This transaction was valued at approximately \$60.0 million. As a result of the transaction we expect to record an after-tax gain of \$7 million in fiscal 2004. The results of operations for these components have been reclassified as income from discontinued operations on the consolidated statements of operations for all periods presented. Assets and liabilities are presented as assets and liabilities held for sale at September 30, 2003 and September 30, 2002 on our consolidated balance sheets.

Merchandising Displays and Corrugated Packaging Segment

In our merchandising displays and corrugated packaging segment, we manufacture temporary and permanent point-of-purchase displays, corrugated packaging, and corrugated sheet stock.

Merchandising Displays. We believe we are one of the largest manufacturers of temporary promotional point-of-purchase displays in North America. We design, manufacture and, in most cases, pack temporary displays for sale to consumer products companies. These high impact displays are used as marketing tools to support new product introductions and specific product promotions in mass merchandising stores, supermarkets, convenience stores, home improvement stores and other retail locations. We also design, manufacture and, in some cases, pack permanent displays to the same categories of customers. Temporary displays are constructed primarily from corrugated paperboard and generally are not restocked with products. Permanent displays are restocked and, therefore, are constructed primarily from metal, plastic, wood and other durable

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materials. We also provide contract packing services such as multi-product promotional packing including buy one, get one free and complementary or free product promotions. We also manufacture lithographic laminated packaging for sale to our customers that require packaging with high quality graphics and strength characteristics. Our Turnedge information packaging products include DVD/CD packaging and gameboards. We operate two facilities that manufacture displays, one of which also manufactures lithographic laminated packaging, one facility that manufactures primarily lithographic laminated packaging and one Turnedge manufacturing plant. We also operate nine contract packing facilities. Three of these facilities are co-locations each of which we share either with one of our customers or a third party service provider to one of our customers. We also have 10 display sales and design centers. Sales of our merchandising displays and lithographic laminated packaging to unaffiliated customers accounted for 15.4%, 16.0%, and 13.3% of our net sales in fiscal 2003, 2002, and 2001, respectively.

Corrugated Packaging. We manufacture corrugated packaging for sale to the industrial products and consumer products markets and corrugated sheet stock for sale to corrugated box manufacturers. These products are manufactured in a range of flute configurations and our packaging includes a wide array of structural designs. We market corrugated packages and corrugated sheet stock products primarily in the Southeastern United States. To make corrugated sheet stock, we simultaneously feed linerboard and corrugating medium into a corrugator that flutes the medium to specified sizes, glues the linerboard and fluted medium together and slits and cuts the resulting corrugated paperboard into sheets in accordance with customer specifications. We also convert corrugated sheets into corrugated products ranging from one-color protective cartons to graphically brilliant point-of-purchase containers and displays. We assist our customers in developing solutions through our structural design and engineering services groups. We operate one corrugator, three sheet plants and one fulfillment center, which provides contract packaging, sales and design services. Sales of our corrugated packaging products to unaffiliated customers accounted for 4.1%, 4.8%, and 5.6% of our net sales in fiscal 2003, 2002, and 2001, respectively.

Paperboard Segment

In our paperboard segment, we collect recovered paper and produce four paperboard products: 100% recycled clay-coated paperboard, 100% recycled specialty paperboard, including gypsum paperboard liner, 100% recycled corrugating medium, and laminated paperboard products. We operate 12 paperboard mills, four laminated paperboard products plants, 12 paper recovery facilities, and one fiber marketing and brokerage facility.

Clay-Coated Paperboard and Specialty Paperboard. We believe we are the second largest U.S. manufacturer of 100% recycled boxboard (excluding linerboard, corrugating medium and gypsum wallboard). We market our recycled clay-coated and specialty paperboard to manufacturers of folding cartons, solid fiber interior packaging, book cover and laminated paperboard furniture components, tube and core products, set-up boxes and other paperboard products. We also manufacture recycled corrugating medium, which we market to corrugated sheet manufacturers. Through our Seven Hills joint venture, we manufacture gypsum paperboard liner for sale to Lafarge Corporation, our joint venture partner. Sales of recycled paperboard (including corrugating medium) to unaffiliated customers accounted for 15.2%, 16.1%, and 17.4% of our net sales in fiscal 2003, 2002, and 2001, respectively.

Laminated Paperboard Products. We believe we are a leading U.S. producer of laminated paperboard products for the ready-to-assemble furniture market and the book cover market. We convert specialty paperboard into laminated paperboard products for use in book covers and binders, furniture, automotive components, fiber drums and other industrial products. Sales of laminated paperboard products to unaffiliated customers accounted for 6.1%, 7.6%, and 8.3% of our net sales in fiscal 2003, 2002, and 2001, respectively.

Recycled Fiber. Our paper recovery facilities collect waste paper from a number of sources including factories, warehouses, commercial printers, office complexes, retail stores, document storage facilities, and paper converters as well as from other wastepaper collectors. We handle all grades of recovered paper, including old corrugated containers, office paper, box clippings, newspaper and print shop scraps. After sorting and baling, we transfer collected paper to our paperboard mills for processing or sell it principally to other

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U.S. manufacturers that use recycled fiber as their primary raw material. These customers include, among others, manufacturers of paperboard, tissue, newsprint, roofing products and insulation. Several of our paper recovery facilities are located near our paperboard mills. These convenient locations help minimize freight costs and provide our operations with an additional source of supply of recovered paper, which is the principal raw material used to produce recycled paperboard. We also operate a fiber marketing and brokerage group that serves large regional and national accounts. Sales of recovered paper to unaffiliated customers accounted for 3.6%, 2.9%, and 2.3% of our net sales in fiscal 2003, 2002, and 2001, respectively. Our paper recovery facilities and our marketing and brokerage group are significant suppliers of raw material to our 12 recycled paperboard mills.

Raw Materials

The primary raw material used by our paperboard operations is recycled fiber, including fiber collected by our paper recovery facilities. During fiscal 2003, recycled fiber prices fluctuated significantly. The average cost of recycled fiber used by our paperboard mills during fiscal 2003 was \$83 per ton, compared to \$80 per ton during fiscal 2002. There can be no assurance that we will be able to recoup any future increases in the cost of recycled fiber through price increases for our products.

The primary raw material used by our paperboard converting operations is recycled and virgin paperboard. There are a limited number of suppliers of virgin paperboard and, in the case of one of the primary grades of virgin paperboard used by our folding carton operations, there are only two suppliers. While management believes that it would be able to obtain adequate replacement supplies in the market should any of our current vendors discontinue supplying us virgin paperboard, the failure to obtain such supplies or the failure to obtain such supplies at reasonable market prices could have an adverse effect on our results of operations. We supply substantially all of our internal needs for recycled paperboard. Because there are other suppliers that produce the necessary grades of recycled paperboard used in these converting operations, management believes that it would be able to obtain adequate replacement supplies in the market should we be unable to meet our requirements for recycled paperboard through internal production. In the event that the cost of paperboard used in our converting operations increases, there can be no assurance that we will be able to recoup any such cost increases through price increases of our products.

Energy

Excluding raw materials and labor, energy is one of our most significant manufacturing costs, particularly in our paperboard operations. We use energy, including natural gas, electricity, fuel oil and coal, to generate steam used in the paper making process and to operate our paperboard machines and converting equipment. We generally purchase energy from local suppliers at market rates. Occasionally, we enter into long-term agreements to purchase natural gas.

Because a significant number of reliable suppliers produce the various sources of energy used in our operations, management believes that it would be able to obtain adequate replacement supplies should any of our current vendors discontinue supplying us. There can be no assurance, however, that the replacement sources of energy will not be more expensive than current sources. In recent years, the cost of natural gas, which we use in many of our manufacturing operations, including most of our paperboard mills, has fluctuated significantly. There can be no assurance that we will be able to recoup any future increases in the cost of natural gas or other energy through price increases for our products.

Sales and Marketing

Our top 10 external customers represented approximately 26% of consolidated net sales in fiscal 2003, none of which individually accounted for more than 10% of our consolidated net sales. We generally manufacture our products pursuant to customers' orders. Some of our products are marketed to key customers. The loss of any key customer could have a material adverse effect on the net income attributable to the applicable segment and, depending on the significance of such product line to our operations, our results of operations. We believe that we have good relationships with our key customers. However, in the third fiscal

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quarter of 2003, a large merchandising display customer advised us that we will lose a substantial portion of its business as a result of a competitive request for proposal. We currently believe that the loss of this business will be largely offset by certain new merchandising display business secured during fiscal 2003. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Net Sales (Aggregate) by Division Merchandising Displays and Corrugated Packaging Segment*. See also *Business Forward Looking Information and Risk Factors*.

In fiscal 2003, we sold:

packaging products to approximately 2,750 customers, the top 10 of which represented approximately 31% of our external sales of the packaging products segment;

merchandising display products and corrugated packaging products to approximately 400 and 650 customers, respectively, the top 10 of which represented approximately 62% of our external sales of the merchandising display and corrugated packaging segment; and

recycled paperboard, corrugating medium, laminated paperboard products and recovered paper to approximately 1,600 customers, the top 10 of which represented approximately 39% of our external sales of the paperboard segment.

Each of our product lines, other than our gypsum paperboard liner, is marketed through its own sales force. Each sales force maintains direct sales relationships with our customers. We also market a number of our product lines, including folding cartons, interior packaging, corrugated packaging and book covers, through independent sales representatives and independent distributors. Sales personnel are supervised by regional sales managers, plant general managers or the general manager for the particular product line, who support and coordinate the sales activities within their designated area. We pay our paperboard and laminated paperboard products sales personnel a base salary, and we generally pay our packaging products and merchandising displays and corrugated packaging sales personnel a base salary plus commissions. We pay our independent sales representatives on a commission basis. Under the terms of our Seven Hills joint venture arrangement, Lafarge Corporation is required to purchase all of the qualifying gypsum paperboard liner produced by Seven Hills.

Competition

The packaging products and paperboard industries are highly competitive, and no single company dominates either industry. Our competitors include large, vertically integrated packaging products and paperboard companies and numerous smaller companies. In the folding carton and corrugated packaging markets, we compete with a significant number of national, regional and local packaging suppliers in North America. In the solid fiber interior packaging, promotional point-of-purchase display, and laminated paperboard products markets, we compete with a smaller number of national, regional and local companies offering highly specialized products. In the laminated paperboard products markets, we also compete with foreign companies that supply laminated board for book covers. Our clay-coated paperboard and specialty paperboard operations compete with integrated and non-integrated national and regional companies operating in North America that manufacture various grades of paperboard and, to a limited extent, manufacturers outside of North America. Our paperboard also competes with virgin paperboard. Our recycled fiber operations compete with national, regional and local companies.

Because all of our businesses operate in highly competitive industry segments, 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. In the third fiscal quarter of 2003, a large merchandising display customer advised us that we will lose a substantial portion of its business as a result of a competitive request for proposal. We currently believe that the loss of this business will be largely offset by certain new merchandising display business secured during fiscal 2003. See *Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Net Sales (Aggregate) by Division Merchandising Displays and Corrugated Packaging Segment*. See also *Business Forward Looking Information and Risk Factors*.

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We sell 45% to 50% of our clay-coated paperboard to our Folding Carton Division and 60% to 65% of our uncoated paperboard (excluding corrugating medium and gypsum paperboard liner, which is produced by our Seven Hills joint venture) to RTS and to our laminated paperboard products and folding carton divisions. Our joint venture partner LaFarge Corporation consumes approximately 95% of the production of our Seven Hills mill. Our paperboard segment's sales volumes may therefore be directly impacted by changes in demand for our packaging products.

The primary competitive factors in the packaging products and paperboard industries are price, design, product innovation, quality and service, with varying emphasis on these factors depending on the product line and customer preferences. We believe that we compete effectively with respect to each of these factors and seek to confirm our evaluation with annual customer service surveys. However, to the extent that any of our competitors becomes more successful with respect to any key competitive factor, our business could be materially adversely affected.

Our ability to fully pass through fiber price increases can be limited based on competitive market conditions for various products that we sell and by the actions of our competitors. In addition, most of our paperboard and paperboard-based converted products are sold pursuant to term contracts that provide that prices are either fixed for specified terms, or provide for price adjustments based on changes in specified paperboard index prices. The effect of these contractual provisions generally is to either limit the amount or delay our ability to recover announced price increases for paperboard.

The packaging products and recycled paperboard industries have undergone significant consolidation in recent years. We believe that current trends within these industries are likely to result in further consolidation. Within the packaging products industry, larger corporate customers with an expanded geographic presence have tended in recent years to seek suppliers who can, because of their broad geographic presence, efficiently and economically supply all or a range of the customers' packaging needs. In addition, during recent years, purchasers of recycled paperboard and packaging products have demanded higher quality products meeting stricter quality control requirements. These market trends could adversely affect our results of operations or, alternatively, favor our products depending on our competitive position in specific product lines.

Packaging manufactured from paperboard competes with plastic and corrugated packaging, as well as packaging manufactured from other materials. Customer shifts away from paperboard packaging to packaging from such other substrates could adversely affect our results of operations.

Governmental Regulation

Health and Safety Regulations

Our operations are subject to federal, state, local and foreign laws and regulations relating to workplace safety and worker health including the Occupational Safety and Health Act (which we refer to as **OSHA**) and regulations promulgated thereunder. OSHA, among other things, establishes asbestos and noise standards and regulates the use of hazardous chemicals in the work place. Although we do not use asbestos in manufacturing our products, some of our facilities contain asbestos. For those facilities where asbestos is present, we have properly contained this asbestos and/or we have conducted training of our employees to ensure that no federal, state or local rules or regulations are violated in the maintenance of our facilities. We do not believe that future compliance with health and safety laws and regulations will have a material adverse effect on our results of operations, financial condition or cash flows.

Environmental Regulation

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

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U.S. Environmental Protection Agency (which we refer to as **US EPA**). 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 associated with changes to regulations promulgated under the Clean Air Act will have on our operations or capital expenditure requirements. However, we believe that any such impact or capital expenditures will not have a material adverse effect on our results of operations, financial condition or cash flows.

Excluding costs related to wastewater treatment system improvements at a paperboard mill in Otsego, Michigan discussed in the next paragraph, we estimate that we will spend less than \$0.7 million for capital expenditures during fiscal year 2004 in connection with matters relating to environmental compliance. It may also be necessary to upgrade wastewater treatment equipment at one of our facilities during the next one to five years at a cost ranging from approximately \$0.1 million to \$0.4 million. In addition, we are in the process of replacing the coal-fired boilers at one of our facilities in order to operate cost effectively while complying with emissions regulations under the Clean Air Act. We estimate these improvements will cost approximately \$2.0 million and that we will complete the project by the end of calendar year 2003. Additionally, for similar reasons, we expect to modify or replace a coal-fired boiler at another facility, the cost of which we estimate will be \$2.0 to \$3.0 million. We anticipate that we will incur those costs within the next three to four 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 a 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 Allied Paper/Portage Creek/Kalamazoo River Superfund Site (which we refer to as 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 we are making improvements to the facility's wastewater treatment system and we have paid less than a \$0.1 million settlement amount, plus an additional amount of \$0.03 million for past and future oversight costs incurred by the State of Michigan. We estimate that the total cost of making upgrades to the wastewater treatment systems will be up to \$3.4 million, of which we have incurred \$1.8 million as of September 30, 2003. Nothing contained in the order constitutes an admission of liability or any factual finding, allegation or legal conclusion on our part. To date, the MDEQ has not made any other demand regarding our alleged liability for contamination at the Kalamazoo River site.

In March 2003, the US EPA sent us a request for supplemental information regarding the Kalamazoo River site, which we responded to in June 2003. The US EPA requested information from the Otsego Mill and the Battle Creek Mill in an attempt to determine to what extent we purchased from 1954 to 1971 carbonless paper or trim from certain facilities identified in their request letter. The US EPA is also attempting to determine the quantity and method of disposal of PCBs contained in wastes generated by various mills in the area between 1954 and 1989, including our mills. The US EPA made no claim or assertion in this letter against us involving the Kalamazoo River site with respect to the Otsego Mill or the Battle Creek Mill.

Accordingly, we can make no assessment of any potential for our liability with respect to the Kalamazoo River site. Further, there can be no assurance that we will not be required to conduct some remediation in the future at the Kalamazoo River site and that such remediation will not have a material adverse effect on our results of operations, financial condition or cash flows. If the US EPA, the MDEQ or any other party brings any environmental claim or action against us involving the Kalamazoo River site with respect to the Otsego

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Mill or the Battle Creek Mill, we intend to assert claims for indemnification pursuant to certain existing rights we have under settlement and purchase agreements in connection with the Otsego Mill, the Battle Creek Mill, and the Kalamazoo River site. There can be no assurance that we will be successful with respect to any claim regarding such indemnification rights or that, if we are successful, that any amounts paid pursuant to such indemnification rights will be sufficient to cover all costs and expenses.

We have been identified as a potentially responsible party at 11 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 such site will not have a material adverse effect on our results of operations, financial condition or cash flows.

Patents and Other Intellectual Property

We hold a substantial number of patents and pending patent applications in the United States and in certain foreign countries. Our patent portfolio consists primarily of utility and design patents relating to our various operations, as well as certain process and methods patent applications relating to our paperboard operations. Certain of our patents and other intellectual property are supported by trademarks such as EagleWrap®, MillMask®, Millennium Board®, AdvantaEdge®, BlueCuda®, BillBoard®, CitruSaver®, ProduSaver® and WineGuard®. Our patents and other intellectual property, particularly our patents relating to our interior packaging and folding carton operations, are important to our operations as a whole.

We have a patent (U.S. Patent Number 6,430,467) and several patent applications pending with respect to centralized packaging of case-ready meat. Prior to the sale of our plastic packaging operations, we filed suit against four parties seeking to enjoin them from infringing our U.S. Patent Number 6,430,467 and to recover damages suffered by us as a result of such infringements. All of the suits were consolidated for pre-trial purposes in the United States District Court, Northern District of Georgia, Atlanta Division. Additionally, another party filed suit against us seeking to invalidate the patent. This lawsuit has been transferred to the United States District Court, Northern District of Georgia, Atlanta Division and a motion is pending to consolidate all of these lawsuits. One of the four defendants in the litigation was Pactiv Corporation, to which we sold our plastic packaging operations. Pursuant to the definitive sale agreement, we retained our rights to U.S. Patent Number 6,430,467 and the pending patent applications, subject to certain contingent obligations to Pactiv Corporation, and agreed to dismiss Pactiv Corporation as a party to the patent infringement lawsuit.

The court in the patent infringement lawsuit is currently considering our motion to stay the proceedings pending a review by the United States Patent and Trademark Office (which we refer to as the **USPTO**) of our application to reissue U.S. Patent Number 6,430,467. The court is also considering a motion by the opposing parties to continue with the proceedings pending the USPTO's review, including proceeding with a motion by certain of the defendants for summary judgment of alleged patent invalidity. We can make no assurances that the review of the patent by the USPTO will be favorable to us, that the lawsuit will be stayed pending the USPTO's reissuance review, that we will be able to successfully enforce our claims in this lawsuit, or that thereafter we will be able to successfully enforce U.S. Patent Number 6,430,467.

Employees

At November 26, 2003, we had approximately 8,500 employees. Of these employees, approximately 6,500 were hourly and approximately 2,000 were salaried. Approximately 2,600 of our hourly employees are covered by union collective bargaining agreements, which generally have three-year terms. We have not experienced any work stoppages in the past 10 years, and management believes that our relations with our employees are good.

Available Information

Our Internet address is www.rocktenn.com. Please note that our Internet address is included in this annual report on Form 10-K as an inactive textual reference only. The information contained on our website is

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not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC) and we make available free of charge most of our SEC filings through our Internet website as soon as reasonably practicable after we electronically file these materials with the SEC. You may access these SEC filings via the hyperlink that we provide on our website to a third-party SEC filings website. We also make available on our website the charters of our audit committee, our compensation and options committee, and our nominating and corporate governance committee as well as the corporate governance guidelines adopted by our board of directors and our code of ethical conduct for CEO and senior financial officers. We will also provide copies of such documents, without charge, at the written request of any shareholder of record. Requests for copies should be mailed to: Rock-Tenn Company, 504 Thrasher Street, Norcross, Georgia 30071, Attention: Secretary.

Forward-looking Information and Risk Factors

We, or our executive officers and directors on our behalf, may from time to time make forward looking statements within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Forward-looking statements include statements preceded by, followed by or that include the words believes, expects, anticipates, plans, estimates, or similar expressions. These statements may be contained in reports and other documents that we file with the SEC or may be oral statements made by our executive officers and directors to the press, potential investors, securities analysts and others. These forward looking statements could involve, among other things, statements regarding our intent, belief or expectation with respect to our results of operations, financial condition, cash flows, liquidity or capital resources, including expectations regarding sales growth and our ability to fund our capital expenditures, interest payments, stock repurchases, dividends and working capital needs; the consummation of acquisitions and financial transactions and their effect on our business; expectations regarding any additional consideration payable with respect to certain acquisitions after the closing date; the expected tax impact of an acquisition or disposition; our plans and objectives for future operations and expansion; expected amounts of capital expenditures and the impact of such capital expenditures on our results of operations, financial condition, or cash flows; expected compliance obligations with respect to environmental laws, the expected cost of such compliance and the timing of such costs; the expected impact of any environmental liability on our results of operations, financial condition or cash flows; expected growth of sales; the expected impact of any gain or loss of a customer's business; expectations regarding any restructuring of our operations, the expected cost of any such restructuring and the timing of such costs; expectations regarding pension expenses; the expected impact of any market risks, such as interest rate risk, pension plan risk, foreign currency risk, commodity price risks, energy price risk, rates of return, the risk of investments in derivative instruments, and the risk of counterparty nonperformance; the expected reclassification of derivative instruments; the expected effect of contractual obligations on liquidity and cash flow in future periods; expectations regarding the implementation of financial accounting standards and the impact of such implemented standards; assumptions used to test goodwill, including expected operating profit and cash flows from the use of assets and expected present value of cash flows; projections regarding pension benefit obligations, including expected returns on plan assets, and expected increase in compensation levels; assumptions used to calculate the fair value of options, including expected term and stock price volatility; our belief regarding our ability to compete; and our assumptions and expectations regarding critical accounting policies.

Any forward looking statements would be subject to risks and uncertainties that could cause actual results of operations, financial condition, acquisitions, financing transactions, operations, expansion and other events to differ materially from those expressed or implied in such forward looking statements. Any forward looking statements would be subject to a number of assumptions regarding, among other things, future economic, competitive and market conditions generally and could be affected by changes in management's plans, such as delays or changes in anticipated capital expenditures or changes in our operations. We believe that our assumptions are reasonable; however, undue reliance should not be placed on such assumptions. These assumptions would be based on facts and conditions as they exist at the time the forward-looking statements are made as well as predictions as to future facts and conditions. These future facts and conditions may be difficult for us to predict accurately and may involve the assessment of events beyond our control. We, or our

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executive officers and directors, have no duty under the Securities Exchange Act of 1934 to update any forward-looking statement. Further, our business is subject to a number of risks that would affect any such forward looking statements. These risks include, among other things, the following:

We May Face Increased Costs and Reduced Supply of Raw Materials

Historically, the cost of recovered paper and virgin paperboard, our principal externally sourced raw materials, have fluctuated significantly due to market and industry conditions. Increasing demand for products packaged in 100% recycled paper and the shift by virgin paperboard, tissue, newsprint and corrugated packaging manufacturers to the production of products with some recycled paper content may increase demand for recovered paper. Furthermore, there has been a substantial increase in demand for U.S. sourced recovered paper by Asian countries. These increasing demands may result in cost increases. In recent years, the cost of natural gas, which we use in many of our manufacturing operations, including most of our paperboard mills, and other energy has also fluctuated significantly. There can be no assurance that we will be able to recoup any future increases in the cost of recovered paper or other raw materials or of natural gas or other energy through price increases for our products. Further, a reduction in supply of recovered paper, virgin paperboard or other raw materials due to increased demand or other factors could have an adverse effect on our results of operations and financial condition.

We May Experience Pricing Variability

The paperboard and converted products industries historically have experienced significant fluctuations in selling prices. Our inability to maintain the selling prices of products within these industries during periods of weak economic conditions may have a material adverse effect on our results of operations and financial condition. We are not able to predict with certainty market conditions or the selling prices for our products.

Our Earnings are Highly Dependent on Volumes

Our operations generally have high fixed operating cost components and therefore our earnings are highly dependent on volumes, which tend to fluctuate. These fluctuations make it difficult to predict our results with any degree of certainty.

We Face Intense Competition

The packaging products and paperboard industries are highly competitive, and no single company dominates either industry. Our competitors include large, vertically integrated packaging products and paperboard companies and numerous smaller companies. In the folding carton and corrugated packaging markets, we compete with a significant number of national, regional and local packaging suppliers in North America. In the solid fiber interior packaging, promotional point-of-purchase display and laminated paperboard products markets, we compete with a smaller number of national, regional and local companies offering highly specialized products. In the laminated paperboard products markets, we also compete with foreign companies that supply laminated board for book covers. Our clay-coated paperboard and specialty paperboard operations compete with integrated and non-integrated national and regional companies operating in North America manufacturing various grades of paperboard and, to a limited extent, manufacturers outside of North America. Our recycled fiber operations compete with national, regional and local companies.

Because all of our businesses operate in highly competitive industry segments, 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. In the third fiscal quarter of 2003, a large merchandising display customer advised us that we will lose a substantial portion of its business as a result of a competitive request for proposal. We currently believe that the loss of this business will be largely offset by certain new merchandising display business secured during fiscal 2003. See ***Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Net Sales (Aggregate) by Division Merchandising Displays and Corrugated Packaging Segment.***

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Our paperboard segment's sales volumes may be directly impacted by changes in demand for our packaging products and our laminated paperboard products. See *Business Competition*.

The primary competitive factors in the packaging products and paperboard industries are price, design, product innovation, quality and service, with varying emphasis on these factors depending on the product line and customer preferences. We believe that we compete effectively with respect to each of these factors and seek to confirm our evaluation with annual customer service surveys. However, to the extent that any of our competitors becomes more successful with respect to any key competitive factor, our business could be materially adversely affected.

Our ability to fully pass through fiber price increases can be limited based on competitive market conditions for various products that we sell and by the actions of our competitors. In addition, most of our paperboard and paperboard-based converted products are sold pursuant to term contracts that provide that prices are either fixed for specified terms, or provide for price adjustments based on changes in specified paperboard index prices. The effect of these contractual provisions generally is to either limit the amount or delay our ability to recover announced price increases for paperboard.

The packaging products and recycled paperboard industries have undergone significant consolidation in recent years. We believe that current trends within these industries will result in further consolidation. Within the packaging products industry, larger corporate customers with an expanded geographic presence have tended in recent years to seek suppliers who can, because of their broad geographic presence, efficiently and economically supply all or a range of the customers' packaging needs. In addition, during recent years, purchasers of recycled paperboard and packaging products have demanded higher quality products meeting stricter quality control requirements. These market trends could adversely affect our results of operations or, alternatively, favor our products depending on our competitive position in specific product lines.

Packaging manufactured from paperboard competes with plastic and corrugated packaging, as well as packaging manufactured from other materials. Customer shifts away from paperboard packaging to packaging from such other substrates could adversely affect our results of operations.

We May be Unable to Complete and Finance Acquisitions

We have completed several acquisitions during the past five fiscal years and may seek additional acquisition opportunities. There can be no assurance that we will successfully be able to identify suitable acquisition candidates, complete acquisitions, integrate acquired operations into our existing operations or expand into new markets. There can also be no assurance that future acquisitions will not have an adverse effect upon our operating results. This is particularly true in the fiscal quarters immediately following the completion of such acquisitions while the operations of the acquired business are being integrated into our operations. Once integrated, acquired operations may not achieve levels of revenues, profitability or productivity comparable with those achieved by our existing operations, or otherwise perform as expected. In addition, it is possible that, in connection with acquisitions, our capital expenditures could be higher than we anticipated and that expected benefits of such capital expenditures may not be realized.

We are Subject to Extensive Environmental and Governmental Regulation

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. We regularly make capital expenditures to maintain compliance with applicable environmental laws and regulations. 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. Further, we have been identified as a potentially responsible party at various superfund sites pursuant to the Comprehensive Environmental Response, Compensation and Liability Act or comparable state statutes. There can be no assurance that any liability we may incur in connection with these superfund sites will not be material to our results of operations, financial condition or cash flows.

Table of Contents***We Have Been Dependent on Certain Customers***

Each of our divisions has certain key customers, the loss of which could have a material adverse effect on the division's sales and, depending on the significance of the division to our operations, our results of operations, financial condition or cash flows.

Item 2. PROPERTIES

The following table shows information about our paperboard mills:

Location of Mill	Fiscal 2003 Production Capacity (in tons)	Paperboard Produced
St. Paul, MN	180,000	Recycled corrugating medium
St. Paul, MN	160,000	Clay-coated recycled paperboard
Battle Creek, MI	140,000	Clay-coated recycled paperboard
Sheldon Springs, VT (Missisquoi Mill)	106,000	Clay-coated recycled paperboard
Dallas, TX	94,000	Clay-coated recycled paperboard
Stroudsburg, PA	55,000	Clay-coated recycled paperboard
Chattanooga, TN	130,000	Specialty recycled paperboard
Otsego, MI	106,000	Specialty recycled paperboard
Lynchburg, VA	88,000(1)	Specialty recycled paperboard
Eaton, IN	59,000	Specialty recycled paperboard
Cincinnati, OH	53,000	Specialty recycled paperboard
Aurora, IL	32,000	Specialty recycled paperboard

- (1) Reflects the production capacity of a paperboard machine that manufactures gypsum paperboard liner and is owned by Seven Hills Paperboard, LLC, an entity in which we own 49% of the equity.

We operate at a total of 90 locations. In addition to our 12 paperboard mills, we also operate 42 paperboard converting operations, 12 paper recovery facilities, 23 facilities at which we conduct contract packaging, sales and design, engineering, marketing and brokerage, and fulfillment operations, and our principal executive offices. These facilities are located in 27 states (mainly in the Southwestern, Southeastern, Midwestern and Northeastern U.S.), Canada, Mexico and Chile. Our principal executive offices, which we own, are located in Norcross, Georgia. We believe that our existing production capacity is adequate to service existing demand for our products. We consider our plants and equipment to be in good condition.

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The following is a list of our significant facilities including our paperboard mills:

Type of Facility	Number of Facilities	Locations	Owned or Leased
PACKAGING PRODUCTS			
Folding Carton Operations			
Manufacturing Facilities	19	Eutaw, AL	Owned
		Conway, AR	Owned
		Harrison, AR	Owned
		Kerman, CA	Leased
		Candiac, QU (Canada)	Owned
		Ste. Marie, QU (Canada)	Owned
		Warwick, QU (Canada)	Owned
		Stone Mountain, GA	Leased
		Clinton, IA	Owned
		Chicopee, MA	Owned
		Baltimore, MD	Leased
		St. Paul, MN	Owned
		Marshville, NC	Owned
		Kimball, TN (Sequatchie Valley Plant)	Owned
		Knoxville, TN	Owned
		Lebanon, TN	Owned
		Greenville, TX	Owned
		Waxahachie, TX	Owned
		Milwaukee, WI	Owned
Technical Center	1	St. Paul, MN	Owned
Interior Packaging Products Operations			
Manufacturing Facilities	11	Merced, CA	Owned
		Orange, CA	Leased
		San Bernardo, Santiago, Chile	Leased
		Hartwell, GA	Owned
		Hillside, IL	Leased
		Scarborough, ME	Owned
		Atizapan, Mexico	Leased
		Villa de Garcia, N.L., Mexico	Leased
		Charleroi, PA	Leased
		Dallas, TX	Owned
		Tukwila, WA	Leased
Engineering Services	1	Tucker, GA	Owned

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Type of Facility	Number of Facilities	Locations	Owned or Leased
MERCHANDISING DISPLAYS AND CORRUGATED PACKAGING			
Merchandising Displays Operations			
Manufacturing Facilities	4	Burr Ridge, IL	Leased
		Winston-Salem, NC	Owned
		Tullahoma, TN	Leased
		Martinsville, VA	Leased
Contract Packing Facilities	9		