UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2003

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 1-15399

PACKAGING CORPORATION OF AMERICA

(Exact Name of Registrant as Specified in its Charter)

Delaware (State or other Jurisdiction of Incorporation or Organization)	**36-4277050** (IRS Employer Identification No.)
1900 West Field Court **Lake Forest, Illinois** (Address of Principal Executive Offices)	**60045** (Zip Code)

(847) 482-3000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of November 10, 2003, the Registrant had outstanding 105,433,643 shares of common stock, par value $0.01 per share.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Packaging Corporation of America

Condensed Consolidated Balance Sheets

	September 30, 2003 (unaudited)	December 31, 2002
(In thousands, except share and per share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	$ 116,651	$ 131,305
Accounts and notes receivable, net of allowance for doubtful accounts of $5,919 and $5,821 as of September 30, 2003 and December 31, 2002, respectively	202,465	175,716
Inventories	166,480	160,549
Prepaid expenses and other current assets	30,601	22,600
Deferred income taxes	54,240	19,384
Total current assets	570,437	509,554
Property, plant and equipment, net	1,376,331	1,408,980
Intangible assets, net of accumulated amortization of $1,991 and $1,726 as of September 30, 2003 and December 31, 2002, respectively	3,764	3,854
Other long-term assets	41,054	60,163
Total assets	$1,991,586	$1,982,551
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 109,070	$ 113,094
Accounts payable	97,064	85,807
Accrued interest	6,195	13,362
Accrued liabilities	88,793	84,543
Total current liabilities	301,122	296,806
Long-term liabilities:		
Long-term debt	599,695	629,119
Deferred income taxes	267,525	241,372
Other liabilities	19,988	19,379
Total long-term liabilities	887,208	889,870
Shareholders' equity:		
Common stock (par value $.01 per share, 300,000,000 shares authorized, 104,669,535 shares and 104,510,094 shares issued as of September 30, 2003 and December 31, 2002, respectively)	1,047	1,045
Additional paid in capital	462,437	466,911
Retained earnings	314,530	329,065
Accumulated other comprehensive income (loss):		
Unrealized gain (loss) on derivatives, net	26,361	(811)
Cumulative foreign currency translation adjustment	(9)	(1)
Total accumulated other comprehensive income (loss)	26,352	(812)
Unearned compensation on restricted stock	(1,110)	—
Common stock held in treasury, at cost (18,800 shares at December 31, 2002)	—	(334)
Total shareholders' equity	803,256	795,875
Total liabilities and shareholders' equity	$1,991,586	$1,982,551

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Income

(unaudited)

(In thousands, except per share amounts)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Net sales	$ 444,599	$ 455,570
Cost of sales	(365,747)	(368,953)
Gross profit	78,852	86,617
Selling and administrative expenses	(32,722)	(33,065)
Other expense, net	(2,644)	(3,609)
Corporate overhead	(13,959)	(9,908)
Income before interest and taxes	29,527	40,035
Interest expense, net	(82,593)	(16,749)
Income (loss) before taxes	(53,066)	23,286
(Provision) credit for income taxes	20,730	(8,688)
Net income (loss)	$ (32,336)	$ 14,598
Weighted average common shares outstanding:		
Basic	104,303	104,775
Diluted	106,037	106,863
Basic earnings per common share:		
Net income (loss) per common share	$ (0.31)	$ 0.14
Diluted earnings per common share:		
Net income (loss) per common share	$ (0.31)	$ 0.14

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Income

(unaudited)

(In thousands, except per share amounts)	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Net sales	$ 1,304,337	$ 1,317,666
Cost of sales	(1,073,921)	(1,072,947)
Gross profit	230,416	244,719
Selling and administrative expenses	(96,748)	(99,151)
Other expense, net	(8,419)	(5,340)
Corporate overhead	(34,925)	(30,463)
Income before interest and taxes	90,324	109,765
Interest expense, net	(114,077)	(51,231)
Income (loss) before taxes	(23,753)	58,534
(Provision) credit for income taxes	9,218	(22,715)
Net income (loss)	$ (14,535)	$ 35,819
Weighted average common shares outstanding:		
Basic	104,433	105,257
Diluted	106,310	107,475
Basic earnings per common share:		
Net income (loss) per common share	$ (0.14)	$ 0.34
Diluted earnings per common share:		
Net income (loss) per common share	$ (0.14)	$ 0.33

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Cash Flow

(unaudited)

	Nine Months Ended September 30,	
	2003	2002
(In thousands)		
Cash Flows from Operating Activities:		
Net income (loss)	$ (14,535)	$ 35,819
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	116,571	111,115
Amortization of financing costs	1,938	3,181
Loss—early debt extinguishment	76,622	—
Deferred income tax provision	(9,219)	23,569
Loss on disposals of property, plant and equipment	3,079	3,264
Pension and postretirement benefits	1,395	1,743
Tax benefit associated with employee stock option exercises	5,504	3,449
Other, net	(960)	1,082
Changes in components of working capital:		
(Increase) decrease in current assets—		
Accounts receivable	(25,951)	(31,413)
Inventories	(5,610)	12,473
Prepaid expenses and other	(7,960)	(6,583)
Increase (decrease) in current liabilities—		
Accounts payable	11,080	1,202
Accrued liabilities	(2,995)	14,177
Net cash provided by operating activities	148,959	173,078
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(78,144)	(72,399)
Acquisitions of businesses	(2,799)	—
Additions to long term assets	(3,564)	(4,716)
Proceeds from disposals of property, plant and equipment	760	2,653
Net cash used for investing activities	(83,747)	(74,462)
Cash Flows from Financing Activities:		
Payments on long-term debt	(685,425)	(27,046)
Proceeds from long-term debt issued	595,888	—
Financing costs paid	(6,466)	—
Proceeds from settlement of treasury lock	26,965	—
Repurchases of common stock	(17,517)	(27,844)
Issuance of common stock upon exercise of stock options	6,689	3,501
Net cash used for financing activities	(79,866)	(51,389)
Net increase (decrease) in cash and cash equivalents	(14,654)	47,227
Cash and cash equivalents, beginning of period	131,305	82,465
Cash and cash equivalents, end of period	$ 116,651	$129,692

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Notes to Condensed Consolidated Financial Statements

(unaudited)

September 30, 2003

1. Basis of Presentation

The consolidated financial statements as of September 30, 2003 and 2002 of Packaging Corporation of America ("PCA" or the "Company") are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Operating results during the period ended September 30, 2003 are not necessarily indicative of the results that may be expected for the period ending December 31, 2003. These consolidated financial statements should be read in conjunction with PCA's annual report on Form 10-K for the year ended December 31, 2002.

2. Summary of Accounting Policies

Basis of Consolidation

The accompanying condensed consolidated financial statements of PCA include all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. The Company has one joint venture that is carried under the equity method.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Segment Information

PCA is primarily engaged in one line of business: the manufacture and sale of packaging materials, boxes and containers for industrial and consumer markets. No single customer accounts for more than 10% of total revenues. PCA's manufacturing operations are located within the United States.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. The Statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. Certain of the Company's facilities have indeterminate lives because they are expected to remain in operation for the foreseeable future. Consequently, the asset retirement obligations related to these facilities cannot be reasonably estimated. The adoption of SFAS No. 143 on January 1, 2003, did not have a material impact on the Company's financial statements.

2. Summary of Accounting Policies (Continued)

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," effective for exit or disposal activities initiated after December 31, 2002. This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities. The adoption of SFAS No. 146 on January 1, 2003, did not have a material impact on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantors Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. This Interpretation does not prescribe a specific approach for subsequently measuring the guarantor's recognized liability over the term of the related guarantee. This Interpretation also incorporates, without change, the guidance in FIN No. 34, "Disclosure of Indirect Guarantees of Indebtedness of Others," which is being superseded. The initial recognition and initial measurement provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. See Note 5, Letters of Credit, for the disclosure information.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which addresses the financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN No. 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. Previously, a company generally included an entity in its consolidated financial statements only if it controlled the entity through voting interests. The consolidation requirements of FIN No. 46 apply immediately to variable interest entities created after January 31, 2003. Existing variable interest entities must be consolidated in the first fiscal year or interim period ending after December 15, 2003. The adoption of FIN No. 46 did not have a significant impact on the Company's financial statements.

Also in January 2003, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation— Transition and Disclosure," which amends SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. SFAS No. 148 is effective for fiscal years ending after December 15, 2002. See below for Stock-Based Compensation disclosure information.

2. Summary of Accounting Policies (Continued)

Stock-Based Compensation

PCA entered into management equity agreements in June 1999 with 125 of its management-level employees. These agreements provided for the grant of options to purchase up to an aggregate of 6,576,460 shares of PCA's common stock at $4.55 per share, the same price per share at which PCA Holdings LLC purchased common stock in the April 12, 1999 transactions. The agreements called for these options to vest ratably over a five-year period, or, upon completion of an initial public offering, vest fully with contractual restrictions on transfer for a period of up to 18 months following completion of the offering. The options vested with the initial public offering in January 2000, and the restriction period ended in August 2001.

In October 1999, the Company adopted a long-term equity incentive plan, which provides for grants of stock options, stock appreciation rights (SARs), restricted stock and performance awards to directors, officers and employees of PCA, as well as others who engage in services for PCA. Option awards granted to officers and employees vest ratably over a four-year period, whereas option awards granted to directors vest immediately. Under the plan, which will terminate on June 1, 2009, up to 4,400,000 shares of common stock are available for issuance under the long-term equity incentive plan.

On June 20, 2003, the Company granted 64,500 shares of restricted stock to certain of its employees. These shares vest on June 20, 2007. The Company will recognize compensation costs associated with these shares ratably over the next four years.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" and amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," the Company has elected to account for its stock option plan under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and adopt the disclosure only provisions of SFAS No. 123 and SFAS No. 148. Under APB No. 25, no compensation costs are recognized because the number of options is fixed and the option exercise price is equal to the fair market price of the common stock on the date of the grant. Under SFAS No. 123, stock options are valued at the grant date using the Black-Scholes valuation model and compensation costs are recognized ratably over the vesting period. Had compensation

2. Summary of Accounting Policies (Continued)

costs been determined as prescribed by SFAS No. 123, the Company's net income and earnings per common share for the periods presented would have been the following:

	Three months ended September 30,	
	2003	2002
Net income (loss)—as reported	$(32,336)	$14,598
Add: Amortization of unearned compensation on restricted stock, net of tax	45	—
Less: Stock-based compensation expense determined using fair value method, net of tax	(881)	(688)
Net income (loss)—pro forma	$(33,172)	$13,910
Basic earnings (loss) per common share—as reported	$ (0.31)	$ 0.14
Diluted earnings (loss) per common share—as reported	$ (0.31)	$ 0.14
Basic earnings (loss) per common share—pro forma	$ (0.32)	$ 0.13
Diluted earnings (loss) per common share—pro forma	$ (0.32)	$ 0.13

	Nine months ended September 30,	
	2003	2002
Net income (loss)—as reported	$(14,535)	$35,819
Add: Amortization of unearned compensation on restricted stock, net of tax	45	—
Less: Stock-based compensation expense determined using fair value method, net of tax	(2,288)	(1,649)
Net income (loss)—pro forma	$(16,778)	$34,170
Basic earnings (loss) per common share—as reported	$ (0.14)	$ 0.34
Diluted earnings (loss) per common share—as reported	$ (0.14)	$ 0.33
Basic earnings (loss) per common share—pro forma	$ (0.16)	$ 0.32
Diluted earnings (loss) per common share—pro forma	$ (0.16)	$ 0.32

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

2. Summary of Accounting Policies (Continued)

Revenue Recognition

The Company recognizes revenue as title to the products is transferred to customers. Shipping and handling costs are included in cost of sales. Shipping and handling billings to a customer in a sales transaction are included in revenue.

Comprehensive Income (Loss)

For the three months ended September 30, 2003 and 2002, total comprehensive income was $16.9 million and $0.5 million greater than net income for the respective periods. For the nine months ended September 30, 2003 and 2002, total comprehensive income was $27.2 million and $1.4 million greater than net income for the respective periods. These variances in comprehensive income were due to changes in the fair value of derivatives, foreign currency translation adjustments and proceeds from settlement of a Treasury lock.

On June 12, 2003, PCA entered into two interest rate protection agreements with a counterparty to lock in then current interest rates on 5-year and 10-year U.S. Treasury notes. PCA entered into these agreements to protect it against increases in the 5-year U.S. Treasury note rate, which served as a reference in determining the interest rate applicable to the 5-year notes due 2008, and the 10-year U.S. Treasury note rate, which served as a reference in determining the interest rate applicable to the 10-year notes due 2013. As a result of increases in the interest rates on the 5-year U.S. Treasury notes and 10-year U.S. Treasury notes, PCA received a payment of approximately $27.0 million from the counterparty upon settlement of the agreements, which occurred on July 21, 2003. PCA recorded the settlement in Accumulated Other Comprehensive Income (Loss) and will amortize this amount to interest expense over the respective lives of the notes.

Reclassifications

Prior year's financial statements have been reclassified where appropriate to conform with the current year presentation.

Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)
September 30, 2003

3. Earnings Per Share

The following table sets forth the computation of basic and diluted income per common share for the periods presented.

(In thousands, except per share data)	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002
Numerator:		
Net income (loss)	$ (32,336)	$ 14,598
Denominator:		
Basic common shares outstanding	104,303	104,775
Effect of dilutive securities:		
Stock options	1,734	2,088
Dilutive common shares outstanding	106,037	106,863
Basic income (loss) per common share	$ (0.31)	$ 0.14
Diluted income per (loss) common share	$ (0.31)	$ 0.14

(In thousands, except per share data)	Nine Months Ended September 30, 2003	Nine Months Ended September 30, 2002
Numerator:		
Net income (loss)	$ (14,535)	$ 35,819
Denominator:		
Basic common shares outstanding	104,433	105,257
Effect of dilutive securities:		
Stock options	1,877	2,218
Dilutive common shares outstanding	106,310	107,475
Basic income (loss) per common share	$ (0.14)	$ 0.34
Diluted income (loss) per common share	$ (0.14)	$ 0.33

4. Inventories

The components of inventories are as follows:

(In thousands)	September 30, 2003	December 31, 2002 (audited)
Raw materials	$ 76,669	$ 73,730
Work in progress	5,519	5,423
Finished goods	52,882	49,306
Supplies and materials	61,797	61,571
Inventories at FIFO cost	196,867	190,030
Excess of FIFO over LIFO cost	(30,387)	(29,481)
Inventory, net	$166,480	$160,549

An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year-end inventory levels and costs. Because these are subject to many forces beyond management's control, interim results are subject to the final year-end LIFO inventory valuation.

5. Debt

A summary of debt is set forth in the following table:

(In thousands)	September 30, 2003	December 31, 2002
Senior credit facility—		
Term Loan A, effective interest rate of 3.15% as of December 31, 2002	$ —	$ 54,618
Term Loan B, effective interest rate of 3.40% as of December 31, 2002	—	24,382
Term Loan, effective interest rate of 2.44% as of September 30, 2003, due in varying annual installments beginning July 21, 2005 through 2008	50,000	—
Receivables credit facility, effective interest rate of 1.50% and 1.78% as of September 30, 2003 and December 31, 2002, respectively, due October 10, 2006	109,000	113,000
Senior subordinated notes, interest at 9.625% payable semi-annually, due April 1, 2009, callable April 1, 2004	3,617	550,000
$150 million senior notes, net of discount, interest at 4.375% payable semi-annually, due August 1, 2008	149,350	—
$400 million senior notes, net of discount, interest at 5.750% payable semi-annually, due August 1, 2013	396,658	—
Other	140	213
Total	708,765	742,213
Less: Current portion	109,070	113,094
Total long-term debt	$599,695	$629,119

On June 23, 2003, PCA launched a tender offer, which expired at midnight on July 21, 2003, for any and all of its outstanding $550.0 million aggregate principal amount of 9 5/8% senior subordinated notes due 2009. In connection with the tender offer, PCA also solicited consents to adopt amendments to the indenture under which the 9 5/8% notes were issued to eliminate substantially all of the restrictive covenants and several of the event of default provisions contained in the indenture. The consent solicitation expired on July 7, 2003, at which time holders of approximately $546.3 million, or 99.3%, in aggregate principal amount of the 9 5/8% notes consented to the proposed amendments and tendered their notes in the tender offer.

On July 7, 2003, PCA repaid all borrowings under its existing senior secured credit facility. This facility was replaced with a new senior unsecured credit facility that provides a new $100.0 million revolving credit facility, including a $35.0 million subfacility for letters of credit, and a new $50.0 million term loan. As of September 30, 2003, there are no borrowings outstanding under the revolving credit facility. The new senior credit facility closed on July 21, 2003, and it expires in 2008.

On July 15, 2003, PCA offered $150.0 million of 4 3/8% five-year senior notes and $400.0 million of 5 3/4% ten-year senior notes through a private placement. The offering closed on July 21, 2003. On July 22, 2003, PCA used the net proceeds from the offering, together with the borrowings under the new senior credit facility and cash on hand, to repurchase $546.4 million, or 99.3%, of its outstanding 9 5/8% senior subordinated notes that were validly tendered and accepted for payment in the tender offer that expired at

5. Debt (Continued)

midnight on July 21, 2003. The remaining senior subordinated notes are callable beginning on April 1, 2004 at 104.8125%. As a result of these transactions, PCA recorded a one-time, charge of approximately $76.6 million ($46.7 million after-tax) in the third quarter. The $76.6 million charge includes the tender offer premium of $55.9 million and a $17.4 million non-cash charge for the write-off of deferred financing fees due to the early extinguishment of debt, which are included in interest expense, and fees and expenses of $3.3 million, which are included in corporate overhead.

On October 10, 2003, PCA renewed the receivables credit facility for an additional three-year term. This facility will terminate on October 10, 2006.

The new instruments governing PCA's indebtedness contain covenants that limit the ability of PCA and its subsidiaries to enter into sale and leaseback transactions, incur liens, enter into certain transactions with affiliates, or merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of the assets of the Company. They also require PCA to comply with certain financial covenants, including the ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to interest expense, the ratio of debt to total capitalization, and minimum net worth levels. A failure to comply with these restrictions could lead to an event of default, which could result in an acceleration of such indebtedness. At September 30, 2003 the Company was in compliance with these covenants.

6. Letters of Credit

A summary of the Company's letters of credit is set forth in the following table:

(In thousands)	September 30, 2003	December 31, 2002
Workers' compensation	$11,775	$11,775
Management equity loans	600	2,065
Environmental	1,272	1,431
Equipment leases	—	1,329
Total	$13,647	$16,600

The letter of credit related to the management equity loans guaranteed bank financing to enable some members of PCA's management to purchase equity under the management equity agreements discussed in Note 9, Shareholders' Equity from PCA's 2002 Annual Report on Form 10-K. The letter of credit expires in June of 2004.

The remaining letters of credit guarantee payment by PCA of various environmental obligations, including landfills and solid waste programs and workers' compensation.

7. Shareholders' Equity

On May 16, 2001, the Company announced a $100.0 million common stock repurchase program. PCA currently expects to continue to repurchase the shares from time to time. Through September 30, 2003, the Company repurchased 5,195,600 shares of common stock for approximately $88.8 million. No shares were repurchased during the third quarter of 2003. All repurchased shares were retired prior to September 30, 2003.

8. Summarized Combined Financial Information about Guarantor Subsidiaries

The following is summarized aggregated financial information for Packaging Credit Company, LLC, Dixie Container Corporation, PCA International, Inc., PCA International Services, LLC, Tomahawk Power LLC and PCA Hydro, Inc., each of which was a wholly-owned subsidiary of PCA and included in the Company's consolidated financial statements. Each of these subsidiaries fully, unconditionally, jointly and severally guaranteed the remaining balance of $3.6 million in senior subordinated notes issued by PCA. Separate financial statements of the guarantor subsidiaries are not presented because, in the opinion of management, such financial statements are not material to investors. Financial information for Packaging Receivables Company, LLC, PCAI de Mexico S. de R.L. de C.V., and PCAI Services de Mexico S. de R.L. de C.V. are reflected as non-guarantor subsidiaries.

(In thousands)	PCA	Guarantor Subs	Non-Guarantor Subs	Eliminations	Total
September 30, 2003					
Current assets	$ 399,937	$ 84,610	$199,091	$(113,201)	$ 570,437
Non-current assets	1,566,286	209,526	21	(354,684)	1,421,149
Total assets	1,966,223	294,136	199,112	(467,885)	1,991,586
Current liabilities	331,269	2,589	109,209	(141,945)	301,122
Non-current liabilities	886,810	398	—	—	887,208
Total liabilities	1,218,079	2,987	109,209	(141,945)	1,188,330
Net assets	$ 748,144	$291,149	$ 89,903	$(325,940)	$ 803,256
December 31, 2002					
Current assets	$ 337,266	$ 89,057	$186,029	$(102,798)	$ 509,554
Non-current assets	1,615,362	171,254	23	(313,642)	1,472,997
Total assets	1,952,628	260,311	186,052	(416,440)	1,982,551
Current liabilities	305,458	3,607	113,183	(125,442)	296,806
Non-current liabilities	889,483	387	—	—	889,870
Total liabilities	1,194,941	3,994	113,183	(125,442)	1,186,676
Net assets	$ 757,687	$256,317	$ 72,869	$(290,998)	$ 795,875
Nine months ended September 30, 2003					
Net sales	$1,297,028	$ 7,340	$ 522	$ (553)	$1,304,337
Pre-tax profit (loss)	(51,557)	49,972	2,917	(25,085)	(23,753)
Net income (loss)	(31,464)	29,275	2,917	(15,263)	(14,535)
Nine months ended September 30, 2002					
Net sales	$1,311,677	$ 5,989	$ —	$ —	$1,317,666
Pre-tax profit	33,390	62,924	192	(37,972)	58,534
Net income	20,520	38,210	192	(23,103)	35,819

9. Subsequent Event

On October 13, 2003, PCA announced its intentions to begin paying a quarterly cash dividend of $0.15 per share, or $0.60 per share annually, on its common stock. The first quarterly dividend of $0.15 per share will be paid on January 15, 2004 to shareholders of record as of December 15, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Net Sales

Net sales decreased by $11.0 million, or 2.4%, for the three months ended September 30, 2003 from the comparable period in 2002. The decrease was primarily the result of decreased sales volumes and prices of containerboard to external third parties and decreased sales prices of corrugated products.

Corrugated products volume sold was essentially unchanged for the three months ended September 30, 2003 from the comparable period in 2002. On a comparable shipments-per-workday basis, corrugated products volume was down 1.8% from the third quarter of 2002. The third quarter of 2003 had one more workday, those days not falling on a weekend or holiday, than the third quarter of 2002. Containerboard volume to external domestic and export customers decreased 18.6% for the three months ended September 30, 2003 from the comparable period in 2002. Containerboard mill production for the three months ended September 30, 2003 was 567,000 tons compared to 578,000 tons in the same period in 2002.

According to Pulp & Paper Week, average linerboard and semi-chemical medium list prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $422 and $377, respectively, per ton for the three months ended September 30, 2003. This compares to $428 and $387, respectively, per ton for the three months ended September 30, 2002. Pulp & Paper Week's published pricing typically applies to transactions that occur in the month following the publication. Accordingly, the average price for the second quarter consists of the average of the prices published in June, July and August. Pulp & Paper Week reported that the list prices of linerboard and medium decreased $10 per ton during the third quarter of 2003.

Income Before Interest and Taxes

Income before interest and taxes decreased by $10.5 million, or 26.2%, for the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Included in income before interest and taxes for the third quarter of 2003 is $3.3 million of fees and expenses related to the Company's debt refinancing which was completed in July 2003. In addition to the charges related to the debt refinancing, the decrease in income before interest and taxes was primarily attributable to lower pricing and containerboard volume, which, in total, reduced operating income by $6.2 million.

Gross profit decreased $7.8 million, or 9.0%, for the three months ended September 30, 2003 from the comparable period in 2002. Gross profit as a percentage of sales declined from 19.0% of sales to 17.7% of sales in the current quarter due primarily to the decreased pricing and containerboard volume described previously.

Selling and administrative expenses decreased $0.3 million, or 1.0%, for the three months ended September 30, 2003 compared to the three months ended September 30, 2002. The decrease was primarily the result of decreased general selling and employment related expenses.

Corporate overhead for the three months ended September 30, 2003 increased by $4.1 million, or 40.9%, from the comparable period in 2002. The increase was primarily attributable to the fees and expenses related to the debt refinancing of $3.3 million and the timing of other general corporate expenses.

Interest Expense and Income Taxes

Interest expense increased by $65.8 million, or 393.1%, for the three months ended September 30, 2003 from the three months ended September 30, 2002, primarily as a result of $73.3 million charge related to the Company's debt refinancing, which was completed in July 2003, partially offset by reduced interest expense due to lower interest rates related to the Company's refinancing. Included in the charge related to refinancing is $55.9 million representing the premium paid for the tender of the 9 5/8% senior subordinated notes and $17.4 million for the write-off of deferred financing fees related to the 9 5/8% notes and PCA's original revolving credit facility dated as of April 12, 1999 and amended and restated as of June 29, 2000.

PCA's effective tax rate was 39.1% for the three months ended September 30, 2003 and 37.3% for the comparable period in 2002. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes and a deduction for extraterritorial income exclusion.

Net Income

Net income decreased by $46.9 million, or 321.5%, for the three months ended September 30, 2003 from the three months ended September 30, 2002. The decrease was primarily the result of after-tax charges of $46.7 million related to the Company's debt refinancing completed in July 2003, partially offset by a reduction of interest expense of $4.6 million after-tax, as previously discussed above. In addition, net income decreased primarily due to lower pricing and containerboard volume ($3.8 million after tax) and the increased expenses in corporate overhead related to timing described previously.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Net Sales

Net sales decreased by $13.3 million, or 1.0%, for the nine months ended September 30, 2003 from the comparable period in 2002. The decrease was primarily the result of decreased sales volumes of containerboard to external third parties.

Corrugated products volume sold increased 0.4% for the nine months ended September 30, 2003 from the comparable period in 2002. On a comparable shipments-per-workday basis, corrugated products volume was essentially unchanged from the nine months ended September 30, 2002. September year-to-date 2003 had one more workday, those days not falling on a weekend or holiday, than the comparable period in 2002.

Containerboard volume to external domestic and export customers decreased 12.4% for the nine months ended September 30, 2003 from the comparable period in 2002. Containerboard mill production for the nine months ended September 30, 2003 was 1,655,000 tons compared to 1,646,000 tons in the same period in 2002.

According to Pulp & Paper Week, average linerboard and semi-chemical medium list prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $426 and $382, respectively, per ton for the nine months ended September 30, 2003. This compares to $421 and $378, respectively, per ton for the nine months ended September 30, 2002.

Income Before Interest and Taxes

Income before interest and taxes decreased by $19.4 million, or 17.7%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Included in income before interest and taxes for the nine months ended September 30, 2003 is $3.3 million of fees and expenses related to the Company's debt refinancing which was completed in July 2003. In addition to the charges related to the debt refinancing, the decrease in income before interest and taxes was primarily attributable to increased costs of energy in our operations and higher costs of virgin fiber at our containerboard mills in addition to increased depreciation, depletion and amortization expenses which, in total, reduced operating income by $15.5 million.

Gross profit decreased $14.3 million, or 5.8%, for the nine months ended September 30, 2003 from the comparable period in 2002. Gross profit as a percentage of sales decreased to 17.7% of sales in the first nine months of 2003 from 18.6% in the comparable period of 2002 due primarily to the increased energy, virgin fiber costs and depreciation, depletion and amortization expenses described previously.

Selling and administrative expenses decreased $2.4 million, or 2.4%, for the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease was primarily the result of reduced travel, information technology, and other general selling and employment related expenses.

Corporate overhead for the nine months ended September 30, 2003 increased by $4.5 million, or 14.6%, from the comparable period in 2002. The increase was primarily attributable to the fees and expenses related to the debt refinancing of $3.3 million and to increased depreciation and amortization expenses and costs related to the development and administration of the company's hourly pension plan.

Interest Expense and Income Taxes

Interest expense increased by $62.8 million, or 122.7%, for the nine months ended September 30, 2003 from the nine months ended September 30, 2002, primarily as a result of the $73.3 million charge related to the Company's debt refinancing, which was completed in July 2003, partially offset by reduced interest expense due to lower interest rates related to the Company's refinancing. Included in the charge related to the debt refinancing is $55.9 million representing the premium paid for the tender of the 9 5/8% senior subordinated notes and $17.4 million for the write-off of deferred financing fees related to the 9 5/8% notes and PCA's original revolving credit facility dated as of April 12, 1999 and amended and restated as of June 29, 2000.

PCA's effective tax rate was 38.8% for the nine months ended September 30, 2003 and 38.8% for the comparable period in 2002. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes and a deduction for extraterritorial income exclusion.

Net Income

Net income decreased by $50.4 million, or 140.6%, for the nine months ended September 30, 2003 from the nine months ended September 30, 2002. The decrease was primarily the result of after-tax charges of $46.7 million related to the Company's debt refinancing completed in July 2003. This was partially offset by decreased interest expense of $6.4 million, after-tax, primarily as a result of the lower interest rates from the debt refinancing and prepayments PCA made on its term loans under its senior credit facility and the receivables credit facility. The reduction in interest expense was more than offset by increased costs of energy in our operations and higher costs of virgin fiber at our containerboard mills in addition to increased depreciation, depletion and amortization expenses which, in total, reduced net income by $9.5 million.

Liquidity and Capital Resources

Operating Activities

Cash flow provided by operating activities for the nine months ended September 30, 2003 was $149.0 million, a decrease of $24.1 million, or 13.9%, from the comparable period in 2002. The decrease was primarily due to lower net income and unfavorable changes in working capital. The unfavorable changes in working capital were driven by higher deferred tax assets as a result of the net operating losses PCA has generated in 2003, lower interest accruals due to the lower interest rates resulting from the debt refinancing completed in July 2003, and higher balances of inventory related to an increase in inventory levels and increased prices for virgin fiber described previously. These unfavorable changes were partially offset by a favorable changes to accounts payable and accounts receivable.

Investing Activities

Net cash used for investing activities for the nine months ended September 30, 2003 increased $9.3 million, or 12.5%, to $83.7 million, compared to the nine months ended September 30, 2002. The increase was primarily related to expenditures to acquire the assets of a corrugated products plant and to establish an additional corrugated products plant in the second quarter of 2003 in addition to an increase in general additions to property, plant and equipment in the third quarter of 2003.

Financing Activities

Net cash used for financing activities totaled $79.9 million for the nine months ended September 30, 2003, an increase of $28.5 million, or 55.4%, from the comparable period in 2002. The increase was primarily attributable to $83.1 million in debt prepayments in 2003 that PCA made prior to the debt refinancing in July compared to $27.1 million in debt prepayments made during the comparable period in 2002. This was partially offset by lower stock repurchases of $10.3 million that PCA made in 2003 compared to 2002 and higher proceeds received from stock option exercises of $3.2 million in 2003 compared to the same period in 2002. In addition, PCA also netted $14.0 million in proceeds from the debt refinancing described below.

In connection with the debt refinancing in July, PCA received proceeds, net of discount, of $595.8 million from its notes offering and new bank facility and $27.0 million from settlement of the Treasury locks in July, which it used to complete the tender offer of its 9 5/8% senior subordinated notes in the amount of $602.3 million, including the premium. PCA also incurred financing costs in the amount of $6.5 million in connection with the debt refinancing.

The following table provides the outstanding balances and the weighted average interest rates as of September 30, 2003 for each of PCA's then-outstanding debt instruments:

Borrowing Arrangement *(in thousands)*	**Balance at Sept. 30, 2003**	**Weighted Average Interest Rate**
Term Loan	$ 50,000	2.438%
Senior Revolving Credit Facility:		
Revolver-Eurodollar	—	N/A
Revolver-Base Rate	—	N/A
Receivables Credit Facility	109,000	1.495%
4 3/8% Five-Year Notes	150,000	4.375%
5 3/4% Ten-Year Notes	400,000	5.750%
9 5/8% Senior Subordinated Notes	3,617	9.625%
Total	$712,617	4.597%

The above table excludes unamortized debt discount of approximately $4.0 million at September 30, 2003.

PCA's primary sources of liquidity have been cash flows from operations and borrowings under PCA's senior revolving credit facility and receivables credit facility. As of September 30, 2003, PCA had $141.0 million in unused borrowing capacity under the existing credit agreements. PCA's primary uses of cash are for debt service and capital expenditures.

On June 23, 2003, PCA launched a tender offer, which expired at midnight on July 21, 2003, for any and all of its outstanding $550 million aggregate principal amount of 9 5/8% senior subordinated notes due 2009. In connection with the tender offer, PCA also solicited consents to adopt amendments to the indenture under which the 9 5/8% notes were issued to eliminate substantially all of the restrictive covenants and several of the event of default provisions contained in the indenture. The consent solicitation expired on July 7, 2003, at which time holders of approximately $546.3 million, or 99.3%, in aggregate principal amount of the 9 5/8% notes consented to the proposed amendments and tendered their notes in the tender offer.

On July 7, 2003, PCA repaid all borrowings under its existing senior secured credit facility. This facility was replaced with a new senior unsecured credit facility that provides a new $100.0 million revolving credit facility, including a $35.0 million subfacility for letters of credit, and a new $50.0 million term loan. The new senior credit facility closed on July 21, 2003, and it expires in 2008.

On July 15, 2003, PCA offered $150 million of 4 3/8% five-year senior notes and $400.0 million of 5 3/4% ten-year senior notes through a private placement. The offering closed on July 21, 2003. On July 22, 2003, PCA used the net proceeds from the offering, together with the borrowings under the new senior credit facility and cash on hand, to repurchase $546.4 million, or 99.3%, of its outstanding 9 5/8% senior subordinated notes that were validly tendered and accepted for payment in the tender offer that expired at midnight on July 21, 2003. The remaining senior subordinated notes are callable beginning on April 1, 2004 at 104.8125%. As a result of these transactions, PCA recorded a one-time, charge of approximately $76.6 million ($46.7 million after-tax) in the third quarter. The $76.6 million charge includes the tender offer premium of $55.9 million, fees and expenses of $3.3 million, and a $17.4 million non-cash charge for the write-off of deferred financing fees due to the early extinguishment of debt.

The borrowings under the new senior revolving credit facility are available to fund PCA's working capital requirements, capital expenditures and other general corporate purposes. The new term loan is required to be repaid in $10.0 million installments on the second, third and fourth anniversary of the new senior credit facility closing date and a $20.0 million installment on the fifth anniversary of the new senior credit facility closing date.

The receivables credit facility, originally scheduled to terminate on November 29, 2003, was renewed for an additional three-year term on October 10, 2003. This facility will terminate on October 10, 2006.

The new instruments governing PCA's indebtedness contain financial and other covenants that limit, among other things, the ability of PCA and its subsidiaries to:

- enter into sale and leaseback transactions,
- incur liens,
- enter into certain transactions with affiliates, or
- merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of the assets of PCA.

These limitations could limit our corporate and operating activities.

In addition, we must maintain minimum net worth, maximum leverage and minimum EBITDA to interest ratios under the new senior credit facility. A failure to comply with the restrictions contained in the new senior credit facility could lead to an event of default, which could result in an acceleration of such indebtedness. Such an acceleration would also constitute an event of default under the notes indenture and the receivables credit facility.

PCA estimates that it will make approximately $115.0 million in capital expenditures in 2003. These expenditures will be used primarily for maintenance capital, cost reduction, business growth and environmental compliance. As of September 30, 2003, PCA had spent $78.1 million for capital expenditures and had committed to spend an additional $47.4 million in 2003 and beyond.

PCA believes that cash generated from operations will be adequate to meet its anticipated debt service requirements, capital expenditures, working capital needs and dividend payments for the next 12 months, and that cash generated from operations and amounts available under the new senior credit facility will be adequate to meet its anticipated debt service requirements, capital expenditures, working capital needs and dividend payments for the foreseeable future. PCA's future operating performance and its ability to service or refinance the notes, to service, extend or refinance the credit facilities and to pay cash dividends, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond PCA's control.

Market Risk and Risk Management Policies

On June 12, 2003, PCA entered into two interest rate protection agreements with a counterparty to lock in then current interest rates on 5-year and 10-year U.S. Treasury notes. PCA entered into these agreements to protect it against increases in the 5-year U.S. Treasury note rate, which served as a reference in determining the interest rate applicable to the 5-year notes due 2008, and the 10-year U.S. Treasury note rate, which served as a reference in determining the interest rate applicable to the 10-year notes due 2013. As a result of increases in the interest rates on the 5-year U.S. Treasury notes and 10-year U.S. Treasury notes, PCA received a payment of approximately $27.0 million from the counterparty upon settlement of the agreements, which occurred on July 21, 2003.

Environmental Matters

PCA is subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. Because environmental regulations are constantly evolving, PCA has incurred, and will continue to incur, costs to maintain compliance with those laws. In particular, the United States Environmental Protection Agency finalized the Cluster Rules which govern pulp and paper mill operations, including those at our Counce, Filer City, Valdosta and Tomahawk mills. Over the next several years, the Cluster Rules will affect PCA's allowable discharges of air and water pollutants, and require PCA to spend money to ensure compliance with those new rules.

Impact of Inflation

PCA does not believe that inflation has had a material impact on its financial position or results of operations during the past three years.

Critical Accounting Policies

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to bad debts, inventories, intangible assets, pensions and other post-retirement benefits, income taxes, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a further discussion on the application of these and other accounting policies, see Note 2 to our audited consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2002.

Accounts Receivable

We evaluate the collectibility of our accounts receivable based upon a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, substantial downgrading of credit sources), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts consisting of 0.3% for amounts less than 90 days past due and 30% for amounts more than 90 days past due based on our historical collection experience. If our collection experience deteriorates (i.e., higher than expected defaults or an unexpected material adverse change in a major customer's ability to meet its financial obligations to us), our estimates of the recoverability of amounts due us could be reduced by a material amount.

Inventory

We record our inventory at the lower of cost or market. The estimated market value is based on assumptions for future demand and related pricing. If actual market conditions are less favorable than those projected by management, reductions in the value of inventory may be required. Raw materials, work in process and finished goods are valued using the lower of last-in, first-out ("LIFO") cost or market method. Supplies and materials inventories are valued using a moving average cost.

Derivatives

We hold derivative financial instruments to hedge our interest rate risk associated with our long-term debt. These derivatives qualify for hedge accounting as discussed in Note 2 to our audited consolidated financial statements included in our most recent annual report on Form 10-K. We do not speculate in derivatives trading. Hedge accounting results when we designate and document the hedging relationships involving these derivative instruments. While we intend to continue to meet the conditions for hedge accounting, if hedges do not qualify as highly effective or if we did not believe that forecasted transactions would occur, the changes in the fair value of the derivatives used as hedges would be reflected in earnings.

In addition to the above derivative financial instruments, we have other contracts covering a portion of our purchases of natural gas and electricity that have the characteristics of derivatives but are not required to be accounted for as derivatives. These contracts for the physical delivery of these items qualify for the normal purchases exception under SFAS No. 133 as we take physical delivery of the item and use it in the production process. This exception is an election and, if not elected, these contracts would be carried on the balance sheet at fair value with changes in fair value reflected in income. These contracts cover natural gas and electricity usage at our mills through 2004.

Environmental Liabilities

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. The Statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. Upon initial recognition of a liability, that cost should be capitalized as part of the related long-lived asset and allocated to expense over the useful life of the asset. The adoption of SFAS No. 143 on January 1, 2003, did not have a material impact on the Company's financial statements.

The potential costs for various environmental matters are uncertain due to such factors as the unknown magnitude of possible cleanup costs, the complexity and evolving nature of governmental laws and regulations and their interpretations, and the timing, varying costs and effectiveness of alternative cleanup technologies. Liabilities recorded for environmental contingencies are estimates of the probable costs based upon available information and assumptions. Because of these uncertainties, however, our estimates may change. We believe that any additional costs identified as further information becomes available would not have a material effect on our financial statements.

In connection with the sale to PCA of the containerboard and corrugated products business of Pactiv Corporation in April 1999, Pactiv agreed to retain all liability for all former facilities and all sites associated with offsite waste disposal prior to April 12, 1999. Pactiv also retained environmental liability for a closed landfill located near the Filer City mill.

Revenue Recognition

We recognize revenue as title to the products is transferred to customers.

Impairment of Long-Lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. In the event that facts and circumstances indicate that the carrying amount of any long-lived assets may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down to fair value were required.

Goodwill is tested annually for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets."

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q, and in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words "will," "should," "anticipate," "believe," "expect," "intend," "estimate," "hope" or similar expressions. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include the following:

- the impact of general economic conditions;
- containerboard and corrugated products general industry conditions, including competition, product demand and product pricing;
- fluctuations in wood fiber and recycled fiber costs;
- fluctuations in purchased energy costs; and
- legislative or regulatory requirements, particularly concerning environmental matters.

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors that may affect our business, see the "Risk Factors" exhibit included in PCA's annual report on Form 10-K for the year ended December 31, 2002 filed with the Securities and Exchange Commission and available at the SEC's website at *www.sec.gov*.

Available Information

The Company's internet website address is *www.packagingcorp.com.* Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Exchange Act are available free of charge through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

For a discussion of market risks related to PCA, see Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk and Risk Management Policies" in this Quarterly Report on Form 10-Q.

Item 4. Controls and Procedures.

PCA's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of PCA's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 as amended). Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2003, PCA's disclosure controls and procedures were effective to ensure that information required to be disclosed by PCA in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in PCA's internal controls over financial reporting that occurred during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, PCA's internal control over financial reporting.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

On May 14, 1999, PCA was named as a defendant in two Consolidated Class Action Complaints which alleged a civil violation of Section 1 of the Sherman Act. The suits, captioned *Winoff Industries, Inc. v. Stone Container Corporation*, MDL No. 1261 (E.D. Pa.) and *General Refractories Co. v. Gaylord Container Corporation*, MDL No. 1261 (E.D. Pa.), name us as a defendant based solely on the allegation that PCA is successor to the interests of Tenneco Packaging Inc. and Tenneco Inc., both of which were also named as defendants in the suits, along with nine other linerboard and corrugated sheet manufacturers. The complaints allege that the defendants, during the period October 1, 1993 through November 30, 1995, conspired to limit the supply of linerboard, and that the purpose and effect of the alleged conspiracy was to artificially increase prices of corrugated containers and corrugated sheets, respectively. On November 3, 2003, Pactiv (formerly known as Tenneco Packaging), Tenneco and PCA entered into an agreement to settle the class action lawsuits. The settlement agreement, which is subject to court approval, provides for a full release of all claims against PCA as a result of the class action lawsuits. Several plaintiffs opted out of the class and filed direct action complaints in various federal courts across the country. All of the opt-out complaints make allegations against the defendants, including PCA, substantially similar to those made in the class actions. The settlement agreement does not cover these direct action cases. We believe that the allegations of the opt-out plaintiffs have no merit. We do not believe that the outcome of this litigation should have a material adverse effect on our financial position, results of operations, or cash flow.

PCA is also party to various legal actions arising in the ordinary course of our business. These legal actions cover a broad variety of claims spanning our entire business. We believe that the resolution of these legal actions will not, individually or in the aggregate, have a material adverse effect on our financial condition or results of operations.

Item 2. Changes in Securities and Use of Proceeds.

In connection with the tender of substantially all of PCA's $550 million of $9^5/_8$% senior subordinated notes due 2009 (CUSIP No. 695156AD1), the indenture under which the senior subordinated notes were issued was amended to eliminate or modify substantially all of the restrictive covenants and certain events of default and related provisions in the indenture.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

1) Exhibits

10.1	Amendment No. 1 to Credit and Security Agreement, dated as of April 12, 2001, among Packaging Receivables Company, LLC ("PRC"), Packaging Credit Company, LLC ("PCC"), Blue Ridge Asset Funding Corporation ("Blue Ridge") and Wachovia Bank, N.A. ("Wachovia").
10.2	Second Amendment to Credit and Security Agreement, dated as of January 31, 2003, among PRC, PCC, Blue Ridge and Wachovia.
10.3	Third Amendment to Credit and Security Agreement, dated as of September 30, 2003, among PRC, PCC, Blue Ridge and Wachovia.
10.4	Fourth Amendment to Credit and Security Agreement, dated as of October 10, 2003, among PRC, PCC, Blue Ridge and Wachovia.
31.1	Certification of Chief Executive Officer, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

2) Reports on Form 8-K

On July 11, 2003, PCA filed a current report on Form 8-K, announcing the results of its tender offer relating to its $550 million outstanding 9 5/8% senior subordinated notes due 2009.

On July 14, 2003, PCA filed a cuurent report on Form 8-K, announcing its intent to offer $550 million in five-and ten-year notes.

On July 14, 2003, PCA filed a current report on Form 8-K, announcing second quarter 2003 financial results.

On July 22, 2003, PCA filed a current report on Form 8-K, announcing the pricing of its tender offer relating to its $550 million outstanding 9 5/8% senior subordinated notes due 2009.

On July 22, 2003, PCA filed a current report on Form 8-K, announcing the successful completion of its tender offer relating to its $550 million outstanding 9 5/8% senior subordinated notes due 2009 and its debt refinancing. PCA also provided earnings guidance for the third quarter of 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACKAGING CORPORATION OF AMERICA
(Registrant)

By: /s/ PAUL T. STECKO
Chairman and Chief Executive Officer
(Authorized Officer)

By: /s/ RICHARD B. WEST
Senior Vice President, Chief Financial Officer
and Corporate Secretary
(Principal Financial Officer)

Date: November 14, 2003

Exhibit 31.1

CERTIFICATION

I, Paul T. Stecko, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Packaging Corporation of America;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of PCA as of, and for, the periods presented in this quarterly report;

(4) PCA's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PCA and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PCA, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of PCA's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in PCA's internal control over financial reporting that occurred during PCA's most recent fiscal quarter (PCA's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, PCA's internal control over financial reporting; and

(5) PCA's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PCA's auditors and the Audit Committee of PCA's Board of Directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PCA's ability to record, process, summarize and report financial data information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in PCA's internal control over financial reporting.

Date: November 14, 2003

/s/ Paul T. Stecko

Paul T. Stecko
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard B. West, certify that:

(1) I have reviewed this quarterly report on Form 10-Q of Packaging Corporation of America;

(2) Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

(3) Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of PCA as of, and for, the periods presented in this quarterly report;

(4) PCA's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for PCA and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to PCA, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) evaluated the effectiveness of PCA's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

c) disclosed in this report any change in PCA's internal control over financial reporting that occurred during PCA's most recent fiscal quarter (PCA's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, PCA's internal control over financial reporting; and

(5) PCA's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to PCA's auditors and the Audit Committee of PCA's Board of Directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect PCA's ability to record, process, summarize and report financial data information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in PCA's internal control over financial reporting.

Date: November 14, 2003

/s/ Richard B. West

Richard B. West
Senior Vice President, Chief Financial Officer
and Corporate Secretary

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Paul T. Stecko, Chief Executive Officer of Packaging Corporation of America (the “Company”), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul T. Stecko

Paul T. Stecko
Chairman and Chief Executive Officer

November 14, 2003

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. §1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard B. West, Chief Financial Officer of Packaging Corporation of America (the "Company"), certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Quarterly Report of the Company on Form 10-Q for the period ended September 30, 2003 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in such Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Richard B. West

Richard B. West
Senior Vice President, Chief Financial Officer
and Corporate Secretary

November 14, 2003