EXHIBIT 8 Debt Issued in the U.S. Public Market by Industrial Corporations with Varying Credit Ratings, 1974–1981 (millions of dollars)

Source: Salomon Brothers Inc.

Credit Rating	1974		1975		1976		1977		1978		1979		1980		1981	
Aaa	$1,650	25.1%	$ 2,875	24.0%	$ 700	11.7%	$ 800	20.5%	$ 275	8.6%	$1,550	27.4%	$1,750	17.9%	$1,852	20.8%
Aa	2,415	36.7	3,310	27.7	2,030	33.8	1,125	28.9	700	21.8	1,800	31.8	2,900	29.7	2,458	27.7
A	2,060	31.3	5,355	44.7	2,205	36.8	960	24.6	1,310	40.8	1,500	26.5	4,220	43.2	3,887	43.7
Baa	440	6.7	420	3.5	1,010	16.8	445	11.4	210	6.5	0	0	345	3.6	0	0
Other ...	15	.2	9	.1	53	.9	567	14.6	713	22.3	809	14.3	549	5.6	690	7.8
	$6,580	100.0%	$11,969	100.0%	$5,998	100.0%	$3,897	100.0%	$3,208	100.0%	$5,659	100.0%	$9,764	100.0%	$8,887	100.0%

[c]Excludes long-term care facilities (i.e., nursing homes).
[d]U.S.-owned only.

Stone Container Corporation (A)

The first quarter of 1993 had been a trying one for the management of Stone Container Corporation, the United States's largest producer of cardboard containers and related paper products. In fact, it had been a tense 4 years since Stone's acquisition of Consolidated-Bathurst Inc. of Canada in March 1989. The accumulation of more than $3.3 billion of debt in connection with that acquisition had left the company highly leveraged relative to its rivals during a period of falling prices for paper and linerboard. Despite a strong bull market since the end of 1990, Stone's stock price was less than half its value at the time of the Consolidated-Bathurst acquisition. As the first quarter of 1993 drew to a close, Stone was preparing to report a first quarter loss of $0.91 per share, $0.76 higher than its loss in the same quarter of the previous year. Although it had not defaulted on its debt, it was drawing precariously close to the coverage and indebtedness covenants on its bank loans. Immediate steps would be necessary if Stone were to avoid default.

Company and Industry Background

In 1993, Stone Container Corporation was the paper and forest products industry's leading producer of containerboard and corrugated containers as well as kraft paper, bags, and sacks. Additionally, Stone Container held a major position in newsprint manufacturing and groundwood specialty papers. Stone Container also produced building products and wood pulp. With plants throughout the world, Stone Container employed 31,800 people. Sixty-nine percent of its sales came from the United States while Canada accounted for 16%, and Europe, 15%. Stone Container's 1992 sales totaled $5,520.7 million (see Exhibit 1). Other financial statements are provided in Exhibits 2 and 3. A ten-year historical summary of Stone's performance is provided in Exhibit 4.

The Paper and Forest Products Industry

In early 1993, the paper and forest products industry included a vast array of companies. Among them were Georgia-Pacific, the world's largest producer of paper and wood products; Scott Paper, the world's largest producer of sanitary tissue products; Weyerhauser, the world's largest private owner of softwood timber; and Stone Container, the industry leader in containerboard, corrugated containers, kraft paper, bags, and sacks. Other products made by industry participants included newsprint, packaging papers, paperboard, paper towels, lumber, logs, plywood, among many others.

Between 1986 and 1992 the paper and forest products industry grew from $61.6 billion in sales to $85.2 billion, a total increase just shy of 40%. In 1986, industry net profit was $2.85 billion. After exceeding $6 billion in 1988, industry net profits then fell to $.97 billion in 1992.[1]

[1] *Valueline,* July 23, 1993, p. 914.

Research Associate Kirk A. Goldman prepared this case under the supervision of Professor W. Carl Kester as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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In general, most products in the paper industry have exhibited pronounced price cycles (see Exhibit 5). For example, during the seven-year period from 1985 to 1991, the price of a ton of unbleached kraft linerboard began at $270, rose progressively to $394, and then fell to $285 per ton. This cyclicality was amplified by the high degree of operating leverage inherent in the production of paper and paperboard, which was very capital intensive (roughly $1.30 in assets were required to produce $1.00 in sales). The economics of paper production dictated that plants be kept running at close to full capacity for as long as possible. When demand eased, producers generally preferred to cut prices rather than production.

Stone Container faced direct competition from Chesapeake Corporation, Willamette Industries, Temple-Inland, Union Camp Corporation, and Westvaco Corporation. Chesapeake Corporation produced primarily commercial tissues and kraft products, but also manufactured some corrugated containers, other packaging goods, and point-of-purchase displays. Willamette manufactured and sold pulp, uncoated white papers, paper bags, and corrugated containers as well as a variety of building materials. A large portion of Union Camp Corporation's 1992 sales were from uncoated white papers, kraft paper, and linerboard as well as other packaging products. Westvaco manufactured paper and paperboard as well as containerboard. Its plants also produced folding cartons, corrugated boxes, and food and beverage containers. See Exhibit 6 for a comparison of industry rivals.

No company competed directly with Stone Container in all product lines. However, each of these rivals manufactured a few products in common with Stone. For example, Westvaco used its bleached paperboard and containerboard to produce store displays and produce corrugated boxes that Stone also produced. But, unlike Stone Container, Westvaco was also a primary manufacturer of writing and printing papers. Similarly, Union Camp Corporation, which produced white papers, kraft papers, and linerboard, also derived 16% of its business from chemicals.

Early Company Background[2]

In 1888, at his mother's urging, Joseph Stone left his native Russia for a new beginning in the United States. After a brief stay in Philadelphia, Stone settled in Chicago, abandoned his position as a paper jobber in 1926 and, along with two of his sons, Norman and Marvin, created J.H. Stone & Sons with his lifetime savings of $1,500. They worked as jobbers for shipping supplies such as wrapping paper, bags, and tissues, out of a former wholesale grocery store in Chicago. Joseph Stone based his business strategy on high quality service at reasonable prices, with minimal capital tied up in inventory. During its first year, the business began to realize a profit. Joseph's third son, Jerome, entered the business and soon they began jobbing corrugated boxes.

The Great Depression changed J.H. Stone & Sons from jobbers to manufacturers. The National Recovery Act, signed in 1933 by President Roosevelt, outlawed price cutting. Previously, Stone and Sons had acquired their merchandise at a discount and passed some of the savings onto their customers. With this eliminated, Stone's customers would have to pay an unwanted premium for their services; hence, the move into manufacturing. In 1933, Stone purchased for $7,200 five pieces of obsolete equipment called "Big Betsy's" that converted corrugated sheets into boxes. Three years later, Stone acquired a used corrugator for $20,000. That same year, Joseph Stone passed away.

[2]The principal source for Stone Container's early history is "Stone Container Corporation," by Jordan Wankoff, *International Directory of Company Histories*, Adele Hast, editor (London: St. James Press, 1991), pp. 332–334.

In the ensuing years Stone & Sons grew significantly by way of acquisition, reaching sales of $1 million by 1939. Each time the family-owned company made an acquisition, it either paid entirely in cash or borrowed the money and repaid the loans early. Having witnessed the ravages of the Great Depression, it was the family's policy not to carry any significant debt for long periods of time. When it built a new plant in 1939, for example, it paid for the plant with a 20-year loan that it subsequently entirely repaid within 3 years.

During World War II, Stone & Sons carried a high war-priority rating. Consequently, the company did not suffer materials shortages. It contributed to the war effort by producing corrugated boxes to ship aid and arms overseas. In 1943, J.H. Stone & Sons acquired its first venture outside of Chicago by purchasing Light Corrugated Box Company of Philadelphia for $1.2 million. At this time, the three brothers brought in the first non-family general manager to run the plant.

After World War II, the company reincorporated as Stone Container Corporation. During the next several years, with Norman Stone as CEO, Stone Container continued to expand and diversify. It purchased mills that could produce jute linerboard and corrugated medium, two essential components in corrugated containers. To pay for these acquisitions, Stone borrowed $2 million. Consistent with long-standing company policy, however, the loan was repaid within a year.

In 1947, Stone Container issued 250,000 shares of stock in its initial public offering and became a publicly-owned company. With access to public capital markets, Stone widened its reach geographically in the 1950's by buying and building regional plants in Ohio, Indiana, Illinois, and Michigan (it was uneconomic to transport corrugated boxes more than about 125 miles). This expansion continued Stone's diversification in the paper industry, and by 1960 Stone was selling folding cartons, fiber cans, tubes, tags, and special paper packages, as well as corrugated containers and paperboard. The 1950s also saw Stone shifting its focus away from ordinary cardboard containers towards the production of more specialized containers that provided advertising on the exterior as well as simply a means of conveyance.

During the economic slowdown of the 1960's, Stone Container began an expansion into containers made from kraft linerboard. Kraft linerboard was lighter and stronger than jute linerboard. Because Stone previously had to purchase kraft linerboard, its profit margins were lower than they might have been if it had been more vertically integrated. Stone's involvement in the kraft market increased when it purchased a plant to produce kraft linerboard in 1961, and expanded further in subsequent years.

In 1975, Roger Stone, Marvin's son, became president of the company and chief executive officer four years later. Earlier in the 1970's Roger had been instrumental in refocusing the company on the sale of boxes to producers of nondurable consumer products such as foods, beverages, and toys.

Roger Stone's Acquisition Strategy

By 1979, depressed margins in the industry had prompted Stone Container to enter into merger negotiations with Boise Cascade. Boise offered the Stones $125 million in cash and stock to buy all of Stone Container's outstanding shares—a sum more than twice the company's market value at that time. However, signs of an upswing in paper prices caused Stone to pull out of the deal and seek an acquisition of its own. Roger Stone's strategy was predicated on the notion that greater value could be created by buying up capacity from distressed producers during troughs in the industry cycle. This would enable Stone to acquire assets at favorable prices while avoiding the addition of expensive new capacity to the industry. Acquisitions were also a faster means of expansion: construction of a large new facility for producing paperboard could take 3 years to

complete. As Roger Stone later commented, "We were willing to make that commitment [of capital to expand] when demand was down. That is when you should commit, when nobody else really wants to."[3]

In 1979, at a low point in the business cycle, Roger Stone expanded the Florence, South Carolina, linerboard plant at a cost of $55 million. Two years later, in 1981, Stone Container purchased an equity position in Dean-Dempsy Corporation. Using a highly leveraged acquisition strategy, Stone Container continued to increase its capacity very rapidly. In 1983, Stone Container bought the Continental Group's containerboard and brown-paper operations. Again, that year was bad for the industry and Continental was in serious need of cash. To finance the purchase, Stone took out a $600 million loan, which boosted its debt to 79% of total capital. It also had its first equity offering since its 1947 IPO, which dropped the family's ownership share from 57% to 49%. Containerboard prices then rose once again, allowing Stone to generate enough cash to pay off the bulk of its debt.

Two years after the Continental acquisition, Stone paid $457 million for containerboard and box-and-bag plants from Champion International Corporation. As part of this transaction, Stone gave Champion the right to purchase 12 to 14% of Stone's stock, potentially diluting further the family's equity to less than 40%. In 1987, Stone paid another $760 million for Southwest Forest Industries.

By this time, Stone had quintupled its annual production capacity to 4.8 million tons at one-fifth the normal cost of building new plants. It had borrowed heavily to achieve this expansion, however. To relieve some of its debt burden, Stone Container created a subsidiary, Stone Forest Industries, Inc., and sold a 51% interest in it in December of 1987 for $75 million in cash, along with $38 million of Stone Forest non-voting preferred stock. Additionally, Stone Forest assumed and repaid $100 million of Stone Container's bank indebtedness. With the paper industry again in a prosperous situation, Stone Container was able to handle its remaining debt obligations. Meanwhile the family's ownership share had been reduced further, to 30%.

Recent Investment and Financing

Even with the company heavily burdened by debt following its expansion in the mid-1980's, Roger Stone continued Stone Container's pattern of growth through highly leveraged acquisitions. In March of 1989, Stone Container bought Consolidated-Bathurst Inc. of Canada, Canada's fifth largest pulp and paper producer, for $2.7 billion. This acquisition made Stone Container the world's second largest producer of pulp, paper, and paperboard; a major player in the newsprint industry; and gave it entry to the European market through a U.K. subsidiary. This last feature was viewed by many analysts as particularly attractive given the coming integration of the European community. Unlike its previous acquisitions made during the troughs of industry cycles, however, Stone bought Consolidated-Bathurst near the peak of this cycle and paid a substantial 47% premium over market value for the company.

To finance the acquisition, Stone Container arranged a $3.3 billion bank credit facility. The credit facility included two eight-year term loans totaling $2.9 billion and two five-year revolving credit facilities that totaled $400 million. It used a portion of this credit to replace a $540 million credit facility that had been established the prior year. The rest of the borrowing was used to purchase Consolidated-Bathurst, pay the transactions costs associated with the acquisition, and refinance other debt of both Stone Container and Consolidated-Bathurst. Subsequent to the acquisition Consolidated-Bathurst was renamed Stone Consolidated.

[3]Wankoff, p. 334.

Over the years, Stone Container had grown increasingly dependent on the issuance of high-yield debt (i.e., "junk bonds") to finance its large acquisitions.[4] Stone initially financed the Consolidated-Bathurst purchase with short-term bank loans. At the time, it was planned that the company would refinance the loans by issuing high-yield bonds. Unfortunately the high-yield debt market developed serious liquidity problems before this could be accomplished. By August of 1989, amid a media and political bonanza, regulators forced many savings and loans banks to dump their junk bonds. Drexel Burnham stood on the verge of bankruptcy, and Michael Milken, its preeminent junk bond trader, was under indictment for various acts of securities fraud. This depressed an already slumping market (see Exhibit 7) and effectively eliminated Stone's intentions of refinancing its loans with high-yield bonds.

Later in 1989, Stone Container sold $330 million in noncore assets. But by 1990, it barely had sufficient cash to meet its debt obligations. Instead of resorting to the junk bond market, Stone Container had to pay substantial fees to refinance its revolving credit agreement with its bank lenders. Finally, in October of 1991, Stone reluctantly sold 9 million shares of stock for $175 million to raise much needed cash.

In 1992, Stone finally found room to maneuver within the public securities market. It began a process of refinancing and restructuring its debt using complex securities such as convertible exchangeable preferred stock and interest rate swaps. It also issued new subordinated debentures and notes at rates between 10¾% and 11%.

By the end of 1992, Stone Container Corporation owned or held interest in 136 manufacturing plants in 38 U.S. states, 27 in Canada, 15 in Germany, 14 in Mexico, two in both Belgium and France, and one in both the United Kingdom and the Netherlands. Additionally, Stone Container either owned wholly or held a majority share in 68 subsidiaries. Other affiliations (up to 50% ownership) included another 26 companies all around the globe. Total paperboard, paper, and pulp capacity amounted to 8.3 million tons per year. Against these assets, Stone had total long-term debt outstanding of more than $4.1 billion.

Developing a Financial Plan

The financial pressure on Stone had become severe by the first quarter of 1993. There seemed little doubt that paper prices would eventually recover as they had in the past, but how soon and by how much? During the twelve months ending March 1994, Stone would have to continue paying approximately $400 to $425 million in interest on its debt; make debt repayments of $365 million; and extend, refinance, or replace another $400 million in revolving credit facilities that were scheduled to terminate. Furthermore, it would continue to face difficulties remaining in compliance with coverage and total indebtedness covenants in its various credit agreements. Finally, the company was also required to make $100 million of new capital expenditures in order to be in compliance with new secondary-waste treatment regulations in Canada. All this had to be accomplished in a year in which Stone was likely to realize further pre-tax losses in the vicinity of $450 to $500 million.

In the first quarter of 1993, several alternatives were available to Stone Container for dealing with its financial situation:

1. Bank loan agreements could be renegotiated to extend their maturities and ease some of the binding covenants. This had been done successfully before in 1990. If the banks agreed, fees for the restructuring were likely to range between $70 and $80 million.

[4]Roger Stone was a classmate of Michael Milken at The Wharton School of The University of Pennsylvania. During the late 1970's and 1980's, Milken and his employer, Drexel Burnham Lambert, Inc., were widely credited with having created and dominated the U.S. junk bond market.

2. Assets could be sold for cash or, as had been done in 1987 with Stone Forest Industries, a significant equity interest in some of Stone's subsidiaries could be sold. Such sales might realistically raise $250 million to $500 million.
3. Intermediate-term senior notes could be sold to the public for purposes of repaying the bank debt. It was believed possible to underwrite up to $300 million of 5-year notes bearing a coupon in the 12% to 12½ range.
4. Up to $300 million of convertible subordinated notes might be sold for purposes of repaying senior bank debt. Such notes would likely bear a coupon of 8¾%, mature in 7 years, and be convertible into Stone's common stock at an effective conversion price 20% higher than the market price of Stone's common stock at the date of offering. Once determined, this conversion price would remain fixed through the life of the convertible. In March 1993, a 20% premium over market value would imply a conversion price of $18.00 per share, and a conversion ratio (shares of stock per $1,000 par value convertible bond) of 55.56.
5. Up to $500 million of common stock might be issued to the public with net proceeds to the company of approximately 95% of the offering price. The actual offering price would be determined by market conditions at the time of the offering itself. In March 1993, Stone's stock price was trading in the vicinity of $15 to $16 per share (stock price data are provided in Exhibit 8; additional capital market data are provided in Exhibit 9).

These alternatives were not mutually exclusive. More than one might be pursued over the course of the coming year. Whatever was decided, however, it was clear that Stone Container needed a comprehensive financial plan that would relieve the debt pressures confronting it now, see it through the rest of the paper-pricing cyclical trough, and restore it to some degree of financial stability.

EXHIBIT 1
Stone Container's Consolidated Statements of Operations (in millions except per share)

	Year Ended December 31,		
	1992	1991	1990
Net sales	$5,520.7	$5,384.3	$5,755.9
Cost of products sold	4,474.5	4,285.6	4,421.9
Selling, general, and administrative expenses	543.5	522.8	495.5
Depreciation and amortization	304.2	277.5	257.0
Equity (income) loss from affiliates	5.3	(1.1)	(7.4)
Total operating costs and expenses	5,327.5	5,084.8	5,167.0
Income from operations	193.2	299.5	588.9
Interest expense	(386.1)	(397.4)	(421.7)
Other, net	(7.3)	79.9	21.0
Income (loss) before income taxes	(200.2)	(18.0)	188.2
Provision (credit) for income taxes	(29.7)	31.1	92.8
Net income(loss)	(170.5)	(49.1)	95.4
Preferred stock dividends	(6.9)		-
Net income (loss) after preferred stock dividends	$(177.4)	$(49.1)	$95.4
Net income (loss) per common share[a]	$(2.50)	$ (0.78)	$1.56

[a]Amounts per common share have been adjusted for a 2% common stock dividend issued September 15, 1992.

EXHIBIT 2
Stone Container's Consolidated Balance Sheets (in millions)

	December 31,		
	1992	1991	1990
ASSETS			
Current assets:			
Cash and cash equivalents	$ 58.9	$64.1	$ 53.9
Accounts and notes receivable (less allowances of $19.3 and $15.6)	688.1	641.7	681.3
Inventories	785.1	820.9	761.9
Other	146.5	158.6	88.9
Total current assets	1,678.6	1,685.3	1,586.0
Property, plant, and equipment	4,936.5	4,826.6	4,455.1
Accumulated depreciation and amortization	(1,542.5)	(1,306.4)	(1,091.1)
Property, plant, and equipment—net	3,394.0	3,520.2	3,364.0
Timberlands	59.2	50.9	48.4
Goodwill	1,007.8	1,126.1	1,160.5
Other	542.4	520.4	531.1
Total assets	$6,682.0	$6,902.9	$6,690.0
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Notes payable	$ 33.0	$ 19.1	$ 24.8
Current maturities of long-term debt	184.8	108.5	386.9
Accounts payable	364.2	417.7	367.4
Income taxes	58.7	63.0	41.9
Accrued and other current liabilities	298.5	306.5	325.5
Total current liabilities	939.2	914.8	1,146.5
Senior long-term debt	2,501.6	2,851.1	2,537.6
Subordinated debt	1,019.2	622.0	671.7
Non-recourse debt of consolidated affiliates	584.3	573.3	471.2
Other long-term liabilities	152.7	105.4	105.2
Deferred taxes	242.6	263.9	262.7
Redeemable preferred stock of consolidated affiliate	36.3	31.1	26.6
Minority interest	2.3	3.8	8.0
Stockholders' equity:			
Series E preferred stock	115	—	—
Common stock	645.7	613.2	435.7
Retained earnings	595.0	832.8	926.7
Foreign currency translation adjustment	(147.2)	95.5	101.5
Unamortized expense of restricted stock plan	(4.7)	(4.0)	(3.4)
Total stockholders' equity	1,203.8	1,537.5	1,460.5
Total liabilities and stockholders' equity	$6,682.0	$6,902.9	$6,690.0

EXHIBIT 3
Stone Container's Consolidated Statements of Cash Flows (in millions)

	1992	1991	1990
Cash flows from operating activities			
Net loss	$(170.5)	$ (49.1)	$ 95.4
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	304.2	277.5	257.0
Deferred taxes	(37.0)	21.6	58.6
Foreign currency transactions (gains) losses	15.0	(4.9)	(1.0)
Other—net	55.7	8.3	(7.6)
Changes in current assets and liabilities—net of investments for acquisitions and divestitures:			
Decrease (increase) in accounts and notes receivable—net	(66.6)	33.5	31.0
Decrease (increase) in inventories	10.5	(60.4)	25.6
Decrease (increase) in other current assets	9.2	(75.2)	3.2
Increase (decrease) in accounts payable and other current liabilities	(34.9)	59.2	(10.7)
Net cash provided by operating activities	85.6	210.5	451.5
Cash flows from financing activities			
Borrowings	1,024.8	753.0	280.2
Payments made on debt	(909.2)	(795.9)	(311.5)
Non-recourse borrowings of consolidated affiliates	40.0	155.5	235.0
Payments by consolidated affiliates on non-recourse debt	(13.6)	(34.4)	(42.4)
Proceeds from issuance of preferred stock	111.0	-	-
Proceeds from issuance of common stock	0.1	176.0	0.1
Cash dividends[a]	(30.7)	(44.7)	(43.0)
Net cash provided by financing activities	222.4	209.5	118.4
Cash flows from investing activities			
Capital expenditures:			
Funded by project financings	(79.1)	(219.8)	(245.2)
Other	(202.3)	(210.3)	(306.8)
Total capital expenditures	(281.4)	(430.1)	(552.0)
Payments made for businesses acquired	(27.2)	(18.9)	(44.8)
Proceeds from sales of assets	9.5	22.1	120.3
Other—net	(10.7)	13.8	(62.6)
Net cash used in investing activities	(309.8)	(413.1)	(539.1)
Effect of exchange rate changes on cash	(3.4)	3.3	0.2
Net cash flows			
Net increase (decrease) in cash and cash equivalents	(5.2)	10.2	31.0
Cash and cash equivalents, beginning of period	64.1	53.9	22.9
Cash and cash equivalents, end of period	$58.9	$64.1	$53.9

[a]Cash dividend payments were suspended in the third and fourth quarters of 1992.

EXHIBIT 4 Stone Container, 10-Year Historical Summary (dollars in millions except per share)

	Year Ends December 31,									
	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983
Summary of Operations										
Net sales	5,520.7	5,384.3	5,755.9	5,329.7	3,742.5	3,232.9	2,032.3	1,229.1	1,244.4	655.8
Cost of products sold	4,474.5	4,285.6	4,421.9	3,893.8	2,618.0	2,347.8	1,564.6	944.1	924.9	526.0
Selling, general, and administrative expenses	543.5	522.8	495.5	474.5	351.1	343.8	241.2	157.0	147.6	83.4
EBITDA	502.7	575.9	838.5	961.4	773.4	541.3	226.5	128.0	171.9	46.4
Depreciation and amortization	304.2	277.5	257.0	237.1	148.1	138.7	92.3	67.8	64.4	34.2
Interest expense	386.1	397.4	421.7	344.7	108.3	131.1	85.3	63.3	59.3	24.9
Net income	(170.5)	(49.1)	95.4	285.8	341.8	161.3	35.4	3.8	33.7	(2.9)
Per share of common stock										
Net income (loss)	(2.50)	(0.78)	1.56	4.67	5.58	2.79	0.73	0.09	0.78	(0.09)
Dividends and distributions paid[a]	0.35	0.71	0.71	0.70	0.35	0.25	0.19	0.19	0.19	0.19
Price range of common shares—N.Y.S.E.										
High	32.63	26.00	25.25	36.38	39.50	39.83	20.00	13.17	14.42	15.00
Low	12.50	9.00	8.13	22.13	20.67	15.33	11.38	8.00	8.58	6.75
Average common shares outstanding (in millions)	71.0	63.2	61.3	61.2	61.3	57.9	48.8	42.3	43.1	33.8
Financial position at end of year										
Current assets	1,678.6	1,685.3	1,586.0	1,687.0	865.7	737.4	530.4	320.2	323.3	252.0
Current liabilities	939.2	914.8	1,146.5	1,072.6	408.3	334.9	203.4	165.1	164.4	104.0
Working capital	739.4	770.5	439.5	614.4	457.4	402.5	327.0	155.1	158.9	148.0
Property, plant, and equipment—(net)	3,394.0	3,520.2	3,364.0	2,977.9	1,276.0	1,300.0	924.4	642.6	657.7	689.1
Total assets	6,682.0	6,902.9	6,690.0	6,253.7	2,395.0	2,286.1	1,523.6	1,010.3	1,006.7	968.2
Long-term debt	4,105.1	4,046.4	3,680.5	3,536.9	765.1	1,070.5	767.0	493.3	482.8	548.2
Deferred taxes	242.6	263.9	262.7	185.6	140.3	120.4	69.9	49.2	55.8	38.0
Redeemable preferred stock	36.3	31.1	26.6	22.7	-	1.5	1.5	8.0	8.5	7.6
Minority interest	2.3	3.8	8.0	9.7	0.3	0.2	-	-	-	-
Stockholders' equity	1,203.8	1,537.5	1,460.5	1,347.6	1,063.6	740.3	481.8	294.7	295.1	270.3

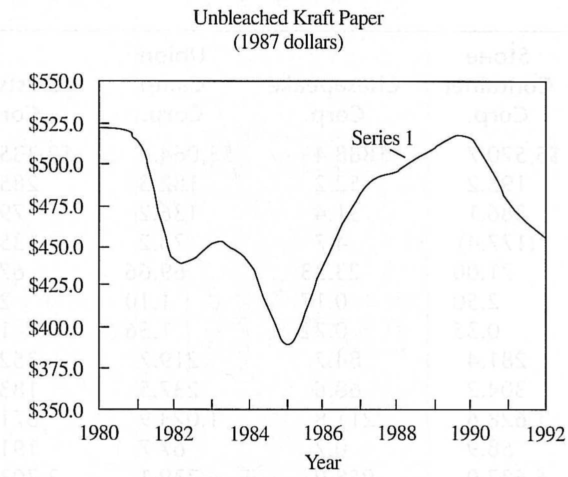
EXHIBIT 4 Continued

Additional Information										
Paperboard, paper, and market pulp:										
Produced (thousands of short tons)	7,517	7,365	7,447	6,772	4,729	4,373	3,154	2,168	2,236	1,194
Converted (thousands of short tons)	4,373	4,228	4,241	3,930	3,344	2,998	2,495	1,530	1,439	767
Corrugated shipments (billion square feet)	51.67	49.18	47.16	41.56	34.47	32.09	25.95	15.19	14.46	8.58
Employees (end of year—in thousands)	31.2	31.8	32.3	32.6	20.7	18.8	15.5	9.4	9.0	8.9
Capital expenditures	281.4	430.1	552.0	501.7	136.6	105.7	63.3	47.1	41.9	21.0
Current ratio	1.8	1.8	1.4	1.6	2.1	2.2	2.6	1.9	2.0	2.4
Percent long-term debt/total capitalization	73.4%	68.8%	67.7%	69.3%	38.9%	55.4%	58.1%	58.4%	57.3%	63.4%
Return on beginning common stockholders equity	(11.5%)	(3.4%)	7.1%	26.9%	46.2%	41.8%	10.2%	1.1%	11.9%	(2.6%)
Pretax margin	(3.6%)	(0.3%)	3.3%	9.0%	14.7%	8.8%	2.9%	0.1%	4.4%	(1.3%)
Aftertax margin	(3.1%)	(0.9%)	1.7%	5.4%	9.1%	5.0%	1.7%	0.3%	2.7%	(0.4%)

[a]Cash dividend payments were suspended in the third and fourth quarters of 1992.

EXHIBIT 5 Constant-Dollar Kraft Paper and Linerboard Prices, 1980–1992 (1987 dollars)

Year	Price/Ton
1980	$523.0
1981	513.3
1982	441.5
1983	453.0
1984	439.6
1985	389.8
1986	438.6
1987	485.0
1988	495.7
1989	511.5
1990	516.3
1991	476.2
1992	454.9



Year	Price/Ton
1980	$376.6
1981	361.2
1982	304.3
1983	332.6
1984	368.1
1985	270.1
1986	330.2
1987	380.0
1988	394.6
1989	377.9
1990	322.2
1991	285.7
1992	285.4

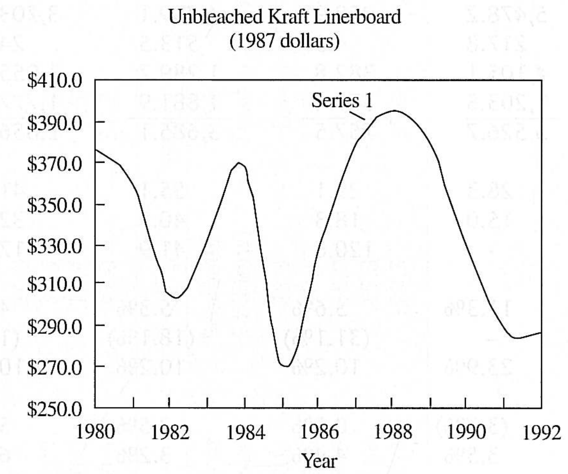


EXHIBIT 6 Comparative Financial Data of Selected Competitors (end of 1992 fiscal years; in millions except per share data)

	Stone Container Corp.	Chesapeake Corp.	Union Camp Corp.	Westvaco Corp.	Willamette Inds.
Sales	$5,520.7	$888.4	$3,064.4	$2,335.6	$2,372.4
Operating income	193.2	52.2	182.3	285.1	197.6
Interest expense	386.1	31.4	136.2	79.0	66.4
Net income	(177.4)	4.7	76.2	135.9	81.6
Number of shares outstanding	71.00	23.33	69.66	67.27	54.77
Earnings per share	2.50	0.17	1.10	2.06	1.52
Dividends per share	0.35	0.72	1.56	1.10	0.84
Capital expenditures	281.4	84.7	219.7	352.2	337.0
Depreciation	304.2	68.6	237.5	183.1	173.8
Current assets	1,628.6	211.8	1,023.9	671.5	481.0
Cash and short term investments	58.9	0.7	67.7	191.1	9.0
Total assets	6,682.0	958.9	4,739.1	3,703.9	2,527.4
Current liabilities	939.2	89.7	892.1	352.6	323.1
Total liabilities	5,478.2	958.9	4,739.1	3,703.9	2,527.4
Short-term debt	217.8	4.3	513.5	24.1	58.8
Long-term debt	4,105.1	382.8	1,289.7	1,055.5	843.6
Net worth	1,203.8	370.4	1,881.9	1,777.1	1,164.8
Total capitalization	5,526.7	757.5	3,685.1	2,856.7	2,067.2
Common share prices					
High	28.3	29.1	55.1	41.3	42.5
Low	15.0	18.3	40.1	32.0	29.0
Ending price-earnings ratio	-	120.6	41.9	17.9	27.1
Growth rates (5 years)					
Sales	11.3%	5.6%	5.3%	4.2%	10.6%
Net income	–	(31.1%)	(18.1%)	(1.4%)	(7.6%)
Total assets	23.9%	10.2%	10.2%	10.8%	16.1%
Financial ratios					
Return on sales	(3.1%)	0.5%	2.5%	5.8%	3.4%
Return on total capital	3.5%	4.4%	3.2%	6.6%	6.0%
Return on equity	(14.2%)	1.3%	4.1%	7.7%	7.0%
Current ratio	1.8	2.4	4.2	1.9	1.5
Debt to total capital	78.2%	51.1%	48.9%	37.8%	43.7%
Interest coverage	0.5	1.6	1.3	3.6	2.4

EXHIBIT 7 New U.S. Public Bond Issues by Credit Rating

Source: Securities Data Company, Inc.

	1988			1989			1990		
	Proceeds ($ billions)	% of Total	# of Issues	Proceeds ($ billions)	% of Total	# of Issues	Proceeds ($ billions)	% of Total	# of Issues
AAA	16.8	14.1	81	22.3	17.0	74	12.5	8.6	74
AA	21.1	17.7	139	24.0	18.3	169	35.2	30.7	148
A	30.2	25.3	209	31.4	24.0	208	32.6	28.4	243
BBB	14.1	11.8	100	12.4	9.5	82	13.2	11.5	93
Below BBB	37.1	31.1	205	41.0	31.2	221	21.1	18.5	142

	1991			1992			1993		
	Proceeds ($ billions)	% of Total	# of Issues	Proceeds ($ billions)	% of Total	# of Issues	Proceeds ($ billions)	% of Total	# of Issues
AAA	24.1	12.1	200	25.3	8.1	133	26.3	6.1	142
AA	34.3	17.2	246	40.1	12.9	237	56.4	13.1	332
A	74.1	37.2	706	88.9	28.6	687	125.1	29.1	930
BBB	22.5	11.3	188	45.8	14.7	308	60.0	13.9	400
Below BBB	44.3	22.2	253	110.5	35.6	744	162.5	37.8	1,402

EXHIBIT 8
Stone Container's Monthly Closing Stock Prices, 1989–1993 ($ per share, except index)

Stone Container Stock Price		S&P 500 Index	Stone Container Stock Price		S&P 500 Index
1989			**1991**		
January	31.859	297.47	January	13.109	343.93
February	31.625	288.86	February	14.344	367.07
March	29.531	294.87	March	15.563	375.22
April	30.516	309.64	April	16.547	375.34
May	28.922	319.05	May	21.328	389.83
June	24.875	317.98	June	21.203	371.16
July	26.719	346.08	July	20.594	387.81
August	31.375	351.45	August	21.453	395.43
September	28.547	349.15	September	18.500	387.86
October	25.609	340.36	October	22.297	392.45
November	24.016	345.99	November	19.609	375.22
December	23.406	353.40	December	25.375	417.09
1990			**1992**		
January	21.078	329.08	January	28.313	408.78
February	20.344	331.89	February	26.469	412.70
March	20.828	339.94	March	26.953	403.69
April	18.016	330.80	April	27.453	414.95
May	19.859	361.23	May	24.266	415.35
June	16.047	358.02	June	24.625	408.14
July	15.563	356.15	July	18.500	414.22
August	11.891	322.56	August	16.750	414.03
September	10.047	306.05	September	15.000	417.80
October	8.828	304.00	October	16.875	418.68
November	9.797	322.22	November	19.125	431.35
December	11.156	330.22	December	16.750	435.71
			1993		
			January	16.000	438.78
			February	15.375	443.38

EXHIBIT 9
Selected Interest Rates, 1990–1993

	Government Bonds		Corporate Bonds	
Interest Rate Data	Short Term	Long Term	Aaa	Baa
1990	7.51%	8.55%	9.32%	10.36%
1991	5.42	7.86	8.77	9.80
1992	3.45	7.01	8.14	8.98
January 1993	3.06	6.60	7.91	8.67
February 1993	2.95	6.26	7.71	8.39
March 1993	2.97	5.98	7.58	8.15
April 1993	2.89	5.97	7.46	8.14

MCI Communications Corporation (1983)

In April 1983, Wayne English, chief financial officer of MCI Communications Corporation, faced the problem of setting financial policy in an environment characterized by a large potential demand for external funding and great uncertainty concerning MCI's future. MCI, which provided long-distance telecommunications services in competition with AT&T, had seen its revenues grow from almost nothing in FY 1974 (ending March 31, 1974) to more than $1 billion in FY 1983. During that period, the company climbed from a loss of $38.7 million in FY 1975 to a profit of $170.8 million in FY 1983. In the last 2 years, its stock price had increased more than fivefold.

Nevertheless, the antitrust settlement between AT&T and the U.S. Department of Justice in January 1982 had significantly altered the economic landscape for MCI. The settlement, providing for the breakup of AT&T by early 1984, would affect MCI in two important ways. On the one hand, it offered the opportunity for greatly increased growth, since AT&T would be required, for the first time, to compete on equal quality-of-service terms with MCI. On the other hand, the settlement posed new uncertainties, since it promised to eliminate certain MCI cost advantages and to increase AT&T's competitive flexibility.

Even in the face of intensifying competition from AT&T, however, MCI was committed to extending the reach and capacity of its network. According to Brian Thompson, senior vice president for corporate development: "Economies of scale and scope are everything in this business. In the long term, the strategic high ground lies in owning your own facilities for basic call services and then leveraging off this to provide value-added services."

Company Background

MCI was organized in August 1968 under the leadership of William McGowan as the Federal Communications Commission (FCC) appeared willing to allow increased competition with AT&T in the long-distance market. In June 1971, the FCC formally adopted a policy of allowing qualified new companies to enter the market for specialized long-distance services, which consisted chiefly of *private line* (i.e., dedicated telephone line) services for large telephone users. By June 1972, MCI was ready to begin construction of its telecommunications network.

To provide the necessary funds, MCI sold 6 million shares of common stock to the public at $5 per share.[1] Net proceeds after expenses and commissions were $27.1 million. MCI also obtained a $64 million line of credit from a group of four banks headed by the First National Bank of Chicago and further loan promises of $6.45 million from private investors in the form of 7½% subordinated notes (with attached warrants) of up to 5-year maturities. The bank loans carried an interest rate of 3¾% above prime, plus a commitment fee of ½% per annum on the unborrowed balance.

[1]This and subsequent prices and numbers of shares have been adjusted for all stock splits on or before April 1, 1983.

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