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RKT - MeadWestvaco Corp and RockTenn Agree to Combination Creating a $16 Billion Global Packaging Leader Call

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OVERVIEW:
MWV and RockTenn together are creating global industry leader in consumer and corrugated packaging with combined equity value of $16b.

CORPORATE PARTICIPANTS
Jason Thompson MeadWestvaco Corporation - Director, IR
John Luke MeadWestvaco Corporation - Chairman & CEO
Steve Voorhees RockTenn Company - CEO
Mark Rajkowski MeadWestvaco Corporation - SVP & CFO

CONFERENCE CALL PARTICIPANTS
Adam Josephson KeyBanc Capital Markets - Analyst
Mark Weintraub Buckingham Research Group - Analyst
George Staphos Bank of America Merrill Lynch - Analyst
Scott Gaffner Barclays Capital - Analyst
Anthony Pettinari Citigroup - Analyst
Chip Dillon Vertical Research Partners - Analyst
Gail Glazerman UBS - Analyst
Chris Manuel Wells Fargo Securities - Analyst
Alex Ovshey Goldman Sachs - Analyst
Al Kabili Macquarie Capital - Analyst

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the MeadWestvaco RockTenn conference call. (Operator Instructions). As a reminder, today's conference is being recorded. I would now like to turn the conference over to our host, Director of Investor Relations, Mr. Jason Thompson. Please go ahead, sir.

Jason Thompson - MeadWestvaco Corporation - Director, IR

Thank you. Good morning, everyone. John Luke and Steve Voorhees are here with us today and are joined by Mark Rajkowski and Ward Dickson. John Stakel is also here with us. A notification for this call was broadly disclosed and is being webcast at MWV.com and RockTenn.com where slides are also available. Our commentary is correct as of today, but could include time-sensitive information that is subject to change. In addition, any statements that are forward-looking are subject to known and unknown risks and are not guarantees of future performance. We have allotted 45 minutes for today's call so John and Steve can spend time with employees and other key audiences. We appreciate your respect in this regard. Obviously, John and I will be available for follow-up. I'll now turn the call over to John Luke.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Jason, thanks very much and good morning, everyone. It's a great pleasure to be together today with Steve Voorhees and the team from RockTenn to make this exciting announcement about the combination of two leading packaging companies with highly complementary products and markets and geographic mix. Together, we're creating a global industry leader in consumer and corrugated packaging with a combined equity value of $16 billion, a company with true competitive advantages, including an outstanding organization, a market-focused customer-centric strategy, global scale with 300 operations in 30 countries, leading innovation and technology and material science and manufacturing expertise. This will be a company that will deliver industry-leading financial performance.

The combination makes tremendous sense for a variety of compelling reasons. Most important, we're leveraging the strengths of both companies into a larger, more diverse, more balanced and more global business. The combined company will have an enhanced presence in a global marketplace than presently and will continue to provide substantial opportunities for profitable growth. It will also have the financial strength and flexibility to enable this growth, including the benefit of significant synergies, opportunities to accelerate margin improvement and a combined pension plan that maximizes MWV's overfunded asset and reduces future payments.

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This opportunity is born of each company's strategic progress, financial success and history of value creation and return to shareholders over the past several years. For MWV shareholders, we have executed a number of strategic moves that have positioned us for this combination, most recently the sale of our landholdings and subsequent joint venture for our development business and the announced spinoff of specialty chemicals. Together, these steps and our ongoing commitment to maximizing value from our businesses have led to $4 billion of capital returned directly to shareholders over the past decade and very strong returns compared to the S&P 500.

Obviously, RockTenn has a similar commitment to generating shareholder value and Steve will be able to detail how these two high-performing companies come together to extend this record of value creation. I'll turn to Steve for those comments, but suffice it to say that we're both confident that this combination will mark the beginning of a new phase of excellence as we pursue our vision for leadership in the global packaging marketplace. Steve?

Steve Voorhees - RockTenn Company - CEO

Thanks, John. It's been a privilege for me to get to know you and to work with you over the past several months to put this merger together. Many of my colleagues have had the opportunity to work with MWV on a number of fronts. As an example, last year, RockTenn purchased approximately 150,000 tons of paper board from MWV. These purchases were produced by MWV to meet the stringent performance requirements of our folding carton customers. This gives us direct experience with the technical capabilities of the MWV organization. Without exception, all of us have a high regard and a respect for the MWV team and our business relationships. We're looking forward to the opportunity to work together to create far more value for our customers and shareholders than either of our companies could otherwise create on our own.

As many of you know, MWV has taken decisive action to improve its portfolio of businesses over a long period of time, including the recent announcement to spin the specialty chemicals business during calendar 2015. The merged company is committed to complete the spin of the specialty chemicals business.

RockTenn has taken similarly decisive action to implement our strategy across our lines of paper solutions and packaging solutions and we continue to sustain productivity improvements. Most recently, $31 million in the December quarter. Both companies have returned significant capital to our shareholders via dividends, share repurchases and spin distributions. This performance has been favorably received by investors. Over the past three years, MWV has delivered 87% in shareholder return and RockTenn has achieved 98% returns, both well in excess of the S&P 500 total return of 66%. The current positive momentum of both companies makes this an ideal time to merge the companies and accelerate the performance improvements in the context of a larger organization.

The new $15.7 billion sales company will operate with a balanced consumer and corrugated packaging business. On a pro forma basis, the consumer packaging business will be a $6.5 billion sales business accounting for 43% of sales and the corrugated packaging business will be a $7.7 billion business or 50% of sales. We'll have the scale, the assets, the employees, the technical capabilities and the cost structure to successfully serve our customers with a broader product mix across a wider geography and help them win in the marketplace. The merged company will operate 13 million tons of mill capacity, including number one or number two positions in North American SBS, CNK CRB and containerboard and the number two containerboard position in Brazil. I'm particularly excited about the prospect of being able to manufacture all three of the primary folding carton grades to meet our customers' paperboard needs.

Our consumer packaging business will have a distinctive set of capabilities to help our customers win in the market and as we succeed grow with our customers by adding products and services across a global market. Our corrugated packaging business is well-positioned for success. Our North American business has achieved significant performance improvements through capital investment and investment in process and investment in people to improve performance. The most recent quarter, our box volumes increased by 2.5% over last year. In Brazil, our recent investment in a modern paper machine is providing us the opportunity to grow the market for high quality corrugated packaging. Similarly, in India, we're investing making the necessary investments to grow the market for high quality corrugated packaging. I'm excited about the papermaking discussions we've had between the two companies. There's an opportunity for us to improve performance across this business through collaboration.

Our management teams have invested a significant amount of time to identify and quantify the opportunities for the merged company to improve efficiency and productivity. Some of the opportunities are obvious. For example, using our larger scale to accelerate improved purchasing results. Another example is internalizing our purchases of corrugated packaging and recovered fiber. We have other opportunities to improve performance through optimizing our grade mix, for example, between the Demopolis mill and the Covington mill allowing the Demopolis mill to run what it runs best, higher caliper grades, and to allow the Covington mill to run what it runs best, lighter weight grades.

When we aggregate the opportunities, we believe there are $300 million in annual cost savings available to the merged company, balanced among infrastructure, procurement and supply chain efficiencies and mill and converting plant optimization. A well-known and expected benefit of the merger is the monetization of the MWV pension surplus. Our estimates indicate that we can reduce our contributions by over $500 million through 2024 by merging our US pension plans.

Looking at the pro forma combined financial results for calendar 2014, the merged company will generate sales of $15.7 billion and pro forma EBITDA of $2.9 billion, including the $300 million in synergies. Our leverage ratio after taking into account the transaction fees and the funding of the cash election for the RockTenn shareholders is estimated to be 1.74 times. Our pro forma leverage ratio of 1.74 times provides us ample flexibility to implement our strategy. Our current thinking is that the merged company could support a target leverage ratio of 2.25 to 2.5 times, which will likely support an investment grade credit rating.

The merger of the companies with the cost synergies alone creates a formidable competitor in the marketplace and there's plenty for all of us to get excited about. What generates even more excitement for me and the management teams is the platform that we'll have to grow with our customers and markets based on our capabilities, global footprint in North America, South America, Europe and Asia and our technical capabilities in material science and operations. We'll have the financial strength to grow beyond our current footprint by investing in new assets, including acquisitions, that improve our business.

John and I are committed to continuing to deliver attractive shareholder returns. We're committed to spin specialty chemicals during calendar year 2015. This is a very attractive business that will do well on its own. The divestiture will allow us to fully develop our Company to what I believe will rapidly become the most respected company in the global consumer and corrugated packaging business. We will seek opportunities to grow profitably and we'll continue to implement a balanced capital allocation policy to return capital to shareholders all within our target 2.25 to 2.5 times leverage ratio.

John and I have discussed the importance of moving quickly to integrate our businesses with a focus on creating a strong shared culture for the merged company. We'll be off and running later this week and expect to include key people from both companies in the integration planning process. I think the merged company will be even more attractive to highly capable, motivated and collaborative people who want to apply their talents to build a great global packaging company. We will build our shared culture on the basis of acting with integrity and respect for our employees, customers, investors and suppliers.

I personally appreciate all the hard work done by the people throughout MWV and RockTenn to get us to this point and could not be more excited about our future. We're merging two great companies to become a $15 billion consumer and corrugated packaging company focused on customers, innovation and operational excellence. Over the next several months, in addition to developing our integration plans, we'll make the regulatory filings in the United States and overseas that are necessary to complete the merger. We'll also file the prospectus for the merger with the SEC and expect both companies to hold shareholder meetings in the second calendar quarter. We expect to complete the merger and list the new shares of the merged company in the second calendar quarter of 2015. With that, John and I are available to respond to your questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Adam Josephson.

Adam Josephson - KeyBanc Capital Markets - Analyst

Thanks, good morning and congratulations, everyone; Steve and John obviously included. Steve and John, in terms of the cost synergies to which you are guiding, the $300 million, is there any overlap between that number and the programs that each company already had underway and if so, how much?

John Luke - MeadWestvaco Corporation - Chairman & CEO

Steve, do you want to take that? I think it's fair to say right upfront that we've got cost synergies that are targeted to be above and beyond.

Steve Voorhees - RockTenn Company - CEO

Yes, Adam, we've done extensive work and the $300 million is what we get from the combination, which would be additive to what we would otherwise be able to do on our own.

Adam Josephson - KeyBanc Capital Markets - Analyst

Okay, so the $2.9 billion excludes what you already -- what you have underway at each company?

Steve Voorhees - RockTenn Company - CEO

Yes.

Adam Josephson - KeyBanc Capital Markets - Analyst

And one other one on the synergies, how much do you believe is SG&A-related versus COGS-related?

Steve Voorhees - RockTenn Company - CEO

We haven't gotten into that level of detail to try to figure out where the geography is on the financial statements.

Adam Josephson - KeyBanc Capital Markets - Analyst

Sure. And just one more, Steve and John. In terms of the corrugated versus consumer, are you particularly interested in expanding in one versus the other in the years to come or not necessarily? And just on the capital allocation side, you talked about dividends, buybacks, M&A on one of the slides. Do you have any strong preferences in terms of that basket of capital allocation opportunities?

Steve Voorhees - RockTenn Company - CEO

I've got a strong preference for creating the most shareholder value and I think all of those, whether it's consumer or corrugated, I think you mentioned the general alternatives and we'll look at all of those and try to optimize them based on the value we can create for shareholders.

John Luke - MeadWestvaco Corporation - Chairman & CEO

I think Steve said that well. I think one of the things, Adam and others on the call, that's significant and it is part of the reason we're sitting here today is that we see significant global opportunity to leverage the platform we have, the knowledge. These markets, whether it be the corrugated for industrial packaging or consumer packaging, there is a tremendous opportunity in targeted markets all around the world and it's a matter of deciding which way to go and when to do it.

Adam Josephson - KeyBanc Capital Markets - Analyst

Thanks, Steve. And John, just one last one. In terms of the culture, as you talked about culture earlier, Steve, how do you think the companies cultures will fit together and how different are they?

Steve Voorhees - RockTenn Company - CEO

I think they are going to fit very well together. I think the merged company is going to take the best from both companies and I think will be a distinctive, very attractive culture for all of our stakeholders.

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John Luke - MeadWestvaco Corporation - Chairman & CEO

Right. And I would just supplement that by saying, one, I agree with Steve completely; two, there is a common bond of integrity first in all of our dealings that both organizations share a desire to win in the marketplace and all of that was reflected -- Steve referenced earlier the tremendous amount of teamwork that's been undertaken getting us to this point and the collaboration has been nothing short of outstanding.

Adam Josephson - KeyBanc Capital Markets - Analyst

Thanks a lot, Steve and John, and congratulations again.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Thank you.

Operator

Mark Weintraub.

Mark Weintraub - Buckingham Research Group - Analyst

Thank you and my congratulations as well. First, I guess I'm trying to understand a little bit as we go forward, MeadWestvaco has very much had the global objectives on the growth side. RockTenn has historically been a bit more North American-focused. It sounds like the combined entity, a lot of -- this really creates potential maybe to accelerate on the global side. Is that a fair observation or not? And maybe before that, I recognize the first big issue is getting all that $300 million in synergies and so any additional color, and I recognize it's early in the going, but anything that you can help us in understanding how you get to the $300 million target would be very much appreciated.

John Luke - MeadWestvaco Corporation - Chairman & CEO

We will do our best, Mark. Thank you very much. Let me just comment a little bit on the first part of your question and that is that I think there will be continuing opportunities for growth here in North America as we sort out opportunities with our shared major customers and others whom our capabilities will fit nicely with, but to your broader point, there's significant opportunity around the world for us to grow as we see more activity in emerging markets in particular. Steve mentioned India and Brazil as two in his comments. China also represents significant opportunity clearly as we look for the longer haul. Each of these areas hold great opportunity and they will in proper order be considered as part of the strategy evaluation.

Steve Voorhees - RockTenn Company - CEO

I think we've got growth opportunities in North America and other areas of the world and it's very consistent with I think what we've been trying to do at RockTenn. And of course, certainly with what MWV has done. I think with respect to the synergies, we've done a significant amount of work. I think it's difficult to time them out, but I think if we were going to estimate timing them out, probably -- I'm just going to use a quarter of the first year and then the residual will come in the next two years, but it's really early to get precise. We have had -- we have done a significant amount of work across the companies to identify the opportunities.

Mark Weintraub - Buckingham Research Group - Analyst

Okay, and one quick follow-up. Any breakup fees involved?

Steve Voorhees - RockTenn Company - CEO

We are going to file the merger agreement I understand later today and I would just refer you to that. I'm sure they'll be other questions people will want to look at them.

Mark Weintraub - Buckingham Research Group - Analyst

Sure thing. Thank you.

Operator

George Staphos.

George Staphos - Bank of America Merrill Lynch - Analyst

Thanks. Hi, everyone good morning and good luck with the transaction. Piggybacking a little bit on the synergy questions and the deal timeline, how long in fact have you been studying the combination between the two companies? And I'm interested again from the standpoint of what makes you so confident on the optimization synergies and supply chain synergies since both companies have been already quite aggressive and effective in getting at synergies as individual companies?

John Luke - MeadWestvaco Corporation - Chairman & CEO

I'll start, George and then turn to Steve. I think we have, over the course of the last several months, Steve and I have had significant conversations about shared strategic opportunities and as we have gotten more excited about the potential the combination can represent, we have obviously focused in greater detail in bringing others into discussions about the potential synergies. So we have great confidence in the work that has been done to date and we have substantial confidence in the compelling upside, value creating potential of the combination and the strategies that will be pursued.

George Staphos - Bank of America Merrill Lynch - Analyst

Okay. And the next question I had and related, you mentioned that -- I think, Steve, it was in your comments -- that you were quite pleased to be offering all of the major folding carton grades now in your suite of products and certainly that's something we would understand and appreciate. How important is that in the overall strategic imperative of putting these two companies together? Was that item number one in a list of 5 or 10 or is it balanced with your other benefits that you get from this transaction?

Steve Voorhees - RockTenn Company - CEO

I think there's so many benefits, it's hard to prioritize any particular one as being almost even greater than the other. I think that's a very nice thing we very much like about the transaction. I think we will be able to communicate with our customers on their folding carton needs better having the three grades, but I wouldn't put that -- I really wouldn't put that higher or lower than any of the other benefits.

George Staphos - Bank of America Merrill Lynch - Analyst

Understood. Two last ones and I'll turn it over. Home health and beauty, which was making lots of progress within MeadWestvaco, it's now part of a much larger and frankly much more paperboard-oriented company. How do you see it fit within the new company? And similar to specialty chemicals, might it perhaps be better off independent given its substrate and the mindset of its customers relative to paperboard? And then separate question, what makes you so confident about being able to get the transaction completed by the second quarter? Thanks and good luck.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Home health and beauty is a consumer packaging business. We have overlapping customers; they've got a great footprint. They have some folding carton assets and home health and beauty, so I just look at that as playing just an integral part of our consumer packaging business. At least with respect to timing, we've received significant advice on the timing and that's what we've said what we think the expectations are and we are very comfortable with those expectations.

George Staphos - Bank of America Merrill Lynch - Analyst

Thank you, Steve.

Operator

Scott Gaffner.

Scott Gaffner - Barclays Capital - Analyst

Good morning. Congratulations. Just wanted to go back to the cultural fit question for a minute. Steve, before you completed the Smurfit-Stone acquisition, there was a lot of legwork that was done around the cultural fit there and I realize there were some issues that came up as the merger took place, or as that acquisition took place. Can you just dig a little bit deeper on the cultural fit here and what exactly makes you feel like the two cultures are similar and the synergies can flow from that?

Steve Voorhees - RockTenn Company - CEO

I think Smurfit is a relevant example. I think you used the word acquisition and merger in the same tone. I think Smurfit was very much an acquisition and this is very much a merger. I think if you look at the -- both companies have been very successful. I think both have very complementary capabilities and there's just so much that we can do better together than we can do separately. So both companies bring great people and capabilities to the organization. I've been very pleased with the collaboration and the spirit that we've had and the work in putting together the transaction. I'm very much looking forward to working with everybody on both companies to create what I think will be an even better company than either one of us could have if we were not to merge. John, do you have --?

John Luke - MeadWestvaco Corporation - Chairman & CEO

No, I think I made a few comments earlier about the values and the collaboration. I think that's positive. I think the other thing I would punctuate is that all of the feedback this morning from both organizations is that there is just great enthusiasm and excitement in the halls of both companies and I think that says a tremendous amount as well.

Scott Gaffner - Barclays Capital - Analyst

Okay. And as I look at the combination on the folding carton side of the business, is there any significant overlap from a customer perspective and likewise, are you baking in any dissynergies within that combination?

Steve Voorhees - RockTenn Company - CEO

I can't answer the question specifically on overlap just because I haven't looked for that. I think for the organization overall, we do have relationships with -- I think both companies have relationships with the very large consumer packaging companies and I expect we are going to have a terrific value proposition to offer to the marketplace.

John Luke - MeadWestvaco Corporation - Chairman & CEO

I think, Steve, you've said that well. The only thing that I would add is not factored into the synergy bucket, but we see significant strategic potential providing the opportunity to leverage RockTenn's folding carton network in serving existing customers or potential customers in markets that we serve for both food and beverage.

Scott Gaffner - Barclays Capital - Analyst

Right. And then just last question, I'm familiar with the RockTenn productivity initiative. Steve, I think you said prior was $200 million of productivity initiatives between 2016 and 2018. But, John, can you maybe familiarize us with the already identified MeadWestvaco cost savings that were identified within the system? Thanks.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Yes. We've had a margin improvement program in place and we have, by the end of 2014, have established a run rate mark of the $75 million that we had targeted --.

Mark Rajkowski - MeadWestvaco Corporation - SVP & CFO

We issued $85 million.

John Luke - MeadWestvaco Corporation - Chairman & CEO

$85 million, again -- right --.

Mark Rajkowski - MeadWestvaco Corporation - SVP & CFO

And we will deliver another $50 million on top of that in 2015 bringing the total savings to $135 million versus the $125 million target that we established (inaudible).

Scott Gaffner - Barclays Capital - Analyst

Thank you.

Operator

Anthony Pettinari.

Anthony Pettinari - Citigroup - Analyst

Good morning and congratulations on the merger. I was wondering, in your prepared remarks, you referenced officers and senior managers of the new company will be selected on a kind of best fit approach. I was wondering if you could talk about the timeline for selecting your senior management teams, when we think about what the new segments of NewCo will be. Can you just talk a little bit about the timeline you expect for that and maybe the process that you will use to make those decisions?

Steve Voorhees - RockTenn Company - CEO

We're going to start immediately. This is a tremendous opportunity to take out a clean sheet of paper and put together I think a great organization. I don't think John or I have preconceived notions about what that would look like. We have a tremendous group of talented executives and employees in the Company and we want to optimize the opportunities for them and for the Company. I expect at the completion of the merger that we would have all that sorted out and get off to a very fast start once the merger is completed.

Anthony Pettinari - Citigroup - Analyst

Okay, that's helpful. And then just regarding the headquarters, you talk about the principal executive offices being in Richmond and operating offices in Atlanta. Is that something that you see as a long-term -- sustainable in the long term? Smurfit had split headquarters with mixed results some would argue. How do you think about the operating offices versus the executive office in the long term?

Steve Voorhees - RockTenn Company - CEO

I think we're going to get out a clean sheet of paper and figure out the best way to organize. We've got tremendous capabilities in both Richmond and Atlanta and I think we're going to want to preserve those and also put together the best organization we can.

Anthony Pettinari - Citigroup - Analyst

Okay, that's helpful. I'll turn it over.

Operator

Chip Dillon.

Chip Dillon - Vertical Research Partners - Analyst

Yes, and good morning and congratulations. First question is can you talk a little bit about whether there's some market synergies or operational synergies you see having all three paperboard substrates under one roof, which we've never seen before, basically joining bleached board with CNK and CRB? And is there really something to that or is that not the main focus of the synergies or benefits of the deal?

Steve Voorhees - RockTenn Company - CEO

I don't -- it's not I'd say a significant part of the $300 million. I think it's an opportunity for us to go to our customers in the folding carton business and be agnostic with respect to substrates. And I think we're going to be able to use the technical capabilities we have to be able to develop what is in fact the optimal board grade and composition for our customers in a way that we just haven't been able to do before. And I don't know how much that might be worth. I expect it's going to be worth a lot to our customers because we're going to be able to go to them with capabilities we just have not had before.

John Luke - MeadWestvaco Corporation - Chairman & CEO

I think, Steve, I think you said that well. We see great opportunities that aren't factored into the synergies at all, Chip, that relate to the lightweighting capability that we at MWV have developed. Most recently with the expansion down in Brazil, we see significant opportunities in material science. And those things can be spread really across a much broader system and as that is done generate significant upside value for our investors and importantly make us just that much more meaningful and relevant and valuable in the marketplace.

Chip Dillon - Vertical Research Partners - Analyst

Got you. That's helpful. And then could you just clarify one thing. I know that you mentioned the split of the share ownership after the deal was tied to preserving some of the -- I guess the structure potential of the chemical divestiture. Is that really more to preserve the potential for a Reverse Morris Trust or is it also necessary for just a pure spin-off post the deal to have that set up?

Steve Voorhees - RockTenn Company - CEO

I think it preserves the flexibility for the merged company to be able to create the highest value from the spin of the specialty chemicals business.

Chip Dillon - Vertical Research Partners - Analyst

Whether it's a Reverse Morris Trust or an outright spin?

Steve Voorhees - RockTenn Company - CEO

Exactly.

Chip Dillon - Vertical Research Partners - Analyst

And then the last thing, and I don't want to put you on the spot, but if you go to slide 16, it looks like, if I look at where consensus is for the fourth quarter or calendar quarter, which hasn't been reported, I'm looking at the adjusted EBIT and it looks like MeadWestvaco is in line with where the consensus is. But when I look at the RockTenn number, it's sort of implying, at least if I read the adjusted EBIT number of $1.1 billion correctly, that you're looking for like $256 million in the fourth quarter, which, on my math, would get you over $1 in earnings per share. And you might not want to address that, but am I missing something? I think I'm doing the math right when I look at the last four quarters, including the last quarter of 2014.

Steve Voorhees - RockTenn Company - CEO

Chip, this is tied to our calendar year 2014 results, so we've put out our earnings announcement earlier today and so I'd just refer you to that. It should tie. If it doesn't, please call John Stakel and we'll work through it.

Chip Dillon - Vertical Research Partners - Analyst

Well, we've been so excited about the merger, we didn't even know you put that out, so we'll take a look. Thank you.

Steve Voorhees - RockTenn Company - CEO

We had a very good quarter and I think that's not the focus of this call, but I do invite you to read our press release and MWV's press release as well on the quarterly results.

Operator

Gail Glazerman.

Gail Glazerman - UBS - Analyst

Hi, good morning. Can you talk about any overlap, if there is any, between MeadWestvaco's export activity out of Brazil and RockTenn's export activity?

John Luke - MeadWestvaco Corporation - Chairman & CEO

The short answer is that I'm not aware of any overlap in activity. Much of what MWV is doing in Brazil is produced and sold locally or to nearby Latin American countries. There is an opportunity to sell much more broadly from a global standpoint, but RockTenn is selling into Central America largely and so it's a complementary mix.

Gail Glazerman - UBS - Analyst

Okay. And I just want to double check. Would it be correct to assume that, given the merger, that your thoughts on use of proceeds from the spin of chemicals might have changed and that may not be a priority?

Steve Voorhees - RockTenn Company - CEO

We're going to look at the opportunities that we have and I think the spin of specialty chemicals is a priority because it makes sense and I think the use of proceeds will just go into our overall balance sheet and we will go through our balanced capital allocation strategy to identify and figure out the best use of those proceeds.

Gail Glazerman - UBS - Analyst

Okay. And I realize obviously this is a relative distraction compared to what's going on right now, but, Steve, have you given any thought to down the road once things settle down how this transaction might impact your thoughts on potential use of the MLP structure?

Steve Voorhees - RockTenn Company - CEO

The MLP is still there and we're continuing to evaluate it. I think it's a very comparable opportunity, but I think you're very right on the priorities. I think our first priority is to be able to get the merger executed and integrated. And there's just so much value that can be created, that needs to be our primary focus in the near term.

Gail Glazerman - UBS - Analyst

All right. Thank you.

Operator

Chris Manuel.

Chris Manuel - Wells Fargo Securities - Analyst

Good morning, gentlemen and congratulations.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Thank you, Chris.

Chris Manuel - Wells Fargo Securities - Analyst

A couple quick questions. First, with regard to synergies or elements there, the $300 million you talked about, just to be clear, the $175 million to $200 million, John, that your organization has been targeting, that's still on the table. That's not inclusive within the $300 million. Is that correct?

John Luke - MeadWestvaco Corporation - Chairman & CEO

We have not double-counted anything; in fact, we've been meticulous to keep buckets very separate.

Chris Manuel - Wells Fargo Securities - Analyst

Okay. Second question, as you go to target this $300 million, are there going to be costs or cash elements required for perhaps severance or what have you done to put those together that you could share with us?

Steve Voorhees - RockTenn Company - CEO

It's hard to estimate. We're very early on in the process, but I think if you're going to have a notional number, it would be somewhere around $100 million.

Chris Manuel - Wells Fargo Securities - Analyst

Okay, that's helpful.

Steve Voorhees - RockTenn Company - CEO

It would be a combination of capital and other cash expenditures.

Chris Manuel - Wells Fargo Securities - Analyst

And then two just last quick ones. First, and it's a follow-on from the last question, what would your integration levels be like in Brazil? I know RockTenn was exporting a chunk of board down there and I think, Mead, you were agnostic or maybe even moving a little bit around Latin America. What would your integration levels be like down there post all this?

Steve Voorhees - RockTenn Company - CEO

First of all, RockTenn's exports to Central and South America have not been to Brazil. They've been to Central America and the Western side of South America and also Mexico. So I just don't have in my brain the integration levels in Brazil.

John Luke - MeadWestvaco Corporation - Chairman & CEO

Right. But I think overall one of the -- if we think about integration broadly, there is going to be a significant opportunity for technology and capability exchanged between Brazil and the rest of the current RockTenn system.

Chris Manuel - Wells Fargo Securities - Analyst

That's helpful. Then my last one was capital spending as a combined entity. What would you just have us think about as a preliminary thought with respect to what CapEx in this year is going to be putting things together and getting stuff done, but what a normalized CapEx as an organization might look like.

Steve Voorhees - RockTenn Company - CEO

We put in the slides $750 million to $900 million and that's a very preliminary number. It's going to be interesting to go through because I think we're going to be able to avoid capital that we otherwise would spend, but we're also going to have greater opportunities and how that balances out, I can't predict, but we're going to go through our capital process and identify the opportunities and allocate the capital appropriately.

Chris Manuel - Wells Fargo Securities - Analyst

I'm assuming though that was without the specialty chemicals business in there, is that correct? The number, the $750 million to $900 million?

Steve Voorhees - RockTenn Company - CEO

I'll just say yes because we're not that precise about it.

Chris Manuel - Wells Fargo Securities - Analyst

Okay, thank you. Good luck, guys.

Operator

Alex Ovshey.

Alex Ovshey - Goldman Sachs - Analyst

Thank you. Good morning, guys. Most of my questions have been asked. Just a couple of follow-ups for you. First, Steve, for you, you went through a big combination, if you will, with Smurfit and I think the synergy number at the end of it all came in significantly above where you initially thought it would be for that transaction. So maybe can you just talk about some of the lessons learned and that could potentially help you accelerate that $300 million number and potentially drive upside to that number?

Steve Voorhees - RockTenn Company - CEO

To me, the biggest lesson learned from the Smurfit acquisition was culture. I think I've been very consistent (technical difficulty). This is a merger of two very similar companies and I think culture is going to be an opportunity more than a problem. I think our ability to get the merged company off to a fast start, I think we're going to put the organizations together, hopefully build on the enthusiasm for the transaction and I think it will be the employees of the Company, which are going to be able to generate the results hopefully in excess of the $300 million.

Alex Ovshey - Goldman Sachs - Analyst

That makes sense, Steve. And just on the leverage to get to the pro forma number of 2.25 to 2.5, what's your timeline post-close to get there and would the preference be to do it through further M&A or through a leveraged buyback approach?

Steve Voorhees - RockTenn Company - CEO

I'll just tell you this is a very fun finance problem. There's a lot of alternatives and I won't prejudge what the best alternative is. We're just going to take out a piece of paper and see what creates the most value and again, this is -- on a list of finance problems, this is a high-class problem.

Alex Ovshey - Goldman Sachs - Analyst

Absolutely. And in terms of timeline, is it something you want to get to within like a 12-month period?

Steve Voorhees - RockTenn Company - CEO

I'd just repeat, it's early for us to be able to speak to that definitively.

Alex Ovshey - Goldman Sachs - Analyst

Very fair. Okay, best of luck with everything. Thank you very much.

Operator

Al Kabili.

Al Kabili - Macquarie Capital - Analyst

Hi, thanks and congratulations. I just wanted to clarify on the synergies, the cost to achieve the synergies, is it just the $100 million in severance I think you indicated to an earlier question or do you foresee other costs to achieve the $300 million in synergies?

Steve Voorhees - RockTenn Company - CEO

It's not $100 million in severance. It's $100 million overall. We have significant work to be able to integrate the IT systems. We're going to have some capital in order to take advantage of the I'll call it the operating synergies and I think that's a notional number and we will provide more specific guidance on it, but I'm glad you asked the question because I just want to underline it's not $100 million in severance, it's $100 million in integration costs. In two significant companies, there's a lot of work to do along those lines.

Al Kabili - Macquarie Capital - Analyst

Okay, okay. Thank you for the clarification, Steve. And it also sounds like -- it doesn't sound like that -- to also an earlier question on the CapEx, it didn't sound like you think CapEx will materially go up for the combined company as a result and if anything, there's opportunities maybe for it -- for some synergies on the CapEx side, if I understand it correctly.

Steve Voorhees - RockTenn Company - CEO

You've got that right. And if it does go up, it's going to be because we have terrific opportunities to generate very attractive returns.

Al Kabili - Macquarie Capital - Analyst

Okay, good, very good. And then just a last question, and I know you're not giving tons of detail on the annual synergies, but it looks like the most direct overlap of the two businesses is on the US boxboard side and just in the context of the $300 million in annual synergies, just maybe help us size up if you're prepared to share it maybe how much of that is boxboard-related versus some of the other areas that you highlighted as far as synergy capture.

Steve Voorhees - RockTenn Company - CEO

I can't provide a lot of specifics on what that number is at this point.

Al Kabili - Macquarie Capital - Analyst

All right, thank you very much and good luck.

Jason Thompson - MeadWestvaco Corporation - Director, IR

Okay, everyone. Thanks for joining us today. Obviously, we'll be speaking with many of you over the coming days and weeks and of course, John and I are available for follow-up. Thank you very much. Julia, can you please give out the replay information?

Operator

Ladies and gentlemen, this conference will be available for replay after 11 AM today through February 26 at midnight. You may access the executive replay system at any time by dialing 1-800-475-6701 and entering the access code of 352014. International participants may dial 320-365-3844. Again, those numbers are 1-800-475-6701 and 320-365-3844 and enter the access code of 352014. That does conclude our conference for today. Thank you for your participation and for using the AT&T executive teleconference service. You may now disconnect.

Forward-Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are typically identified by words or phrases such as “may,” “will,” “could,” “should,” “would,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe,” “target,” “prospects,” “potential” and “fo words, terms and phrases of similar meaning. Forward-looking statements involve estimates, expectations, projections, goals, forecasts, assumptions, risks and uncertainties. RockTenn and MeadWestvaco caution readers that any forward-looking statement is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking statement. Such forward-looking statements include, but are not limited to, statements regarding the anticipated closing date of the transaction, the ability to obtain regulatory and shareholder approvals and satisfy the other conditions to the closing of the transaction, the successful closing of the transaction and the integration of RockTenn and MeadWestvaco as well as opportunities for operational improvement including but not limited to cost reduction and capital investment, the strategic opportunity and perceived value to RockTenn’s and MeadWestvaco’s respective shareholders of the transaction, the transaction’s impact on, among other things, the combined company’s prospective business mix, margins, transitional costs and integration to achieve the synergies and the timing of such costs and synergies and earnings. With respect to these statements, RockTenn and MeadWestvaco have made assumptions regarding, among other things, whether and when the proposed transaction will be approved; whether and when the proposed transaction will close; the results and impacts of the proposed transaction; whether and when the spin-off of MeadWestvaco Specialty Chemicals will occur; economic, competitive and market conditions generally; volumes and price levels of purchases by customers; competitive conditions in RockTenn and MeadWestvaco's businesses and possible adverse actions of their respective customers, competitors and suppliers. Further, RockTenn and MeadWestvaco's businesses are subject to a number of general risks that would affect any such forward-looking statements including, among others, decreases in demand for their products; increases in energy, raw materials, shipping and capital equipment costs; reduced supply of raw materials; fluctuations in selling prices and volumes; intense competition; the potential loss of certain customers; and adverse changes in general market and industry conditions. Such risks and other factors that may impact management's assumptions are more particularly described in RockTenn's and MeadWestvaco's filings with the Securities and Exchange Commission, including under the caption "Business – Forward-Looking Information" and "Risk Factors" in RockTenn's Annual Report on Form 10-K for the fiscal year ended September 30, 2014 and "Management's discussion and analysis of financial condition and results of operations – Forward-looking Statements" and "Risk factors" in MeadWestvaco's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. The information contained herein speaks as of the date hereof and neither RockTenn nor MeadWestvaco have or undertake any obligation to update or revise their forward-looking statements, whether as a result of new information, future events or otherwise.

NO OFFER OR SOLICITATION

The information in this communication is for informational purposes only and is neither an offer to purchase, nor a solicitation of an offer to sell, subscribe for or buy any securities or the solicitation of any vote or approval in any jurisdiction pursuant to or in connection with the proposed transactions or otherwise, nor shall there be any sale, issuance or transfer of securities in any jurisdiction in contravention of applicable law. No offer of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended, and otherwise in accordance with applicable law.

ADDITIONAL INFORMATION AND WHERE TO FIND IT

The proposed transaction involving MeadWestvaco and RockTenn will be submitted to the respective shareholders of MeadWestvaco and RockTenn for their consideration. In connection with the proposed transaction, MeadWestvaco and RockTenn will cause the newly formed company to file with the SEC a registration statement on Form S-4 (the “Registration Statement”), which will include a prospectus with respect to the shares to be issued in the proposed transaction and a preliminary and definitive joint proxy statement for the shareholders of MeadWestvaco and RockTenn (the “Joint Proxy Statement”) and each of MeadWestvaco and RockTenn will mail the Joint Proxy Statement to their respective shareholders and file other documents regarding the proposed transaction with the SEC. The definitive Registration Statement and the Joint Proxy Statement will contain important information about the proposed transaction and related matters. SECURITY HOLDERS ARE URGED AND ADVISED TO READ THE REGISTRATION STATEMENT AND THE JOINT PROXY STATEMENT CAREFULLY WHEN THEY BECOME AVAILABLE, AS WELL AS ANY OTHER RELEVANT DOCUMENTS FILED WITH THE SEC AND ANY AMENDMENTS OR SUPPLEMENTS TO THOSE DOCUMENTS, BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION. The Registration Statement, the Joint Proxy Statement and other relevant materials (when they become available) and any other documents filed or furnished by MeadWestvaco or RockTenn with the SEC may be obtained free of charge at the SEC’s web site at www.sec.gov. In addition, security holders will be able to obtain free copies of the Registration Statement and the Joint Proxy Statement from RockTenn by going to its investor relations page on its corporate web site at http://ir.rocktenn.com and from MeadWestvaco on its corporate website at www.mwv.com.

PARTICIPANTS IN THE SOLICITATION

MeadWestvaco, RockTenn, their respective directors and certain of their executive officers and employees may be deemed to be participants in the solicitation of proxies in connection with the proposed transaction. Information about RockTenn's directors and executive officers is set forth in its definitive proxy statement for its 2015 Annual Meeting of Shareholders, which was filed with the SEC on December 19, 2014, and information about MeadWestvaco's directors and executive officers is set forth in its definitive proxy statement for its 2014 Annual Meeting of Stockholders, which was filed with the SEC on March 26, 2014. These documents are available free of charge from the sources indicated above, from RockTenn by going to its investor relations page on its corporate web site at http://ir.rocktenn.com and from MeadWestvaco on its website at www.mwv.com.

Additional information regarding the interests of participants in the solicitation of proxies in connection with the proposed transaction will be included in the Registration Statement, the Joint Proxy Statement and other relevant materials RockTenn and MeadWestvaco intend to file with the SEC.

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$

2,226

November 23, 2016

Fiscal Year 2015

February 13, 2015

$

0.06

February 26, 2015

$

2,082

March 12, 2015

April 21, 2015

$

0.06

May 14, 2015

$

2,090

May 28, 2015

July 22, 2015

$

0.06

August 13, 2015

$

2,108

August 27, 2015

October 30, 2015

$

0.06

November 19, 2015

$

2,069

December 3, 2015

Subsequent to the end of fiscal year 2017, the Company’s Board of Directors declared a $0.11 per share cash dividend ($3.4 million in total) payable on March 22, 2018. Dividends are paid to holders of common stock and restricted stock.

(14) Employee Benefit Plan

In 2000, the Company established a 401(k) and Profit Sharing Plan. The Company may make matching contributions in an amount determined by the Board of Directors. In addition, the Company may contribute each period, at its discretion, an additional amount from profits. The Company matches the employees' contributions at year end. Employees vest in the Company's contributions based upon their years of service. The Company's expenses relating to matching contributions were approximately $324 thousand, $318 thousand and $305 thousand for fiscal years 2017, 2016 and 2015, respectively.

(15) Incentive and Stock Option Plans

As of December 26, 2016 (the first day of fiscal year 2017), the Company adopted ASU 2016-09, Compensation – Stock Compensation (Topic 718), which affects all entities that issue share-based compensation to their employees. The amendments in this ASU cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. Therefore, for the fiscal year 2017, the recognition of excess tax benefits and deficiencies were recognized as income tax benefits or expense on the consolidated statement of income and as an operating activity on the statement of cash flows. Prior to the Company's adoption of ASU 2016-09, these tax benefits and deficiencies were recognized as additional paid-in capital on the balance sheet and as a financing activity on the statement of cash flows.

2005 Long-Term Equity Incentive Plan

In connection with the initial public offering, the Company adopted the Ruth's Chris Steak House, Inc. 2005 Long-Term Equity Incentive Plan (the 2005 Equity Incentive Plan), which allows the Company's Board of Directors to grant stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards to directors, officers, key employees and other key individuals performing services for the Company. Initially, 2.4 million shares were authorized for issuance under the 2005 Equity Incentive Plan. The 2005 Equity Incentive Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. Options are exercisable, and restricted stock vests, at various periods ranging from one to five years from date of grant. Effective May 22, 2008, the 2005 Equity Incentive Plan was amended, with stockholder approval, to increase the number of shares authorized for issuance under the plan by 1.5 million shares. The Amended and Restated 2005 Equity Incentive Plan was adopted on October 26, 2012, and the number of shares authorized for issuance under the Amended and Restated 2005 Long-Term Equity Incentive Plan was increased by 2.0 million shares at the 2013 annual meeting of stockholders. Under the Amended and Restated 2005 Equity Incentive Plan there are 1.2 million shares of restricted stock issued and common stock issuable upon exercise of currently outstanding options at December 31, 2017, and 1.8 million shares available for future grants.

During fiscal year 2015, the Company issued 893,662 shares of restricted stock to certain employees and executive officers from available shares under the Amended and Restated 2005 Equity Incentive Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 893,662 shares of restricted stock issued during 2015, 54,095 shares vest on the second anniversary of the grant date, 214,567 shares vest one-third on each of the three anniversary dates following the grant, 300,000 shares vest at 25% annually with the first vesting date occurring on the anniversary date in 2017 and ending on the anniversary date in 2020 and 325,000 shares vest at 25% annually with the first vesting date occurring on the anniversary date in 2018 and ending on the anniversary date in 2021.

During fiscal year 2016, the Company issued 376,423 shares of restricted stock to certain employees and executive officers from available shares under the Amended and Restated 2005 Equity Incentive Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 376,423 shares of restricted stock issued during 2016, 95,792 shares vest on the second anniversary of the grant date, 135,631 shares vest one-third on each of the three anniversary dates following the grant date, 45,000 shares will vest on the third anniversary date of the grant date and 100,000 shares will vest at 50% annually with the first vesting date occurring on the anniversary date in 2018 and ending on the anniversary date in 2019.

During fiscal year 2017, the Company issued 251,512 shares of restricted stock to certain employees and executive officers from available shares under the Amended and Restated 2005 Equity Incentive Plan. The shares were issued with a grant date fair market value equal to the closing price of the stock on the date of the grants. Of the 251,512 shares of restricted stock issued during 2017, 96,853 shares will vest on the second anniversary of the grant date, 114,659 shares will vest one-third on each of the three anniversary dates following the grant date and 40,000 shares will vest at 25% annually with the first vesting date occurring on the anniversary date in 2020 and ending on the anniversary date in 2023.

The Company recorded $6.8 million, $5.8 million and $4.1 million in total stock option and restricted stock compensation expense during fiscal years 2017, 2016, and 2015, respectively that was classified primarily as general and administrative costs. The Company recognized $225 thousand, $378 thousand and $743 thousand in income tax benefit related to stock-based compensation plans during fiscal years 2017, 2016, and 2015, respectively.

A summary of the status of non-vested restricted stock as of December 31, 2017 and changes during fiscal year 2017 is presented below.

	2017	
	Shares	Weighted-Average Grant-Date Fair Value Per Share
Non-vested shares at beginning of year	1,245,836	$ 15.93
Granted	251,512	18.92
Vested	(291,031)	15.47
Forfeited	(21,688)	15.59
Non-vested shares at end of year	1,184,629	$ 16.69

As of December 31, 2017, there was $11.2 million of total unrecognized compensation cost related to 1,184,629 shares of non-vested restricted stock. This cost is expected to be recognized over a weighted-average period of approximately 2.69 years. The total grant date fair value of restricted stock vested in fiscal years 2017, 2016, and 2015 was $4.5 million, $3.6 million and $2.8 million, respectively.

The following table summarizes stock option activity for fiscal year 2017:

	2017			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value ($000's)
Outstanding at beginning of year	124,154	$ 12.50		
Granted	—	—		
Exercised	(82,164)	11.70		
Forfeited	(26,400)	20.43		
Outstanding at end of year	15,590	$ 3.28	1.39	$ 286,386
Options exercisable at year end	15,590	$ 3.28	1.39	$ 286,386

As of December 31, 2017, there was no unrecognized compensation cost related to non-vested stock options. The total intrinsic value of options exercised in fiscal years 2017, 2016, and 2015 was $681 thousand, $444 thousand and $863 thousand, respectively.

During fiscal years 2017, 2016, and 2015, the Company received $945 thousand, $219 thousand and $250 thousand, respectively, in cash related to the exercise of options. The exercise of shares were fulfilled from shares reserved for issuance under the Amended and Restated 2005 Equity Incentive Plan and resulted in an increase in issued shares outstanding.

(16) Income Taxes

Total income tax expense (benefit) for fiscal years 2017, 2016, and 2015 was (in thousands):

	2017	2016	2015
Income from continuing operations	$15,669	$15,660	$14,168
Loss from discontinued operations	(68)	(186)	(869)
Total consolidated income tax expense	$15,601	$15,474	$13,299

Income tax expense from continuing operations consists of the following:

	Current	Deferred	Total
Year ended December 31, 2017			
U.S. Federal	$8,431	$4,557	$12,988
State	1,916	422	2,338
Foreign	343	—	343
	$10,690	$4,979	$15,669
Year ended December 25, 2016			
U.S. Federal	$3,987	$8,165	$12,152
State	1,951	1,231	3,182
Foreign	326	—	326
	$6,264	$9,396	$15,660
Year ended December 27, 2015			
U.S. Federal	$14,692	$(3,445)	$11,247
State	2,697	(120)	2,577
Foreign	344	—	344
	$17,733	$(3,565)	$14,168

Income tax expense differs from amounts computed by applying the federal statutory income tax rate to income from continuing operations before income taxes as follows (in thousands):

	2017	2016	2015
Income tax expense at statutory rates	$16,070	$16,245	$15,517
Increase (decrease) in income taxes resulting from:			
State income taxes, net of federal benefit	1,316	2,193	1,787
Federal FICA tip credit net benefit	(3,324)	(3,179)	(3,124)
Impact of the 2017 Tax Act	1,086	—	—
Other	521	401	(12)
	$15,669	$15,660	$14,168
Effective tax rate	34.1 %	33.7 %	32.0 %

The Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly revises existing U.S. tax law, and includes many changes that impact the Company, most notably a reduction of the statutory corporate tax rate from 35% to 21%, and the curtailment or elimination of certain deductions. The Company recorded income tax expense of $1.1 million related to the remeasurement of its net deferred tax assets, resulting from the permanent reduction of the U.S. statutory corporate tax rate from 35% to 21%. The SEC has issued Staff Accounting Bulletin (“SAB”) No. 118 which permits registrants to record provisional amounts related to the 2017 Tax Act to the extent that the information needed to account for the income tax impacts of the legislation is not available, has not been prepared, or has not been analyzed in sufficient detail. In recognizing the income tax effects of the 2017 Tax Act, the Company has not identified items it considers to be provisional, for which relief under SAB No. 118 would be sought. The remeasurement of the Company’s net deferred tax assets incorporates assumptions based upon the Company’s current interpretation of the 2017 Tax Act, particularly as it relates to the future deductibility of executive compensation items. As such, these assumptions may change as clarification and guidance is provided by the appropriate taxing authorities.

The Company utilizes the federal FICA tip credit to reduce its periodic federal income tax expense. A restaurant company employer may claim a credit against the company's federal income taxes for FICA taxes paid on certain tip wages (the FICA tip credit). The credit against income tax liability is for the full amount of eligible FICA taxes. Employers cannot deduct from taxable income the amount of FICA taxes taken into account in determining the credit. The Other line in the effective tax rate schedule above primarily represents non-deductible compensation in fiscal years 2017 and 2016.

Income taxes applicable to discontinued operations are comprised of (a) taxes calculated at the composite federal and state statutory tax rate times the pre-tax loss plus (b) the FICA tip credit benefit attributable to the restaurant sales of the Mitchell's Restaurants. A reconciliation of the U.S. statutory tax rate to the effective tax rate applicable to discontinued operations for fiscal years 2016, 2015 and 2014 follows (in thousands):

	2017	2016	2015
Income tax benefit at statutory rates	$(62)	$(167)	$(361)
Increase (decrease) in income taxes resulting from:			
State income taxes at state statutory rate, net of federal impact	(6)	(19)	(411)
Other, primarily federal FICA tip credit net benefit	—	—	(97)
	$(68)	$(186)	$(869)
Effective tax rate	38.6 %	39.0 %	84.3 %

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets are presented below (in thousands):

	2017	2016
Deferred tax assets:		
Accounts payable and accrued expenses	$6,887	$8,699
Deferred rent	5,790	8,953
Net state operating loss carryforwards	3,152	2,317
Tax credit carryforwards	507	1,889
Property and equipment	539	4,080
Other	140	199
Total gross deferred tax assets	17,015	26,137
Less valuation allowance	(1,389)	(762)
Net deferred tax assets	15,626	25,375
Deferred tax liabilities:		
Intangible assets	(10,679)	(15,451)
Total gross deferred tax liabilities	(10,679)	(15,451)
Net deferred tax assets	$4,947	$9,924

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities and projected future taxable income in making this assessment. Gross deferred assets were reduced by a valuation allowance of $1.4 million and $762 thousand in 2017 and 2016, respectively, related to certain state net operating loss and state tax credit carryforwards that are not likely to be offset by future state taxable income. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of the net deferred tax assets.

As of December 31, 2017, the Company has state net operating loss carry-forwards of $61.6 million and state tax credit carry-forwards of $642 thousand, which are available to offset federal and state taxable income with the last of such benefit expiring in 2037.

As of December 31, 2017, the Company's gross unrecognized tax benefits totaled approximately $666 thousand, of which $526 thousand, if recognized, would impact the effective tax rate. The Company does not anticipate there will be any material changes in the unrecognized tax benefits within the next 12 months. Our continuing practice is to recognize interest and penalties related to uncertain tax positions in income tax expense.

A reconciliation of the beginning and ending amount of unrecognized tax benefits follows (amounts in thousands):

Unrecognized tax benefits balance at December 25, 2016	$579
Gross increases for tax positions of prior years	345
Reductions due to settlements with taxing authorities	(217)
Reductions to tax positions due to statute expiration	(41)
Unrecognized tax benefits balance at December 31, 2017	$666

The Company files consolidated and separate income tax returns in the United States Federal jurisdiction and many state jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal or state and local income tax examinations for fiscal years before 2013.

(17) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during each period. Diluted earnings per share is calculated by dividing net income by the diluted weighted average shares of common stock outstanding during each period. Potentially dilutive securities include shares of non-vested stock awards. Diluted earnings per share considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an antidilutive effect. Stock awards are excluded from the calculation of diluted earnings per share in the event they are antidilutive.

The following table sets forth the computation of basic earnings per common share (amounts in thousands, except share and per share data):

	Fiscal Year		
	2017	2016	2015
Income from continuing operations	$30,245	$30,755	$30,166
Loss from discontinued operations, net of income taxes	(108)	(290)	(162)
Net income	$30,137	$30,465	$30,004
Shares:			
Weighted average number of common shares outstanding - basic	30,346,999	31,670,189	34,018,582
Basic earnings (loss) per common share:			
Continuing operations	$1.00	$0.97	$0.88
Discontinued operations	(0.01)	(0.01)	—
Basic earnings per common share	$0.99	$0.96	$0.88

Diluted earnings (loss) per share for fiscal years 2017, 2016 and 2015 excludes 685 stock options and restricted shares at a weighted-average price of $21.60, 22,349 stock options and restricted shares at a weighted-average price of $19.04 and 46,117 stock options and restricted shares at a weighted-average price of $18.84, respectively, which were outstanding during the periods but were anti-dilutive.

The following table sets forth the computation of diluted earnings per share (amounts in thousands, except share and per share data):

	Fiscal Year		
	2017	2016	2015
Income from continuing operations	$30,245	$30,755	$30,166
Loss from discontinued operations, net of income taxes	(108)	(290)	(162)
Net income	$30,137	$30,465	$30,004
Shares:			

Weighted average number of common shares outstanding - basic	30,346,999	31,670,189	34,018,582
Dilutive shares	569,365	438,776	415,825
Weighted average number of common shares outstanding - diluted	30,916,364	32,108,965	34,434,407
Diluted earnings (loss) per common share:			
Continuing operations	$0.98	$0.96	$0.87
Discontinued operations	(0.01)	(0.01)	—
Diluted earnings per common share	$0.97	$0.95	$0.87

(18) Segment Information

The Company has two reportable segments – the Company-owned steakhouse segment and the franchise operations segment. Previously reported segment information has been revised to exclude the Mitchell's Restaurants. The Company does not rely on any major customers as a source of revenue.

The Company-owned Ruth's Chris Steak House restaurants, all of which are located in North America, operate within the full-service dining industry, providing similar products to similar customers. Revenues are derived principally from food and beverage sales. As of December 31, 2017, (i) the Company-owned steakhouse restaurant segment included 77 Ruth's Chris Steak House restaurants and two Ruth's Chris Steak House restaurant operating under a management agreement and (ii) the franchise operations segment included 76 franchisee-owned Ruth's Chris Steak House restaurants. Segment profits for the Company-owned steakhouse restaurant segments equal segment revenues less segment expenses. Segment revenues for the Company-owned steakhouse restaurants include restaurant sales, management agreement income and other restaurant income. Gift card breakage revenue is not allocated to operating segments. Not all operating expenses are allocated to operating segments. Segment expenses for the Company-owned steakhouse segment include food and beverage costs and restaurant operating expenses. No other operating costs are allocated to the segments for the purpose of determining segment profits because such costs are not directly related to the operation of individual restaurants. The accounting policies applicable to each segment are consistent with the policies used to prepare the consolidated financial statements. The profit of the franchise operations segment equals franchise income, which consists of franchise royalty fees and franchise opening fees. No costs are allocated to the franchise operations segment. Segment information related to the Company's two reportable business segments follows.

	Fiscal Year		
	2017	2016 (dollar amounts in thousands)	2015
Revenues:			
Company-owned steakhouse restaurants	$394,359	$ 366,054	$354,398
Franchise operations	17,545	17,301	16,661
Unallocated other revenue and revenue discounts	2,919	2,592	2,374
Total revenues	$414,823	$ 385,947	$373,433
Segment profits:			
Company-owned steakhouse restaurants	$92,554	$ 85,980	$80,450
Franchise operations	17,545	17,301	16,661
Total segment profit	110,099	103,281	97,111
Unallocated operating income	2,919	2,592	2,374
Marketing and advertising expenses	(12,724)	(11,406)	(10,925)
General and administrative costs	(32,700)	(31,488)	(30,242)
Depreciation and amortization expenses	(14,995)	(13,434)	(12,520)
Pre-opening costs	(2,013)	(1,986)	(1,032)
Loss on impairment	(3,904)	—	—
Interest expense, net	(821)	(1,154)	(790)
Other income	53	10	358
Income from continuing operations before income tax	$45,914	$ 46,415	$44,334

expense			
Capital expenditures:			
Company-owned steakhouse restaurants	$20,363	$ 24,991	$18,934
Corporate assets	892	1,220	1,133
Mitchell's Restaurants	—	—	225
Total capital expenditures	$21,255	$ 26,211	$20,292

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	Fiscal Year December 31, 2017	December 25, 2016 (dollar amounts in thousands)	December 27, 2015
Total assets:			
Company-owned steakhouse restaurants	$ 223,354	$ 185,820	$ 168,766
Franchise operations	3,021	2,707	2,444
Corporate assets - unallocated	10,774	9,021	7,828
Deferred income taxes - unallocated	4,947	9,924	19,309
Mitchell's Restaurants	—	—	250
Total assets	$ 242,096	$ 207,472	$ 198,597

(19) Supplemental Consolidated Financial Statement Information

(a) Accounts Receivable, net
Accounts receivable, net consists of the following (amounts in thousands):

	December 31, 2017	December 25, 2016
Bank credit card receivables	$ 10,263	$ 10,992
Landlord contributions	246	704
Franchise fees	2,823	2,456
Trade	724	463
Insurance receivable	46	446
Receivable from gift card issuances	7,051	4,743
Other	834	1,715
Allowance for doubtful accounts	(361)	(729)
	$ 21,626	$ 20,790

(b) Other Assets

Other assets consist of the following (amounts in thousands):

	December 31, 2017	December 25, 2016
Deposits	$ 306	$ 611
Deferred financing costs, net	338	60
Other	—	28

	$ 644	$ 699

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(20) Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data (amounts in thousands, except per share information):

	Quarter Ended March 26, 2017	June 25, 2017	September 24, 2017	December 31, 2017	Total
Total revenues	$105,538	$100,015	$85,167	$124,103	$414,823
Cost and expenses	(89,293)	(88,470)	(82,180)	(104,293)	(364,237)
Loss on impairment	-	-	-	(3,904)	(3,904)
Operating income	16,245	11,545	2,987	15,906	46,682
Interest expense, net	(179)	(144)	(197)	(300)	(821)
Other	24	14	(6)	19	53
Income from continuing operations before income tax expense	16,090	11,415	2,784	15,625	45,914
Income tax expense	5,005	3,611	1,017	6,036	15,669
Income from continuing operations	11,085	7,804	1,767	9,589	30,245
Discontinued operations, net of income tax	(37)	7	(71)	(8)	(108)
Net income (loss)	$11,048	$7,811	$1,696	$9,581	$30,137
Basic earnings per share:					
Continuing operations	$0.36	$0.26	$0.06	$0.32	$1.00
Discontinued operations	—	—	—	—	(0.01)
Basic earnings per share	$0.36	$0.26	$0.06	$0.32	$0.99
Diluted earnings per share:					
Continuing operations	$0.35	$0.25	$0.06	$0.31	$0.98
Discontinued operations	—	—	(0.01)	—	(0.01)
Diluted earnings per share	$0.35	$0.25	$0.05	$0.31	$0.97
Dividends declared per common share	$0.09	$0.09	$0.09	$0.09	$0.36

	Quarter Ended March 27, 2016	June 26, 2016	September 25, 2016	December 25, 2016	Total
Total revenues	$101,890	$92,654	$83,774	$107,629	$385,947
Cost and expenses	(85,456)	(82,193)	(78,173)	(92,566)	(338,388)
Operating income	16,434	10,461	5,601	15,063	47,559
Interest expense, net	(213)	(253)	(333)	(355)	(1,154)
Other	7	144	(92)	(50)	10
Income from continuing operations before income tax expense	16,228	10,352	5,176	14,658	46,415
Income tax expense	5,346	3,396	1,668	5,250	15,660
Income from continuing operations	10,882	6,956	3,508	9,408	30,755
Discontinued operations, net of income tax	(120)	(48)	75	(197)	(290)
Net income	$10,762	$6,908	$3,583	$9,211	$30,465
Basic earnings per share:					

Continuing operations	$0.33	$0.22	$0.11	$0.31	$0.97
Discontinued operations	—	—	—	(0.01)	(0.01)
Basic earnings per share	$0.33	$0.22	$0.11	$0.30	$0.96
Diluted earnings per share:					
Continuing operations	$0.33	$0.21	$0.11	$0.31	$0.96
Discontinued operations	—	—	—	(0.01)	(0.01)
Diluted earnings per share	$0.33	$0.21	$0.11	$0.30	$0.95
Dividends declared per common share	$0.07	$0.07	$0.07	$0.07	$0.28