

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1995-07-28** | Period of Report: **1995-04-29**  
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### FILER

#### SHOREWOOD PACKAGING CORP

CIK: **800266** | IRS No.: **112742734** | State of Incorporation: **DE** | Fiscal Year End: **0427**  
Type: **10-K** | Act: **34** | File No.: **000-15077** | Film No.: **95557177**  
SIC: **2670** Converted paper & paperboard prods (no containers/boxes)

Mailing Address  
*10 E 53RD STREET  
NEW YORK NY 10022*

Business Address  
*10 E 53RD STREET  
NEW YORK NY 10022  
2123711500*

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended April 29, 1995

OR

/  TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

COMMISSION FILE NUMBER 0-15077

SHOREWOOD PACKAGING CORPORATION  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction  
of incorporation or organization)

11-2742734  
(IRS employer  
identification No.)

277 PARK AVENUE  
(Address of principal executive offices)

10172  
(Zip Code)

(212) 371-1500  
Registrant's telephone number, including area code

-----  
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

| TITLE OF EACH CLASS:<br>----- | NAME OF EACH EXCHANGE ON WHICH REGISTERED<br>----- |
|-------------------------------|--|
| None                          | Not Applicable                                     |

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:  
Common Stock, \$.01 par value  
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  / No  /  
--- ---

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

As of July 26, 1995, the aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant was approximately \$263,950,080. (This figure was computed on the basis of the average of the high and low selling prices for the Registrant's common stock on July 26, 1995). Non-affiliates include all shareholders of Registrant other than executive officers, directors and 5% shareholders who are employees of the Registrant. As of July 26, 1995, there were 19,367,599 shares of the Registrant's common stock, \$.01 par value per share, issued and outstanding.

The information required in Part III of this Form 10-K is incorporated by reference from the Registrant's definitive proxy statement for the October 19, 1995 annual meeting of stockholders.

The Exhibit Index is Located on Page 40.

## ITEM 1. BUSINESS

Shorewood Packaging Corporation and its subsidiaries (collectively, "Shorewood" or the "Company") print and manufacture high quality paperboard packaging for the cosmetics, home video, music, software, tobacco and toiletries and general consumer markets in the United States and Canada. Shorewood was incorporated in November 1967. The Company's principal executive offices are located at 277 Park Avenue, New York, New York 10172 and its telephone number is (212) 371-1500.

Shorewood's strategic objectives are (i) the maintenance of its position as a leading paperboard packager to the tobacco industry and the home entertainment market, which includes the music and video industries; (ii) the further expansion of the Company's markets in the CD-ROM computer software and games industry and in the cosmetics and toiletries, food, liquor, consumer electronics, film and hosiery industries; and (iii) the identification of other areas in the general consumer packaging industry that can most benefit from the Company's ability to produce graphically enhanced high quality packaging. To achieve these objectives, the Company intends to continue expanding its printing, packaging and graphic arts capabilities, including the development and application of advanced manufacturing technologies.

## Packaging Products

The Company produces high quality specialized packaging, principally folding cartons and set up boxes, for its customers in the United States and Canada that require sophisticated precision graphic packaging for their products, including customers in the home entertainment industry, the tobacco industry, the software industry, the personal care, cosmetic and toiletries industries and in such general consumer industries as the food, liquor, film, hosiery, consumer electronics and pharmaceutical industries.

In January 1994, the Company acquired the assets comprising the "Somerville Premium Packaging Business" of Cascades Paperboard International, Inc. (the "Premium Group"). See "Acquisitions". As a result of its acquisition of the Premium Group, the Company has become a principal supplier of printed packaging products for the tobacco industry. For its tobacco industry customers, the Company produces the hard flip-top cigarette packages as well as the traditional slide and shell packages. These products are used to package many of the leading tobacco brands. The Company believes that through its acquisition of the Premium Group it has become the primary carton supplier to the Canadian tobacco industry and a leading manufacturer of paperboard packaging for the tobacco industry in the United States. See "Tobacco Industry". In the fiscal year ended April 29, 1995 ("fiscal 1995"), Philip Morris, one of Shorewood's tobacco industry customers, accounted for approximately 17% of the Company's consolidated net revenues. In addition, two other customers, who may be deemed to be affiliated with each other, accounted in the aggregate for approximately 13% of the Company's fiscal 1995 consolidated net revenues, albeit neither alone accounted for more than 10% of the Company's consolidated revenues in such fiscal year. Although Shorewood believes that its relationships with these customers are excellent, the Company does not have long-term supply agreements with them and there can be no assurance that their packaging requirements in the future will continue at the same levels as in fiscal 1995.

For its music and home entertainment industry customers, the Company manufactures compact disc packaging (including folders, booklets and liners), prerecorded cassette packaging (including folders and sleeves), and other printed material and paperboard packaging for all video cassette formats (including VHS and 8 millimeter). The Company's music industry customers include most of the major

music production and distribution companies in the United States. The Company has long-standing relationships with many of these companies and in certain cases also has agreements, typically for three to five years, to supply their packaging products.

In March 1993, the manufacturers of prerecorded music discontinued the use of the long-box as a packaging medium for compact discs. During fiscal 1993, the Company realized revenues of approximately \$20 million from the sales of the long-box. Revenues derived from the long-box were negligible during

fiscal years 1994 and 1995. The revenue loss was mitigated as the Company's revenues increased in fiscal years 1994 and 1995, primarily as a result of its acquisition of the Premium Group. Additionally, the Company continues its efforts to market to music industry manufacturers and other users of compact discs different forms of compact disc packaging.

The Company has supplied a significant portion of the music packaging products required by Sony Music Entertainment, Inc., a wholly-owned subsidiary of Sony Corporation ("Sony") and, from time to time, has entered into supply agreements with Sony. Sony and its affiliates (including its Canadian operations) accounted for approximately 18% of the Company's net sales for fiscal 1993. Sony did not account for more than 10% of the Company's consolidated revenues in either fiscal 1994 or fiscal 1995. The Company cannot predict the packaging product requirements of Sony in the future.

The Company is a supplier of paperboard packaging for the cosmetics and toiletries industry and also produces a wide range of consumer packaging products. Additionally, as a result of the Company's acquisition of certain operating assets from Heminway Packaging Corporation ("Heminway") in January 1994, the Company manufactures and provides rigid set-up boxes, principally for customers in the cosmetics industry. See "Acquisitions."

An emerging new market for the Company's products is the CD-ROM computer software and games industry. The Company is currently constructing a manufacturing facility in the Pacific Northwest, home of many leading software manufacturers, to better service this market. See "Item 2. Properties". The Company expects to derive future sales growth through the continued expansion of its role as a supplier of paperboard packaging for CD-ROM products.

#### Production

The Company generally produces packaging from specifications, art work or film supplied by its customers. However, the Company from time to time designs and develops new packaging concepts and structures when required by its customers.

Shorewood has developed and currently utilizes a printing and manufacturing web system, referred to as the "JOSH System", which combines gravure and lithographic printing. The Company believes that the JOSH System gives designers of packaging the flexibility to translate certain graphic concepts into high quality, cost-efficient and precisely manufactured packaging. The Company's manufacturing facilities are equipped with Josh Systems and multi-color sheet fed printing presses as well as other equipment necessary to produce packaging including platemaking equipment, leaf stamping machines, diecutters/embossers, folders and gluers. Further, the Company has machine shops which enable it to service and maintain substantially all of its machinery and equipment. The Company also maintains a full-time design and engineering staff.

The Company's productive capacity has substantially increased as a result of capital expenditures for machinery and equipment and the acquisition of new facilities, including the acquisition of the

Premium Group. The Company's policy is to continue to enhance its technological capacities to meet competitive challenges, although there can be no assurance that it will be able to do so.

#### Marketing and Sales

The Company's sales result primarily from direct solicitation by the Company's executive officers and 54 salespeople, 34 of whom are in the United States and 20 of whom are in Canada.

The Company's marketing and sales efforts emphasize the Company's ability to print high quality specialized packaging in a timely manner by utilizing the Company's state-of-the-art manufacturing systems. The Company and its design and packaging development staff are frequently consulted by consumer product companies for assistance in developing new and alternative packaging concepts. Shorewood has also assisted its customers in the development and acquisition of automated packaging equipment which can use the Company's new packaging products. The Company's ability to meet the rapid delivery requirements of its customers has enhanced its competitive position with consumer product companies.

In addition to sales activities conducted from its manufacturing plants, the Company has sales offices in New York, New York; Los Angeles and Redwood City, California; Chicago, Illinois; Charlotte, North Carolina; Greenwich, Connecticut and Montreal, Canada.

Part of the Company's business is seasonal. Sales generally increase in the five months preceding the Christmas holiday season because many of the products for which it supplies packaging - cosmetics, home video, music, toiletries and toys - have higher holiday sales. However, in the past several years, as the Company's range of products for which it supplies packaging has expanded, through acquisitions, the development of new markets and otherwise, the seasonality factor of the Company's business has diminished.

Customers are billed upon completion of a shipment. For customers in the music and home video industry, and the tobacco industry, jobs are generally completed and shipped to customers shortly after an order is received. For general consumer customers, jobs are usually completed and shipped within six to eight weeks. As of April 29, 1995, the Company had approximately \$62 million in backlog orders, all of which will be filled within the fiscal year ending April 27, 1996 ("fiscal 1996"). As of April 1994, the Company had approximately \$45.9 million in backlog orders, all of which were filled within the 1995 fiscal year.

#### Competition

The principal elements of competition in the paperboard packaging industry are quality, service and price. The Company believes that it competes effectively in each of these categories. Although the Company believes that it is the largest non-integrated folding carton company in North America, it faces substantial competition from different companies in its different industry areas, some of which are subsidiaries or divisions of companies with much greater financial resources than those of the Company.

While the Company believes its present competitive position is strong, there can be no assurance that this will not change. Other packaging companies may develop technologies which equal or improve upon those of the Company or may have strong relationships with potential customers which could inhibit the expansion of the Company's business. Furthermore, because the Company supplies packaging to consumer industries, it is also subject to the competitive forces affecting its customers.

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#### Employees

At April 29, 1995, the Company employed approximately 2,700 full-time employees, of which approximately 1,700 individuals were located in the United States and approximately 1,000 individuals were located in Canada.

Approximately 22% of the Company's employees are represented by unions covering manufacturing personnel in Andalusia, Alabama; Waterbury, Connecticut; Pittsford, New York; Smiths Falls and Toronto, Canada (Toronto Carton facility only). Collective bargaining contracts are negotiated on an individual plant or union local basis. The Company's collective bargaining agreements expire at various times from 1995 to 1999. The Company considers its labor relations to be satisfactory and it has not experienced any significant work stoppages in its operating history.

#### Materials

Although the Company buys a number of different materials, such as paperboard, paper, ink, coatings, film and plates, the costs associated with the purchase of paperboard and paper are the most significant. The Company purchases paperboard and paper from various mills and suppliers and many alternate sources are available. While the Company does not anticipate any significant difficulty in obtaining supplies of paperboard, paper or other materials in the future, there can be no assurance that, as the Company's business continues to expand, it will not encounter difficulty in obtaining its increasing material requirements.

#### Acquisitions

Effective January 1, 1994, the Company, through wholly-owned subsidiaries, acquired the Premium Group for a cash payment of approximately \$96.9 million and the assumption of approximately \$9.9 million of liabilities. In addition, the Company is contingently liable for the payment of \$5 million if certain combined earnings levels during the four year period following the consummation of the transaction are achieved. The Company has issued a warrant to the seller to purchase 35,000 shares of the Company's common stock which is exercisable at \$13.50 per share, subject to the same contingency. At the time of the closing of the transaction, the Company prepaid a total of \$31.9 million of senior notes. The transaction and prepayment of the Company's senior notes were paid for from the proceeds of senior credit facilities provided to the Company and its subsidiaries by a syndicate of lenders.

The Premium Group is a leading supplier of high value-added folding cartons primarily for the tobacco and cosmetic industries in the United States and Canada. The Premium Group manufactures a wide variety of high quality gravure and lithographed printed packaging products, including hard flip-top cigarette packages as well as the traditional slide and shell packages. Those products are used to package many of the leading tobacco brands in the United States and Canada. The Premium Group also produces a wide range of consumer packaging products, including packaging for perfumes, confectionery and a large variety of health and beauty products.

The acquisition of the Premium Group added to the Company's manufacturing facilities two plants in Canada, located in Brockville and Smiths Falls, Ontario, and three plants in the United States, located in Danville, Virginia, Williamsburg, Virginia and Pittsford, New York. The Canadian plants exclusively provide gravure manufacturing capacity and are highly focused on the domestic and international tobacco markets. The U.S. plants provide a wider variety of products, including the flip-top cigarette package as well as a range of folding cartons for the cosmetic and health and beauty aid sectors. In an effort to

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streamline operations and increase productivity, the Company will close the Pittsford, New York plant in fiscal 1996 and transfer the equipment located in Pittsford to other Shorewood facilities.

On January 17, 1994, the Company acquired certain assets from Heminway which comprised substantially all of its assets used in its rigid set-up box and thermoforming business (the "Heminway Business") for a cash purchase price of \$3.7 million. The Heminway Business produces rigid set-up boxes primarily for the cosmetics industry, including packaging for perfumes and beauty products. This transaction was financed with funds from the Company's revolving credit facility. After its acquisition by the Company, the Heminway Business experienced certain production inefficiencies. In April 1995, the Company commenced a lawsuit against Heminway and certain of its affiliates seeking damages and other relief in respect of the acquisition of the Heminway Business. See "Item 3. Legal Proceedings".

#### Tobacco Industry

As a result of its acquisition of the Premium Group, the Company has become a principal supplier of printed packaging products for the tobacco industry in North America. A number of factors have recently weakened the North American tobacco market, which could adversely affect the Company's performance. These factors include a gradual decrease in consumption, the shift from premium to discount cigarette brands, cigarette taxes in effect or under consideration and a generally hostile legislative and regulatory climate in the United States and Canada.

In contrast, the Company believes that the potential for export markets provide favorable prospects for the tobacco business. There are three principal factors driving the favorable outlook for export markets: (i) Growth in overseas markets; (ii) the opening of international markets to free trade in tobacco (especially in Eastern Europe, the former Soviet Union and China), and (iii) increased world demand for American blend cigarettes. The Company's policy is to continue to aggressively pursue the export tobacco market which provides the best potential for future sales growth.

#### ITEM 2. PROPERTIES

The Company owns offices and manufacturing facilities in LaGrange, Georgia; Roanoke, Virginia; Danville, Virginia; Williamsburg, Virginia; Smiths Falls, Ontario; Brockville, Ontario and Andalusia, Alabama. Additionally, the Company is constructing a manufacturing facility in Springfield, Oregon which is scheduled to become operational in the Fall of 1995. Upon completion of the Oregon plant, the Company will own in the aggregate approximately 1.1 million square feet of office and manufacturing space. The Company also leases office, manufacturing and warehousing facilities at various locations in New York, Connecticut, California, Georgia, Illinois, North Carolina and Canada which leases expire at various times ending in the year 2002. The aggregate annual net rental cost, exclusive of real estate taxes, for a total of approximately 811,000 square feet of rental space, is approximately \$3.5 million. In fiscal 1996, the Company will close the facility which it leases in Pittsford, New York. See "Acquisitions".

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## ITEM 3. LEGAL PROCEEDINGS

1. Shorewood Packaging Corporation of Connecticut and Shorewood Packaging Corporation v. Heminway Packaging Corporation, et al.

In April 1995, the Company and its wholly-owned subsidiary, Shorewood Packaging Corporation of Connecticut ("SPCC"), commenced a civil action in Supreme Court of the State of New York, New York County, against Heminway and certain of its affiliates seeking compensatory and punitive damages and other relief with regard to the acquisition of the Heminway Business. See "Acquisitions." The suit contends that Heminway and the other defendants misrepresented the financial condition and operational capabilities of the Heminway Business. The Company is seeking damages in excess of \$5 million.

In June 1995 Heminway filed an answer, affirmative defenses and counterclaim to the Company and SPCC's complaint. The counterclaim asserts claims for compensatory damages exceeding \$10 million and punitive damages of \$7.7 million. Heminway's counterclaim also seeks a declaratory judgment and damages with respect to SPCC's paying into escrow a portion of rent due and payable pursuant to a lease between Heminway and SPCC. The remaining two defendants moved to dismiss the complaint for failure to state a cause of action. On June 29, 1995, the Company and SPCC moved to dismiss the counterclaim and responded to the motion to dismiss the complaint. Management intends to vigorously pursue its claims against the defendants and to vigorously defend the counterclaim.

2. Shorewood Packaging Corporation v. Newman Construction Company, et al.

In January 1990, the Company commenced a civil action in the United States District Court for the Northern District of Georgia, Atlanta Division, seeking in excess of \$5 million of damages arising out of construction work performed by the defendant at Shorewood's LaGrange, Georgia manufacturing and warehouse facility. In November 1994, the Company accepted a cash settlement of \$1.5 million to terminate the litigation. In addition, the defendant's counterclaim for approximately \$300,000, representing the last payment due under the construction contract, was dismissed as part of the settlement.

The Company is not presently a party to any other material litigation. On a continuing basis, the Company monitors its compliance with applicable environmental laws and regulations. As part of this process, the Company cooperates with appropriate governmental authorities to perform any necessary testing and compliance procedures. The Company is not aware of any environmental compliance proceeding that will have a material effect on its consolidated financial statements. During fiscal 1995, the Company has been involved, at various locations, in the correction of certain violations of applicable environmental laws, rules or regulations. Amounts paid during fiscal 1995 to all governmental agencies aggregated less than \$100,000.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There was no vote of security holders during the fourth quarter of the fiscal year covered by this report.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

(a) Market Information. The Company's Common Stock is traded in the over-the-counter market on the NASDAQ National Market System under the symbol SHOR. The following table sets forth, for the fiscal periods indicated, the high and low sales prices for the Common Stock on the National Market System, as reported by NASDAQ.

<TABLE>  
<CAPTION>

|                          | High     | Low      |
|--------------------------|----------|----------|
|                          | -----    | -----    |
| <S>                      | <C>      | <C>      |
| Fiscal 1995              |          |          |
| First Quarter . . . . .  | \$ 19.25 | \$ 14.25 |
| Second Quarter . . . . . | 22.75    | 18.00    |
| Third Quarter . . . . .  | 20.56    | 16.25    |
| Fourth Quarter . . . . . | 19.75    | 14.50    |
| Fiscal 1994              |          |          |
| First Quarter . . . . .  | \$ 10.00 | \$ 7.00  |

|                          |       |       |
|--------------------------|-------|-------|
| Second Quarter . . . . . | 11.00 | 8.25  |
| Third Quarter . . . . .  | 16.75 | 10.50 |
| Fourth Quarter . . . . . | 17.25 | 13.75 |

</TABLE>

The last sale price of the Company's Common Stock on July 26, 1995 was \$17.375.

In January 1993, the Company's Board of Directors authorized the purchase of up to 2.0 million shares of the Company's Common Stock from time to time in the open market. Pursuant to this authorization, through the end of fiscal 1995, the Company utilizing internally generated funds purchased 1.2 million shares of its Common Stock for approximately \$12.6 million. The Company is restricted under the terms of its Senior Term Notes and long-term revolver agreements from purchasing shares of its Common Stock.

(b) Holders. There were 301 record holders of the Company's Common Stock as of July 26, 1995. The Company believes that, as of such date, there were in excess of 1,000 beneficial holders of the Company's Common Stock, including those stockholders whose shares were held of record by certain depository companies.

(c) Cash Dividends. The Company has not paid any cash dividends on its Common Stock during either of its two most recent fiscal years. The Company anticipates that its earnings for the foreseeable future will be utilized to reduce debt, to fund acquisitions or to purchase shares of its Common Stock, or will be retained for use in its business. Accordingly, the Company believes that it is now unlikely that any cash dividends will be paid on its Common Stock in the near future.

The Company's Senior Term Notes and long-term revolver agreements restrict the amount of retained earnings available for the payment of dividends (other than dividends payable in the Company's Common Stock). The amount of retained earnings free from such restrictions as of April 29, 1995 approximated \$14.4 million.

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial information set forth below for and as of the fiscal year ended April 29, 1995 and for and as of the end of each of the four preceding fiscal years is derived from, and qualified by reference to, the consolidated financial statements of Shorewood Packaging Corporation and subsidiaries which have been audited by Deloitte & Touche LLP, independent auditors whose report as of April 29, 1995 and April 30, 1994 and for the 52 weeks ended April 29, 1995, April 30, 1994 and May 1, 1993 is included elsewhere herein. Except for the Special Dividend of \$3.25 per Common Share paid on July 2, 1991, cash dividends were not paid on the Company's Common Stock in any of the periods indicated below.

SUMMARY FINANCIAL DATA  
(In thousands, except per share amounts)

<TABLE>  
<CAPTION>

|  | 52 Weeks Ended    |                   |                |                    |                   |
|--|-------------------|-------------------|----------------|--------------------|-------------------|
|  | April 29,<br>1995 | April 30,<br>1994 | May 1,<br>1993 | May 2,<br>1992 (1) | April 27,<br>1991 |
| <S>  | <C>               | <C>               | <C>            | <C>                | <C>               |
| Income Statement Data:   |                   |                   |                |                    |                   |
| Net sales  | \$ 357,033        | \$216,469         | \$184,122      | \$160,140          | 142,012           |
| Gross profit   | 80,971            | 49,254            | 48,082         | 43,063             | 40,189            |
| Selling, general and administrative expenses   | 35,801            | 24,230            | 20,161         | 21,621             | 18,442            |
| Restructuring charge   | -                 | 3,400             | -              | -                  | -                 |
| Earnings from operations   | 45,170            | 21,624            | 27,921         | 21,442             | 21,747            |
| Investment and other income, net   | 10                | 903               | 903            | 167                | 795               |
| Interest expense   | 8,979             | 6,727             | 5,385          | 5,375              | 2,052             |
| Earnings before provision for income taxes, extraordinary item and cumulative effect | 36,201            | 15,800            | 23,439         | 16,234             | 20,490            |
| Provision for income taxes   | 13,692            | 6,409             | 8,810          | 6,425              | 7,658             |
| Earnings before extraordinary item and cumulative effect                             | 22,509            | 9,391             | 14,629         | 9,809              | 12,832            |
| Extraordinary item   | -                 | (3,098)           | -              | -                  | -                 |
| Cumulative effect  | -                 | -                 | 1,150          | -                  | -                 |
| Net earnings   | 22,509            | 6,293             | 15,779         | 9,809              | 12,832            |



|   |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|
| Earnings before extraordinary item and cumulative effect per common share | 1.17   | .52    | .78    | .52    | .67    |
| Net earnings per common share   | 1.17   | .35    | .84    | .52    | .67    |
| Weighted Average Common and Common Equivalent Shares Outstanding          | 19,314 | 18,089 | 18,866 | 18,717 | 19,048 |

<TABLE>  
<CAPTION>

|   | April 29,<br>1995 | April 30,<br>1994 | May 1,<br>1993 | May 2,<br>1992 | April 27,<br>1991 |
|---|-------------------|-------------------|----------------|----------------|-------------------|
| <S>   | <C>               | <C>               | <C>            | <C>            | <C>               |
| Working capital                             | \$ 31,948         | \$ 31,408         | \$ 21,857      | \$ 20,400      | \$ 25,942         |
| Property, plant and equipment, net          | 129,153           | 135,376           | 59,872         | 55,452         | 60,538            |
| Total assets                                | 245,264           | 220,350           | 112,760        | 100,816        | 110,934           |
| Short-term debt                             | 21,394            | 10,419            | 9,669          | 3,711          | 5,780             |
| Long-term debt excluding current maturities | 99,793            | 120,493           | 31,900         | 35,000         | 13,213            |
| convertible subordinated Debentures         | -                 | 17,500            | 17,500         | 17,500         | -                 |
| Stockholders' equity                        | 67,409            | 27,111            | 26,085         | 17,273         | 67,974            |

(1) 53 week period

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Effective January 1, 1994, the Company acquired certain operating assets of the Premium Packaging Group of Cascades Paperboard International, Inc. (The "Premium Group"), and on January 17, 1994, the Company purchased the operating assets of Heminway Packaging Corporation ("Heminway") (collectively "the Acquired Companies") (See Note 2 of Notes to Consolidated Financial Statements). The Premium Group manufactures and provides folding cartons to the tobacco, cosmetics and toiletries and general consumer industries while Heminway manufactures and provides rigid set-up boxes principally to the cosmetics industry. These acquisitions were recorded using the purchase method of accounting. Accordingly, the operating results related to the Acquired Companies were included in the Company's results of operations for the periods subsequent to each respective acquisition date. The historical results of operations of Heminway were not significant to the consolidated financial statements of the Company.

The fourth quarter of fiscal 1994 is the first quarter in which the operations of the Acquired Companies were included in the consolidated operating results of the Company for a full quarter. Fiscal 1995's results of operations represent the first year of operations in which the Acquired Companies and the Company's results are included for the full year.

Fiscal Year Comparisons

Net Sales

Net sales for fiscal 1995 were \$357.0 million compared to net sales of \$216.5 million for the corresponding prior period, an increase of 64.9%. Included in fiscal 1995 are sales of approximately \$177.6 million produced by facilities of the Acquired Companies as compared to \$47.7 million for the corresponding prior period (since the date of acquisition, January 1, 1994).

Net sales for fiscal 1994 were \$216.5 million compared to net sales of \$184.1 million for the corresponding prior period, an increase of 17.6%. Included in the 1994 fiscal period are sales of approximately \$47.7 million related to the operations of the Acquired Companies. Net sales for the 1994 fiscal year were adversely affected by the decision by the music industry to discontinue the use of the long-box as a packaging medium for compact discs. Revenues derived from the long-box were negligible during fiscal 1994 as compared with \$20.0 million in fiscal 1993.

The Company believes that its future sales growth will be generated through continued penetration of its existing markets and the expanding market of CD Rom products. The Company expects its new facility in Oregon to begin production and provide additional sales growth during fiscal 1996.

Cost of Sales

Cost of sales as a percentage of sales was 77.3% in fiscal 1995 as compared with 77.2% in fiscal 1994. Cost of sales in fiscal 1995 was adversely affected

by increased raw material costs which were unable to be immediately reflected in the selling price of the Company's products. In addition, the Company experienced some inefficiencies related to the installation of new production capacity in certain of its facilities.

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Cost of sales as a percentage of sales was 77.2% in fiscal 1994 as compared with 73.9% in fiscal 1993. The increase in the cost of sales percentage in fiscal 1994 was primarily attributed to the discontinued use of the long-box for compact discs resulting in the related lower level of sales at the Company's Farmingdale, New York facility. In addition, the Company's cost of sales percentage increased due to the inclusion of the operations of the Acquired Companies whose margins have been historically lower than that of the Company.

The Company remains sensitive to the price competitiveness in the markets that it currently serves and in areas of its targeted growth. It believes that the labor and production efficiencies associated with the installation of additional state-of-the-art printing and manufacturing equipment, including the new facility in Oregon, will enable the Company to compete effectively.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were 10.0%, 11.2%, and 10.9% of net sales for fiscal years 1995, 1994 and 1993, respectively. The amount of selling, general and administrative expenses for fiscal 1995 increased compared to fiscal 1994 and fiscal 1994 increased compared to fiscal 1993 due to the inclusion of such expenses of the Acquired Companies.

#### Plant Closing and Restructuring

During fiscal 1995 the Company completed its determination of the allocation of purchase price with respect to the Acquired Companies. In order to streamline the Company's operations and increase productivity, the Company will close the Pittsford, New York plant during fiscal 1996 and transfer the equipment located there to other Company facilities. Included in the final allocation of the purchase price is an estimate of the cost of closing this redundant facility (See Note 2 of Notes to Consolidated Financial Statements).

As a result of the discontinued use of the long-box as a packaging medium for compact discs and the related diminished level of sales, the Company decided at the end of the third quarter of fiscal 1994 to close its Farmingdale, New York facility effective as of April 30, 1994. In connection with the closing of this facility and the restructuring of the Company's operations relating thereto, the Company recorded a restructuring charge before provision for income taxes amounting to \$3.4 million during the third quarter of fiscal 1994. Included in this charge are amounts provided for the termination of leases, disposal of equipment, severance payments and other related restructuring items. The impact on net earnings related to the restructuring charge was a loss of approximately \$2.1 million or (\$.12) per share.

#### Investment and Other Income

Investment and other income, net, decreased in fiscal 1995 as compared to fiscal 1994 primarily due to the change in the impact of foreign exchange gains and losses. For fiscal 1995 the Company had losses from foreign exchange transactions of approximately \$270,000 while in fiscal 1994 the Company had gains of approximately \$234,000. The foreign exchange impact was consistent in fiscal 1993 when compared to fiscal 1994.

The Company's exposure to foreign exchange transaction gains or losses relate to the Company's Canadian facilities which have U.S. dollar denominated net current assets. The Company believes that

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fluctuations in foreign exchange rates will not have a material impact on the operations or liquidity of the Company, based upon current and historical levels of working capital at the Canadian facilities.

Investment income representing interest on short-term deposits was

approximately \$320,000 in fiscal 1995 and fiscal 1994, and approximately \$404,000 in fiscal 1993.

#### Interest Expense

Interest expense for fiscal 1995 increased compared to fiscal 1994, and fiscal 1994 increased compared to fiscal 1993 as a result of the additional borrowings required to finance the purchase of the Acquired Companies.

Capitalized interest costs related to the construction of fixed assets were \$377,000 in fiscal 1995 and \$131,000 in fiscal 1994 and fiscal 1993. The Company anticipates additional capitalization of interest during fiscal 1996 in connection with the construction of the manufacturing facility in Oregon.

In October 1994, the Company assigned to a bank an interest rate swap agreement relating to \$42 million of its Senior Term Notes for cash proceeds of approximately \$1.3 million. The proceeds have been recorded as a deferred credit which is being amortized as a reduction of interest expense (amounting to \$371,000 in fiscal 1995). At April 29, 1995 \$913,000 of deferred gain remains which will be amortized: \$510,000 in 1996; \$289,000 in 1997; and \$114,000 in 1998.

The Company has in the past, and may continue to in the future, use interest rate swaps and caps to manage its exposure to fluctuating interest rates under its debt agreements (See Note 6 of Notes to Consolidated Financial Statements).

#### Income Taxes

The effective income tax rate was 37.8% in fiscal 1995 as compared with 40.6% in fiscal 1994 and 37.6% in fiscal 1993. These rates reflect a blend of domestic and foreign taxes. (See note 7 of notes to Consolidated Financial Statements).

During the first quarter of fiscal 1993, the Company adopted Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 changed the method of accounting for income taxes from the deferred method to the liability method. Under the deferred method, deferred income taxes were recognized using the tax rates in effect when the tax was first recorded and not adjusted for subsequent changes in the tax rates until paid or recovered. Under the liability method, deferred tax assets and liabilities are determined based on the difference between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate. Net earnings in fiscal 1993 increased by \$1.15 million as a result of the cumulative effect of this change in accounting principle.

The increase in the effective tax rate in fiscal 1994 includes approximately \$200,000 representing the effect of the income tax rate change enacted into law in August 1993.

#### Extraordinary Item

In connection with the purchase of the Acquired Companies, the Company prepaid \$31.9 million of Senior Notes. As a result of the prepayment, the Company recorded, in the third quarter of fiscal 1994, an extraordinary charge of \$3.1 million (after related income tax benefit of \$1.9 million) consisting of prepayment penalties and the write-off of deferred finance costs.

#### Impact of Inflation

The Company from time to time experiences increases in the costs of materials and labor, as well as in other manufacturing and operating expenses. The Company's ability, consistent with that of its competitors, to pass on such increased costs through increased prices has been affected differently at various times.

#### Liquidity and Capital Resources

Cash and cash equivalents at April 29, 1995 totaled approximately \$4.1 million and working capital at this date was \$31.9 million as compared to \$31.4 million at the end of fiscal 1994. The current ratio was 1.5 to 1 at April 29, 1995 compared with 1.7 to 1 at the end of fiscal 1994.

Cash flow provided from operating activities for fiscal 1995 approximated \$40.0 million before changes in operating assets and liabilities, of which \$13.2 million was invested in non-cash working capital, primarily inventories. The increase in inventories is primarily attributed to additional raw materials to support additional capacity (as well as sales volume) and increased raw

material prices. Cash flows from operations were used to support approximately \$15.6 million in capital expenditures with the balance primarily used to reduce the Company's long-term obligations. In connection with a planned expansion of the Company's facilities, the Company anticipates investing approximately \$20.0 million in a new plant and new equipment in Oregon, of which \$800,000 has been disbursed as of April 29, 1995. Funds for this expansion are to be provided from the Company's existing credit facility.

Net capital expenditures primarily for manufacturing equipment, for the 52 week period ended April 29, 1995 were approximately \$15.6 million. The Senior Term Note and Long-Term Revolver Agreement (the "Loan Agreement") limit capital expenditures by the Company to \$15.0 million during fiscal 1996 (excluding capital expenditures related to the Company's investment in its Oregon facility, which are limited to \$20.0 million).

The Loan Agreement provides for covenants related to levels of debt to cash flow, current assets to current liabilities, fixed charge coverage, net worth and investments (including investments in the Company's own common stock), and restricts the amount of retained earnings available for payment of dividends. Retained earnings free from restrictions at April 29, 1995 approximated \$14.4 million. The Loan Agreement requires the Company to prepay the term notes to the extent of 50% of excess cash flow as defined. For the year ended April 29, 1995, there was no excess cash flow as defined.

The Company expects that cash flow from operations together with the borrowing capacity under the revolving credit facility will be sufficient to meet the needs of the business in the foreseeable future. The Company has a \$50 million five-year revolving credit facility for its working capital requirements. Borrowings under this facility are limited to the sum of 80% of accounts receivable and 50% of inventories (the "Borrowing Base"). At April 29, 1995, the Company had borrowings under this facility of \$12.2 million and was not limited by its Borrowing Base.

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 ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA  
 SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES  
 INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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 INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of  
 Shorewood Packaging Corporation

We have audited the accompanying consolidated balance sheets of Shorewood Packaging Corporation and subsidiaries as of April 29, 1995 and April 30, 1994

and the related consolidated statements of earnings, stockholders' equity and cash flows for the 52 weeks ended April 29, 1995, April 30, 1994 and May 1, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Shorewood Packaging Corporation and subsidiaries as of April 29, 1995 and April 30, 1994 and the results of their operations and their cash flows for the 52 weeks ended April 29, 1995, April 30, 1994 and May 1, 1993 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

/s/ DELOITTE & TOUCHE LLP

New York, New York  
June 27, 1995

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SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(In thousands except share data)

<TABLE>

<CAPTION>

|  | April 29,<br>1995 | April 30,<br>1994 |
|--|-------------------|-------------------|
|  | -----             | -----             |
| <S>  | <C>               | <C>               |
| ASSETS   |                   |                   |
| Current Assets:  |                   |                   |
| Cash, including cash equivalents of \$2,158 in 1995 and \$2,048 in 1994 . . . . .                      | \$ 4,100          | \$ 2,735          |
| Accounts receivable, less allowance for doubtful accounts of \$452 in 1995 and \$231 in 1994 . . . . . | 40,801            | 38,937            |
| Inventories . . . . .  | 46,641            | 31,790            |
| Deferred tax assets . . . . .  | 1,424             | 2,079             |
| Prepaid expenses and other current assets . . . . .  | 3,986             | 2,699             |
|  | -----             | -----             |
| Total Current Assets . . . . .   | 96,952            | 78,240            |
| Property, Plant and Equipment, at cost - net . . . . .   | 129,153           | 135,376           |
| Excess of Cost Over the Fair Value of Net Assets Acquired - net . . . . .                              | 14,906            | 2,316             |
| Other Assets . . . . .   | 4,253             | 4,418             |
|  | -----             | -----             |
|  | \$245,264         | \$220,350         |
|  | =====             | =====             |

LIABILITIES AND STOCKHOLDERS' EQUITY

|   |           |           |
|---|-----------|-----------|
| Current Liabilities:                                      |           |           |
| Accounts payable . . . . .                                | \$ 28,122 | \$ 24,163 |
| Accrued expenses . . . . .                                | 14,918    | 10,155    |
| Income taxes payable . . . . .                            | 570       | 2,095     |
| Current maturities of long-term debt . . . . .            | 21,394    | 10,419    |
|   | -----     | -----     |
| Total Current Liabilities . . . . .                       | 65,004    | 46,832    |
| Long-term Debt . . . . .                                  | 99,793    | 120,493   |
| Deferred Credit and Other long-term Liabilities . . . . . | 1,314     | -         |
| Convertible Subordinated Debentures . . . . .             | -         | 17,500    |
| Deferred Income Taxes . . . . .                           | 11,744    | 8,414     |
|   | -----     | -----     |
|   | 177,855   | 193,239   |
|   | -----     | -----     |

Commitments and Contingencies

Fair Value of Warrants, net of deferred fair value of warrants (\$1,357) - -

Stockholders' Equity:

|  |           |           |
|--|-----------|-----------|
| Series A preferred stock, \$10 par value; 50,000 shares authorized, none issued . . . . .  | -         | -         |
| Preferred stock, \$10 par value; 5,000,000 shares authorized; none issued . . . . .  | -         | -         |
| Common stock, \$.01 par value; 40,000,000 shares authorized; 21,622,726 issued and 19,227,040 outstanding in 1995 and 20,163,923 issued and 17,845,923 outstanding in 1994 . . . . . | 216       | 202       |
| Additional paid-in capital . . . . .   | 38,670    | 20,244    |
| Retained earnings . . . . .  | 52,255    | 29,566    |
| Cumulative foreign currency translation adjustments . . . . .  | (1,497)   | (2,013)   |
| Less: Treasury stock (2,395,686 shares at cost in 1995 and 2,318,000 shares at cost in 1994) . . . . .   | (22,235)  | (20,888)  |
|  | -----     | -----     |
|  | 67,409    | 27,111    |
|  | -----     | -----     |
|  | \$245,264 | \$220,350 |
|  | =====     | =====     |

</TABLE>

The accompanying notes are an integral part of these financial statements.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS  
(In thousands except per share data)

<TABLE>  
<CAPTION>

|   | 52 Weeks<br>Ended<br>April 29,<br>1995 | 52 Weeks<br>Ended<br>April 30,<br>1994 | 52 Weeks<br>Ended<br>May 1,<br>1993 |
|---|--|--|-------------------------------------|
|   | -----                                  | -----                                  | -----                               |
| <S>   | <C>                                    | <C>                                    | <C>                                 |
| Net Sales . . . . .   | \$357,033                              | \$216,469                              | \$184,122                           |
|   | -----                                  | -----                                  | -----                               |
| Costs and Expenses:   |  |  |                                     |
| Cost of sales . . . . .   | 276,062                                | 167,215                                | 136,040                             |
| Selling, general and administrative . . . . .   | 35,801                                 | 24,230                                 | 20,161                              |
| Restructuring charge . . . . .  | -                                      | 3,400                                  | -                                   |
|   | -----                                  | -----                                  | -----                               |
|   | 311,863                                | 194,845                                | 156,201                             |
|   | -----                                  | -----                                  | -----                               |
| Earnings from Operations . . . . .  | 45,170                                 | 21,624                                 | 27,921                              |
| Investment and other income, net . . . . .  | 10                                     | 903                                    | 903                                 |
| Interest Expense . . . . .  | (8,979)                                | (6,727)                                | (5,385)                             |
|   | -----                                  | -----                                  | -----                               |
| Earnings Before Provision for<br>Income Taxes, Extraordinary Item<br>and Cumulative Effect of Change<br>in Accounting Principle . . . . . | 36,201                                 | 15,800                                 | 23,439                              |
| Provision for Income Taxes . . . . .  | 13,692                                 | 6,409                                  | 8,810                               |
|   | -----                                  | -----                                  | -----                               |
| Earnings before Extraordinary Item<br>and Cumulative Effect of Change<br>in Accounting Principle . . . . .                                | 22,509                                 | 9,391                                  | 14,629                              |
| Extraordinary Item . . . . .  | -                                      | (3,098)                                | -                                   |
| Cumulative Effect on Prior Years<br>(to May 2, 1992) Related to<br>the Adoption of SFAS 109-<br>Accounting for Income Taxes . . . . .     | -                                      | -                                      | 1,150                               |
|   | -----                                  | -----                                  | -----                               |
| Net Earnings . . . . .  | \$ 22,509                              | \$ 6,293                               | \$ 15,779                           |
|   | =====                                  | =====                                  | =====                               |

Per Common and Common Equivalent Share Amounts:

|   |         |        |        |
|---|---------|--------|--------|
| Earnings Before Extraordinary Item and  |         |        |        |
| Cumulative Effect . . . . .             | \$ 1.17 | \$ .52 | \$ .78 |
| Extraordinary Item . . . . .            | -       | (.17)  | -      |
| Cumulative Effect of Change in          |         |        |        |
| Accounting Principle . . . . .          | -       | -      | .06    |
|   | -----   | -----  | -----  |
| Net Earnings per Common and Common      |         |        |        |
| Equivalent Share . . . . .              | \$ 1.17 | \$ .35 | \$ .84 |
|   | =====   | =====  | =====  |
| Weighted Average Common and Common      |         |        |        |
| Equivalent Shares Outstanding . . . . . | 19,314  | 18,089 | 18,866 |
|   | =====   | =====  | =====  |

</TABLE>

The accompanying notes are an integral part of these financial statements.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|  |           |           |           |
|--|-----------|-----------|-----------|
| <TABLE>  |           |           |           |
| <CAPTION>  |           |           |           |
|  | 52 Weeks  | 52 Weeks  | 52 Weeks  |
|  | Ended     | Ended     | Ended     |
|  | April 29, | April 30, | May 1,    |
|  | 1995      | 1994      | 1993      |
|  | -----     | -----     | -----     |
| <S>  | <C>       | <C>       | <C>       |
| Cash Flows Provided from Operating Activities:                       |           |           |           |
| Net earnings . . . . .   | \$22,509  | \$ 6,293  | \$ 15,779 |
| Adjustments to reconcile net earnings to net cash                    |           |           |           |
| flows provided from operating activities:                            |           |           |           |
| Cumulative effect of change in accounting . . . . .                  | -         | -         | (1,150)   |
| Depreciation and amortization . . . . .                              | 13,335    | 10,245    | 8,086     |
| Deferred income taxes . . . . .                                      | 4,030     | (645)     | (202)     |
| Other non-cash items . . . . .                                       | 106       | 729       | -         |
| Changes in operating assets and liabilities, net of                  |           |           |           |
| effects of businesses acquired:                                      |           |           |           |
| Accounts receivable . . . . .  | (1,450)   | (4,712)   | (1,372)   |
| Inventories . . . . .  | (14,508)  | 542       | (183)     |
| Prepaid expenses and other current assets . . . . .                  | (1,147)   | (332)     | 642       |
| Other assets . . . . .   | (520)     | (3,385)   | -         |
| Accounts payable and accrued expenses . . . . .                      | 2,888     | 6,399     | 444       |
| Income taxes payable . . . . .                                       | 1,525     | 638       | (306)     |
|  | -----     | -----     | -----     |
| Net cash flows provided from operating activities . . . . .          | 26,768    | 15,772    | 21,738    |
|  | -----     | -----     | -----     |
| Cash Flows Used by Investing Activities:                             |           |           |           |
| Business acquisitions . . . . .                                      | (259)     | (103,710) | -         |
| Capital expenditures, net . . . . .                                  | (15,585)  | (9,080)   | (11,770)  |
| Other . . . . .  | -         | 8         | (102)     |
|  | -----     | -----     | -----     |
| Net cash flows used by investing activities . . . . .                | (15,844)  | (112,782) | (11,872)  |
|  | -----     | -----     | -----     |
| Cash Flows (Used by) Provided From Financing Activities:             |           |           |           |
| Net increase (decrease) in short-term debt / revolver borrowings . . | 247       | (6,361)   | 3,193     |
| Additions to long-term debt . . . . .                                | -         | 144,000   | -         |
| Repayment of long-term debt . . . . .                                | (10,413)  | (47,000)  | (63)      |
| Purchase of treasury stock . . . . .                                 | (1,219)   | (4,181)   | (7,240)   |
| Issuance of common stock . . . . .                                   | 812       | 740       | 945       |
| Proceeds from assignment of interest rate swap . . . . .             | 1,283     | -         | -         |
|  | -----     | -----     | -----     |

|  |          |          |           |
|--|----------|----------|-----------|
| Net cash flows (used by) provided from financing activities . . . . .  | (9,290)  | 87,198   | (3,165)   |
| Effect of exchange rate changes on cash and cash equivalents . . . . . | ( 269)   | 73       | 47        |
| Increase (decrease) in cash and cash equivalents . . . . .             | 1,365    | (9,739)  | 6,748     |
| Cash and cash equivalents at beginning of year . . . . .               | 2,735    | 12,474   | 5,726     |
| Cash and cash equivalents at end of year . . . . .                     | \$ 4,100 | \$ 2,735 | \$ 12,474 |
| Supplemental Disclosures of Cash Flow Information:                     |          |          |           |
| Interest paid, net of amounts capitalized . . . . .                    | \$ 9,083 | \$ 6,886 | \$ 5,365  |
| Income taxes paid . . . . .  | \$11,312 | \$ 4,420 | \$ 9,320  |

The accompanying notes are an integral part of these financial statements.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands except share data)

<TABLE>  
<CAPTION>

|  | Common Stock<br>\$.01 Par Value |        | Additional | Retained<br>Earnings | Cumulative<br>Foreign<br>Currency<br>Translation<br>Adjustments | Treasury Stock | Total    |
|--|---------------------------------|--------|------------|----------------------|---|----------------|----------|
|  | Shares<br>Issued                | Amount |            |                      |   |                |          |
| Balance May 3, 1992 . . . . .                            | 19,965,394                      | \$200  | \$18,561   | \$ 7,494             | \$ 485  | \$ (9,467)     | \$17,273 |
| Issuance of Common Stock . . . . .                       | 120,412                         | 1      | 944        | -                    | -   | -              | 945      |
| Purchase of Treasury Stock . . . . .                     | -                               | -      | -          | -                    | -   | (7,240)        | (7,240)  |
| Net Earnings, 52 Weeks ended<br>May 1, 1993 . . . . .    | -                               | -      | -          | 15,779               | -   | -              | 15,779   |
| Foreign Currency<br>Translation Adjustments . . . . .    | -                               | -      | -          | -                    | (672)   | -              | (672)    |
| Balance May 1, 1993 . . . . .                            | 20,085,806                      | 201    | 19,505     | 23,273               | (187)   | (16,707)       | 26,085   |
| Issuance of Common Stock . . . . .                       | 78,117                          | 1      | 739        | -                    | -   | -              | 740      |
| Purchase of Treasury Stock . . . . .                     | -                               | -      | -          | -                    | -   | (4,181)        | (4,181)  |
| Net Earnings, 52 Weeks ended<br>April 30, 1994 . . . . . | -                               | -      | -          | 6,293                | -   | -              | 6,293    |
| Foreign Currency<br>Translation Adjustments . . . . .    | -                               | -      | -          | -                    | (1,826)   | -              | (1,826)  |
| Balance April 30, 1994 . . . . .                         | 20,163,923                      | 202    | 20,244     | 29,566               | (2,013)   | (20,888)       | 27,111   |
| Issuance of Common Stock . . . . .                       | 112,649                         | 1      | 939        | -                    | -   | (128)          | 812      |
| Conversion of Subordinated<br>Debentures . . . . .       | 1,346,154                       | 13     | 17,487     | -                    | -   | -              | 17,500   |
| Purchase of Treasury Stock . . . . .                     | -                               | -      | -          | -                    | -   | (1,219)        | (1,219)  |
| Net Earnings, 52 Weeks ended<br>April 29, 1995 . . . . . | -                               | -      | -          | 22,509               | -   | -              | 22,509   |
| Other . . . . .  | -                               | -      | -          | 180                  | -   | -              | 180      |
| Foreign Currency<br>Translation Adjustments . . . . .    | -                               | -      | -          | -                    | 516   | -              | (516)    |
| Balance April 29, 1995 . . . . .                         | 21,622,726                      | \$216  | \$38,670   | \$52,255             | \$ (1,497)  | \$ (22,235)    | \$67,409 |

</TABLE>



SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation.

b. Recognition of revenue

The Company reports revenue, with the related costs, in the accounting period in which goods are shipped to the customer.

c. Statement of cash flows

The Company considers all highly liquid temporary investments with original maturities of three months or less to be cash equivalents.

d. Inventories

Inventories are valued at the lower of cost or market. Cost is determined principally on the first-in, first-out (FIFO) method. Components of inventory include materials, labor and overhead costs.

e. Depreciation and amortization

The Company computes depreciation and amortization of property, plant and equipment substantially by the straight-line method over the shorter of the estimated useful lives or lease periods of the respective assets. The excess of purchase price over the fair value of net assets of businesses acquired is amortized over periods ranging from 10 to 40 years on a straight-line basis.

The Company periodically evaluates the possible impairment of the excess of cost over the fair value of net assets acquired by comparing the undiscounted cash flows from the acquired operations to the net carrying value of the related asset.

f. Income taxes

The Company and its domestic subsidiaries file a consolidated Federal income tax return. Deferred taxes are provided for the income tax effects of temporary differences in reporting transactions for financial reporting and tax purposes.

The Company adopted Statement of Financial Accounting Standards No.109 "Accounting for Income Taxes" ("SFAS 109") during the fiscal quarter ended August 1, 1992. SFAS 109 changed the method of accounting for income taxes from the deferred method to the liability method. Under the deferred method, deferred income taxes were recognized using the tax rates in effect when the tax liability was first recorded and not adjusted for subsequent changes in the tax rates until paid or recovered. Under

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

the liability method, deferred tax assets and liabilities are determined based on the difference between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate. The impact on the provision for income taxes for fiscal 1993 was not significant. The cumulative effect of this accounting change increased net earnings in 1993 by \$1,150.

United States ("U.S.") income taxes with respect to the undistributed earnings of the Company's foreign subsidiaries have not been provided since it is the intention of management that the undistributed earnings will be reinvested or transferred to the Company without giving rise to U.S. tax liabilities. The total amount of unremitted earnings of non-U.S. subsidiaries was approximately \$24.9 million at April 29, 1995.

g. Foreign currency translation

Assets and liabilities of foreign subsidiaries are translated into U.S. dollars at fiscal period-end exchange rates and revenues and expenses are translated on a monthly basis at weighted average exchange rates for the respective month. Gains and losses arising from translation are recorded as foreign currency translation adjustments, a component of stockholders' equity. Foreign currency transaction gains and losses are included in determining net earnings.

h. Share information

Weighted average common and common equivalent shares outstanding include the dilutive effect of outstanding stock options and warrants for all periods presented.

Fully diluted earnings per share has not been presented as it is not materially different from primary earnings per share.

Weighted average common and common equivalent shares for the 1995 period include the effect of the shares issued upon conversion of the Company's Convertible Subordinated Debentures since the date of conversion. Had these shares been issued as of May 1, 1994, earnings per share for the 1995 period would have been approximately \$1.15.

i. Business segment

The Company and its subsidiaries operate in one business segment, providing printed packaging products to the entertainment, cosmetic, tobacco and other consumer product industries.

j. Fiscal periods

Reference to 1995, 1994, and 1993 in the accompanying notes to the consolidated financial statements refer to the fiscal periods ending April 29, 1995, April 30, 1994 and May 1, 1993, respectively.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

k. Reclassifications

Certain reclassifications have been made to the prior years balances to conform with the current year's presentation.

2. ACQUISITIONS

Effective January 1, 1994, the Company purchased certain of the United States and Canadian assets of the Premium Packaging Group of Cascade Paperboard International, Inc. (the "Premium Group") for a cash purchase price of approximately \$96.9 million plus the assumption of approximately \$9.9 million of liabilities (primarily accounts payable) and transaction expenses. In addition, the Company is contingently liable for an additional \$5.0 million of consideration if certain earnings levels related to the combined operations during the four-year period following the consummation of the transaction are attained. The Company has issued a warrant to the seller exercisable, subject to the above-described contingency, for 35,000 shares of Company Common Stock at an exercise price of \$13.50 per share. At the time of the closing of the transaction, the Company prepaid a total of \$31.9 million of Senior Notes. The transaction and prepayment of the Company's Senior Notes were financed with senior credit facilities including \$120 million in five-year term loans and \$24 million of borrowing under a \$50 million five-year revolving credit facility. In connection with the prepayment of the Senior Notes, the Company recorded, in the third quarter of fiscal 1994, an extraordinary charge of \$3.1 million (after related income tax benefit of \$1.9 million) consisting of prepayment penalties and the write-off of deferred finance costs.

On January 17, 1994 the Company purchased the operating assets of Heminway Packaging Corporation for a cash purchase price of \$3.7 million plus transaction expenses. This transaction was financed with funds from the Company's revolving credit facility referred to above. The historical results of operations of Heminway were not material to the operations of the Company.

These acquisitions were recorded using the purchase method of accounting and accordingly, the results of their operations are included in the consolidated results of operations of the Company since the dates of their respective acquisitions. The excess of cost over the estimated fair value of the net assets acquired approximated \$2.2 million at April 30, 1994. During fiscal 1995, the Company completed its determination of the allocation of the purchase price with respect to the acquisitions. The result was to increase the excess of cost over the fair value of net assets acquired by \$12.5 million, increase accrued expenses by \$3.4 million and reduce property, plant and equipment by \$9.1 million. Included in the final allocation of the purchase price is an estimate of the cost associated with closing one of the Premium Group's facilities. Accumulated amortization of the excess of cost over the fair value of net assets acquired approximated \$543 in 1995 and \$414 in 1994.

The following unaudited pro forma information for 1994 includes the operations of the Company inclusive of the operations of the Premium Group as if the acquisition had occurred at the beginning of the period presented, including the impact of the Company's new financing agreement described above, the amortization expense associated with intangible assets acquired, adjustments related to the fair market value of the assets and liabilities of the Premium Group as finally determined (including, among other things, adjustment of depreciation expense) and related income tax effects.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

|  | Fiscal 1994 |
|--|-------------|
|  | -----       |
| <S>  | <C>         |
| Net sales  | \$ 300,791  |
|  | =====       |
| Earnings before extraordinary item and<br>and cumulative effect of change<br>in accounting principle | \$ 12,043   |
|  | =====       |
| Net earnings   | \$ 8,945    |
|  | =====       |
| Per Common and Common Equivalent Share Amounts:  |             |
| Earnings before extraordinary item and<br>and cumulative effect of change<br>in accounting principle | \$ .67      |
|  | =====       |
| Net earnings   | \$ .50      |
|  | =====       |

</TABLE>

3. INVENTORIES

<TABLE>  
<CAPTION>

|                            | 1995     | 1994     |
|----------------------------|----------|----------|
|                            | -----    | -----    |
| <S>                        | <C>      | <C>      |
| Raw materials and supplies | \$20,767 | \$11,714 |
| Work-in-process            | 12,043   | 7,091    |
| Finished goods             | 13,831   | 12,985   |
|                            | -----    | -----    |
|                            | \$46,641 | \$31,790 |
|                            | =====    | =====    |

</TABLE>

4. PROPERTY, PLANT AND EQUIPMENT, AT COST-NET

| <S>  | <C>       | <C>       |
|--|-----------|-----------|
|  | 1995      | 1994      |
|  | -----     | -----     |
| Land   | \$ 3,121  | \$ 2,330  |
| Building and improvements                      | 31,385    | 30,218    |
| Machinery and equipment                        | 148,176   | 144,042   |
| Leasehold improvements                         | 2,735     | 2,371     |
| Construction in progress                       | 4,868     | 5,081     |
|  | -----     | -----     |
|  | 190,285   | 184,042   |
| Less accumulated depreciation and amortization | 61,132    | 48,666    |
|  | -----     | -----     |
|  | \$129,153 | \$135,376 |
|  | =====     | =====     |

</TABLE>

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

Depreciation and amortization of property, plant and equipment amounted to \$12,792 in 1995, \$9,834 in 1994 and \$7,888 in 1993. Capitalized interest costs related to the construction of fixed assets were \$377 in 1995 and \$131 in 1994 and 1993.

5. ACCRUED EXPENSES

| <S>   | 1995     | 1994     |
|---|----------|----------|
|   | -----    | -----    |
| Accrued salaries, employee benefits and payroll taxes | \$ 6,026 | \$ 5,523 |
| Other accrued expenses                                | 8,892    | 4,632    |
|   | -----    | -----    |
|   | \$14,918 | \$10,155 |
|   | =====    | =====    |

</TABLE>

6. LONG-TERM DEBT/CONVERTIBLE SUBORDINATED DEBENTURES

| <S>                                     | 1995      | 1994     |
|---|-----------|----------|
|   | -----     | -----    |
| Senior term notes (a)                   | \$108,940 | \$18,912 |
| Long-term revolver (b)                  | 12,247    | 12,000   |
|   | -----     | -----    |
|   | 121,187   | 30,912   |
| Less current maturities                 | 21,394    | 10,419   |
|   | -----     | -----    |
|   | \$ 99,793 | \$20,493 |
|   | =====     | =====    |
| Convertible subordinated debentures (c) | -         | \$17,500 |
|   | =====     | =====    |

</TABLE>

(a) In connection with the acquisition of the Premium Group and the prepayment of certain obligations, the Company entered into Term Note Agreements (totaling \$96 million in the U.S. and the Canadian equivalent of \$24 million in Canada) with a syndicate of banks. The notes are payable in quarterly installments beginning in August 1994, through May 1999. The notes bear interest, at the discretion of the Company, at either the bank's prime rate (9.00% at April 29, 1995) or at the LIBOR rate (maximum six-month term, 6.06% to 6.38% at April 29, 1995) plus 75 basis points (reduced from 125 basis points during the year as determined based upon the Company having attained certain financial ratios as defined). The effective interest rate on the Senior Term Notes ranged from 5.25% to 7.06% during 1995. The Company has pledged as collateral 100% and 66%,

respectively, of the outstanding shares of its domestic and foreign subsidiaries.

- (b) Borrowings under this \$50 million five-year revolving credit facility are limited to the sum of 80% of accounts receivable and 50% of inventories (the "Borrowing Base"). The revolving credit facility has interest terms and collateral similar to the Senior Term Notes and matures in May 1999. The interest rate on these borrowings ranged from 6.94% to 9.0% at April 29, 1995.
- (c) In September 1994, 100% of the Company's Convertible Subordinated Notes were converted at \$13.00 per share into approximately 1.35 million shares of common stock.

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

The underlying loan agreement for the borrowings referred to in (a) and (b) above includes covenants related to levels of debt to cash flow, current assets to current liabilities, fixed charge coverage, net worth and investments (including investments in the Company's own common stock), and restricts the amount of retained earnings available for payment of dividends. Retained earnings free from restrictions at April 29, 1995 approximated \$14.4 million. The agreement requires the Company to prepay the term notes to the extent of 50% of excess cash flow as defined. For the year ended April 29, 1995, there was no excess cash flow as defined.

Based on the borrowing rates currently available to the Company for bank loans with similar terms, the fair value of the senior long-term debt approximates the carrying value.

Aggregate maturities of long-term debt are as follows:

<TABLE>  
<CAPTION>

| Fiscal Year Ending: |            |
|---------------------|------------|
| -----               |            |
| <S>                 | <C>        |
| 1996                | \$ 21,394  |
| 1997                | 23,879     |
| 1998                | 27,606     |
| 1999                | 28,849     |
| 2000                | 19,459     |
|                     | -----      |
|                     | \$ 121,187 |
|                     | =====      |

</TABLE>

Interest Rate Swap/Cap Agreements

At April 29, 1995, the Company had an outstanding intermediate-term interest rate swap agreement relating to approximately \$33 million of its Senior Term Notes. Under the agreement, the Company pays a fixed rate of 6.45% and receives a floating rate based on LIBOR, as determined in 1-month intervals (ranging from 4.5% to 6.3% for 1995). The transaction effectively changes a portion of the Company's interest rate exposure from a floating-rate to a fixed-rate basis. The fair value of the interest rate swap agreement at April 29, 1995 was immaterial to the Company. The agreement terminates in February, 1997.

At April 29, 1995, the Company had an outstanding interest rate cap agreement relating to approximately \$17 million of its Senior Term Notes. Under the agreement, the maximum LIBOR rate is 8.5%. The company paid \$71 for this agreement, which is being amortized over the life of the agreement. The fair value of the interest rate cap agreement at April 29, 1995 was immaterial to the Company. The agreement terminates in February, 1997.

In October 1994, the Company assigned to a bank an interest rate swap agreement relating to \$42 million of its Senior Term Notes for cash proceeds approximating \$1.3 million. The proceeds have been recorded as a deferred credit on the accompanying balance sheet which is being amortized as a reduction of interest expense over the remaining life of the related swap agreement. At April 29, 1995, \$913 of deferred gain remains which will be amortized: \$510 in 1996; \$289 in 1997; and \$114 in 1998.

## SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

## 7. INCOME TAXES

Earnings before provision for income taxes and extraordinary item is comprised of the following:

|               | 1995      | 1994      | 1993      |
|---------------|-----------|-----------|-----------|
| <S>           | <C>       | <C>       | <C>       |
| United States | \$ 21,919 | \$ 6,586  | \$ 20,282 |
| Foreign       | 14,282    | 9,214     | 3,157     |
|               | -----     | -----     | -----     |
|               | \$ 36,201 | \$ 15,800 | \$ 23,439 |
|               | =====     | =====     | =====     |

&lt;/TABLE&gt;

The provision for income taxes is comprised of the following:

|                 | 1995      | 1994     | 1993     |
|-----------------|-----------|----------|----------|
| <S>             | <C>       | <C>      | <C>      |
| Current         |           |          |          |
| Federal         | \$ 4,982  | \$ 2,858 | \$ 6,611 |
| State and local | 852       | 773      | 1,100    |
| Foreign         | 3,828     | 3,423    | 1,301    |
|                 | -----     | -----    | -----    |
|                 | 9,662     | 7,054    | 9,012    |
|                 | -----     | -----    | -----    |
| Deferred        |           |          |          |
| Federal         | 2,339     | (394)    | (47)     |
| State and local | 174       | (236)    | (147)    |
| Foreign         | 1,517     | (15)     | (8)      |
|                 | -----     | -----    | -----    |
|                 | 4,030     | (645)    | (202)    |
|                 | -----     | -----    | -----    |
|                 | \$ 13,692 | \$ 6,409 | \$ 8,810 |
|                 | =====     | =====    | =====    |

&lt;/TABLE&gt;

The Company's effective income tax rate differs from the statutory U.S. Federal income tax rate as a result of the following:

|  | 1995  | 1994  | 1993  |
|--|-------|-------|-------|
| <S>  | <C>   | <C>   | <C>   |
| Statutory US Federal tax rate              | 35.0% | 34.0% | 34.0% |
| State income taxes, net of Federal benefit | 1.8   | 2.3   | 3.0   |
| Foreign income tax rate differentials      | 1.0   | 1.7   | .9    |
| Other, net                                 | -     | -     | -     |
|  | ----  | ----  | ----  |
|  | 37.8% | 40.6% | 37.6% |
|  | ===== | ===== | ===== |

&lt;/TABLE&gt;

## SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In thousands except share data)

The tax effects of significant items comprising the Company's net deferred tax liability as of April 29, 1995 and April 30, 1994 are as follows:

|  | 1995        | 1994       |
|--|-------------|------------|
| <S>  | <C>         | <C>        |
| Deferred tax asset (Liability):                                  |             |            |
| Property, plant and equipment                                    | \$ (12,360) | \$ (7,934) |
| Other assets   | (359)       | (249)      |
| Accounts receivable  | 509         | 398        |
| Inventories  | 666         | 487        |
| Accrued expenses   | 138         | 673        |
| State net operating loss and investment tax credit carryforwards | 1,285       | 564        |
| Employee benefits  | 297         | 144        |
| Other  | 195         | (128)      |
|  | (9,629)     | (6,045)    |
| Valuation Allowance  | (691)       | (290)      |
|  | \$ (10,320) | \$ (6,335) |

</TABLE>

The valuation allowance has been provided against state net operating loss and investment tax credit carryforwards to reduce them to the amount that will more likely than not be realized.

#### 8. COMMITMENTS AND CONTINGENCIES

##### a. Lease Agreements

The Company is committed for annual rentals under noncancellable operating leases for production and office facilities expiring on various dates through 2010. Several leases include one year renewal options. The minimum future rental commitments under noncancellable leases, exclusive of taxes and utilities, are as follows:

| <S>                           | <C>       |
|-------------------------------|-----------|
| Fiscal Year Ending:           |           |
| 1996                          | \$ 3,861  |
| 1997                          | 3,790     |
| 1998                          | 2,989     |
| 1999                          | 2,686     |
| 2000                          | 1,865     |
| Thereafter                    | 11,434    |
| Total minimum rental payments | \$ 26,625 |

</TABLE>

Rent expense under operating leases approximated \$3,451 in 1995, \$2,403 in 1994 and \$2,125 in 1993.

#### SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

##### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In thousands except share data)

##### b. Treasury Stock

In January, 1993, the Company's Board of Directors authorized the purchase of up to 2.0 million shares of the Company's Common Stock from time to time in the open market. Pursuant to this authorization through April 29, 1995, the Company, utilizing internally generated funds, purchased approximately 1.2 million shares of its Common Stock for approximately \$12.6 million.

##### c. New Facility

In connection with a planned expansion of the Company's facilities, the Company anticipates investing approximately \$20 million in a new plant and equipment, of which approximately \$.8 million has been disbursed as of April 29, 1995. Funds for this expansion are to be provided from the Company's existing credit facilities.

d. Legal Matters

In January 1995, the Company commenced a civil action in the Supreme Court of the State of New York against the former owners of Heminway Packaging Corporation and certain of its affiliates seeking compensatory and punitive damages and other relief. The suit contends that the defendants misrepresented the financial condition and operational capabilities of the acquired business. The Company is seeking damages in excess of \$5.0 million. In June 1995, the defendants filed an answer and a counterclaim to the Company's complaint, seeking compensatory damages exceeding \$10.0 million and punitive damages of \$7.7 million. Management intends to pursue its claims against the defendants and to vigorously defend the counter claim, and believes that the ultimate outcome of these cases will not have a material adverse effect on the operations or financial condition of the Company.

e. Other Matters

On a continuing basis, the Company monitors its compliance with applicable environmental laws and regulations. As part of this process the Company cooperates with appropriate governmental authorities to perform any necessary testing and compliance procedures. The purchase agreements relating to the acquisition of the Acquired Companies indemnify the Company from all costs and expenses relating to environmental matters which existed at the acquired facilities on or prior to the respective closing dates. The Company is not currently aware of any environmental compliance matters that it believes will have a material effect on the consolidated financial statements.

9. STOCKHOLDERS' EQUITY

a. Stock Incentive Plans

In August 1986, the Company established a nonqualified stock option plan (the "1986 Plan") and authorized the issuance of options to purchase an aggregate 847,500 shares of common stock to key employees, officers and directors at the market price at the date of the grant. In October 1990, the

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Company made available for future grant options to acquire an additional 600,000 shares of common stock under a nonqualified 1990 Stock Option Plan (the "1990 Plan"). The 1990 Plan is in all material respects identical to the original nonqualified stock plan. In July 1993, the Company established the 1993 Incentive Program (the "1993 Program"). The 1993 Program permits the granting of any or all of the following types of awards: (1) stock options, including incentive stock options ("ISO's"), (2) stock appreciation rights ("SAR's"), in tandem with stock options or freestanding, (3) restricted stock, (4) directors' options to be issued pursuant to a prescribed formula and (5) restored options. Under the 1993 Program, an additional 1 million shares were made available for grant. Options become exercisable over four years from the date of grant at a rate of 25% each year, and expire five years from the date of grant. Future grants of options will be exercisable over five years from the date of grant at the rate of 20% of the grant each year and will expire 10 years from the date of grant.

A summary of changes in stock options and awards follows:

<TABLE>  
<CAPTION>

| Options Available For Future Grant | Outstanding Options |                 |
|------------------------------------|---------------------|-----------------|
| -----                              | Number              | Price Per Share |
| -----                              | -----               | -----           |



| <S>                    | <C>       | <C>       | <C>      | <C>        |
|------------------------|-----------|-----------|----------|------------|
| Balance, May 3, 1992   | 539,513   | 673,465   | \$ 4.81  | - \$ 10.69 |
| Options granted        | (12,000)  | 12,000    | \$ 9.50  |            |
| Options exercised      |           | (117,412) | \$ 4.81  | - \$ 10.34 |
| Options canceled       | 11,446    | (11,446)  | \$ 5.57  | - \$ 8.63  |
| Options lapsed         | (184,973) |           |          |            |
| -----                  |           |           |          |            |
| Balance May 1, 1993    | 353,986   | 556,607   | \$ 4.98  | - \$ 10.69 |
| 1993 Program           | 1,000,000 |           |          |            |
| Options granted        | (375,500) | 375,500   | \$ 8.63  | - \$ 13.75 |
| Options exercised      |           | (78,117)  | \$ 4.98  | - \$ 10.69 |
| Options canceled       | \$4,446   | (4,446)   | \$ 7.25  | -          |
| -----                  |           |           |          |            |
| Balance April 30, 1994 | 982,932   | 849,544   | \$ 4.98  | - \$ 13.75 |
| Restricted Stock Award | (114,497) |           |          |            |
| Options granted        | (271,320) | 271,320   | \$ 14.75 | - \$ 20.25 |
| Options exercised      |           | (94,651)  | \$ 4.98  | - \$ 9.81  |
| Options canceled       | 43,586    | (43,586)  | \$ 8.50  | - \$ 19.00 |
| -----                  |           |           |          |            |
| Balance April 29, 1995 | 640,701   | 982,627   | \$ 5.57  | - \$ 20.25 |
|                        | =====     | =====     | =====    | =====      |

</TABLE>

Options previously authorized under the 1986 Plan which were not granted as of the end of fiscal 1993 were considered to have lapsed and no longer available for future grant. At April 29, 1995, options to purchase 361,554 shares were exercisable at prices ranging from \$5.57 to \$14.25 per share. During fiscal 1995 the Company issued a net 114,497 shares of restricted stock to certain key employees. A portion or all of the shares may vest at the end of fiscal 1997 based upon the market performance of the

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
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Company's common stock. Any shares that do not vest at such time will otherwise vest at the end of fiscal 2002 if the employee continues to be employed by the Company.

b. Common Stock Purchase Warrants

During fiscal 1993 and the fourth quarter of fiscal 1994, the Company issued Warrants to purchase 300,000 shares and 100,000 shares of its Common Stock at exercise prices of \$6.88 and \$13.50 per share, respectively, to a customer who concurrently entered into long-term supply agreements with the Company. The customer has the choice of either exercising the Warrants or receiving a cash volume discount based upon certain minimum levels of purchases from the Company during the terms of the supply agreements. The Warrants are exercisable immediately whereas the cash volume rebate, if any, is payable after the expiration of the supply agreements. The Warrants expire August 22, 1997 and August 31, 1998, respectively. At such time as the customer may choose to exercise either of the Warrants, the related accrued cash rebate will be transferred to additional paid in capital. The fair values of the Warrants at their dates of issuance were determined to be \$855 and \$502, respectively, and are included in the balance sheet net of a deferred contra account in like amount. As of April 29, 1995, the Company continues to believe that the customer will exercise the first Warrant and continues to accrue volume discounts based upon sales with respect to the second Warrant.

c. Reserved Shares

At April 29, 1995, 2,073,149 common shares were reserved for issuance under the stock incentive plans and outstanding warrants.

d. Preferred Stock Purchase Rights

On May 4, 1995, the Board of Directors declared a dividend of one preferred share purchase right (a "Right") for each outstanding share of common stock. Each Right entitles the holder to purchase from the Company one one-hundredth of a share of Series B Junior Participating Preferred Stock at a

price of \$17.00 per one one-hundredth of a preferred share. The Rights are exercisable only if an acquiring person acquires, or announces the intention to acquire, 25% or more beneficial ownership of the outstanding common shares. The effect of the Rights plan is to provide to the Company's stockholders the right, upon the occurrence of an acquisition, tender offer or business combination transaction, to exchange the preferred shares for common stock at a fraction of the then-current market price of the common stock. The Rights expire on June 14, 2005 unless extended. The Rights are subject to other restrictions and terms as described in the Rights Agreement.

e. Related Party Transactions

CIGNA Corporation and its affiliates ("CIGNA"), was the holder of \$15.0 million of the Company's debentures, which upon conversion represented 1.15 million shares of common stock. Accordingly, CIGNA has been considered a beneficial owner of more than 5% of the outstanding stock

SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

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of the Company for all of the periods presented. Amounts paid to CIGNA for interest and insurance costs for 1995 were \$685, as compared to \$2,918 in 1994, and \$3,711 in 1993. In addition, in connection with the financing of the acquisition of the Premium Group in January, 1994, the Company prepaid \$16.9 million of Senior Notes due to CIGNA, and incurred a pre-tax prepayment penalty to CIGNA of \$2.3 million. This penalty is included in the 1994 financial statements as a part of the total extraordinary item of approximately \$3.1 million (after income tax benefit of \$1.9 million).

In connection with the acquisition of the Premium Group and related financing, the Company paid a fee of \$1.5 million to a firm whose president and principal shareholder is a director of the Company. In addition, the firm holds an option to purchase 14,821 common shares at an exercise price of \$5.02 per share.

10. RESTRUCTURING CHARGE

As a result of the discontinued use of the long-box as a packaging medium for compact discs and the related diminished level of sales, the Company decided at the end of the third quarter of fiscal 1994 to close its Farmingdale, New York facility effective as of April 30, 1994. In connection with the closing of this facility and the restructuring of the Company's operations relating thereto, the Company recorded a restructuring charge before provision for income taxes amounting to \$3.4 million during 1994. Included in this charge are amounts provided for the termination of leases (\$530), disposal of equipment (\$1,020), severance payments (\$750) and other related restructuring items (\$1,100). With the exception of the lease commitments, all of the respective cash outlays related to the closing of the facility were made by the end of 1995.

11. EMPLOYEE BENEFIT PLANS

(a) Defined Contribution Plans

The Company has profit sharing plans as well as employee savings plans. Based upon the provisions of each employee savings plan, the Company matches a portion of the employees' voluntary contributions. The amounts contributed to the profit sharing plan in the United States are at the discretion of the Board of Directors, whereas the amounts contributed to the profit sharing plans in Canada are at the percentages provided for by the respective plans. Total provisions with respect to defined contribution plans approximated \$1,613, \$977 and \$824 in 1995, 1994 and 1993, respectively.

(b) Defined Benefit Plans

In connection with the acquisitions of the Premium Group and Heminway, the Company assumed the obligations related to two defined benefit pension plans covering union employees. In addition, the Company established a frozen plan to accept assets to be transferred from a Premium Group defined benefit pension plan, which assets relate to non-union employees who have been transferred to and are now employees of the Company.

## SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

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The following table sets forth the funded status of the Plans as of April 29, 1995 and April 30, 1994:

|  | 1995     | 1994     |
|--|----------|----------|
|  | -----    | -----    |
| <S>  | <C>      | <C>      |
| Vested benefit obligation                                | \$2,782  | \$2,616  |
|  | =====    | =====    |
| Accumulated benefit obligation                           | \$3,029  | \$2,923  |
|  | =====    | =====    |
| Projected benefit obligation                             | \$3,029  | \$2,923  |
| Market value of assets                                   | 3,059    | 3,275    |
|  | -----    | -----    |
| Plan assets in excess of projected benefit obligation    | 30       | 352      |
| Unrecognized transition obligation                       | -        | -        |
| Unrecognized prior service cost                          | 22       | -        |
| Unrecognized loss/(gain)                                 | (203)    | (452)    |
|  | -----    | -----    |
| Prepaid/(accrued) pension cost                           | \$ (151) | \$ (100) |
|  | =====    | =====    |
| Discount rate and expected rate of return on plan assets | 8%       | 8%       |
|  | =====    | =====    |

&lt;/TABLE&gt;

## 12. MAJOR CUSTOMER AND CREDIT CONCENTRATIONS

Approximately 17% and 13% of net sales during 1995 were derived from sales to two customers and their affiliates. Approximately 18% of net sales during 1993 were derived from sales to one customer and its affiliates. No other customer accounted for more than 10% of net sales in any of the three fiscal years ended April 29, 1995.

The Company's customers are primarily large entertainment, tobacco and other consumer products companies who produce products in the United States and Canada. At April 29, 1995, approximately 43% and 14% of accounts receivable related to customers in the tobacco and music industries, respectively. Approximately 42% of accounts receivable are due from Canadian companies.

## SHOREWOOD PACKAGING CORPORATION AND SUBSIDIARIES

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## 13. GEOGRAPHIC OPERATIONS

<TABLE>  
<CAPTION>

| 1995  | 1994  | 1993  |
|-------|-------|-------|
| ----- | ----- | ----- |

| <S>                             | <C>       | <C>       | <C>       |
|---------------------------------|-----------|-----------|-----------|
| Net Sales                       |           |           |           |
| Domestic . . . . .              | \$219,218 | \$142,028 | \$137,405 |
| Foreign . . . . .               | 137,815   | 74,441    | 46,717    |
|                                 | -----     | -----     | -----     |
|                                 | \$357,033 | \$216,469 | \$184,122 |
|                                 | =====     | =====     | =====     |
| Net Earnings                    |           |           |           |
| Domestic (a) . . . . .          | \$ 13,572 | \$ 487    | \$ 13,916 |
| Foreign . . . . .               | 8,937     | 5,806     | 1,863     |
|                                 | -----     | -----     | -----     |
|                                 | \$ 22,509 | \$ 6,293  | \$ 15,779 |
|                                 | =====     | =====     | =====     |
| Identifiable Assets At Year-End |           |           |           |
| Domestic . . . . .              | \$165,388 | \$152,821 | \$ 87,371 |
| Foreign . . . . .               | 79,876    | 67,529    | 25,389    |
|                                 | -----     | -----     | -----     |
|                                 | \$245,264 | \$220,350 | \$112,760 |
|                                 | =====     | =====     | =====     |

</TABLE>

The Company's foreign operations are conducted in Canada.

(a) After an extraordinary charge of \$3,098 in 1994 and a cumulative effect credit of \$1,150 in 1993.

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ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NONE

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PART III

Pursuant to instruction G(3) to Form 10-K, the information required in Items 10-13 is incorporated by reference from the Company's definitive proxy statement for the October 19, 1995 annual meeting of stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a) (1) Financial Statements. See "Index to Financial Statements and Supplementary Data" in Item 8.
- (a) (2) Financial Statements Schedules. The financial statement schedules have not been included because they are not applicable or the information is included in financial statements or notes thereto.
- (a) (3) Exhibits

| NUMBER | DESCRIPTION   |
|--------|---|
| --     | -----   |
| 3.1    | -- Certificate of Incorporation of the Company, as amended, |

- incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 3.2 -- Amended and Restated By-laws of the Company, incorporated by reference to the corresponding Exhibit item to Amendment No. 1 to Registration Statement on Form S-1, as filed with the Commission on October 20, 1986, Commission File No. 33-8490.
- 9.1 -- Intentionally Omitted.
- 10.1 -- through 10.4 Intentionally Omitted.
- 10.5 -- Agreement of Lease dated May 20, 1977 between Frank X. Mascioli and Shorewood Packaging Corporation, a New York corporation, relating to premises located at 55 Engineers Lane, Farmingdale, New York, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.6 -- and 10.7 Intentionally Omitted.
- 10.8 -- Lease dated June 13, 1979 between Ravin Investments Limited and Shorewood Packaging Corp. of Canada Limited, as amended as of March 14, 1983, between Pension Fund Realty Limited and Shorewood Packaging Corp. of Canada Limited, relating to premises located at 2220 Midland Avenue, Scarborough, Ontario, Canada, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.9 -- Lease Agreement dated November 1, 1984 between The Beneficiary Of Land Trust Established With American National Bank and Trust Company of Chicago and Shorewood Packaging Company of Illinois, Inc., relating to the Countryside Executive Center in Palatine, Illinois, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.10 -- through 10.39 Intentionally Omitted.
- 10.40 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Paul B. Shore, incorporated by reference to the

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- corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.41 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Marc P. Shore, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.42 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Floyd Glinert, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.43 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Murray B. Frischer, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.44 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Charles Kreussling, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.45 -- Non-Competition Agreement dated as of June 20, 1985 between Shorewood Packaging Corporation of New York and Kenneth Rosenblum, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on September 4, 1986, Commission File No. 33-8490.
- 10.46 -- through 10.50 Intentionally Omitted.
- 10.51 -- Lease dated as of April 30, 1987 between Shorewood Packaging Corporation and Blamore Real Estate Company relating to the premises located at 10 East 53rd Street, New York, New York, incorporated by reference to the corresponding Exhibit item to Registration Statement on Form S-1, as amended, as filed with the Commission on June 5, 1987, Commission File No. 33-14395.
- 10.52 -- through 10.56 Intentionally Omitted.
- 10.57 -- Asset Purchase Agreement, dated as of August 1, 1988, by and among Goody Products, Inc., Southeastern Box Co., Inc., Shorewood

Packaging Corporation and Shorewood Box Co., Inc., incorporated by reference to the corresponding Exhibit item to Quarterly Report on Form 10-Q for the quarter ended July 30, 1988 filed with the Commission on August 30, 1988, Commission file No. 0-15077.

- 10.58 -- Agreement, dated August 1, 1988, by and between Goody Products, Inc. and Shorewood Packaging Corporation, incorporated by reference to the corresponding Exhibit item to Quarterly Report on Form 10-Q for the quarter ended July 30, 1988 filed with the Commission on August 30, 1988. Commission file No. 0-15077.
- 10.59 -- through 10.77 Intentionally Omitted.
- 10.78 -- Asset Purchase Agreement dated December 23, 1993 by and among Shorewood Paperboard Corporation Limited, Shorewood Acquisition Corporation of Delaware, Paperboard Industries Corporation and Paperboard Industries Inc. incorporated by reference to the corresponding exhibit item to Form 8-K Current Report of Shorewood Packaging Corporation filed with the Commission on January 28, 1994, Commission File No. 0-15077.
- 10.79 -- Sheeter Purchase Agreement dated December 23, 1993 by and among Shorewood Acquisition Corporation of Delaware and Paperboard Industries Inc. incorporated by reference to the corresponding exhibit item to Form 8-K Current Report of Shorewood Packaging Corporation filed with the Commission on January 28, 1994, Commission File No. 0-15077.
- 10.80 -- Restated and Amended Credit Agreement dated February 25, 1994 between Shorewood Packaging Corporation, Shorewood Corporation of Canada Limited and NationsBank of North Carolina, N.A. and The Bank of Nova Scotia incorporated by reference to the

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corresponding exhibit item to Shorewood Packaging Corporation's quarterly report on Form 10-Q for the fiscal quarter ended January 29, 1994, as filed with the Commission on March 15, 1994, Commission File No. 0-15077.

- 10.81 -- Trademark License Agreement dated January 14, 1994 between Paperboard Industries Inc. and Shorewood Acquisition Corporation of Delaware incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.82 -- Non-Competition Agreement dated January 14, 1994 between Cascades Inc., Cascades Paperboard International Inc., Paperboard Industries Corporation, Paperboard Industries Inc., Shorewood Packaging Corporation, Shorewood Paperboard Corporation Limited and Shorewood Acquisition Corporation of Delaware incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.83 -- First Amendment to Restated and Amended Credit Agreement dated July 18, 1994 between Shorewood Packaging Corporation, Shorewood Corporation of Canada Limited and NationsBank of North Carolina, N.A. and The Bank of Nova Scotia incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.84 -- Amendment, as of January 14, 1994, to Note Purchase Agreement dated as of June 27, 1991 between Shorewood Packaging Corporation and each of Connecticut General Life Insurance Company, Inc., Mezzanine Partners II, L.P., Life Insurance Company of North America and The Prudential Insurance Company of America incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.85 -- Asset Purchase Agreement dated January 17, 1994 between Shorewood/Heminway Acquisition Corporation and Heminway Packaging Corporation (omitting schedules and exhibits) incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.86 -- Lease dated as of January 17, 1994 between Shorewood/Heminway Acquisition Corporation and Heminway Packaging Corporation in respect of premises located at 155 South Leonard Street, Waterbury, Connecticut incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. 0-15077.
- 10.87 -- Letter Agreement dated April 21, 1994 by and among SPC

Corporation Limited, (formerly known as Shorewood Paperboard Corporation Limited), Shorewood Acquisition Corporation of Delaware, Paperboard Industries Corporation and Paperboard Industries Inc. in respect of working capital adjustment incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. O-15077.

10.88 -- Employment Agreement dated as of May 16, 1994 between Shorewood Packaging Corporation and Howard M. Liebman incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. O-15077.

10.89 -- Consultation and Termination Agreement dated May 6, 1994 between Shorewood Packaging Corporation and Murray B. Frischer incorporated by reference to the corresponding exhibit

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item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. O-15077.

10.90 -- Shorewood Packaging Corporation Retirement and Savings Plan, and Adoption Agreement, dated March 19, 1994 between Shorewood Packaging Corporation and its subsidiaries, as employer, and NationsBank of Georgia, N.A., as trustee incorporated by reference to the corresponding exhibit item to the Company's annual report on Form 10-K for the fiscal year ended April 30, 1994, as filed with the Commission on July 29, 1994, Commission File No. O-15077.

10.91 (a) Stock Warrant Agreement to purchase 100,000 shares of Common Stock, dated as of January 13, 1994.

10.91 (b) Stock Warrant Agreement dated as of July 23, 1992 to purchase 300,000 shares of Common Stock.

21.1 -- Subsidiaries of Registrant.

23.1 -- Consent of Deloitte & Touche LLP.

(b) Reports on Form 8-K

No current reports on Form 8-K were filed by the Company during the last quarter of the period covered by this report.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHOREWOOD PACKAGING CORPORATION

By: /s/ Paul B. Shore

-----  
Paul B. Shore  
Chairman of the Board and Chief Executive Officer

Date: July 27, 1995

Pursuant to the requirement of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated.

| Signature         | Title                 | Date          |
|-------------------|-----------------------|---------------|
| -----             | -----                 | -----         |
| <S>               | <C>                   | <C>           |
| /s/ Paul B. Shore | Chairman of the Board | July 27, 1995 |
| -----             | and Chief Executive   |               |
| Paul B. Shore     | Officer and Director  |               |

/s/ Marc P. Shore Vice Chairman of the Board July 26, 1995

|   |  |               |
|---|--|---------------|
| - -----<br>Marc P. Shore                                      | and President and Director   |               |
| /s/ Floyd S. Glinert<br>- -----<br>Floyd S. Glinert           | Executive Vice President<br>- Marketing and Director                                     | July 25, 1995 |
| /s/ Howard M. Liebman<br>- -----<br>Howard M. Liebman         | Executive Vice President<br>and Chief Financial Officer<br>(Principal Financial Officer) | July 25, 1995 |
| /s/ William H. Hogan<br>- -----<br>William H. Hogan           | Corporate Controller<br>(Principal Accounting Officer)                                   | July 26, 1995 |
| /s/ William Weidner<br>- -----<br>William Weidner             | Director   | July 26, 1995 |
| /s/ Timothy O'Donnell<br>- -----<br>R. Timothy O'Donnell      | Director   | July 26, 1995 |
| /s/ Melvin Braun<br>- -----<br>Melvin Braun                   | Director   | July 26, 1995 |
| /s/ Seymour Leslie<br>- -----<br>Seymour Leslie               | Director   | July 26, 1995 |
| /s/ Kevin J. Bannon<br>- -----<br>Kevin J. Bannon<br></TABLE> | Director   | July 26, 1995 |

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EXHIBIT INDEX

| <TABLE>   |                                  |           |
|-----------|----------------------------------|-----------|
| <CAPTION> |                                  |           |
| Item      | Description                      | Page      |
| - - - - - | - - - - -                        | - - - - - |
| <S>       | <C>                              | <C>       |
| 21.1      | Subsidiaries of Registrant       | 41        |
| 23.1      | Consent of Deloitte & Touche LLP | 42        |
| 27.1      | Financial Data Schedule          |           |
| </TABLE>  |                                  |           |

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## EXHIBIT 21.1

## SHOREWOOD PACKAGING CORPORATION SUBSIDIARIES

<TABLE>  
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|---|---|
| <S>   | <C>                                     |
| Shorewood Packaging of California, Inc.         | California                              |
| Shorewood Packaging Company of Illinois, Inc.   | Illinois                                |
| SPC Company of Virginia, Inc.                   | Virginia                                |
| Shorewood Packaging Corporation of Alabama      | Alabama                                 |
| Shorewood Packaging Corporation of Canada, Ltd. | Canada                                  |
| Shorewood Transport, Inc.                       | New York                                |
| Shorewood Packaging of Delaware, Inc.           | Delaware                                |
| Shor-Wrap, Inc.                                 | Delaware                                |
| Shorewood Technologies, Inc.                    | Delaware                                |
| Shorewood Packaging Corporation of Georgia      | Georgia                                 |
| Toronto Carton Corporation Limited              | Canada                                  |
| Shor-Wrap Packages of Canada, Ltd.              | Canada                                  |
| Shorewood Acquisition Corporation of Delaware   | Delaware                                |
| Shorewood Packaging Corporation of Virginia     | Virginia                                |
| SPC Company of New York, Inc.                   | New York                                |
| Shorewood Packaging Corporation of Connecticut  | Connecticut                             |
| Shorewood Corporation of Canada Limited         | Canada                                  |
| SPC Corporation Limited                         | Canada                                  |
| Shorewood Packaging Corporation of Oregon       | Oregon                                  |

</TABLE>



## INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No.'s 33-16409, 33-38259 and 33-78614 of Shorewood Packaging Corporation each on Form S-8 of our report dated June 27, 1995, appearing in this Annual Report on Form 10-K of Shorewood Packaging Corporation for the 52 weeks ended April 29, 1995.

DELOITTE & TOUCHE LLP

/s/ DELOITTE & TOUCHE LLP

New York, New York  
July 25, 1995

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