GAYLORD CONTAINER CORPORATION

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Abstract

Few firms which operate in existing industries can claim to have become a top ten competitor practically overnight after entering the industry. Constraints from established customer relationships, intensive capital requirements, little experience, and the like all conspire to keep a firm's growth regulated. With time and luck come customer loyalty, economies of scale, and an established product line which will allow a firm to compete at the top of their industry. Against the odds, Gaylord Container Corporation became a top ten packaging company in less than ten years.

This paper will examine Gaylord's rapid growth but also problems and issues it has encountered, especially over the last five years. A comprehensive analysis of Gaylord Container itself and how it relates to both its competitors and the packaging industry will be provided. Gaylord's financial statements will be analyzed based on financial ratios and statements by professional financial analysts. This in turn will be compared with the financial condition of both the industry and several competitors. In addition, the impact of several accounting standards on Gaylord's operations will be examined. These will combine to present a picture showing Gaylord's meteoric rise yet highlight the nagging questions that surround its future and its very survival.

Although, currently ranked as the tenth largest producer of corrugated containers in the United States, many analysts question the solvency and future of the firm. Gaylord achieved its rapid growth through extensive financing arrangements. With a slow market in the early 1990's, Gaylord was unable to pay its debts and went bankrupt. Recently, the market has been on the

upswing and Gaylord posted record sales in 1995 of $1.05 billion. Despite these recent positives,Gaylord's position is still deemed precarious especially in view of the condition of its competitors.

In a short time Gaylord has reached the goal of its founders of becoming a major player in the packaging industry with sales in excess of $1 billion. At the same time, Gaylord has become a paradox due to its financial condition in the face of such success. Whether its successes continue or its debt overwhelms it remains to be seen. In reviewing the past and present, Gaylord Container Corporation presents a dual case study of a company with rapid success and a company struggling to survive in the face of market and competitive pressure.

Table of Contents

List of Figures

List of Tables

List of Exhibits

I. Introduction

Gaylord Container Corporation, founded in 1986, operates with the mission "to become one of the most profitable companies in the packaging industry for the benefit of our stockholders, customers, employees, suppliers, and the communities in which we operate" (Annual Report, 1995). This seems to be a very ambitious statement for a relative newcomer to the paper industry. Yet the two experienced executives who put Gaylord together managed to create a major player in the industry in ten years through aggressive growth, managerial optimism, and technological modernization. Although it had not been a trouble free decade for Gaylord, a commitment to a quality product, its customers, and its people has made Gaylord a solid competitor in the paper industry.

A. History

Marvin Pomerantz and Warren Hayford left their jobs at Navistar in 1985 to create Mid-America Packaging. Despite coming from a company which was an industry leader in farm equipment, both men had experience in the packaging industry. Hayford, at one time, oversaw the brown paper bag product line at Continental Can. Pomerantz had much more experience in packaging. He had worked at Continental too but also was the founder of Great Plains Bag Company. By the 1980's, Pomerantz was serving on the board of directors at Stone Container Corporation, the leader in production of both paper and paperboard (Chalmers, 1989). With that experience they took advantage of the industry conditions in 1985 to create their company.

For the paper industry, the mid-1980's had been sluggish, with low prices, excess plant capacity, and falling market values on fixed assets. Pomerantz and Hayford saw these as opportunities rather than as a caveat (Chalmers, 1989). They purchased from Weyerhauser, at bargain prices, a paper mill and multi-wall bag plant in Pine Bluff, Arkansas. Eighty percent of that transaction was financed through banks and the use of extensive financing set the precedence for future growth. In 1986, Crown Zellerbach, looking to get rid of its box business due to the negative effects the poor economy had had on the paper industry, sold to Mid-America three containerboard and paper mills, fourteen corrugated box plants, three corrugated sheet plants, and a specialty chemical facility. Mid-America was renamed Gaylord Container and the two executives now had the foundation in place to make their mission statement a reality.

With the economy still weak in 1987 but many of its plants in need of upgrading, Gaylord invested heavily in its plants through extensive financing arrangements. These investments both modernized and increased production at its plants. During this time, Gaylord also purchased four plants from Fibreboard Corporation through heavy financing. However, the combination of Gaylord's rapid growth and a slow economy worried Wall Street. Gaylord's initial public offering was at $28. But investors noticed Gaylord's debt to capital was in the 75% range and by the end of 1988 the share price had fallen to $17 (International, 1993). Wall Street was losing faith. Gaylord executives ignored the warning signs and continued to expand.

Increasing losses, decreases in selling prices, and monumental debt caused both Standard & Poor's and Moody's to lower their debt ratings on Gaylord in 1990 to reflect what they viewed as major problems at Gaylord (International, 1993). By 1991, Gaylord had defaulted on several debts and was forced to restructure to survive. When it emerged from bankruptcy in early 1992, Gaylord was ready to continue to do business but it still held a debt to capital of 83%. Yet increased earnings for the paper industry were occurring due to rising prices caused by an improving economy. It appeared that the worst was over for Gaylord.

In 1993, it took stock offering proceeds and paid down some of its debt thus lowering its debt to capital ratio. Although 1994 again showed a loss, it was primarily due to plant sales, closures, and relocations as part of Gaylord's strategic plan to recover from bankruptcy. The strategic plan seems to have paid off as in 1995 Gaylord Container set company records with $134 million net income and $1 billion in net sales (Annual Report, 1995).

B. Product Lines

Gaylord is a manufacturer and distributor of brown paper and packaging products nationally. Although Gaylord has recently expanded its box plant operations into Mexico, it has no international presence as of yet so for all intensive purposes Gaylord is only a domestic manufacturer (Figure 2). Their primary products are corrugated containers (cardboard boxes), multi-wall bags, grocery bags, and unbleached paper. Packaging products makes up 80% of its net sales (Annual Report, 1995). Gaylord services over 3,000 customers in a variety of industries. Its main production core is in the operating of three paper mills, sixteen corrugated box plants, and two bag plants from coast to coast (see Figure 1). It also operates a couple design centers and a graphics plant, allowing Gaylord as a whole to offer packaging products to fit any customers needs.

C. Industry

The paper industry ranks as one of the top ten manufacturing industries in the United States. In 1994, earnings of major paper companies totaled almost $2 billion (Annual Report, 1994). It employs about one million individuals and pumps $27 billion in payroll into the economy (American, 1992). Gaylord primarily operates within the packaging and containerboard segments of the industry which are also the two major segments. The two go hand in hand with containerboard being produced from raw materials and then converted into packaging.

In the packaging segment (see Figure 1, bottom chart), where containerboard and kraft paper are converted, barriers to entry are few and competitors range from the national, to the regional, to the local. The most important factors here are price and proximity to one's customers. In contrast, there are high entry barriers to the containerboard segment (Annual Report, 1995). The top ten competitors in the containerboard segment are the same as in the packaging segment but they hold different rankings. Competitors differ between the two segments on the regional and local levels as it is easier for small players to enter the packaging industry but harder to enter into containerboard. The containerboard industry is capital intensive and requires specialized machinery. Also this segment requires a steady influx of raw materials, primarily virgin or recycled fiber. Many of Gaylord's competitors own their own timberland for this reason, however, Gaylord must contract to other suppliers.

Gaylord ranks within the lower half of the top ten in both segments (see Figure 2). It is significantly smaller physically and in terms of financial resources than its competition (Annual Report, 1995). Size, however, is not the major factor in the paper industry, instead price, quality, and service are the most important.

Although the paper industry experienced a downturn from 1984 to 1992, within the past few years the industry has recovered. As the national economy improved, selling prices for both containerboard and, especially, corrugated containers rose quickly and were reflected across the board in competitors' gross revenues. Analysts predict corrugated container prices will continue to soar, at least until 1997 (First Boston, 1995).

D. Competitors

Within both the packaging and containerboard segments, the major competitors to Gaylord are the same (Figure 1). Stone Container, the leader in both industry segments, represents many things Gaylord is not: diversified, international, decades old. In reviewing the makeup of most of these ten firms, these three traits are very common.

Stone has dominated both segments with a market share in corrugated packaging of 14.9% with 55.8 billions of square feet shipped. It holds a 13.2% in the linerboard segment with 3,168 million tons produced in 1994 (Figure 1). The second biggest competitor in packaging is Weyerhauser with an 8.9% but is sixth in linerboard at only 7.4% (Figure 1). Georgia Pacific is second behind Stone in linerboard production with 2,280 million tons produced giving it a 7.8% share but it is fourth in packaging at 8.5% (Figure 1). In looking at the second largest firm in each segment, Stone's strength in both industries becomes obvious.

Closer in ranking to Gaylord (12.7 billions of square feet shipped) at the bottom of the top ten in packaging are International Paper (17.6 bsf shipped), Union Camp (19.1 bsf shipped), and Willamette (20.6 bsf shipped) (Figure 1). In containerboard, which accounts for less than 20% of Gaylord's sales, Gaylord produces greater amounts than Willamette (1,200 million tons versus

1,128m. tons) (Figure 1). Tied with Gaylord at 1,200 million tons shipped is Packaging Corporation of America (Figure 1). Just ahead of them is Jefferson Smurfit, producing 1,752 million tons (Figure 1). The top ten producers in each segment account for about 75% of the market as firms outside of the top ten hold only 26% in corrugated packaging and 24.8% in linerboard (Figure 1).

E. Important Developments

Although financially Gaylord appears to have recovered from its restructuring, external forces from competitors have been of recent concern. Gaylord's stock price never recovered to its initial offering price. As part of the restructuring arrangement, the low stock price has become an issue (Taub, 1995). Chairman Marvin Pomerantz owns about 90% of five million class B shares worth ten votes each and therefore controls Gaylord. If the price does not rise, Pomerantz will lose those voting rights thus leaving no one voter in control. This has attracted the interest of Georgia Pacific (G-P), the number four ranked competitor in corrugated containers, to a possible undisputed takeover. A takeover would increase G-P's market share closer to that of the leaders, Stone and Weyerhauser, and distance itself from Temple-Inland. Also, many of Gaylord's facilities are located in the South (see Figure 2), near 70% of G-P's timberlands. While Gaylord has instituted a "poison pill" and hopes to swing its stock prices up due to recent improving performance, for now takeover talk is just talk.

F. Environmental (Regulatory) Issues

With the increased public awareness regarding environmental issues, the shrinking U.S. forests have become a major issue in the paper industry. While Gaylord has avoided any direct confrontations due to its lack of forest ownership, it too is a user of this natural resource. Gaylord has made a substantial financial and philosophical commitment to recycling (Annual Report, 1995). They are the sixth largest recycler of old corrugated containers in the U.S. and about 45% of their raw materials come from recycling compared to 20% across the entire industry. All three of their paper mills use at least 25% recycled fiber along with virgin fiber and one of these mills actually uses only recycled fiber. Due to Gaylord's reliance on outside virgin fiber suppliers, dwindling landfill space, and increasingly tougher federal guidelines, recycling makes good business sense.

Conclusions from Review of Company Background

From its beginnings in 1986 to the present, Gaylord has been seen as a rising star, a sinking ship, and a possible conquest. However, as of the year ending 1995, Gaylord has regained its economic footing and once again plans to pursue its mission. Continual growth gave birth to Gaylord and nearly killed it, but it is through aggressive expansion that Gaylord believes it can best serve its customers, stockholders, and employees.

II. Analysis of Company's Performance

Gaylord Container burst on the packaging scene in 1986 from the piecemeal purchasing of plants and mills from existing firms in the industry. Their rapid growth was backed by excessive borrowing and, with a slowing of the economy, led to a deteriorating financial condition. Gaylord was forced into restructuring in 1991. Since that time it has not only tried to put the bankruptcy behind it but to continue in its mission to become a highly successful firm in the packaging industry for the benefit of its customers, stockholders, and employees.

A. Financial Condition

The last five years for Gaylord Container have focused on recovering from restructuring. As discussed previously, the mountain of debt accumulated by Gaylord in their efforts to rapidly expand led to a financial downfall. This was not entirely unexpected in the business world. By using the Altman Bankruptcy Model (Exhibit 1) it was obvious to investment firms and rating agencies that the chance of bankruptcy was high. Prior to the restructure, Standard & Poor's downgraded its rating on Gaylord from B- to triple C. Meanwhile, Moody's Investors Service lowered its ratings on Gaylord and projected record losses for 1991. In fact, the low point of -0.657 in 1991 was the actual year the restructuring was forced. Use of this model still reflects Gaylord isn't out of the woods yet.

1. Liquidity Analysis

Suppliers and creditors have begun to respond more favorably to Gaylord as other measures of financial condition have shown improvement. Gaylord's liquidity ratios show the changes for the better that the company has undergone (Exhibits 2A & 2B). Both the quick ratio and the current ratio have recently returned to acceptable figures after offering horrendous numbers at the time of the bankruptcy. 1992's highs are misleading due to the lifting of much of Gaylord's debt under the restructuring agreement. With four years between it and the bankruptcy, Gaylord's liquidity ratios show its health has returned.

2. Activity Analysis

The activity ratios for Gaylord Container serve as further notice to the existing health of the company (Exhibits 3A & 3B). These turnover ratios complement the positives found in liquidity. The last five years show a relative short shelf life for inventory, even in 1991 (Exhibit 3A). This, however, fits the overall industry trend of short inventory times. An area of much concern in 1991 which contributed to the company's downfall was accounts receivable turnover (Exhibit 3B). The low in 1991 shows Gaylord's inability to collect its receivables which led to a low cash flow from operations (Table 5) and thus an inability to pay its own debts. The last three years though Gaylord's accounts receivable turnover shows this is no longer a problem.

3. Debt & Solvency

Despite the positive news generated with liquidity and activity ratios, debt and solvency are still areas of concern as this was the main issue to force the restructuring. Long term debt has fallen from an excess of $900 million in the beginning of our five year review period to less than $700 million in the last two years (Table 1). Long term debt in 1995 made up only 67.97% of total liabilities and equity comapred to 117.27% in 1992 (Table 3). Compared to some industries, the debt to equity ratio may seem high (Exhibit 4). However, the packaging industry is a very capital intensive industry with the need for high investment in property, plant, and equipment. The decrease in overall long term debt and improvement in other ratios are good signs for this company.

4. Profitability

Profitability ratios also show Gaylord is beginning to recover but reflect a slower, more recent recovery than the other financial condition ratios. Return on investment ratios such as return on assets shows an improvement for Gaylord in 1995 but a see-saw effect over the last five years (Exhibit 5A). Return on equity has only just risen after falling throughout the five year period (Exhibit 5B). These ratio results lead to questions regarding how well management is using assets at its disposal and equity invested to increase profits. Due to fluctuating amounts it is unclear what determination to make. However, it is likely that during this period, survival was a more important concern than profits. Profit margins also exhibited these fluctuations (Exhibit 6A) due to net income/loss changes each year (Table 2). Two areas of profitability that have shown favorably on Gaylord management have been gross margin (Exhibit 6B) and earnings per share (Exhibit 7). Both have responded well each year since the restructuring and gives hope that the other profitability measures may soon follow suit.

B. Earning Performance

1. Gross Profit

The main reason both gross margin and earnings per share, discussed in the last section, have done so well is that sales have shot up for Gaylord, especially in 1995, due to overall price increases (Table 2). This has been good news to Gaylord for 1995, as although cost of goods sold has also increased, it has grown at a slower rate (Table 2). The gross profit from 1991 through 1994 reached its high in 1992 at $96.7 million and its low in 1993 at $81.4 million (Table 2). However, 1995 showed a record gross profit of $296.4 million (Table 2). Results like this will go a long way to restoring investors' faith in Gaylord if it continues.

2. Cost of Goods Sold

The amount of cost of goods sold recorded in 1995 was a five year high at $755.0 million (Table 2). For the most part, cost of goods sold has showed a consistent rise since 1991. In 1991, costs of goods sold was $636.7 million and had climbed to $691.4 million in 1994 (Table 2). However, the change between 1994 and 1995 was the largest during the five year period at $63.6 million (Table 2). When looked at relative to the corresponding amount of sales during the five year period, however, cost of goods sold made up a decreasing percentage of sales. Cost of goods sold in 1995 was only 71.81% of sales in 1995, a drop of 16.33% from 1994 (Table 4). Due to sales increasing at a faster pace than cost of goods sold, gross profit in 1995 reached an all time high of $296.4 million (Table 2).

3. Selling & Administrative Expenses

Selling and administrative costs reached a five year high in 1995 at $95.5 million (Table 2). An expense total that large would have overwhelmed gross margins in three out of the last four years. However, due to the high level of sales, Gaylord was able to record a profit of $134.2 million (Table 2). Despite reaching a five year high dollar-wise, selling and administrative costs were only 9.08% of sales in 1995 (Table 4). As a percentage of sales, 9.08% was the lowest point during the last five years and showed a steady downward trend from a 27.58% of sales in 1991 (Table 4).

4. Net Income & Earnings Per Share

The fact that sales grew at a much faster pace than both costs of goods sold and selling and administrative expenses during the market upswing was the reason Gaylord was able to post its best net income in five years (Table 2). The only other time in the five year period that net income was positive was in 1993 (Table 2). That was due to an extraordinary gain of $201.5 million resulting from the forgiveness of debt as part of the reorganization plan. Therefore, in the last five years, 1995 shows the only legitimate profit. The positive earnings per share was also due to the extraordinary gain and would have been -$1.40 without it (Table 2). Earnings per share of $2.44 in 1995 is the best showing for Gaylord in the five year period.

5. Analysts' Forecasts

Analysts expect price and volume gains to continue in the future. Box production is expected to grow at Gaylord in 1996 11% while prices could max out an additional 6% higher than in 1995 (First Boston, 1995). This has been calculated to create a sales growth of 13%. Continued positive net income and larger earnings per share should be precipitated by this for 1996 and 1997. In turn, this will increase cash flow and further strengthen the balance sheet.

Bank debt is expected to be repaid in full by the end of 1995 (First Boston, 1995). However, it is not thought that long term debt will dramatically drop as Gaylord is negotiating to increase its credit lines and lengthen the subsequent repayment periods as compared to previous periods (First Boston, 1995). Other expenses are, however, expected to drop. Capital projects at several mills have been completed so no further expenditures will be required while the renovations will be able to increase volume (Kidder Peabody, 1994).

C. Stock Price Performance

1. Stock Returns Compared to the Market

Gaylord went public at $20.50 per share in 1988. Before year end it had fallen to $17. During Gaylord's low periods in 1991 and 1992, the stock failed to exceed $5 per share

(Table 6). Others in the industry suffered falling market prices too due to falling sales but Gaylord's returns were far less than both its competitors and the market as a whole (Table 6). The stock did not begin to rebound from the restructuring until 1994. This reflected the gradual strengthening of both the balance sheet and income statement. The 1994 high of 9.13 per share was exceeded by a 1995 high of 13.375 a share (Table 6). This reflected growing confidence in the company due to its decrease of long term debt (Table 1), rapidly growing sales, and positive net income (Table 2).

2. Analysts' Forecasts

However, some analysts have viewed Gaylord's 1995 stock market prices as overvalued (Donaldson, 1995). In comparison to its competitors and the Standard & Poor's 400 Industrials, Gaylord stock should be considerably discounted. The three main reasons given for this are Gaylord's narrow product line, its higher than average debt, and its earnings volatility (Donaldson, 1995). Analysts have recommended a range of $8 to $10 per share would be a more accurate level for Gaylord's stock. However, if sales continue to expand while costs fall, Gaylord will be able to keep recording record profits. Analysts agree that in this case the stock price will probably continue to increase to match market expectations.

D. Conclusions from Analysis of Company's Performance

Gaylord Container's improving financial statements have been responded to favorably by both creditors and investors. The ratios created from these financial statements reflect the positive changes at Gaylord since the restructuring in 1991. However, whether these improvements are due to managerial guidance or the fact that the economy has allowed for higher sales prices is unclear.

Assuming the sales prices stay high, Gaylord will be able to continue to surpass its expenses. This in turn will be reflected in higher stock market values. But due to Gaylord's lack of a diversified product line, if sales prices on corrugated containers fall, Gaylord cannot expect to earn enough to pay its fixed expenses and high debt while still having enough left to show a profit. For the short term, analysts believe market conditions will still effect Gaylord favorably. But with reliance on profitability for the most part based solely on what prices the market will allow, Gaylord teeters very close to the edge. With Gaylord still possessing high levels of debt, a slump in the economy could push them easily back into financial trouble.

III. Analysis of Competitors and Industry

Within the packaging segment of the paper industry, Gaylord Container ranks tenth among the major producers of corrugated containers (Figure 1). In order to continue to maintain financial stability, Gaylord must look not only within itself but also to the bevy of competitors around it. Customer price sensitivity requires all competitors to keep similar low prices and tight margins. Differentiation through quality and service is the typical strategy among packaging competitors. With few barriers to entry, competitors ranging from multinational firms to local companies all have the potential to take away precious business through better prices or better service. At the same time, by comparison to certain companies, Gaylord can view them as a scorecard or benchmark against where it is at, where it has been, and where it is going.

A. Competitors

Two competitors with roughly similar market share (based on industry shipments) are Willamette Industries and Union Camp Corporation (Figure 1). In order to increase its market share within the top ten, Gaylord will need to address the seventh and eighth ranked competitors. Unlike Gaylord, both competitors have a long history in the paper industry.

Willamette was founded in Oregon in 1906 as a local lumber company but grew rapidly due to the need for wood in both World Wars (International, 1993). It wasn't until the early 1950's that Willamette diversified into corrugated boxes. This decision allowed Willamette a good balance as paper and lumber typically run in opposite cycles (International, 1993). Due to this, they have been able to insulate themselves from downturns in either industry and maintain stable growth. They have plants throughout the U.S. and compete head to head with all Gaylord locations (Figure 3). In addition, they own over one million acres of timberland to maintain some vertical integration and decrease the need for timber suppliers. The paper group accounted for two thirds of the $3.8 billion in sales in 1995 (Annual Report-WI, 1995).

Union Camp's history stretches back further than Willamette's. Founded as a bag company in 1861, Union Camp has grown into a diverse producer of many kinds of packaging products, building materials, and chemicals. Despite many ups and downs between its founding and World War II due to poor management and technology changes, the Union Bag & Paper Corporation grew prosperous in the post-war years (International, 1993) . One main reason for this was the merger with Camp Manufacturing in 1956 which provided much needed diversification for the bag company. Union Camp strengthened its financial position and growth potential by entering into plastics, a chain of supply stores, and purchases of timberlands. In fact, Union Camp began to exploit the land it owned for more than just timber. In the 1970's, much of the land it owned was harvested for minerals or leased to local businesses for use as golf courses and stores (International, 1993). This strategy brought returns of $15,000 a year per acre compared to the $5 a year per acre of trees (International, 1993). Union Camp used diversification as insulation from downturns in the paper industry, as Willamette had done, and had a policy of squeezing every possible use out of its assets for greater revenue.

Union Camp controls over one million acres of timberland (Annual Report-UC, 1994). With plants and acreage owned mainly in the southeast U.S., Union Camp's strength lies on the east coast although it is a national supplier of corrugated containers (Figure 3). Packaging contributed 40% to 1994 sales of $3.4 billion (Annual Report-UC, 1994). Union Camp also has a strong international presence as an exporter for over forty years. It has corrugated container plants in Latin America with growth plans into the Pacific Rim (Annual Report-UC, 1994). With U.S. growth expected to fall from 3.2% in 1995 to 2.8% by 1998, this bodes well for Union Camp with Latin America's growth during this period expected to go from 3.5% to 4.5% and growth in the Pacific Rim to rise from 6.4% to 6.7% (Annual Report-UC, 1994).

B. Financial Condition

1. Liquidity Analysis

Where Gaylord's liquidity ratios have shown improvement from the restructuring to the present, Willamette's and Union Camp's ratios show stability. Willamette's current ratio rose in excess of the industry average in 1995 as did Gaylord's (Exhibit 2B). Union Camp's current ratio has hovered lower at just above 1.00 due to more cash flow requirements by some of its diversified businesses (Exhibit 2B). Gaylord shows the healthier quick ratio at just above 1.00 for 1995 (Exhibit 2A). The quick ratio, however, is less useful to analysis in this industry as it takes out the effects of inventory so as to give a better analysis when there is slow moving inventory. The paper industry has very fast moving inventory and requires a lot of inventory. Removal of inventory removes much of the current assets for these firms, therefore, the current ratio is of more interest. In this case, it shows general health all around.

2. Activity Analysis

Gaylord shows greater inventory turnover than its competitors and, in some years, the industry average (Exhibit 3A). Part of the reason for this is the nature of the packaging industry which requires quick inventory turnover for survival. As 80% of Gaylord's sales are from the packaging segment while less so for the more diversified Willamette and Union Camp, this is not surprising (Annual Report-GC, 1995). All three firms show good inventory turnover as compared to the industry average.

The accounts receivable turnover for the three firms is healthy as of 1995 (Exhibit 3B). However, Union Camp has shown less success collecting receivables than the industry average while Willamette has significantly surpassed both Gaylord and the industry average (Exhibit 3B). Gaylord's turnover ratio has improved significantly from the time of the restructuring, while both Union Camp and Willamette have shown stability all along.

3. Debt & Solvency

Debt remained an area of concern for Gaylord due to its highly leveraged condition. Whereas Gaylord has been in excess of the industry average during the last five years, Willamette and Union Camp have shown a debt to equity ratio less than the industry average for all five years (Exhibit 4). The packaging industry is very capital intensive requiring heavy investment in long term assets. However, it seems both Willamette and Union Camp have been able to maintain a proper balance between debt and equity while Gaylord continues to swim in massive debt.

4. Profitability

Gaylord began to show improvement in return on investment ratios as of 1995 (Exhibits 5A & 5B). The past years showed a concentration more on survival than returns for Gaylord. Union Camp, although not showing ratios as bad as Gaylord, gave cause for concern as its ROA and ROE were noticeably less than industry averages (Exhibits 5A & 5B). This was probably due to its large holdings of long term assets invested in with a lot of equity. Neither Willamette or Gaylord had near the holdings or investments due to less diversification. However, both Union Camp and Willamette were showing improving ROE despite still being below industry averages (Exhibits 5B). ROA stayed constant for both competitors during the five year period (Exhibit 5A). Both gross margins and profit margins have shown much fluctuation for all three competitors but all are showing healthy numbers for 1995, especially in comparison to industry averages (Exhibits 6A & 6B).

C. Earnings Performance

1. Earning Per Share

Price increases have been the main variable effecting earnings per share during the five year period. As prices have risen, so has the EPS for all three companies (Exhibit 7). With the high prices for corrugated containers peaking in 1995, all three companies posted their best earning in five years. Both Willamette and Union Camp, not experiencing the financial difficulties that plagued Gaylord in the early 1990's, showed positive earnings all five years with much growth (Exhibit 7). Willamette experienced the fastest and greatest growth by starting out the five year period healthier than Gaylord and less diversified than Union Camp so price increases had more of an effect on it.

2. Analysts' Forecasts

As of 1995, all three firms show healthy earnings (Exhibit 7). Price and volume increases are expected to continue in the industry, with Willamette expected to top ten dollars EPS in 1996 . However, with prices on building materials expected to fall, Willamette's growth could be limited (Prudential, 1996). Union Camp, despite the good news for paper, is expecting to have lower EPS in the near future. Earnings from its chemical and wood products operations are expected to fall causing Union Camp to show EPS of $2 or less by 1997 (Merrill Lynch, 1996).

D. Stock Price Performance

Gaylord's stock had risen to over $8 per share but it is valued significantly less by investors in comparison to its two competitors (Exhibit 8). Union Camp has steadily shown market prices in excess of $40 per share during the five year period (Exhibit 8). Willamette, from 1991 to 1995, showed an improvement in stock market price of more than $25 to over $56 per share (Exhibit 8). In fact, Willamette is seen as worth over $80 per share in comparison to the S&P 400 and investors have been encouraged to buy now while it is undervalued (Prudential, 1996). Despite falling earnings, Union Camp is also seen as a healthy, steadily growing company and an investment bargain. In comparison with the S&P 400 it too is seen as undervalued (Prudential, 1995).

These findings are in marked contrast to the determination that Gaylord is overvalued (Donaldson, 1995). However, this contrast should not be surprising considering both Willamette and Union Camp have all three things investment houses say Gaylord does not: diversified product lines, low debt, and consistent earnings.

E. Conclusions from Competitor and Industry Comparison

Gaylord has come a long way from its restructuring in 1991. But in analyzing two of its closest competitors, the problems still facing Gaylord become obvious. Not only are both Willamette and Union Camp experienced companies in the paper industry rather than a ten year old upstart, but they also have a broad business focus not limited to packaging alone and, in Union Camp's case, not limited to the domestic market. Those companies have maintained growth and weathered downturns in both the economy and the paper industry through diversification. In viewing both Willamette and Union Camp qualitatively and quantitatively, the question becomes not only how can Gaylord surpass them but, when the competitors survive the next downturn, will Gaylord survive to still compete with them?

IV. Analysis of Impact of FASB Accounting Disclosure Requirements

The objective of financial statements is to provide useful information to users. In order to do this, FASB has rules which provide for the fair representation of a company's financial condition. However, as accounting is not an exact science, but rather open to interpretation, FASB usually allows for the usage of several methods for many financial statement accounts.

Depending on which method(s) a company chooses to use, their financial statements can provide very different information. Some companies attempt to manipulate this to their advantage. Overall, most firms still try to use methods which will provide the fairest representation. Unfortunately, what is the fairest representation of condition can be very subjective depending on the user's point of view.

A. Inventories

Gaylord Container states its inventory in terms of last in, first out (LIFO). As an upstart company struggling against established companies in the packaging industry, LIFO usage makes sense. Often Gaylord has had struggles with cash flow. A lack of cash flow is what caused them to default on their debts in 1991, forcing them to restructure. LIFO provides improved cash flow. If the price level increases, as it has in the paper industry since 1992, and the quantities of inventory don't decrease, a tax benefit occurs through a deferral of income tax. The tax benefit comes as the higher priced new inventory is matched against current revenues. Because of these circumstances, Gaylord has had to pay less income tax than if they used first in, first out (FIFO) inventory valuation, so more cash is available.

Unfortunately, with the upside is also a downside. Reduced earnings in inflationary times is a danger of LIFO. Due to the already fragile financial picture at Gaylord, higher profits would be more welcome than lower taxes. To Gaylord's credit, however, because of LIFO's effect on earnings, its financial picture regarding inventory is a conservative statement of the facts. Analysts already are wary of Gaylord, but with liberal financial methods at Gaylord, analysts would be twice as cautionary.

Currently, the use of LIFO over FIFO is for the most part inconsequential (Figure 4). By converting Gaylord's inventory information from LIFO to FIFO, the change in cost of goods sold is only $300,000. For a company with over a billion dollars in sales in 1995, the difference is minor. The gross margin currently is 28.2% (Exhibit 6B). Under FIFO, the gross margin is unchanged (Figure 4). However, a slight decrease in earnings in 1995 under FIFO would occur. 1995 net income becomes $133.9 million with FIFO (Figure 4).

B. SFAS No. 13 - Leases

FASB allows for leases to be accounted for as either operating or capital, depending on certain circumstances. Many firms attempt to manipulate these conditions in order to recognize a lease as operating. The use of capital leases is seen as more conservative accounting, and a negative by many firms, because it results in both higher total assets and total debts. Expenses also go up due to depreciation expense and interest expense.

Gaylord Container has capital leases for some equipment but also has operating leases on its books. As of 1995, the future minimum lease payments for operating leases totaled $59.6 million while only $24.1 million for capital leases (Annual Report-GCC, 1995). In order to obtain a more conservative view of Gaylord's financial condition, operating leases need to be looked at as if they were capital leases.

By using the weighted average of the incremental borrowing rate of 9.1%, the operating leases when converted to capital leases would increase liabilities by $41.13 million (Figure 5). For a company already saddled with heavy debt, this is noteworthy. Gaylord's total liabilities in 1995 are barely below $874.8 million and have not exceeded $900 million for three years (Table 1). $41.13 million would again push them above the $900 million mark and definitely not go unnoticed by financial analysts. For Gaylord Container, the use of operating leases along with, rather than only, capital leases has helped them moderate the overall lease effects on their financial statements.

C. SFAS No. 87 - Pensions

One of the most important employee benefits provided by a firm are pensions. Much to the chagrin of employees and labor unions, corporations frequently keep their pension plans underfunded in order to use the assets elsewhere. Pension plans are manipulated so the liability is understated. For investors and financial analysts, pensions are important because if the pension plan is underfunded and the company goes bankrupt, the company's assets go first to satisfying its legal obligations, among them being pensions.

With one restructuring already and an existing condition deemed perilous by some, Gaylord's pension plan is of interest. In reviewing the plan, as with many companies, Gaylord's pension obligations exceed the plan assets (Figure 6). In fact, the liabilities are understated by $8.8 million. The debt to equity ratio of 7.73 in 1995 would go up to 7.80 with the additional debt (Figure 6). With Gaylord's existing debt already considered high at $874.8 million, an understatement of $8.8 million keeps things from appearing worse than they already are.

D. SFAS No. 107 - Fair Value of Financial Instruments

In 1993, FASB required disclosure of the fair value of financial instruments. Many companies were unhappy with FASB's initial plan of requiring the reporting of fair value. Some reasons given were an allegiance to the historical cost principal or because of the negative effect this could have on particular financial statements. FASB backed off on requiring reporting fair values on the statements but did require disclosure in the notes.

That FASB backed off on requiring fair value adjustments in the financial statements was good new for Gaylord. Presentation of the fair value shows an increase in total assets of $0.4 million (Figure 7). However, liabilities also increase with the use of fair value. An additional $36.2 million in total liabilities goes unnoticed with historical cost (Figure 7). The use of fair values has a negative effect on Gaylord's financial ratios. Debt to equity jumps over 50% to 11.77 from 7.73 (Figure 7). Both ROA and profit margin go down with the use of fair values. ROA becomes 0.1074, down 0.0391, and profit margin drops from 0.1276 to 0.0935 (Figure 7). Gaylord's financial condition in financial analysts' views is problematic and the use of fair values exacerbates the matter.

E. Summary and Conclusions

Eleven years after its founding, Gaylord Container still is in the process of trying to turn their mission statement into a reality. Although they have become one of the top ten companies in the industry in terms of sales, becoming one of the most profitable companies is still out of reach.

By taking advantage of market condition in the mid-1980's, Gaylord's founders were able to create its foundation relatively cheaply. However, these same conditions turned around and hurt them by causing low revenues which forced them into restructuring. Recently, market conditions have changed and Gaylord was able to post their first profit in five years. However, the mountains of debt accumulated through rapid growth still looms over them.

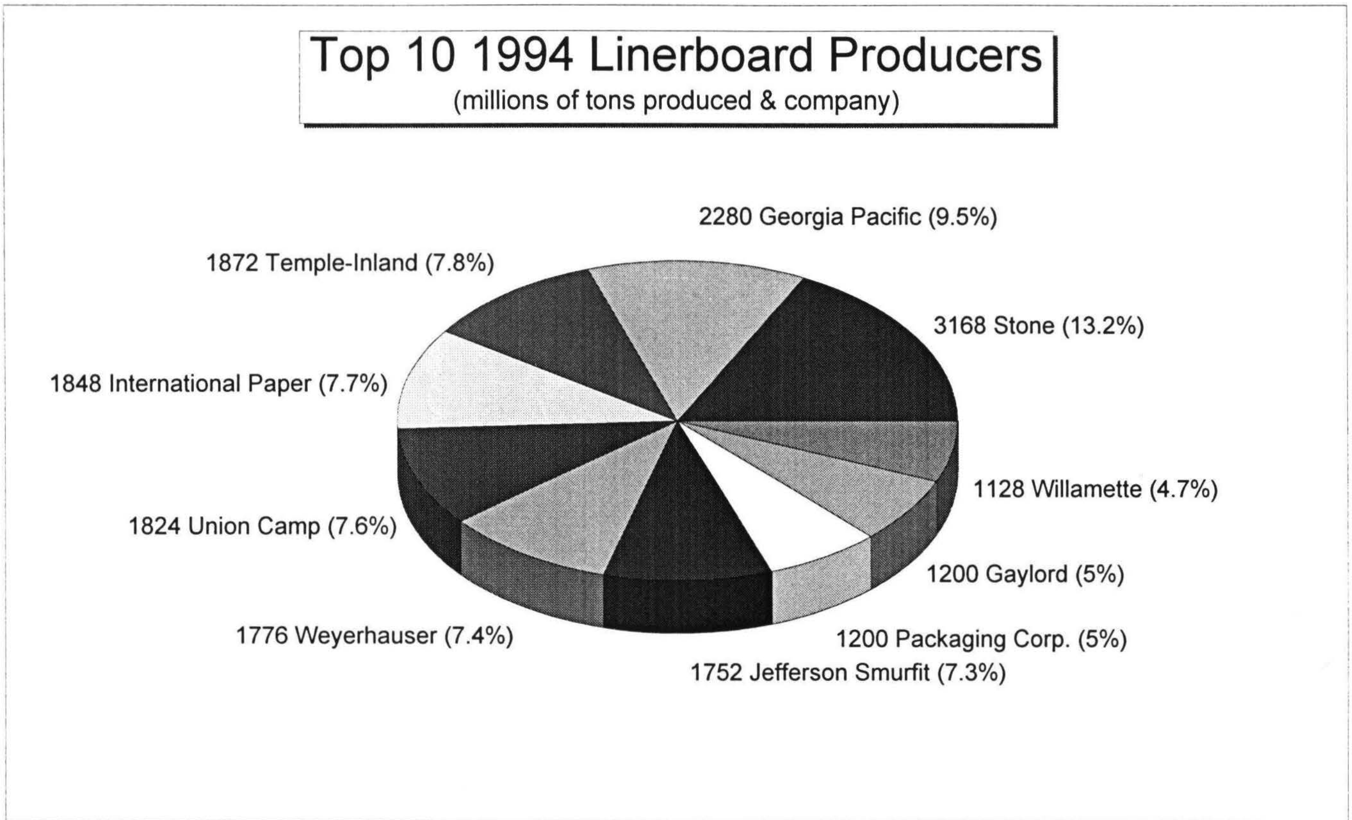
In contrast, most of Gaylord's competition were able to ride out the tough market conditions of the mid and late 1980's mainly because of product diversification. Forays into other industries insulated many competitors from downturns in the packaging industry. Because of this, most competitors have shown stable earnings over the years of Gaylord's existence.

The near future is positive for Gaylord as market predictions expect packaging prices to stay strong. This should allow for continued profitability and a chance to extinguish some of the outstanding debt. However, the length and magnitude of the price growth will determine if Gaylord survives past the late 1990's. If the price growth ends prior to 1998, many analysts doubt enough of a dent can be made in Gaylord's debt. With an end to strong prices and still greatly in debt, Gaylord will be facing a situation similar to the one in 1991. For Gaylord to survive this, the downturn must be short or Gaylord will cease to exist due to bankruptcy or takeover. Currently, with its stock prices low as compared to the competition, yet with a strong foothold in the packaging market, Gaylord's attractiveness may mean takeover could happen before prices fall again.

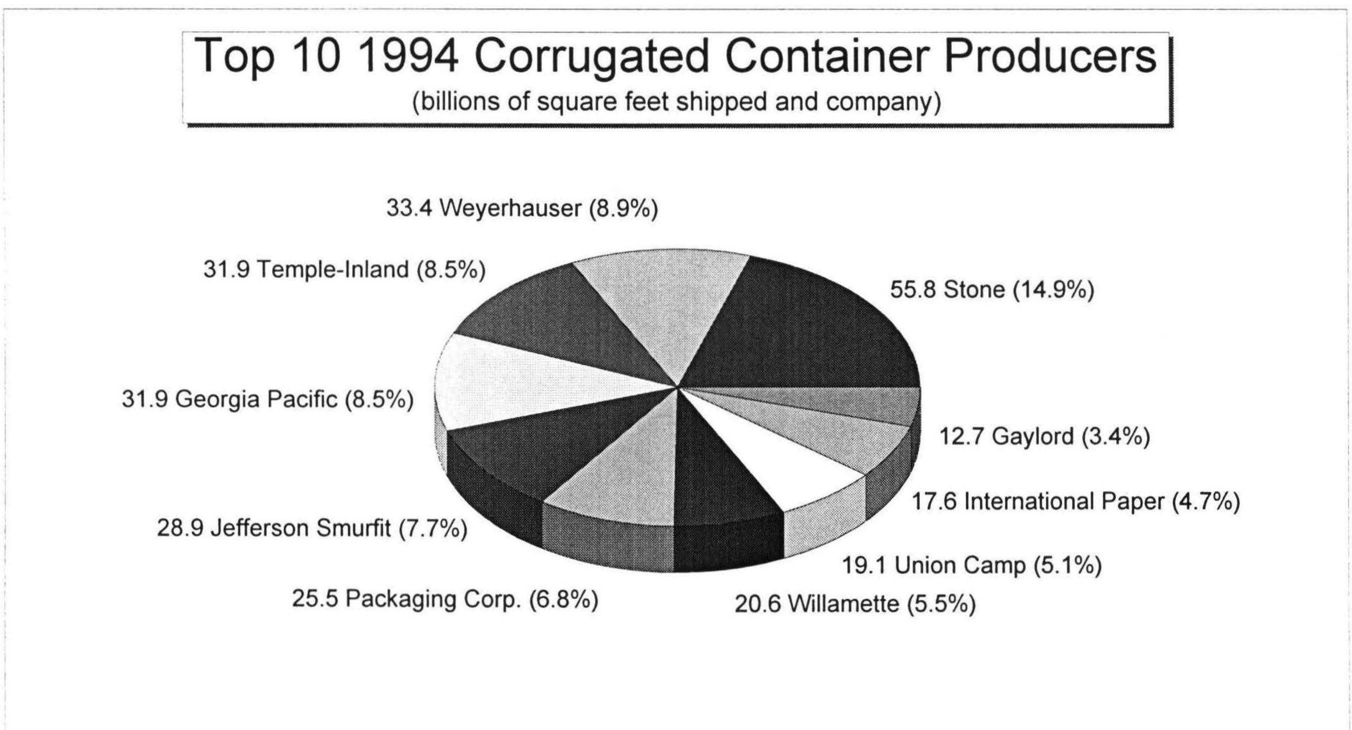
The common theme among the findings of financial analysts regarding Gaylord was negative due to the lack of a diversified product, high debt, and inconsistent earnings. Market conditions should result in consistent earnings at least over the next two years. In response to the analysts' criticisms, during that time Gaylord has two options for the increased revenues. The first option is to pay down some of its high debt. Gaylord can quicken the impact on its debt by unloading several unprofitable plants. Survival is key not growth. With lower debt, decreased cash flow due to a market downturn is not as likely to cause a default on debts as in 1991. A second option is to diversify into another industry in order to insulate itself as its competitors have done. However, Gaylord will still be weighed down by its debt which will be of concern if cash flows drop. Also, whereas many of the diversified competitors have had decades to learn the workings of other industries, Gaylord's inexperience in another industry could result in a fiasco if its core packaging segment suffers in a slow economy.

Gaylord needs to focus its efforts on reducing its debt. Debt is what caused the bankruptcy five years ago and is at the core of financial analysts' warnings regarding Gaylord. Although rapid growth has been a major part of the company's culture during its existence, Gaylord needs to focus on survival. Through a strategy of survival at this time, Gaylord can stay as one of the top ten packaging companies for the benefit of its stockholders, customers, employees, suppliers, and the communities in which they operate.

Figure 1



Note: the top ten represent a 75.2% market share in the linerboard segment
Source: 1994 Miller Freeman, Inc.



Note: the top ten represent a 74% market share in the corrugated packaging segment
Source: 1994 Miller Freeman, Inc.

Figure 2

Gaylord Container Facility Locations

Corrugated Container Plants

Phoenix, Arizona
Antioch, California
Gilroy, California
Newark, Delaware
Tampa, Florida
Atlanta, Georgia
Carol Stream, Illinois
Bogalusa, Louisiana
St. Louis, Missouri
Raleigh, North Carolina
Marion, Ohio
Greenville, South Carolina
Dallas, Texas
San Antonio, Texas
Weslaco, Texas
Nuevo Laredo, Mexico

Grocery Bag Plants

Alsip, Illinois
Monroe, Louisiana

Multi Wall Bag Plants

Pine Bluff, Arkansas
Twinsburg, Ohio

Paper Mills

Pine Bluff, Arkansas
Antioch, California
Bogalusa, Louisiana

Design Centers

Atlanta, Georgia
Carol Stream, Illinois

Graphics Plants

Livermore, California

Sheets Plants

Sunnyvale, California

National Headquarters

Deerfield, Illinois

Source: 1995 Gaylord Annual Report

Figure 3

COMPARATIVE BOX PLANT MANUFACTURING BY REGION

SOUTHWEST	NORTHWEST	MIDWEST	NORTHEAST	SOUTHEAST
Gaylord	Gaylord	Gaylord	Gaylord	Gaylord
Phoenix, AZ		Carol Stream, IL	Newark, DE	Tampa, FL
Antioch, CA		St. Louis, MO		Atlanta, GA
Gilroy, CA		Marion, OH		Bogalusa, LA
Dallas, TX				Raleigh, NC
San Antonio, TX				Greenville, SC
Weslaco, TX				
Union Camp	Union Camp	Union Camp	Union Camp	Union Camp
Denver, CO		Des Plaines, IL	Newtown, CT	Decatur, AL
San Antonio, TX		Kalamazoo, MI	Auburn, ME	Lakeland, FL
		Kansas City, MO	Trenton, NJ	Forest Park, GA
		Solon, OH	Lancaster, PA	Savannah, GA
			Washington, PA	Lafayette, LA
				Houston, MS
				Spartanburg, SC
				Morristown, TN
				Richmond, VA
Willamette	Willamette	Willamette	Willamette	Willamette
Cerritos, CA	Beaverton, OR	Elk Grove Vil., IL	Bellmawr, NJ	Fort Smith, AR
Compton, CA	Bellevue, WA	Lincoln, IL		W. Memphis, AR
Sacramento, CA	Moses Lake, WA	Montgomery, IL		Griffin, GA
San Leandro, CA		Indianapolis, IN		Bowling Green, K
Sanger, CA		Kansas City, KS		Louisville, KY
Golden, CO		Fridley, MN		Lumberton, NC
Grand Prairie, TX		St. Paul, MN		Matthews, NC
Sealy, TX		Maryland Hts, MO		Newton, NC
		Delaware, OH		

Sources: 1995 Annual Report-Gaylord Container Corporation
1994 Annual Report-Union Camp Corporation
1995 Annual Report-Willamette Industries

Figure 4

Inventories - Note # 5

Inventories consist of the following (in millions):

September 30, 1995

	1995	1994
Raw Materials & Supplies	27.9	15.2
Work In Process	31.8	35.4
Finished Goods	13.4	9.0
	73.1	59.6

	FIFO/LIFO Avg. Cost	Excess of Current Cost over LIFO	FIFO/ Avg. Cost
Beginning Inventory	59.6	+10.3	69.9
Purchases	768.5		768.5
Available	828.1		838.4
Ending Inventory	73.1	+10.0	83.1
Cost of Goods Sold	755.0		755.3

Effect on Financials:

	Actual		FIFO	
1995 Sales	1051.4		1051.4	
COGS	755.0		755.3	
Gross Margin	296.4	28.2%	296.1	28.2%

1995 Net Income (LIFO)	134.2
COGS (LIFO)	755
COGS (FIFO)	-755.3
1995 Net INcome (FIFO)	133.9

Source: 1995 Annual Report Gaylord Container Corporation

Figure 5

Leases - Note # 14

Future minimum payments, by fiscal year and in the aggregate, under non-cancellable operating leases with inital or remaining terms of one year or more consisted of the following at September 30, 1995 (in millions) :

Fiscal Year	Operating Lease	IBR = 9.1%	Present Value
1996	11.0	0.91743	10.09
1997	9.1	0.84168	7.66
1998	6.8	0.77218	5.25
1999	5.3	0.70843	3.75
2000	4.4	0.64993	2.86
2001 & thereafter	23.0		
	59.6		

For "2001 & thereafter" assume:

2001	4.4	0.59627	2.62
2002	4.4	0.54703	2.41
2003	4.4	0.50187	2.21
2004	4.4	0.46043	2.03
2005	4.4	0.42241	1.86
2006	1.0	0.38743	0.39
	23.0		
			41.13 additional liability from the leases

Effect on Financials:

	Reported	Adjusted
Debt to Equity:	7.73	8.09
Total Liabilities:	874.8	915.93

Source: 1995 Annual Report Gaylord Conatiner Corporation

Figure 6

Employee Benefit Plans - Pensions - Note # 15

(in millions)	1995
Acturial present value of benefits based on service to date and present pay levels	
Vested	112.4
Nonvested	9.7
Accumulated benefit obligation	122.1
Additional amounts related to projected pay inc.	8.7
Total Projected Benefit Obligation	130.8
Plan Assets at Fair Value	-108.2
Projected benefit obligation less than plan assets	-22.6
Unamortized net amount resulting from changes in plan experience	2.6
Unamortized prior service costs	11.1
Adjustment required to recognize pension liability	-4.9
Accrued Pension Liability	-13.8

Effect on Financials:

PBO > Assets
-13.8
-22.6
8.8 understated liabilities

	Reported	Adjusted
Debt to Equity:	7.73	7.80
Total Liabilities:	874.8	883.6

Source: 1995 Annual Report Gaylord Container Corporation

Figure 7

Fair Value of Financial Instruments - Note # 17

September 30, 1995 (in millions)	Carrying Value	Fair Value	Difference
Assets			
Cash & Equivalents	32.5	32.5	0.0
Trade Receivables	140.0	140.0	0.0
LT Notes Receivable	12.7	13.1	0.4
Liabilities			
Trade Receivables	51.7	51.7	0.0
Senior & Subordinate Notes	626.8	662.8	36.2
Capital Lease Obligations	19.0	19.0	0.0
Other Senior Debt	41.5	41.5	0.0
		Net Change	-35.8

Effect on Financials:

Total Assets:	988.0	Total Equity:	113.2
	0.4		35.8
	988.4		77.4
Total Liabilites:	874.8	Net Income:	134.2
	36.2		-35.8
	911.0		98.4

	Reported	Adjusted
Debt to Equity:	7.73	11.77
Return on Assets:	0.1465	0.1074
Profit Margin:	0.1276	0.0935

Source: 1995 Annual Report Gaylord Container Corporation

TABLE 1

GAYLORD CONTAINER CORPORATION
BALANCE SHEET
(Data are in $ MIllions)

	1995	1994	1993	1992	1991
Current Assets:					
Cash & Equivalents	32.5	17.4	27.6	64.5	39.4
Trade Receivables	140.0	121.8	103.2	103.4	97.8
Inventories	73.1	59.6	61.2	54.9	60.0
Prepaid Expenses	2.8	3.1	1.6	1.9	2.3
Deferred Income Taxes	49.6	0.0	0.0	0.0	0.0
Other	8.3	4.8	5.8	5.0	6.0
Total Current Assets	306.3	206.7	199.4	229.7	205.5
Property	640.0	592.9	611.1	637.5	669.8
Other Assets					
Deferred Charges	24.0	28.1	34.5	19.7	37.8
Other	17.7	15.4	15.1	14.8	52.6
Total Assets	988.0	843.1	860.1	901.7	965.7
Current Liabilities					
Current Maturities of LT Debt	15.6	14.5	5.7	9.6	741.0
Trade Payables	51.7	58.6	43.7	33.2	40.3
Accrued Interest Payable	9.7	10.4	10.3	50.6	89.8
Accrued & Other Liabilities	72.9	51.6	39.8	5.3	59.9
Total Current Liabilities	149.9	135.1	99.5	98.7	931.0
Long Term Debt	671.5	696.8	670.1	935.6	29.7
Other Long Term Liabilities	27.5	30.7	32.6	20.0	24.9
Deferred Income Taxes	25.9	4.3	4.3	3.1	3.1
Total Liabilities	874.8	866.9	806.5	1,057.4	988.7
Common Stock	0.0	0.0	0.0	0.2	0.2
Capital In Excess of Par Value	172.6	170.5	169.4	80.9	80.2
Retained Earnings	(54.7)	(188.9)	(104.9)	(235.1)	(102.6)
Common Stock in Treasury	(0.4)	(0.8)	(0.8)	(0.8)	(0.8)
Recognition of Minimum Pension	(4.3)	(4.6)	(10.1)	(0.9)	0.0
Total Stockholders' Equity	113.2	(23.8)	53.6	(155.7)	(23.0)
Total Liabilities & Equity	988.0	843.1	860.1	901.7	965.7

Note: Data is from Compustat and Gaylord Annual Reports

TABLE 2

GAYLORD CONTAINER CORPORATION
INCOME STATEMENT
(Data are in $ Millions except per share data)

	1995	1994	1993	1992	1991
Net Sales	1,051.4	784.4	733.5	722.8	723.8
Cost of Goods Sold	755.0	691.4	652.1	626.1	636.7
Gross Profit	296.4	93.0	81.4	96.7	87.1
Selling and Administrative Costs	(95.5)	(81.0)	(73.8)	(118.4)	(199.6)
Non-recurring Operating Charges	(5.4)	(15.5)	(9.9)	0.0	0.0
Operating Earnings	195.5	(3.5)	(2.3)	(21.7)	(111.5)
Interest Expense	(86.1)	(80.3)	(68.2)	(110.8)	(107.0)
Other Income (Expense)	0.6	(0.2)	0.5	0.0	0.0
Income Before Income Taxes	110.0	(84.0)	(70.0)	(132.5)	(219.5)
Income Tax Benefit	24.2				39.2
Income Before Extraordinary Item & Accounting Change	134.2	(84.0)	(70.0)	(132.5)	(180.3)
Extraordinary Gain			201.5		
Accounting Change			(1.3)		
Net Income	134.2	(84.0)	130.2	(132.5)	(180.3)
Earnings Per Common Share:					
Income Before Gain & Chang	2.44	(1.57)	(1.40)	(8.54)	(11.68)
Extraordinary Gain			4.04		
Accounting Change			(0.03)		
Net Income	2.44	(1.57)	2.61	(8.54)	(11.68)
Average Number of Common Shares Outstanding	55.1	53.6	49.8	15.5	15.4

Note: Data is from Compustat and Gaylord Annual Reports

TABLE 3

GAYLORD CONTAINER CORPORATION
COMMON SIZE BALANCE SHEET
(% of total assets or total liabilities & equity)

	1995	1994	1993	1992	1991
Current Assets:					
Cash & Equivalents	3.29%	2.06%	3.21%	7.15%	4.08%
Trade Receivables	14.17%	14.45%	12.00%	11.47%	10.13%
Inventories	7.40%	7.07%	7.12%	6.09%	6.21%
Prepaid Expenses	0.28%	0.37%	0.19%	0.21%	0.24%
Deferred Income Taxes	5.02%	0.00%	0.00%	0.00%	0.00%
Other	0.84%	0.57%	0.67%	0.55%	0.62%
Total Current Assets	31.00%	24.52%	23.18%	25.47%	21.28%
Property	64.78%	70.32%	71.05%	70.70%	69.36%
Other Assets					
Deferred Charges	2.43%	3.33%	4.01%	2.18%	3.91%
Other	1.79%	1.83%	1.76%	1.64%	5.45%
Total Assets	100.00%	100.00%	100.00%	100.00%	100.00%
Current Liabilities					
Current Maturities of LT Debt	1.58%	1.72%	0.66%	1.06%	76.73%
Trade Payables	5.23%	6.95%	5.08%	3.68%	4.17%
Accrued Interest Payable	0.98%	1.23%	1.20%	5.61%	9.30%
Accrued & Other Liabilities	7.38%	6.12%	4.63%	0.59%	6.20%
Total Current Liabilities	15.17%	16.02%	11.57%	10.95%	96.41%
Long Term Debt	67.97%	82.65%	77.91%	103.76%	3.08%
Other Long Term Liabilities	2.78%	3.64%	3.79%	2.22%	2.58%
Deferred Income Taxes	2.62%	0.51%	0.50%	0.34%	0.32%
Total Liabilities	88.54%	102.82%	93.77%	117.27%	102.38%
Common Stock	0.00%	0.00%	0.00%	0.02%	0.02%
Capital In Excess of Par Value	17.47%	20.22%	19.70%	8.97%	8.30%
Retained Earnings	-5.54%	-22.41%	-12.20%	-26.07%	-10.62%
Common Stock in Treasury	-0.04%	-0.09%	-0.09%	-0.09%	-0.08%
Recognition of Minimum Pension	-0.44%	-0.55%	-1.17%	-0.10%	0.00%
Total Stockholders' Equity	11.46%	-2.82%	6.23%	-17.27%	-2.38%
Total Liabilities & Equity	100.00%	100.00%	100.00%	100.00%	100.00%

Note: Data is from Compustat and Gaylord Annual Reports

TABLE 4

GAYLORD CONTAINER CORPORATION
COMMON SIZE INCOME STATEMENT
(% of sales, except earnings per share & outstanding shares)

	1995	1994	1993	1992	1991
Net Sales	100.00%	100.00%	100.00%	100.00%	100.00%
Cost of Goods Sold	71.81%	88.14%	88.90%	86.62%	87.97%
Gross Profit	28.19%	11.86%	11.10%	13.38%	12.03%
Selling and Administrative Costs	-9.08%	-10.33%	-10.06%	-16.38%	-27.58%
Non-recurring Operating Charges	-0.51%	-1.98%	-1.35%	0.00%	0.00%
Operating Earnings	18.59%	-0.45%	-0.31%	-3.00%	-15.40%
Interest Expense	-8.19%	-10.24%	-9.30%	-15.33%	-14.78%
Other Income (Expense)	0.06%	-0.03%	0.07%	0.00%	0.00%
Income Before Income Taxes	10.46%	-10.71%	-9.54%	-18.33%	-30.33%
Income Tax Benefit	2.30%				5.42%
Income Before Extraordinary Item & Accounting Change	12.76%	-10.71%	-9.54%	-18.33%	-24.91%
Extraordinary Gain			27.47%		
Accounting Change			-0.18%		
Net Income	12.76%	-10.71%	17.75%	-18.33%	-24.91%
Earnings Per Common Share:					
Income Before Gain & Chang	2.44	(1.57)	(1.40)	(8.54)	(11.68)
Extraordinary Gain			4.04		
Accounting Change			(0.03)		
Net Income	2.44	(1.57)	2.61	(8.54)	(11.68)
Average Number of Common Shares Outstanding	55.1	53.6	49.8	15.5	15.4

Note: Data is from Compustat and Gaylord Annual Reports

TABLE 5

GAYLORD CONTAINER CORPORATION
STATEMENT OF CASH FLOWS
(Data are in $ Millions)

	1995	1994	1993	1992	1991
Cash Flow from Operations:					
Income (loss) before extraordinary item and accounting change	134.2	(84.0)	(70.0)	(132.5)	(180.3)
Depreciation and amortization	64.8	61.2	61.1	59.3	63.5
Non-cash interest expense	46.7	41.3	15.9	2.3	12.3
Deferred income taxes	(28.0)				(15.2)
Early retirement change	5.4			9.0	8.0
Asset write-down		13.4	2.1	32.9	
Loss (gain) on asset disposition	0.2	2.1	(0.6)	0.5	1.2
Acquisition restructuring expenditures	(1.0)	(2.9)	(2.5)	(2.1)	
Change in current assets / liabilities:					
Receivables	(18.2)	(18.6)	0.2	(3.7)	(4.8)
Inventories	(13.5)	1.6	(4.8)	3.0	(2.3)
Prepaid expenses	(3.2)	(0.6)	(0.7)	7.4	(4.3)
Accounts payable	8.2	15.6	11.1	81.2	8.4
Other - net	(1.4)	0.6	1.2	(0.7)	32.6
Net Cash Provided by Operations	194.2	29.7	13.0	56.6	(80.9)
Cash Flow from Investments:					
Capital expenditures	(58.9)	(40.4)	(23.7)	(22.9)	37.9
Capitalized interest	(2.3)	(0.9)	(0.5)	(0.5)	(2.5)
Proceeds from asset sales	3.5	4.5	0.4	3.1	6.2
Acquisitions			(5.9)	(4.1)	(8.4)
Other investments - net	(3.6)	1.9	0.4		
Net Cash Used for Investments	(61.3)	(34.9)	(29.3)	(24.4)	33.2
Cash Flow from Financing:					
Issuance of senior notes			225.0		
Issuance of subordinated debentures			300.0		
Refinancing - debt redeemed			(460.5)		
Restructuring closing			(53.1)		
Seniot debt repayments	(115.7)	(5.4)	(13.8)	(10.5)	18.2
Debt issuance costs	(3.4)		(21.3)	3.3	(4.0)
Other financing - net	1.3	0.4	3.1	0.1	59.6
Net Cash Used for Financing	(117.8)	(5.0)	(20.6)	(7.1)	73.8
Net increase in cash and equivalents	15.1	(10.2)	(36.9)	25.1	26.1
Cash and Equivalents, beginning of yr.	17.4	27.6	64.5	39.4	13.3
Cash and Equivalents, end of year	32.5	17.4	27.6	64.5	39.4

Note: Data is from Compustat and Gaylord Annual Reports

TABLE 6
GAYLORD CONTAINER CORPORATION
STOCK MARKET PERFORMANCE

Month/ Year	High Price	Low Price	Close Price	12 Month Earnings	Stock Return	Market Return
Jan 1992	4.875	3.000	4.000	(12.570)	0.28000	(0.01268)
Feb 1992	4.625	3.625	4.125	(12.570)	0.31250	0.01634
Mar 1992	4.500	3.875	4.250	(13.150)	0.03030	(0.01242)
April 1992	4.375	3.750	4.375	(13.150)	0.02941	0.00571
May 1992	4.500	3.750	3.875	(13.150)	(0.11429)	(0.00123)
June 1992	4.250	3.750	4.125	(7.140)	0.06452	(0.01660)
July 1992	4.125	3.000	3.500	(7.140)	(0.15152)	0.04156
Aug 1992	3.375	2.750	3.000	(7.140)	(0.14286)	(0.01957)
Sept 1992	4.000	2.500	3.750	(8.540)	0.25000	0.01617
Oct 1992	3.750	2.687	2.875	(8.540)	(0.23333)	0.00442
Nov 1992	3.125	2.375	2.750	(8.540)	(0.04348)	0.02107
Dec 1992	3.625	2.375	3.250	(7.350)	0.18182	0.02254
Jan 1993	3.437	2.875	3.250	(7.350)	0.00000	(0.00749)
Feb 1993	4.000	3.125	3.347	(7.350)	0.05754	(0.00276)
Mar 1993	3.437	2.625	2.750	(6.160)	(0.19988)	0.02863
April 1993	2.937	2.187	2.375	(6.160)	(0.13636)	(0.02919)
May 1993	3.250	2.250	2.875	(6.160)	0.21053	0.04336
June 1993	2.875	2.500	2.625	(4.490)	(0.08696)	(0.01285)
July 1993	2.750	2.312	2.625	(4.490)	0.00000	(0.01437)
Aug 1993	2.625	1.875	2.062	(4.490)	(0.21448)	0.02896
Sept 1993	2.375	2.000	2.187	(1.400)	0.06062	(0.00075)
Oct 1993	2.937	2.000	2.937	(1.400)	0.34293	0.02703
Nov 1993	4.375	2.937	4.000	(1.400)	0.36193	0.00752
Dec 1993	4.750	3.375	4.562	(1.480)	0.14050	0.02041
Jan 1994	6.875	4.500	6.625	(1.480)	0.45221	0.01180
Feb 1994	6.875	4.375	5.500	(1.480)	(0.16981)	0.00307
Mar 1994	6.000	4.750	4.875	(1.680)	(0.11364)	(0.05029)
April 1994	5.250	4.375	4.875	(1.680)	0.00000	0.00817
May 1994	6.000	4.875	5.250	(1.680)	0.07692	0.01347
June 1994	6.250	4.750	5.125	(1.600)	(0.02381)	(0.01583)
July 1994	6.375	5.250	5.750	(1.600)	0.12195	0.01346
Aug 1994	6.750	5.625	6.500	(1.600)	0.13043	0.05774
Sept 1994	8.750	6.250	8.500	(1.570)	0.30769	(0.00865)
Oct 1994	9.750	7.750	8.500	(1.570)	0.00000	0.00176
Nov 1994	9.250	7.500	8.875	(1.570)	0.04412	(0.02081)
Dec 1994	9.125	7.625	9.125	(0.930)	0.02817	0.02335
Jan 1995	9.500	7.750	8.375	(0.930)	(0.08219)	0.00778
Feb 1995	13.625	8.375	13.250	(0.930)	0.58209	0.03693
March 199	13.875	10.500	13.000	0.000	(0.01887)	0.04963
April 1995	15.500	10.750	11.250	0.000	(0.13462)	0.01846
May 1995	12.000	7.750	9.375	0.000	(0.16667)	0.03732
June 1995	12.125	9.437	12.000	1.090	0.28000	0.02977
July 1995	13.375	11.000	11.625	1.090	(0.03125)	0.03541

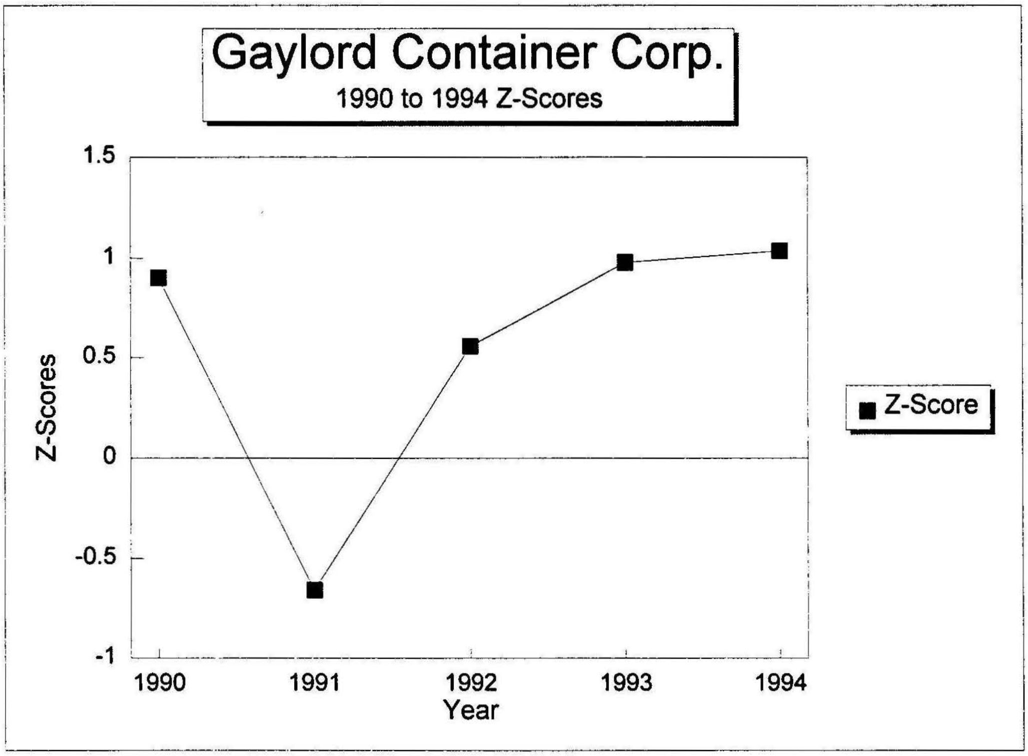
Data: Compustat Database

EXHIBIT 1

GAYLORD CONTAINER CORPORATION
ALTMAN BANKRUPTCY MODEL

	1990	1991	1992	1993	1994
Z-Score	0.903	(0.657)	0.558	0.978	1.035

Note: if Z > 2.99 = assign company to non-bankruptcy group
if Z < 1.81 = assign company to bankruptcy group
if 1.81 < Z < 2.99 = gray area



Data: Compustat Database

EXHIBIT 2A

COMPARATIVE LIQUIDITY RATIOS
QUICK RATIO

	1991	1992	1993	1994	1995
Gaylord	0.15	1.70	1.31	1.03	1.15
Union Camp	0.54	0.55	0.47	0.55	0.55
Willamette	0.61	0.59	0.58	0.63	0.79
Industry	0.90	0.90	0.90	0.90	0.90

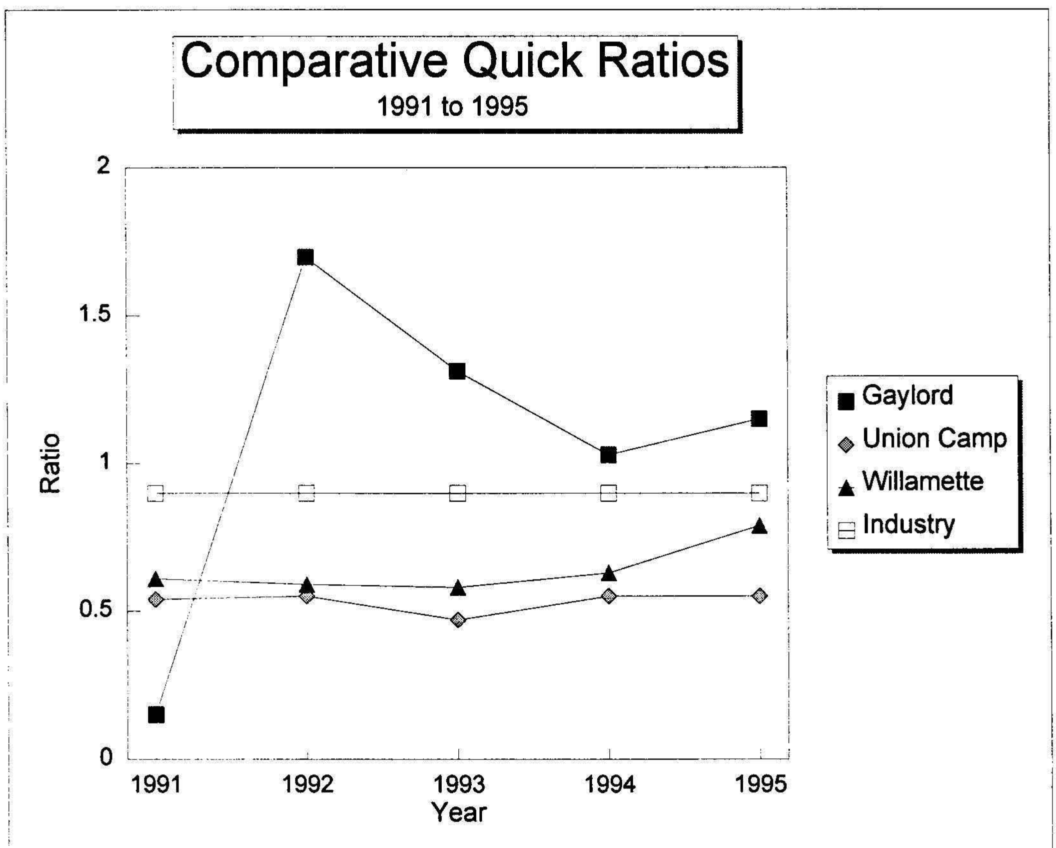


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EXHIBIT 2B

COMPARATIVE LIQUIDITY RATIOS
CURRENT RATIO

	1991	1992	1993	1994	1995
Gaylord	0.22	2.33	2.00	1.53	2.04
Union Camp	1.19	1.14	1.00	1.08	1.07
Willamette	1.50	1.49	1.42	1.30	1.86
Industry	1.50	1.30	1.50	1.40	1.40

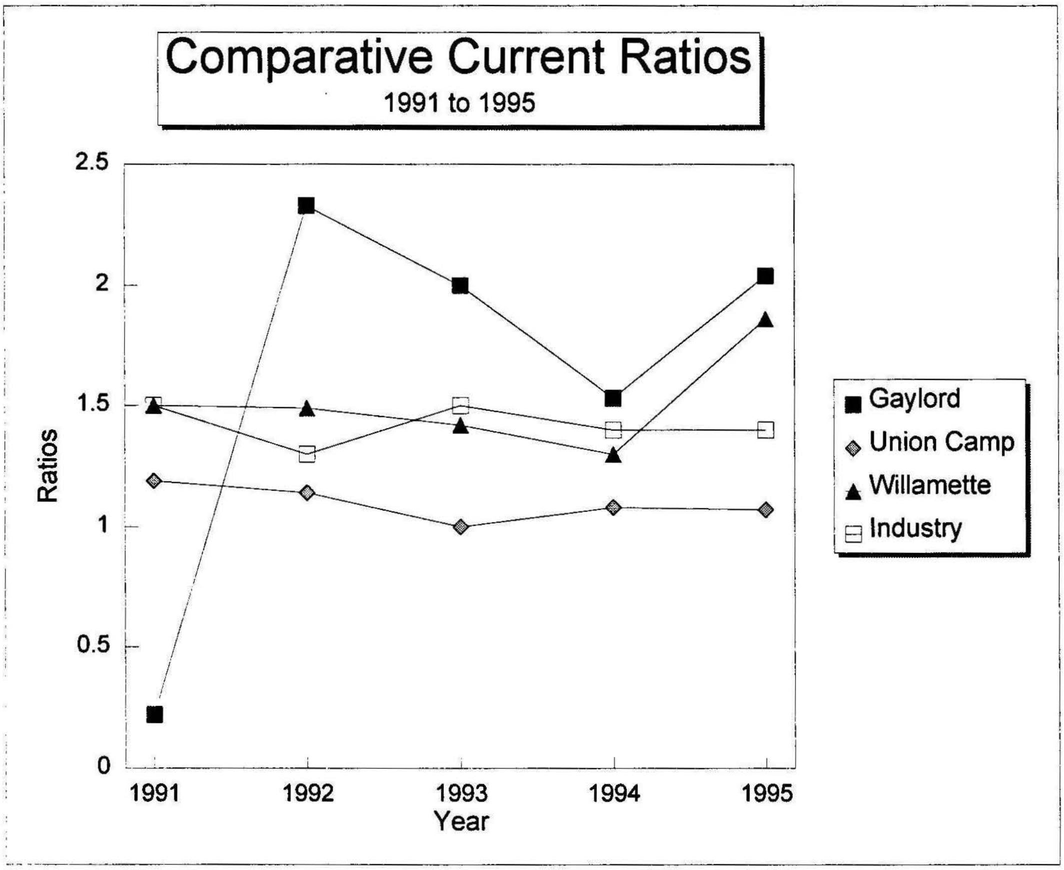

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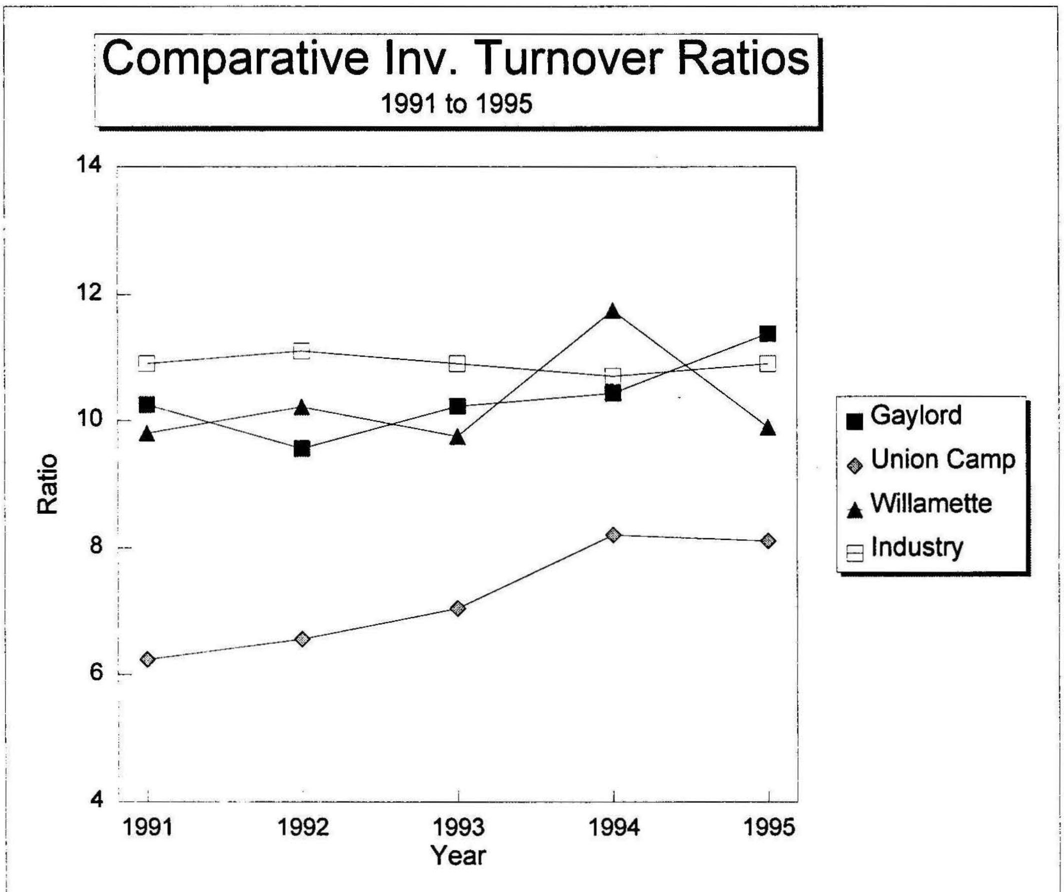
EXHIBIT 3A

COMPARATIVE ACTIVITY RATIOS
INVENTORY TURNOVER RATIO

	1991	1992	1993	1994	1995
Gaylord	10.25	9.56	10.22	10.43	11.38
Union Camp	6.24	6.56	7.05	8.21	8.11
Willamette	9.80	10.21	9.75	11.75	9.90
Industry	10.90	11.10	10.90	10.70	10.90



Data: Compustat Database

EXHIBIT 3B

COMPARATIVE ACTIVITY RATIOS
ACCOUNTS RECEIVABLE TURNOVER

	1991	1992	1993	1994	1995
Gaylord	5.18	5.52	7.34	10.96	9.51
Union Camp	7.67	7.17	8.01	7.23	7.45
Willamette	12.43	12.98	12.66	10.63	12.33
Industry	9.50	9.30	9.40	9.50	9.50

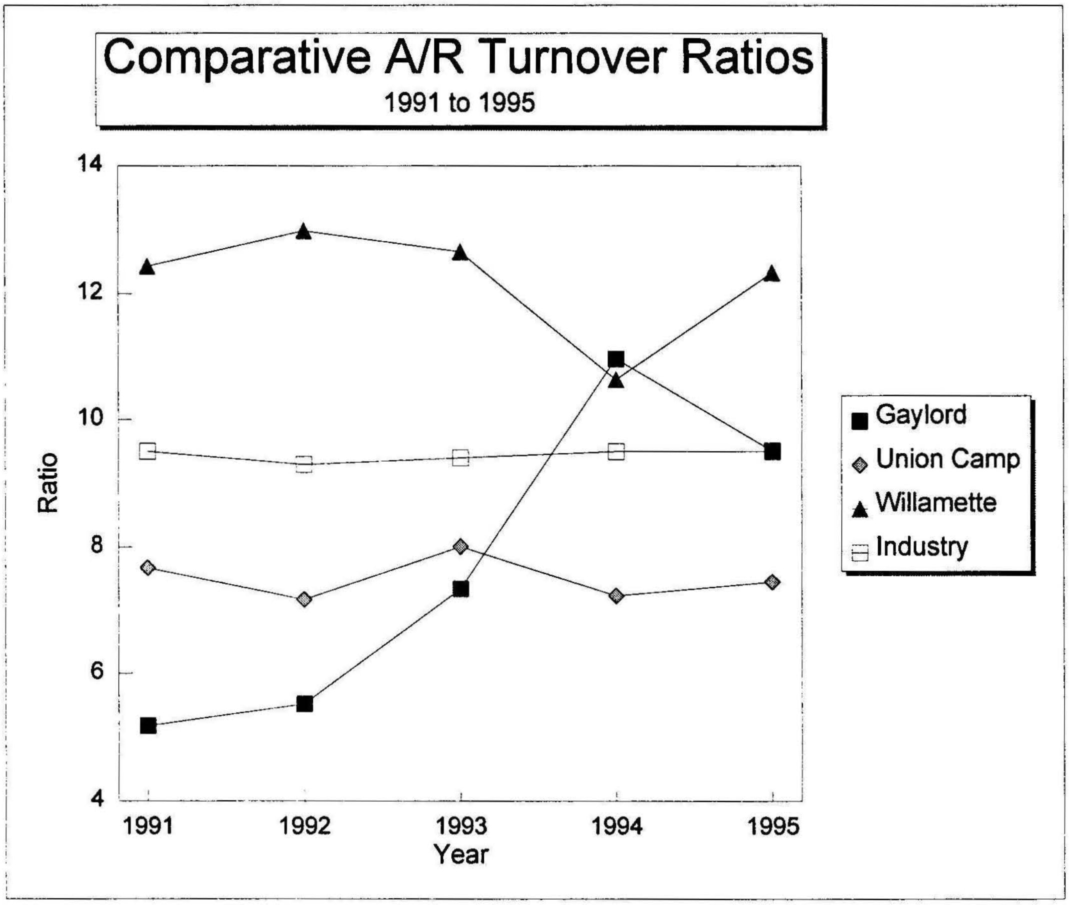


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EXHIBIT 4

COMPARATIVE DEBT RATIOS
DEBT TO EQUITY RATIO

	1991	1992	1993	1994	1995
Gaylord	(3.54)	(6.79)	5.05	(36.42)	7.73
Union Camp	0.73	0.72	0.74	0.71	0.70
Willamette	1.17	1.19	1.17	1.23	1.18
Industry	1.90	2.00	2.00	2.00	1.90

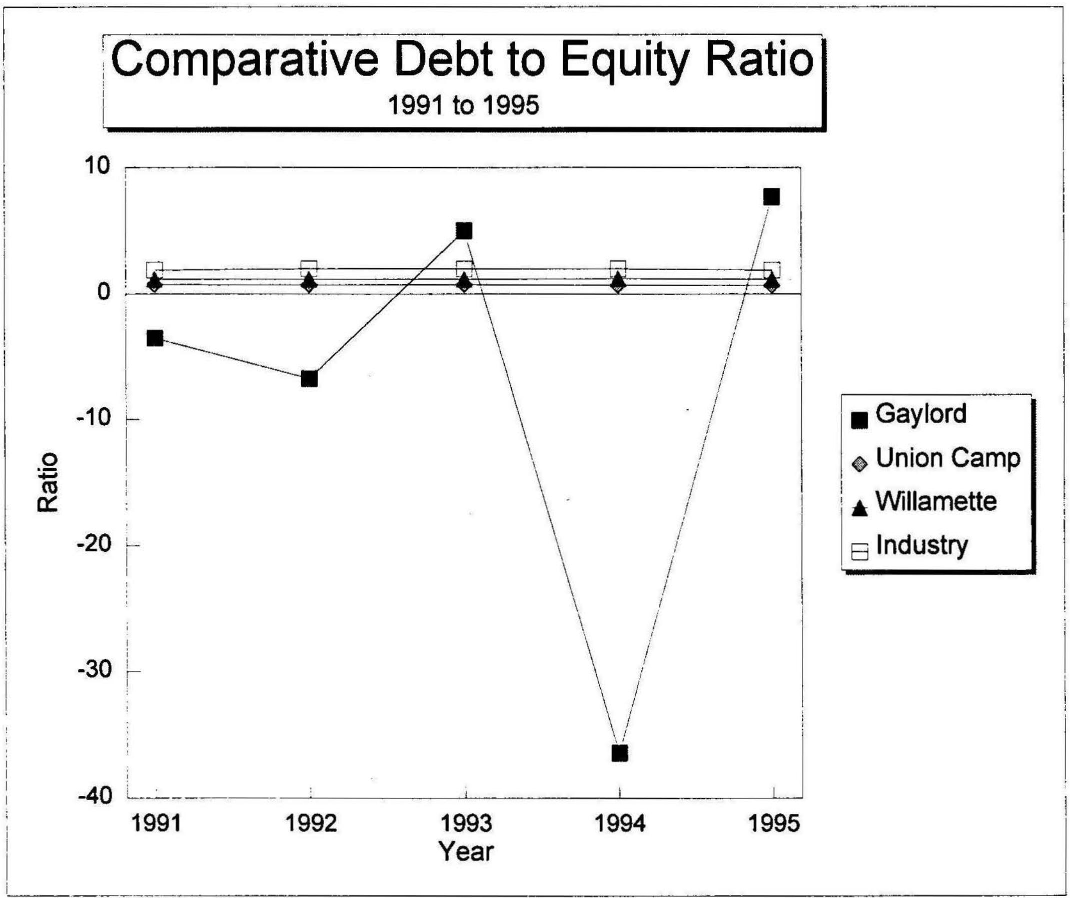

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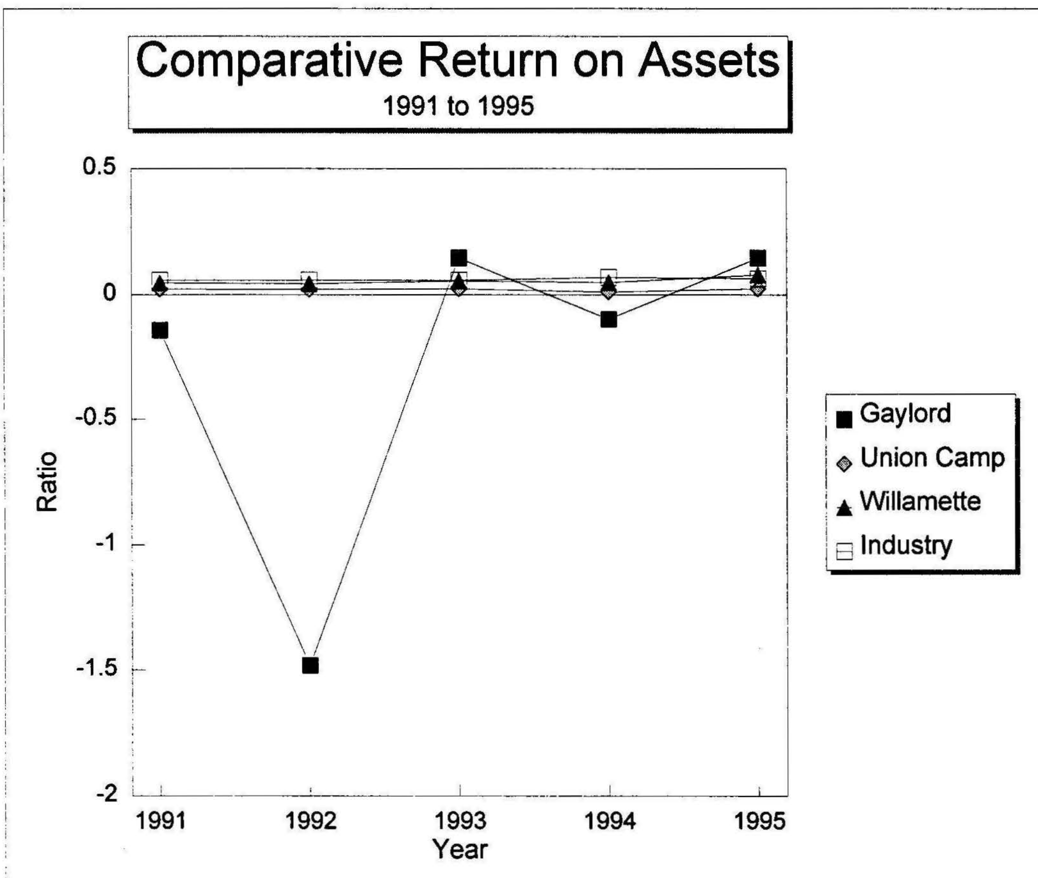
EXHIBIT 5A

COMPARATIVE INVESTMENT RATIOS
RETURN ON ASSETS

	1991	1992	1993	1994	1995
Gaylord	(0.1419)	(1.4820)	0.1478	(0.0985)	0.1465
Union Camp	0.0231	0.0221	0.0245	0.0107	0.0240
Willamette	0.0480	0.0446	0.0565	0.0499	0.0802
Industry	0.0590	0.0580	0.0580	0.0700	0.0650



Data: Compustat Database

EXHIBIT 5B

COMPARATIVE INVESTMENT RATIOS
RETURN ON EQUITY

	1992	1993	1994	1995
Gaylord	(1.4821)	(2.5479)	(5.6376)	3.0022
Union Camp	0.0410	0.0340	0.0620	0.1130
Willamette	0.0343	0.0322	0.0415	0.0586
Industry	0.1670	0.1940	0.2340	0.2030

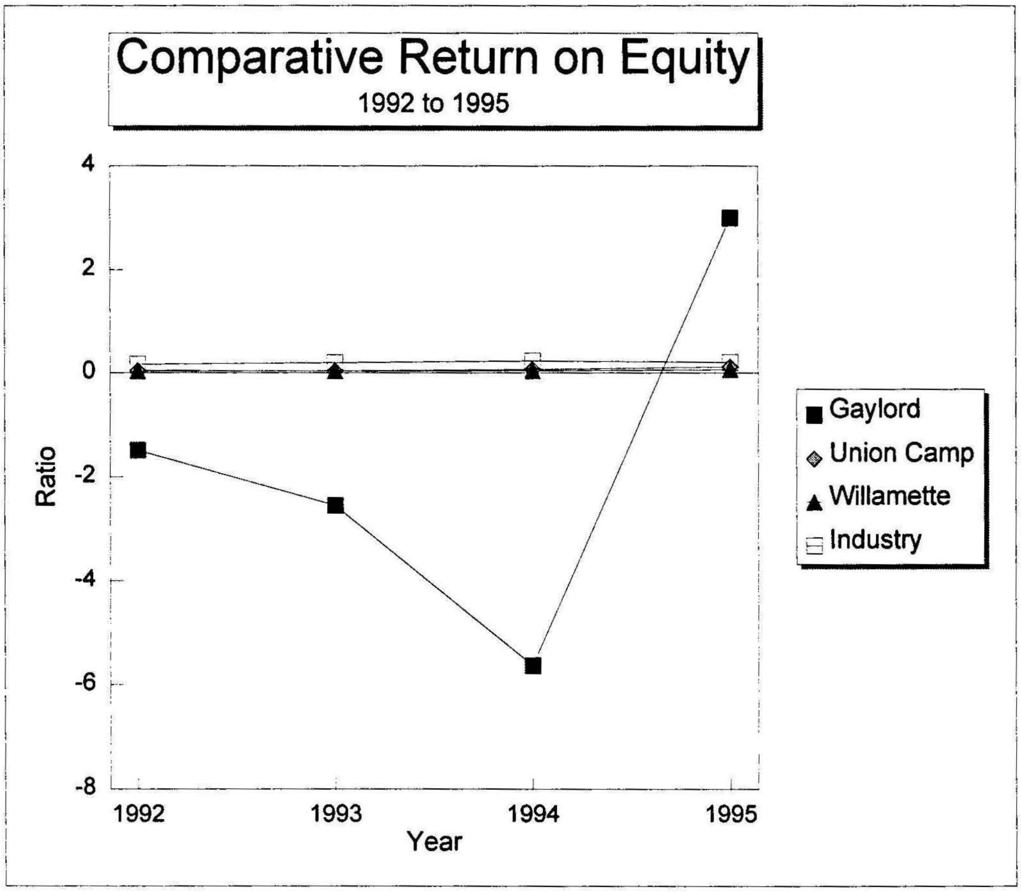


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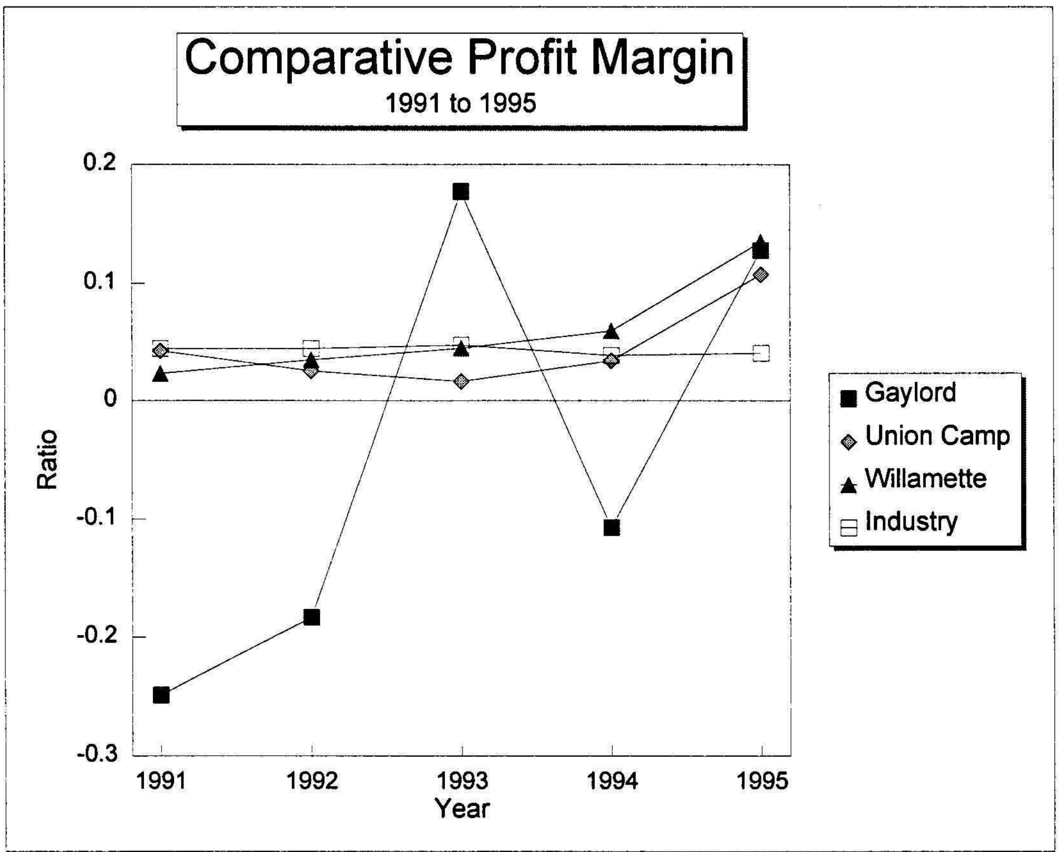
EXHIBIT 6A

COMPARATIVE PROFITABILITY RATIOS
PROFIT MARGIN

	1991	1992	1993	1994	1995
Gaylord	(0.2491)	(0.1833)	0.1775	(0.1071)	0.1276
Union Camp	0.0421	0.0249	0.0160	0.0334	0.1071
Willamette	0.0228	0.0344	0.0444	0.0591	0.1351
Industry	0.0440	0.0440	0.0470	0.0380	0.0400



Data: Compustat Database

EXHIBIT 6B

COMPARATIVE PROFITABILITY RATIOS
GROSS MARGIN

	1991	1992	1993	1994	1995
Gaylord	0.1479	0.1583	0.1109	0.1186	0.2819
Union Camp	0.2433	0.2525	0.2436	0.2564	0.2487
Willamette	0.1343	0.1537	0.1643	0.1834	0.2876
Industry	0.2520	0.2500	0.2610	0.2460	0.2500

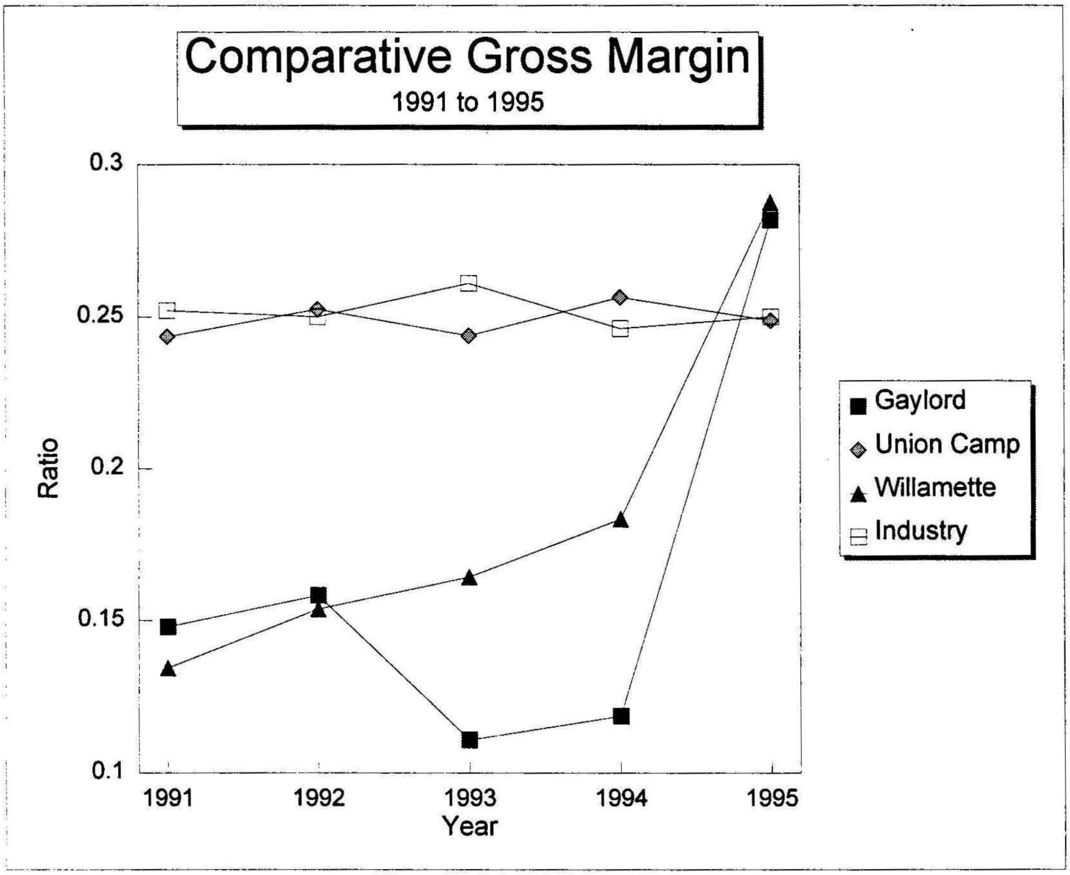


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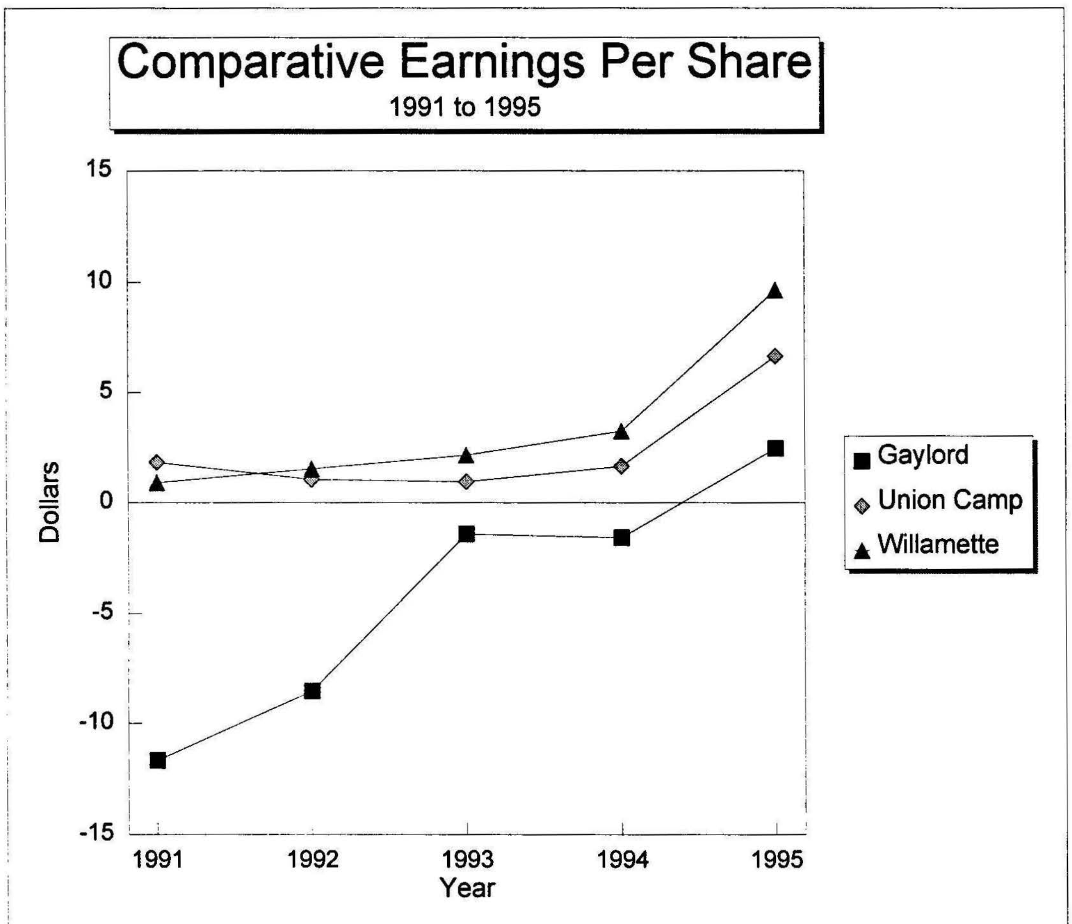
EXHIBIT 7

COMPARATIVE EARNINGS PER SHARE

	1991	1992	1993	1994	1995
Gaylord	(11.68)	(8.54)	(1.40)	(1.57)	2.44
Union Camp	1.80	1.04	0.94	1.63	6.65
Willamette	0.90	1.52	2.13	3.23	9.65

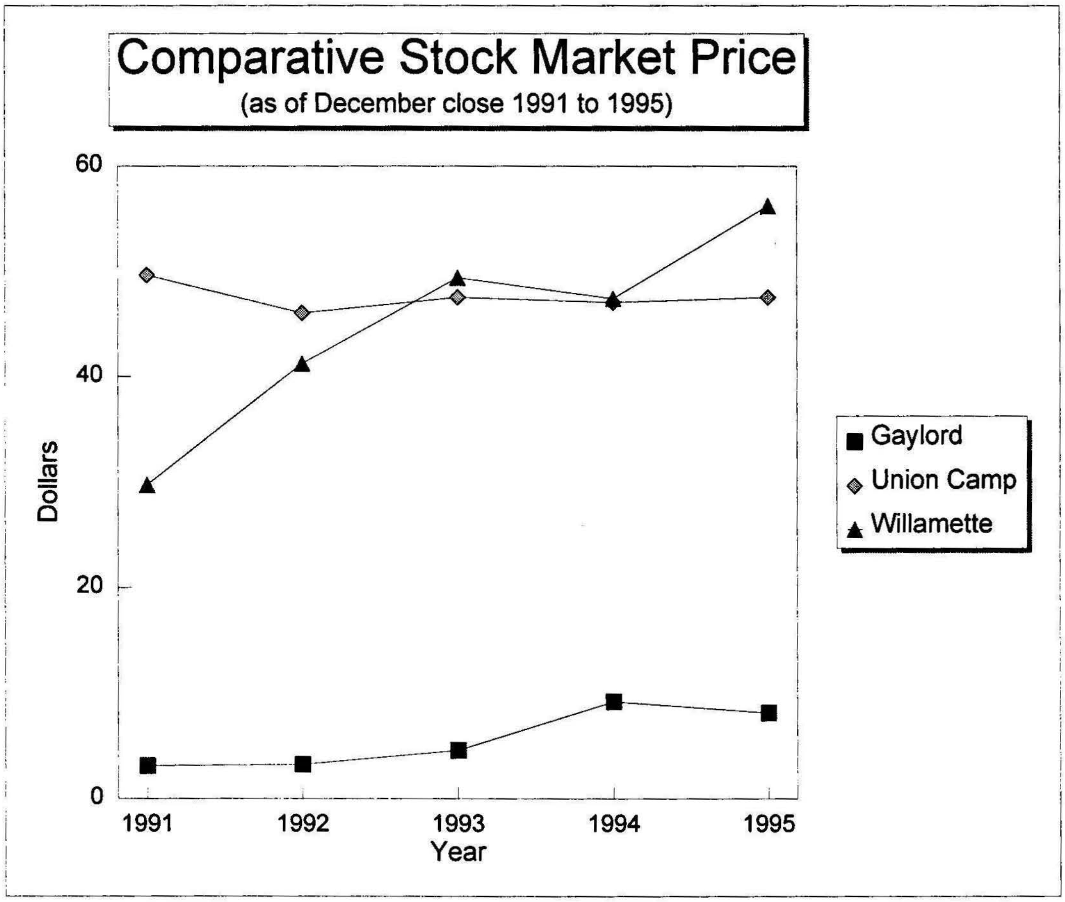


Data: Compustat Database

EXHIBIT 8

COMPARATIVE STOCK MARKET PRICE
(as of December close for each year)

	1991	1992	1993	1994	1995
Gaylord	3.13	3.25	4.56	9.13	8.06
Union Camp	49.75	46.13	47.63	47.13	47.63
Willamette	29.75	41.25	49.50	47.50	56.25



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