

Rock-Tenn CO
Form 10-Q
August 09, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549
Form 10-Q

S Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011

or

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

Commission File Number 1-12613

Rock-Tenn Company

(Exact Name of Registrant as Specified in Its Charter)

Georgia

(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

N/A

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

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

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

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

Large accelerated filer S

Accelerated filer £

Non-accelerated filer £ (Do not check if smaller reporting company)

Smaller reporting company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

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

Class

Outstanding as of July 29, 2011

Class A Common Stock, \$0.01 par

71,210,553

value

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PART I: FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS (UNAUDITED)

ROCK-TENN COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Millions, Except Per Share Data)

	Three Months Ended		Nine Months Ended		
	June 30,		June 30,		
	2011	2010	2011	2010	
Net sales	\$ 1,382.1	\$ 771.9	\$ 2,936.1	\$ 2,194.6	
Cost of goods sold (net of alternative fuel mixture credit of \$0, \$0, \$0 and \$28.8)	1,169.7	595.8	2,378.6	1,678.7	
Gross profit	212.4	176.1	557.5	515.9	
Selling, general and administrative expenses	145.3	84.9	316.8	252.1	
Restructuring and other costs, net	55.5	(0.2	) 62.4	4.1
Operating profit	11.6	91.4	178.3	259.7	
Interest expense	(22.8) (17.8) (55.7) (58.5)
Loss on extinguishment of debt	(39.5) —	(39.5) (2.8)
Interest income and other income, net	4.1	0.1	4.1	0.4	
Equity in income of unconsolidated entities	0.6	0.3	1.2	0.2	
Income (loss) before income taxes	(46.0	) 74.0	88.4	199.0
Income tax benefit (expense)	17.6	(27.0) (27.2) (60.7)
Consolidated net income (loss)	(28.4	) 47.0	61.2	138.3
Less: Net income attributable to noncontrolling interests	(1.7) (1.9) (4.0) (4.1)
Net income (loss) attributable to Rock-Tenn Company shareholders	\$(30.1	) \$45.1	\$57.2	\$134.2
Basic earnings (loss) per share attributable to Rock-Tenn Company shareholders	\$(0.60	) \$1.16	\$1.32	\$3.45
Diluted earnings (loss) per share attributable to Rock-Tenn Company shareholders	\$(0.60	) \$1.14	\$1.30	\$3.39
Cash dividends paid per share	\$0.20	\$0.15	\$0.60	\$0.45	

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (Unaudited)
 (In Millions, Except Share Data)

	June 30, 2011	September 30, 2010
ASSETS		
Current Assets:		
Cash and cash equivalents	\$51.6	\$15.9
Restricted cash	41.5	—
Accounts receivable (net of allowances of \$30.8 and \$7.8)	1,127.9	333.5
Inventories	833.7	269.5
Other current assets	231.5	90.1
Total current assets	2,286.2	709.0
Property, plant and equipment at cost:		
Land and buildings	1,163.0	420.6
Machinery and equipment	5,681.5	1,915.7
Transportation equipment	13.0	13.1
Leasehold improvements	5.1	5.1
	6,862.6	2,354.5
Less accumulated depreciation and amortization	(1,249.0)	(1,104.5)
Net property, plant and equipment	5,613.6	1,250.0
Goodwill	1,853.0	748.8
Intangibles, net	833.1	151.5
Other assets	178.5	55.6
	\$10,764.4	\$2,914.9
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of debt	\$241.5	\$231.6
Accounts payable	845.9	252.3
Accrued compensation and benefits	269.9	90.7
Other current liabilities	192.2	56.6
Total current liabilities	1,549.5	631.2
Long-term debt due after one year	3,241.9	897.3
Pension liabilities, net of current portion	1,146.2	165.3
Postretirement benefit liabilities, net of current portion	159.0	0.8
Deferred income taxes	979.6	166.4
Other long-term liabilities	139.2	29.2
Commitments and contingencies (Note 15)		
Redeemable noncontrolling interests	7.8	7.3
Equity:		
Preferred stock, \$0.01 par value; 50,000,000 shares authorized; no shares outstanding	—	—
Class A common stock, \$0.01 par value; 175,000,000 shares authorized; 71,206,859 and 38,903,036 shares outstanding at June 30, 2011 and September 30, 2010, respectively	0.7	0.4
Capital in excess of par value	2,764.1	290.5
Retained earnings	837.5	812.6
Accumulated other comprehensive loss	(62.0)	(92.2)

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Total Rock-Tenn Company shareholders' equity	3,540.3	1,011.3
Noncontrolling interests	0.9	6.1
Total equity	3,541.2	1,017.4
	\$10,764.4	\$2,914.9

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In Millions)

	Nine Months Ended	
	June 30,	
	2011	2010
Operating activities:		
Consolidated net income	\$61.2	\$138.3
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	147.4	110.7
Deferred income tax expense	8.8	16.2
Share-based compensation expense	16.6	11.9
Loss on extinguishment of debt	39.5	2.8
(Gain) loss on disposal of plant, equipment and other, net	(0.1)	) 0.2
Equity in income of unconsolidated entities	(1.2)	) (0.2)
Pension funding less than expense	5.4	3.1
Alternative fuel mixture credit benefit	—	(29.0)
Impairment adjustments and other non-cash items	5.9	2.6
Change in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(5.8)	) 1.2
Inventories	30.6	15.6
Other assets	35.7	(5.6)
Accounts payable	18.8	(3.7)
Income taxes	(53.1)	) 58.0
Accrued liabilities and other	30.0	(9.1)
Net cash provided by operating activities	339.7	313.0
Investing activities:		
Capital expenditures	(107.5)	) (60.9)
Cash paid for purchase of business, net of cash received	(1,301.5)) —
Investment in unconsolidated entities	(1.3)	) (0.2)
Return of capital from unconsolidated entities	0.6	0.6
Proceeds from sale of property, plant and equipment	7.6	3.2
Proceeds from property, plant and equipment insurance settlement	0.3	—
Net cash used for investing activities	(1,401.8)	) (57.3)
Financing activities:		
Additions to revolving credit facilities	363.5	189.1
Repayments of revolving credit facilities	(279.5)	) (187.3)
Additions to debt	2,877.0	102.3
Repayments of debt	(1,786.1)	) (339.1)
Debt issuance costs	(43.1)	) (0.2)
Cash paid for debt extinguishment costs	(37.9)) —
Issuances of common stock, net of related minimum tax withholdings	24.2	(1.9)
Excess tax benefits from share-based compensation	7.3	1.9
Repayments to unconsolidated entity	0.6	0.7
Cash dividends paid to shareholders	(23.6)	) (17.5)
Cash distributions paid to noncontrolling interests	(4.2)) (4.4)
Net cash provided by (used for) financing activities	1,098.2	(256.4)

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Effect of exchange rate changes on cash and cash equivalents	(0.4) 0.3	
Increase (decrease) in cash and cash equivalents	35.7	(0.4)
Cash and cash equivalents at beginning of period	15.9	11.8	
Cash and cash equivalents at end of period	\$51.6	\$11.4	
Supplemental disclosure of cash flow information:			
Cash paid (received) during the period for:			
Income taxes, net of refunds	\$19.6	\$(15.9)
Interest, net of amounts capitalized	42.8	48.2	

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Supplemental schedule of non-cash investing and financing activities:

Liabilities assumed, including debt, reflect the May 27, 2011 acquisition of Smurfit-Stone Container Corporation (“Smurfit-Stone” and “Smurfit-Stone Acquisition”) and reflects the preliminary purchase price allocation.

	Nine Months Ended June 30, 2011 (In millions)
Fair value of assets acquired, including goodwill	\$7,720.2
Cash paid, net of cash received	1,301.5
Stock issued in acquisition	2,380.7
Fair value of equity awards issued	56.4
Liabilities assumed	\$3,981.6

Included in liabilities assumed is the following item:

Debt assumed in acquisition	\$1,180.5
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In connection with the Smurfit-Stone Acquisition we acquired the noncontrolling interest in Schiffenhaus Canada, Inc. which was assigned a fair value of \$23.3 million. Since we held a controlling interest in this entity prior to the acquisition, the noncontrolling interest balance of \$5.3 million was eliminated on the acquisition date with an offsetting charge of \$18.0 million to capital in excess of par.

For additional information on the Smurfit-Stone Acquisition and financing see “Note 5. Acquisitions” and “Note 10. Debt”.

See Accompanying Notes to Condensed Consolidated Financial Statements

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ROCK-TENN COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Month Periods Ended June 30, 2011

(Unaudited)

Unless the context otherwise requires, “we”, “us”, “our”, “RockTenn” and “the Company” refer to the business of Rock-Tenn Company, its wholly-owned subsidiaries and its partially-owned consolidated subsidiaries. Our references to the business of Rock-Tenn Company do not include entities that we do not consolidate. In April 2011, our ownership of QPSI, a business providing merchandising displays, contract packaging, logistics and distribution solutions increased from 23.96% to approximately 31.5% as a result of a liquidation of one of the member’s ownership interest.

RockTenn is one of North America's leading integrated manufacturers of corrugated and consumer packaging and recycling solutions. We primarily manufacturer containerboard, recycled paperboard, bleached paperboard, packaging products and merchandising displays. We also procure fiber and other materials for our paper mills as well as other manufacturers.

Note 1. Interim Financial Statements

Our independent public accounting firm has not audited our accompanying interim financial statements. We derived the Condensed Consolidated Balance Sheet at September 30, 2010 from the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (the “Fiscal 2010 Form 10-K”). In the opinion of our management, the Condensed Consolidated Financial Statements reflect all adjustments, which are of a normal recurring nature, necessary for a fair presentation of our results of operations for the three and nine months ended June 30, 2011 and June 30, 2010, our financial position at June 30, 2011 and September 30, 2010, and our cash flows for the nine months ended June 30, 2011 and June 30, 2010.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. Therefore, these interim statements should be read in conjunction with our Fiscal 2010 Form 10-K.

The results for the three and nine months ended June 30, 2011 are not necessarily indicative of results that may be expected for the full year.

We have made certain reclassifications to prior year amounts to conform such amounts to the current year presentation.

Note 2. New Accounting Standards

Recently Adopted Standards

In June 2009, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update 2009-16 “Accounting for Transfers of Financial Assets” which amended certain provisions of ASC 860 “Transfers and Servicing”. These provisions require additional disclosures about the transfer and derecognition of financial assets and eliminate the concept of qualifying special-purpose entities. These provisions were effective for fiscal years beginning after November 15, 2009 (October 1, 2010 for us). The adoption of these provisions did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued certain provisions of ASC 810 “Consolidation” which revise the approach to determining the primary beneficiary of a variable interest entity to be more qualitative in nature and require companies to more frequently reassess whether they must consolidate a variable interest entity. These provisions were effective for fiscal years beginning after November 15, 2009 (October 1, 2010 for us), for interim periods within the first annual reporting period and for interim and annual reporting periods thereafter. The adoption of these provisions did not have a material effect on our consolidated financial statements.

In October 2009, the FASB issued Accounting Standards Update 2009-13 “Multiple Deliverable Revenue Arrangements” which amended certain provisions of ASC 605-25 “Revenue Recognition”. These provisions clarify the separation criteria for deliverables in a multiple element revenue arrangement and require the use of the relative selling price of standalone elements to allocate transaction costs to individual elements at inception. These provisions also require additional disclosures regarding the nature and type of performance obligations of significant multiple deliverable revenue arrangements. These provisions were effective for fiscal periods beginning on or after June 15, 2010 (October 1, 2010 for us). The adoption of these provisions did not have a material effect on our consolidated

financial statements.

In December 2010, the FASB issued Accounting Standards Update 2010-29 “Disclosure of Supplementary Pro Forma Information for Business Combinations” which amended certain provisions of ASC 805 Business Combinations. These provisions specify that if an entity presents comparative financial statements, it should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period. In addition these provisions expand the supplemental pro forma disclosures under ASC 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported proforma revenue and earnings. These provisions are effective for fiscal periods beginning

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Notes to Condensed Consolidated Statements (Unaudited) (Continued)

after December 15, 2010, early adoption is permitted. We adopted these provision in our June 30, 2011 consolidated financial statements.

Recently Issued Standards

In June 2011, the FASB issued Accounting Standards Update 2011-04 “Amendments to Achieve Common Fair Value Measurements and Disclosures in U.S. GAAP and IFRS” which amended certain provisions of ASC 820 “Fair Value Measurement”. These provisions change key principles or requirements for measuring fair value, clarify the FASB's intent regarding application of existing requirements and impact required disclosures. These provisions are effective for interim and annual periods beginning after December 15, 2011 (January 1, 2012 for us). We are currently evaluating the effect of these provisions on our consolidated financial statements.

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Notes to Condensed Consolidated Statements (Unaudited) (Continued)

Note 3. Comprehensive Income (Loss) and Equity

Comprehensive Income (Loss)

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

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Consolidated net income (loss)	\$(28.4	) \$47.0	\$61.2	\$138.3
Foreign currency translation gain (loss)	7.0	(9.1	) 18.8	0.9
Net deferred loss on cash flow hedges	(0.1	) (0.9	) (0.3	) (2.7
Reclassification adjustment of net loss on cash flow hedges included in earnings	1.0	1.4	3.2	4.6
Amortization of net actuarial loss	3.3	2.7	9.1	9.0
Amortization of prior service cost	0.1	0.1	0.3	0.4
Other comprehensive income adjustments	—	—	—	(1.7
Comprehensive income (loss)	(17.1	) 41.2	92.3	148.8
Less: Comprehensive (income) loss attributable to noncontrolling interests	(2.0	) (1.4	) (5.0	) 0.2
Comprehensive income (loss) attributable to Rock-Tenn Company shareholders	\$(19.1	) \$39.8	\$87.3	\$149.0

The net of tax components of comprehensive income were determined using effective tax rates of approximately 39% for the three and nine months ended June 30, 2011 and June 30, 2010. The change in other comprehensive income due to foreign currency translation was primarily due to the change in the Canadian/U.S. dollar exchange rates.

Equity

The following is a summary of the changes in total equity for the nine months ended June 30, 2011 (in millions):

	Rock-Tenn Company Shareholders' Equity	Noncontrolling Interests ⁽¹⁾	Total Equity
Balance at September 30, 2010	\$1,011.3	\$6.1	\$1,017.4
Net income	57.2	2.0	59.2
Components of other comprehensive income, net of tax:			
Foreign currency translation gain	18.2	0.4	18.6
Net deferred loss on cash flow hedges	(0.3	) —	(0.3
Reclassification adjustment of net loss on cash flow hedges derivatives included in earnings	3.2	—	3.2
Amortization of net actuarial loss	8.8	—	8.8
Amortization of prior service cost	0.3	—	0.3
Income tax benefit from share-based plans	5.3	—	5.3
Fair value of equity issued in acquisition	56.4	—	56.4
Compensation expense under share-based plans	16.6	—	16.6
Cash dividends (per share - \$0.60)	(23.6	) —	(23.6
Cash distributions to noncontrolling interests	—	(2.3	) (2.3
Issuance of Class A common stock, net of stock received for minimum tax withholdings ⁽²⁾	2,404.9	—	2,404.9
Purchase of subsidiary shares from noncontrolling interest	(18.0) (5.3) (23.3
Balance at June 30, 2011	\$3,540.3	\$0.9	\$3,541.2

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Notes to Condensed Consolidated Statements (Unaudited) (Continued)

- (1) Excludes amounts related to contingently redeemable noncontrolling interests which are separately classified outside of permanent equity in the mezzanine section of the Condensed Consolidated Balance Sheets.
- (2) Included in the Issuance of Class A common stock is \$2,380.7 million of common stock in connection with the Smurfit-Stone Acquisition.

Note 4. Earnings (Loss) per Share

Certain of our restricted stock awards are considered participating securities as they receive non-forfeitable rights to dividends at the same rate as common stock. As participating securities, we include these instruments in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in ASC 260 "Earnings per Share." The following table sets forth the computation of basic and diluted earnings (loss) per share under the two-class method (in millions, except per share data):

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Basic earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Rock-Tenn Company shareholders	\$(30.1	) \$45.1	\$57.2	\$134.2
Less: Distributed and undistributed income available to participating securities	(0.1	) (0.6	) (0.8	) (1.7
Distributed and undistributed income (loss) attributable to Rock-Tenn Company shareholders	\$(30.2	) \$44.5	\$56.4	\$132.5
Denominator:				
Basic weighted average shares outstanding	50.7	38.5	42.7	38.4
Basic earnings (loss) per share attributable to Rock-Tenn Company shareholders	\$(0.60	) \$1.16	\$1.32	\$3.45
Diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Rock-Tenn Company shareholders	\$(30.1	) \$45.1	\$57.2	\$134.2
Less: Distributed and undistributed income available to participating securities	(0.1	) (0.6	) (0.7	) (1.7
Distributed and undistributed income (loss) attributable to Rock-Tenn Company shareholders	\$(30.2	) \$44.5	\$56.5	\$132.5
Denominator:				