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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**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, 2005**

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**

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**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)

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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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No .

As of November 4, 2005, the Registrant had outstanding 108,119,659 shares of common stock, par value \$0.01 per share.

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**PART I  
FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**Packaging Corporation of America  
Condensed Consolidated Balance Sheets**

	<b>September 30, 2005</b>	<b>December 31, 2004</b>
	<u>(unaudited)</u>	<u></u>
<i>(In thousands, except share and per share amounts)</i>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents . . . . .	\$ 184,429	\$ 213,321
Accounts and notes receivable, net of allowance for doubtful accounts/customer deductions of \$5,125 and \$4,639 as of September 30, 2005 and December 31, 2004, respectively . . . . .	227,936	216,594
Inventories . . . . .	187,645	179,348
Prepaid expenses and other current assets . . . . .	11,612	8,685
Deferred income taxes . . . . .	29,753	59,113
<b>Total current assets</b> . . . . .	<u>641,375</u>	<u>677,061</u>
Property, plant and equipment, net . . . . .	1,338,914	1,345,154
Goodwill and other intangible assets, net of accumulated amortization of \$3,380 and \$2,840 as of September 30, 2005 and December 31, 2004, respectively . . . . .	53,988	22,108
Other long-term assets . . . . .	36,426	38,451
<b>Total assets</b> . . . . .	<u>\$ 2,070,703</u>	<u>\$ 2,082,774</u>
<b>Liabilities and shareholders' equity</b>		
Current liabilities:		
Short-term debt and current maturities of long-term debt . . . . .	\$ 118,030	\$ 109,168
Accounts payable . . . . .	142,198	128,953
Accrued interest . . . . .	5,312	12,591
Accrued liabilities . . . . .	93,336	84,392
<b>Total current liabilities</b> . . . . .	<u>358,876</u>	<u>335,104</u>
Long-term liabilities:		
Long-term debt . . . . .	577,061	585,724
Deferred income taxes . . . . .	297,437	306,569
Other liabilities . . . . .	38,501	37,807
<b>Total long-term liabilities</b> . . . . .	<u>912,999</u>	<u>930,100</u>
Shareholders' equity:		
Common stock, par value \$.01 per share, 300,000,000 shares authorized, 108,118,659 shares and 106,993,028 shares issued as of September 30, 2005 and December 31, 2004, respectively . . . . .	1,081	1,070
Additional paid in capital . . . . .	510,367	492,661
Retained earnings . . . . .	273,789	303,662
Accumulated other comprehensive income:		
Unrealized gain on derivatives, net . . . . .	20,144	22,475
Cumulative foreign currency translation adjustment . . . . .	(4)	(6)
Total accumulated other comprehensive income . . . . .	<u>20,140</u>	<u>22,469</u>
Unearned compensation on restricted stock . . . . .	(6,549)	(2,292)
<b>Total shareholders' equity</b> . . . . .	<u>798,828</u>	<u>817,570</u>
<b>Total liabilities and shareholders' equity</b> . . . . .	<u>\$ 2,070,703</u>	<u>\$ 2,082,774</u>

See notes to condensed consolidated financial statements.

**Packaging Corporation of America**  
**Condensed Consolidated Statements of Operations**  
**(unaudited)**

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<u>2005</u>	<u>2004</u>
<i>(In thousands, except per share amounts)</i>		
Net sales .....	\$ 512,187	\$ 498,753
Cost of sales .....	<u>(431,686)</u>	<u>(400,774)</u>
Gross profit .....	80,501	97,979
Selling and administrative expenses .....	(38,056)	(35,182)
Corporate overhead .....	(12,315)	(12,349)
Other expense, net .....	<u>(3,828)</u>	<u>(2,345)</u>
Income from operations .....	26,302	48,103
Interest expense, net .....	<u>(7,082)</u>	<u>(7,430)</u>
Income before taxes .....	19,220	40,673
Provision for income taxes .....	<u>(8,654)</u>	<u>(16,066)</u>
Net income .....	<u>\$ 10,566</u>	<u>\$ 24,607</u>
Weighted average common shares outstanding:		
Basic .....	107,672	106,602
Diluted .....	108,311	107,765
Net income per common share:		
Basic .....	<u>\$ 0.10</u>	<u>\$ 0.23</u>
Diluted .....	<u>\$ 0.10</u>	<u>\$ 0.23</u>
Dividends declared per common share .....	<u>\$ 0.25</u>	<u>\$ 0.15</u>

See notes to condensed consolidated financial statements.

**Packaging Corporation of America**  
**Condensed Consolidated Statements of Operations (Continued)**  
**(unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<u>2005</u>	<u>2004</u>
<i>(In thousands, except per share amounts)</i>		
Net sales .....	\$1,520,949	\$1,397,435
Cost of sales .....	(1,271,267)	(1,188,127)
Gross profit .....	249,682	209,308
Selling and administrative expenses.....	(110,802)	(99,868)
Corporate overhead .....	(36,667)	(33,116)
Joint venture dividend, net of expenses.....	14,032	—
Other expense, net .....	(8,131)	(3,375)
Income from operations.....	108,114	72,949
Interest expense, net.....	(21,152)	(22,377)
Income before taxes .....	86,962	50,572
Provision for income taxes.....	(36,017)	(20,216)
Net income.....	<u>\$ 50,945</u>	<u>\$30,356</u>
Weighted average common shares outstanding:		
Basic .....	107,372	106,203
Diluted .....	108,173	107,478
Net income per common share:		
Basic .....	<u>\$ 0.47</u>	<u>\$ 0.29</u>
Diluted .....	<u>\$ 0.47</u>	<u>\$ 0.28</u>
Dividends declared per common share .....	<u>\$ 0.75</u>	<u>\$ 0.45</u>

See notes to condensed consolidated financial statements.

**Packaging Corporation of America**  
**Condensed Consolidated Statements of Cash Flow**  
**(unaudited)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<i>(In thousands)</i>		
<b>Cash Flows from Operating Activities:</b>		
Net income . . . . .	\$ 50,945	\$ 30,356
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization . . . . .	118,757	118,269
Amortization of financing costs . . . . .	515	512
Loss—early extinguishment of debt . . . . .	—	174
Deferred income tax provision (benefit) . . . . .	(7,877)	8,373
Loss on disposals of property, plant and equipment . . . . .	2,537	1,056
Gain from joint venture dividend . . . . .	(15,038)	—
Pension and postretirement benefits . . . . .	1,210	4,061
Tax benefit associated with employee stock option exercises . . . . .	5,113	6,960
Other, net . . . . .	(1,645)	(2,386)
Changes in components of working capital (net of effects of acquisitions):		
(Increase) decrease in current assets—		
Accounts receivable . . . . .	(7,281)	(33,138)
Inventories . . . . .	(5,966)	(2,133)
Prepaid expenses and other . . . . .	25,284	(4,901)
Increase (decrease) in current liabilities—		
Accounts payable . . . . .	992	(12,974)
Accrued liabilities . . . . .	1,147	(11,003)
<b>Net cash provided by operating activities . . . . .</b>	<b>168,693</b>	<b>103,226</b>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment . . . . .	(98,991)	(76,455)
Acquisitions of businesses . . . . .	(48,078)	(38,506)
Additions to long term assets . . . . .	(2,864)	(2,203)
Proceeds from disposals of property, plant and equipment . . . . .	187	1,297
Proceeds from sale of investment . . . . .	—	2,000
Joint venture dividend . . . . .	15,038	—
<b>Net cash used for investing activities . . . . .</b>	<b>(134,708)</b>	<b>(113,867)</b>
<b>Cash Flows from Financing Activities:</b>		
Payments on long-term debt . . . . .	(161)	(3,960)
Common stock dividends paid . . . . .	(69,840)	(47,693)
Proceeds from exercise of stock options . . . . .	7,124	9,639
<b>Net cash used for financing activities . . . . .</b>	<b>(62,877)</b>	<b>(42,014)</b>
<b>Net decrease in cash and cash equivalents . . . . .</b>	<b>(28,892)</b>	<b>(52,655)</b>
<b>Cash and cash equivalents, beginning of period . . . . .</b>	<b>213,321</b>	<b>172,022</b>
<b>Cash and cash equivalents, end of period . . . . .</b>	<b>\$ 184,429</b>	<b>\$ 119,367</b>

See notes to condensed consolidated financial statements.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**  
**September 30, 2005**

**1. Basis of Presentation**

The consolidated financial statements as of September 30, 2005 and 2004 of Packaging Corporation of America (“PCA” or the “Company”) and for the three and nine month periods then ended 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 for the period ended September 30, 2005 are not necessarily indicative of the results that may be expected for the period ending December 31, 2005. These consolidated financial statements should be read in conjunction with PCA’s Annual Report on Form 10-K for the year ended December 31, 2004. The consolidated financial statements as of September 30, 2004 have been adjusted due to an error that resulted in a misstatement of the intercompany profit reserve for products held in inventory. See Note 15 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 for additional information.

**2. Summary of Accounting Policies**

*Basis of Consolidation*

The accompanying condensed consolidated financial statements of PCA include all wholly-owned subsidiaries. All intercompany transactions have been eliminated. The Company has one joint venture that is accounted for 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.

*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 are included in revenue. In addition, the Company offers volume rebates to some of its customers. The total cost of these programs is estimated and accrued as a reduction to revenue at the time of the respective sale.

*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.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**2. Summary of Accounting Policies (Continued)**

*Comprehensive Income*

Comprehensive income is as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<i>(In thousands)</i>		
Net income .....	\$10,566	\$24,607
Other comprehensive income (loss), net of tax:		
Amortization of Treasury lock .....	(777)	(778)
Comprehensive income .....	<u>\$ 9,789</u>	<u>\$23,829</u>
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<i>(In thousands)</i>		
Net income .....	\$50,945	\$30,356
Other comprehensive income (loss), net of tax:		
Amortization of Treasury lock .....	(2,331)	(2,332)
Foreign currency translation adjustment .....	2	5
Comprehensive income .....	<u>\$48,616</u>	<u>\$28,029</u>

*Reclassifications*

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

*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 acquired the business from Pactiv Corporation. 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 three- or four-year period, whereas option awards granted to directors vest immediately. The plan, which will terminate on October 19, 2009, provides for the issuance of up to 4,400,000 shares of common stock. On May 4, 2005, the plan was amended to provide for the

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**2. Summary of Accounting Policies (Continued)**

issuance of an additional 2,150,000 shares of common stock, or 6,550,000 shares in total. As of September 30, 2005, 4,851,997 have been granted. Forfeitures are added back to the pool of shares of common stock to be granted again at a future date.

During 2003, the Company began granting shares of restricted stock to certain of its employees and directors. Restricted share awards granted to officers and employees vest at the end of a three- or four-year period, whereas restricted share awards granted to directors vest at the end of a six-month period. The Company is recognizing compensation expense associated with these shares ratably over their vesting periods. A summary of the Company's restricted share activity follows:

<i>(dollars in thousands)</i>	<u>Shares</u>	<u>Fair Value at Date of Grant</u>
Balance, December 31, 2002.....	—	\$ —
Granted.....	<u>73,500</u>	<u>1,353</u>
Balance, December 31, 2003.....	73,500	1,353
Granted.....	<u>76,000</u>	<u>1,806</u>
Balance, December 31, 2004.....	149,500	3,159
Granted.....	<u>250,755</u>	<u>5,403</u>
Balance, September 30, 2005 .....	<u>400,255</u>	<u>\$8,562</u>

The number of shares of restricted stock that were vested at September 30, 2005 was 10,500 shares.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**2. Summary of Accounting Policies (Continued)**

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 stock options been accounted for using the fair value method as recommended by SFAS No. 123, compensation expense would have had the following pro forma effect on our net income and earnings per share for the periods presented:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<i>(In thousands, except per share amounts)</i>		
Net income—as reported .....	\$ 10,566	\$ 24,607
Add: Amortization of unearned compensation on restricted stock, net of tax .....	334	147
Less: Stock-based compensation expense determined using fair value method, net of tax .....	<u>(742)</u>	<u>(965)</u>
Net income—pro forma .....	<u>\$ 10,158</u>	<u>\$ 23,789</u>
Basic earnings per common share—as reported .....	\$ 0.10	\$ 0.23
Diluted earnings per common share—as reported .....	\$ 0.10	\$ 0.23
Basic earnings per common share—pro forma .....	\$ 0.09	\$ 0.22
Diluted earnings per common share—pro forma .....	\$ 0.09	\$ 0.22
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2005</b>	<b>2004</b>
<i>(In thousands, except per share amounts)</i>		
Net income—as reported .....	\$ 50,945	\$ 30,356
Add: Amortization of unearned compensation on restricted stock, net of tax .....	657	284
Less: Stock-based compensation expense determined using fair value method, net of tax .....	<u>(2,421)</u>	<u>(2,616)</u>
Net income—pro forma .....	<u>\$ 49,181</u>	<u>\$ 28,024</u>
Basic earnings per common share—as reported .....	\$ 0.47	\$ 0.29
Diluted earnings per common share—as reported .....	\$ 0.47	\$ 0.28
Basic earnings per common share—pro forma .....	\$ 0.46	\$ 0.26
Diluted earnings per common share—pro forma .....	\$ 0.45	\$ 0.26

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**2. Summary of Accounting Policies (Continued)**

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.

*New Accounting Pronouncements*

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position ("FSP") No. 106-2, "Accounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003," which supersedes FSP No. 106-1 of the same title issued in January 2004. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") introduces a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare D. As the Company sponsors a number of postretirement benefit plans, the Company performed an analysis and has determined that the adoption of FSP No. 106-2 would not have a material impact on net periodic postretirement benefit costs in future periods and would not have a material impact on its financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 123(R), "Share-Based Payment," which requires that compensation cost related to share-based payment transactions be recognized in the financial statements based on fair value. Share-based payment transactions within the scope of SFAS No. 123(R) include stock options, restricted stock awards, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of SFAS No. 123(R) are effective as of the first interim period of fiscal years beginning after June 15, 2005. The Company plans to adopt the revised standard on January 1, 2006. The Company currently accounts for its share-based payment transactions under the provisions of APB Opinion No. 25, which generally does not require the recognition of compensation cost for employee stock options in the financial statements. Management believes that the current required disclosures in Note 2 under Stock-Based Compensation materially reflect the impact this standard would have on reported net income, if adopted at the beginning of the periods presented.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**3. Earnings Per Share**

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

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<u>2005</u>	<u>2004</u>
<i>(In thousands, except per share data)</i>		
Numerator:		
Net income.....	\$ 10,566	\$ 24,607
Denominator:		
Basic common shares outstanding.....	107,672	106,602
Effect of dilutive securities:		
Unvested restricted stock.....	86	43
Stock options.....	<u>553</u>	<u>1,120</u>
Dilutive common shares outstanding.....	108,311	107,765
Basic income per common share.....	\$ 0.10	\$ 0.23
Diluted income per common share.....	\$ 0.10	\$ 0.23

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<u>2005</u>	<u>2004</u>
<i>(In thousands, except per share data)</i>		
Numerator:		
Net income.....	\$ 50,945	\$ 30,356
Denominator:		
Basic common shares outstanding.....	107,372	106,203
Effect of dilutive securities:		
Unvested restricted stock.....	72	35
Stock options.....	<u>729</u>	<u>1,240</u>
Dilutive common shares outstanding.....	108,173	107,478
Basic income per common share.....	\$ 0.47	\$ 0.29
Diluted income per common share.....	\$ 0.47	\$ 0.28

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**4. Inventories**

The components of inventories are as follows:

	<b>September 30, 2005</b>	<b>December 31, 2004 (audited)</b>
<i>(In thousands)</i>		
Raw materials .....	\$ 82,282	\$ 79,753
Work in progress.....	5,761	5,988
Finished goods.....	62,222	60,936
Supplies and materials.....	72,595	67,894
Inventories at FIFO cost.....	222,860	214,571
Excess of FIFO over LIFO cost.....	(35,215)	(35,223)
Inventories, net.....	\$187,645	\$179,348

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. Goodwill and Other Intangible Assets**

*Goodwill*

Changes in the carrying amount of goodwill for the period ended September 30, 2005 are as follows:

<i>(In thousands)</i>	
Balance as of December 31, 2004.....	\$ 3,691
Acquisition of business .....	32,420
Total .....	\$36,111

For additional information regarding the acquisition, see Note 9.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**5. Goodwill and Other Intangible Assets (Continued)**

*Other Intangible Assets*

The components of other intangible assets are as follows:

	<u>Weighted Average Life</u>	<u>As of September 30, 2005</u>		<u>As of December 31, 2004</u>	
		<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>
<i>(In thousands)</i>					
Intangible assets subject to amortization:					
Covenants not to compete.....	8 years	\$ 1,642	\$1,338	\$ 1,642	\$1,150
Customer lists .....	35 years	<u>15,360</u>	<u>2,042</u>	<u>15,360</u>	<u>1,690</u>
	32 years	17,002	3,380	17,002	2,840
Intangible assets not subject to amortization:					
Intangible pension asset.....		<u>4,255</u>	—	<u>4,255</u>	—
Total other intangible assets .....		<u>\$21,257</u>	<u>\$3,380</u>	<u>\$21,257</u>	<u>\$2,840</u>

**6. Employee Benefit Plans and Other Postretirement Benefits**

For the three and nine months ended September 30, 2005 and 2004, net pension costs were comprised of the following:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>(In thousands)</i>				
<b>Components of Net Periodic Benefit Cost</b>				
Service cost for benefits earned during the year .....	\$3,819	\$3,300	\$11,457	\$7,478
Interest cost on accumulated benefit obligation .....	673	556	2,019	1,181
Expected return on assets .....	(258)	(1)	(774)	(3)
Net amortization of unrecognized amounts.....	<u>547</u>	<u>640</u>	<u>1,641</u>	<u>1,205</u>
Net periodic benefit cost .....	<u>\$4,781</u>	<u>\$4,495</u>	<u>\$14,343</u>	<u>\$9,861</u>

The Company makes pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company expects to contribute \$17.6 million to the pension plans in 2005, of which \$14.4 million has been contributed through September 30, 2005.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**6. Employee Benefit Plans and Other Postretirement Benefits (Continued)**

For the three months and nine months ended September 30, 2005 and 2004, net postretirement costs were comprised of the following:

	<b>Three Months Ended Sept. 30,</b>		<b>Nine Months Ended Sept. 30,</b>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
<i>(In thousands)</i>				
<b>Components of Net Periodic Benefit Cost</b>				
Service cost for benefits earned during the year . . . . .	\$223	\$209	\$ 669	\$ 627
Interest cost on accumulated benefit obligation . . . . .	146	122	438	366
Net amortization of unrecognized amounts . . . . .	<u>(44)</u>	<u>(52)</u>	<u>(132)</u>	<u>(156)</u>
Net periodic benefit cost . . . . .	<u>\$325</u>	<u>\$279</u>	<u>\$ 975</u>	<u>\$ 837</u>

**7. Restructuring Charges and Other Severance**

In August 2005, the Company announced that it would close a corrugated products plant by the end of the year. The charges related to this plant closing are being recorded in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," which requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred.

In connection with the shutdown of the corrugated products plant, the Company recorded pre-tax restructuring charges of \$1.3 million in the third quarter of 2005, which are included in other expense, net in the income statement. The pre-tax restructuring charges are composed of:

	<u>Restructuring Charges</u>	<u>Non-Cash Charges</u>	<u>Cash Payments</u>	<u>Balance at September 30, 2005</u>
<i>(In thousands)</i>				
Severance and benefit costs . . . . .	\$ 717	\$ —	\$—	\$717
Asset impairment . . . . .	<u>619</u>	<u>(619)</u>	<u>—</u>	<u>—</u>
Total . . . . .	<u>\$1,336</u>	<u>\$(619)</u>	<u>\$—</u>	<u>\$717</u>

All restructuring charges, except for the asset impairments, will result in cash outflows. The severance and benefit costs relate to a reduction in workforce of approximately 58 employees located at the plant. The Company expects to incur an additional \$0.1 million in pre-tax severance and benefits costs during the fourth quarter of 2005. Asset impairments relate to the write-down of property, plant and equipment at the plant to be closed. The fair values of the impaired long-lived assets at the plant were determined in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company expects to incur \$0.3 million in pre-tax miscellaneous dismantling and relocation costs related to the property, plant and equipment during the fourth quarter of 2005.

The Company also recorded \$0.9 million in pre-tax severance and benefit costs related to other facilities during the third quarter of 2005.

**Packaging Corporation of America**  
**Notes to Condensed Consolidated Financial Statements (Continued)**  
**(unaudited)**  
**September 30, 2005**

**8. Related Party Transaction**

PCA owns a 31⅓% interest in Southern Timber Venture, LLC (“STV”). At September 30, 2005, PCA had not guaranteed the debt of STV and has no future funding requirements. The Company’s investment recorded on its balance sheet at September 30, 2005 is zero. On March 31, 2005, STV declared a dividend, and PCA recorded income of \$2.5 million, its proportionate share of the dividend declared by STV in the first quarter of 2005. On April 12, 2005, PCA received a special dividend payment from STV and recorded income of \$11.5 million (net of expenses). The special dividend resulted from the sale by STV of some of its woodland holdings. After this sale, STV currently owns approximately 53,000 acres of land, including timberlands, located primarily in southern Georgia and northern Florida.

Unaudited financial information for STV is as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<i>(In thousands)</i>			
Net sales . . . . .	\$ 2,501	\$ 9,034	\$ 6,313	\$25,481
Gross profit (loss) . . . . .	55	1,679	(442)	5,374
Gain from sale of timberlands . . . . .	—	1,341	53,901	1,697
Net income (loss) . . . . .	(1,535)	(1,021)	43,428	(5,062)

**9. Acquisition of Plants**

During the second quarter of 2005, PCA acquired a full line corrugated plant in Jackson, Mississippi, a specialty sheet plant in St. Louis, Missouri, and a graphics packaging and display manufacturing plant in Olive Branch, Mississippi. The purchase method of accounting was used to account for the acquisition of these plants. The purchase price has been allocated to the fair value of assets acquired and liabilities assumed. The purchase price allocation is preliminary as the Company is awaiting appraisals (primarily fixed assets and intangible assets) to finalize the allocation. Sales and total assets of the plants acquired were not material to PCA’s total consolidated financial results. Operating results of the plants acquired subsequent to the date of acquisition are included in the Company’s operating results.

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

### Overview

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity. Approximately 83% of the containerboard tons produced at our mills is consumed in our corrugated products manufacturing plants. The remaining 17% is sold to domestic customers or the export market. Besides containerboard, we produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging such as wax-coated boxes for the agriculture industry. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer our customers more attractive packaging. Our operating facilities and customers are located primarily in the United States.

### Results of Operations

#### *Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004*

The historical results of operations of PCA for the three months ended September 30, 2005 and 2004, are set forth below:

	For the Three Months Ended September 30,		Change
	2005	2004	
<i>(In thousands)</i>			
Net sales .....	\$512,187	\$498,753	\$ 13,434
Income from operations .....	\$ 26,302	\$ 48,103	\$(21,801)
Interest expense, net .....	(7,082)	(7,430)	348
Income before taxes .....	19,220	40,673	(21,453)
Provision for income taxes .....	(8,654)	(16,066)	7,412
Net income .....	\$ 10,566	\$ 24,607	\$(14,041)

#### *Net Sales*

Net sales increased by \$13.4 million, or 2.7%, for the three months ended September 30, 2005 from the comparable period in 2004. The increase was primarily the result of increased sales volumes of corrugated products to third parties.

Total corrugated products volume sold for the three months ended September 30, 2005 increased 5.4% to 8.0 billion square feet. On a comparable shipments-per-workday basis, corrugated products volume was also up 5.4% from the third quarter of 2004. The percentage increase in volume on a total basis is the same as the shipments-per-workday basis since the third quarter of 2005 contained the same number of workdays as the third quarter of 2004. Both the third quarter of 2005 and 2004 contained 64 workdays. Shipments-per-workday is calculated by dividing our total corrugated products volume during the quarter by the number of workdays within the quarter. Containerboard volume to external domestic and export customers was down 8.3% for the three months ended September 30, 2005 from the three months ended September 30, 2004 as a result of increased shipments of PCA-produced containerboard to its corrugated products plants. Containerboard mill production for the three months ended September 30, 2005 was 601,000 tons compared to 595,000 tons in the same period in 2004.

#### *Income from Operations*

Income from operations decreased by \$21.8 million, or 45.3%, for the three months ended September 30, 2005 compared to the three months ended September 30, 2004. The decrease in operating income was primarily attributable to higher transportation costs (\$7.3 million), decreased sales prices (\$6.4 million), increased energy costs (\$3.8 million), increased salary expense related to merit increases and new hires (\$3.1 million) and increased wood fiber costs (\$2.8 million). In addition, the Company

incurred costs related to the closure of one of its box plants and other severance costs in the third quarter of 2005 which totaled \$2.2 million. These items were partially offset by increased corrugated products volume of \$3.2 million.

Gross profit decreased \$17.5 million, or 17.8%, for the three months ended September 30, 2005 from the comparable period in 2004. Gross profit as a percentage of sales decreased from 19.6% of sales in the third quarter of 2004 to 15.7% of sales in the current quarter due primarily to the increased costs and decreased pricing described previously.

Selling and administrative expenses increased \$2.9 million, or 8.2%, for the three months ended September 30, 2005 compared to the same period in 2004. The increase was primarily the result of higher salary, fringe and incentive expenses related to merit increases, new hires and the timing of incentive accruals (\$2.2 million) and an increase in travel and entertainment costs (\$0.5 million).

Other expense for the three months ended September 30, 2005 was \$3.8 million, compared to \$2.3 million for the three months ended September 30, 2004. During the third quarter of 2005, PCA incurred costs related to the closure of one of its box plants which resulted in other expense of \$1.3 million.

Corporate overhead was unchanged for the three months ended September 30, 2005 compared to the same period in 2004.

***Interest Expense and Income Taxes***

Interest expense decreased by \$0.3 million, or 4.7%, for the three months ended September 30, 2005 from the three months ended September 30, 2004, primarily as a result of an increase in interest income earned on the Company's cash equivalents, partially offset by higher interest expense on the Company's variable rate debt due to higher interest rates.

PCA's effective tax rate was 45.0% for the three months ended September 30, 2005 and 39.5% for the comparable period in 2004. 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 adjustments to prior years' accruals.

***Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004***

The historical results of operations of PCA for the nine months ended September 30, 2005 and 2004, are set forth below:

	<b>For the Nine Months Ended September 30,</b>		<b>Change</b>
	<b>2005</b>	<b>2004</b>	
<i>(In thousands)</i>			
Net sales . . . . .	\$1,520,949	\$1,397,435	\$123,514
Income from operations . . . . .	\$ 108,114	\$ 72,949	\$ 35,165
Interest expense, net. . . . .	(21,152)	(22,377)	1,225
Income before taxes . . . . .	86,962	50,572	36,390
Provision for income taxes . . . . .	(36,017)	(20,216)	(15,801)
Net income. . . . .	<u>\$ 50,945</u>	<u>\$ 30,356</u>	<u>\$ 20,589</u>

***Net Sales***

Net sales increased by \$123.5 million, or 8.8%, for the nine months ended September 30, 2005 from the comparable period in 2004. The increase was primarily the result of increased sales prices of corrugated products and containerboard and increased sales volumes of corrugated products to third parties.

Total corrugated products volume sold for the nine months ended September 30, 2005 increased 4.6% to 23.6 billion square feet. On a comparable shipments-per-workday basis, corrugated products volume was

also up 4.6% from the comparable period in 2004. The percentage increase in volume on a total and shipments-per-workday basis is the same since the first nine months of both 2005 and 2004 contained 190 workdays. Containerboard volume to external domestic and export customers decreased 7.3% for the nine months ended September 30, 2005 from the comparable period in 2004 as a result of increased shipments of PCA-produced containerboard to its corrugated products plants. Containerboard mill production for the nine months ended September 30, 2005 was 1,752,000 tons compared to 1,719,000 tons in the same period in 2004.

### ***Income from Operations***

Income from operations increased by \$35.2 million, or 48.2%, for the nine months ended September 30, 2005 compared to the nine months ended September 30, 2004. The increase was primarily attributable to higher sales prices of corrugated products and containerboard (\$73.2 million) and two dividends paid to the Company by STV in the first half of 2005 (\$14.0 million total income recorded net of expenses). These two favorable items were partially offset by increased costs for transportation (\$15.7 million), wood fiber (\$10.0 million), energy (\$9.9 million), salary expense related to merit increases and new hires (\$8.9 million), medical and pension expenses (\$5.0 million) and the plant closure and severance costs described previously (\$2.2 million).

Gross profit increased \$40.4 million, or 19.3%, for the nine months ended September 30, 2005 from the comparable period in 2004. Gross profit as a percentage of sales increased from 15.0% of sales in the first nine months of 2004 to 16.4% of sales in the first nine months of 2005 due primarily to the increased sales prices described previously.

Selling and administrative expenses increased \$10.9 million, or 10.9%, for the nine months ended September 30, 2005 compared to the same period in 2004. The increase was primarily the result of higher salary, fringe and incentive expenses related to merit increases, new hires and the timing of incentives accrued (\$8.6 million), increased warehousing expenses due to increased customer requirements (\$1.3 million) and an increase in travel and entertainment costs (\$0.9 million).

Other expense for the nine months ended September 30, 2005 was \$8.1 million compared to \$3.4 million for the nine months ended September 30, 2004, an increase of \$4.8 million or 140.9% primarily attributable to a \$2.3 million increase in expenses related to disposals of property, plant and equipment due to an increase in disposals for capital projects and a \$2.0 million pre-tax gain in the second quarter of 2004 from the sale of a portion of the Company's investment in STV.

Corporate overhead increased by \$3.6 million, or 10.7%, for the nine months ended September 30, 2005 from the comparable period in 2004. The increase was primarily attributable to increased professional fees (\$1.7 million) primarily related to human resource, legal and tax matters and an increase in costs and scope of audits of internal controls, an increase in incentives accrued (\$1.1 million) related to timing of those expenses and increased salary expense (\$0.8 million).

### ***Interest Expense and Income Taxes***

Interest expense decreased by \$1.2 million, or 5.5%, to \$21.2 million for the nine months ended September 30, 2005 from the nine months ended September 30, 2004, primarily as a result of an increase in interest income earned on the Company's cash equivalents, partially offset by higher interest expense on the Company's variable rate debt due to higher interest rates.

PCA's effective tax rate was 41.4% for the nine months ended September 30, 2005 and 40.0% for the comparable period in 2004. 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 adjustments to prior years' accruals.

## Liquidity and Capital Resources

The following table presents a summary of our cash flows for the periods presented:

	For the Nine Months Ended September 30,		Change
	2005	2004	
<i>(In thousands)</i>			
Net cash provided by (used for):			
Operating activities .....	\$ 168,693	\$ 103,226	\$ 65,467
Investing activities .....	(134,708)	(113,867)	(20,841)
Financing activities .....	(62,877)	(42,014)	(20,863)
Net increase (decrease) in cash and cash equivalents .....	<u>\$ (28,892)</u>	<u>\$ (52,655)</u>	<u>\$ 23,763</u>

### *Operating Activities*

Net cash provided by operating activities for the nine months ended September 30, 2005 was \$168.7 million, an increase of \$65.5 million, or 63.4%, from the comparable period in 2004. The increase was the result of higher net income as previously described and lower working capital requirements of \$78.3 million, partially offset by lower deferred taxes of \$16.3 million due to the reversal of temporary differences. The lower working capital requirements were driven by favorable changes in 2005 in accounts receivable (\$25.8 million), accrued liabilities (\$12.1 million) and accounts payable (\$14.0 million), partially offset by an unfavorable change in inventory (\$3.8 million). Additionally, favorable changes in prepaid expenses and other current assets totaled \$30.2 million in 2005, primarily driven by a federal tax net operating loss carryforward offsetting current year federal tax payments. As of September 30, 2005, the federal net operating loss carryforward has been fully utilized. Without the net operating loss carryforward, the Company would have owed an additional \$24.0 million in federal tax cash payments during the first nine months of 2005.

### *Investing Activities*

Net cash used for investing activities for the nine months ended September 30, 2005 increased \$20.8 million, or 18.3%, to \$134.7 million, compared to the nine months ended September 30, 2004. The increase was primarily related to an increase in additions to property, plant and equipment of \$22.5 million during the first nine months of 2005 compared to the same period in 2004, higher cost of acquisitions of \$9.6 million in 2005 and lower proceeds from disposals of property, plant and equipment and investments of \$3.1 million received in 2005, partially offset by \$15.0 million of joint venture dividends received from STV during 2005. See Note 13 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 and Note 9 included elsewhere in this report for additional information regarding the acquisitions in 2004 and 2005, respectively.

### *Financing Activities*

Net cash used for financing activities totaled \$62.9 million for the nine months ended September 30, 2005, an increase of \$20.9 million, or 49.7%, from the comparable period in 2004. The increase was primarily attributable to \$22.1 million in additional dividends paid on PCA's common stock during the first nine months of 2005 compared to the same period in 2004 and lower proceeds received from stock option exercises of \$2.5 million in 2005, partially offset by the redemption of PCA's 9% senior subordinated notes on March 31, 2004.

PCA's primary sources of liquidity are net cash provided by operating activities, borrowings under PCA's senior revolving credit facility, and additional borrowings under PCA's receivables credit facility. As

of September 30, 2005, PCA had \$141.0 million in unused borrowing capacity under its existing credit agreements. PCA's primary uses of cash are for capital expenditures, debt service and common stock dividends, which it expects to be able to fund from these sources.

The following table provides the outstanding balances and the weighted average interest rates as of September 30, 2005 for PCA's outstanding term loan, the revolving credit facility, the receivables credit facility, and the five- and ten-year senior notes:

<u>Borrowing Arrangement</u>	<u>Balance at Sept. 30, 2005</u>	<u>Weighted Average Interest Rate (In thousands)</u>	<u>Projected Annual Cash Interest Payments</u>
Senior Credit Facility:			
Term loan . . . . .	\$ 39,000	5.313%	\$ 2,072
Revolving credit facility . . . . .	—	N/A	N/A
Receivables Credit Facility . . . . .	109,000	4.223	4,603
4 <sup>3</sup> / <sub>8</sub> % Five-Year Notes . . . . .	150,000	4.375	6,563
5 <sup>3</sup> / <sub>4</sub> % Ten-Year Notes . . . . .	400,000	5.750	23,000
Total . . . . .	<u>\$698,000</u>	<u>5.192%</u>	<u>\$36,238</u>

The above table excludes unamortized debt discount of \$3.0 million at September 30, 2005. It also excludes from the projected annual cash interest payments, the non-cash income from the amortization of the \$27.0 million received in July 2003 from the settlement of the Treasury locks related to the five- and ten-year notes. The amortization is being recognized over the terms of the five- and ten-year notes.

The senior revolving credit facility is available to fund PCA's working capital requirements, capital expenditures and other general corporate purposes. The term loan must be repaid in quarterly installments from July 2006 through 2008. The senior revolving credit facility will terminate in July 2008. The receivables credit facility will terminate in October 2006.

The 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 senior credit facility. A failure to comply with the restrictions contained in our 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 five- and ten-year notes indentures and the receivables credit facility.

PCA currently expects to incur capital expenditures of \$115.0 million to \$120.0 million in 2005. These expenditures will be used primarily for maintenance capital, cost reduction, business growth and environmental compliance. As of September 30, 2005, PCA had spent \$99.0 million for capital expenditures and had committed to spend an additional \$43.5 million in the remainder of 2005 and beyond.

PCA believes that net cash generated from operating activities and available cash-on-hand will be adequate to meet its anticipated debt service requirements, capital expenditures, common stock dividend payments and working capital needs for the next 12 months, and that net cash generated from operating activities and amounts available under our revolving credit facility and additional borrowings under our receivables credit facility will be adequate to meet its anticipated debt service requirements, capital expenditures, common stock dividend payments and working capital needs for the foreseeable future. PCA's future operating performance and its ability to service or refinance the notes and to service, extend or refinance the credit facilities 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**

PCA is exposed to the impact of interest rate changes and changes in the market value of its financial instruments. PCA periodically enters into derivatives in order to minimize these risks, but not for trading purposes. As of September 30, 2005, PCA was not a party to any derivatives instruments.

As the interest rates on approximately 79% of PCA's debt are fixed, a one percent increase in interest rates would result in a projected increase in interest expense and a corresponding projected decrease in income before taxes of \$1.5 million annually. As of September 30, 2005, the weighted average LIBOR was 4.06%, and the weighted average commercial paper rate was 3.83%. In the event of a change in interest rates, management could take actions to mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in PCA's financial structure.

### **Environmental Matters**

We are 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. The most significant of these laws affecting us are:

- Resource Conservation and Recovery Act (RCRA);
- Clean Water Act (CWA);
- Clean Air Act (CAA);
- The Emergency Planning and Community Right-to-Know-Act (EPCRA);
- Toxic Substance Control Act (TSCA); and
- Safe Drinking Water Act (SDWA).

We believe that we are currently in material compliance with these and all applicable environmental rules and regulations. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with these and other environmental laws. In particular, the United States Environmental Protection Agency finalized the Cluster Rules that govern pulp and paper mill operations, including those at the Counce, Filer City, Valdosta and Tomahawk mills. Over the next several years, the Cluster Rules will affect our allowable discharges of air and water pollutants, and require us 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 three and nine month periods ending September 30, 2005 and 2004.

## **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements as of September 30, 2005 that would require disclosure under SEC FR-67, "Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangement and Aggregate Contractual Obligations."

## **Critical Accounting Policies and Estimates**

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.

PCA has included in its Annual Report on Form 10-K for the year ended December 31, 2004, a discussion of its critical accounting policies which we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. PCA has not made any changes in any of these critical accounting policies during the first nine months of 2005.

## **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 within the meaning of the Private Securities Litigation Reform Act of 1995. 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 our 2004 Annual Report on Form 10-K.

### **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 (except for the user’s internet access charge) through our website as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission.

### **Certifications**

On June 2, 2005, the Company filed with the New York Stock Exchange (the “NYSE”) the Annual CEO Certification regarding the Company’s compliance with the NYSE’s Corporate Governance listing standards as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual. In addition, the Company has filed as exhibits to its Quarterly Report on Form 10-Q for the period ended September 30, 2005, the applicable certifications of its Chief Executive Officer and its Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of the Company’s public disclosures.

### **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 the design and operation 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) as of September 30, 2005. The evaluation of PCA’s disclosure controls and procedures included a review of the controls’ objectives and design, PCA’s implementation of the controls and the effect of the controls on the information generated for use in this quarterly report on Form 10-Q.

Based upon their evaluation as of September 30, 2005, PCA’s Chief Executive Officer and Chief Financial Officer have concluded that PCA’s disclosure controls and procedures are effective to ensure that material information relating to PCA is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the periods when PCA’s periodic reports are being prepared.

During the quarter ended September 30, 2005, there were no changes in internal controls over financial reporting 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, then 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 PCA 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 provides for a full release of all claims against PCA as a result of the class action lawsuits and was approved by the Court in an opinion issued on April 21, 2004. Approximately 160 plaintiffs opted out of the class and together filed about ten 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. These actions have almost all been consolidated as *In re Linerboard*, MDL 1261 (E.D. Pa.) for pretrial purposes. Pactiv, Tenneco, and PCA have reached an agreement to settle all but one of the opt-out cases. These agreements provide for a full release of all claims against PCA as a result of the litigation. In each of the cases that have been settled the court has dismissed all claims against PCA. PCA has made no payments to the plaintiffs as a result of the settlement of any of the opt-out suits. Fact discovery is proceeding and is currently set to close December 30, 2005. As of the date of this filing, we believe it is not reasonably possible that the outcome of any pending litigation related to these matters will have a material adverse effect on our financial position, results of operations or cash flows.

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. As of the date of this filing, we believe it is not reasonably possible that the resolution of these legal actions will, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

None.

**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.**

- 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



**CERTIFICATION**

I, Paul T. Stecko, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Packaging Corporation of America (PCA);
- (2) Based on my knowledge, this 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 report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this 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 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 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.

Dated: November 8, 2005

/s/ PAUL T. STECKO

Paul T. Stecko

*Chairman and Chief Executive Officer*

CERTIFICATION

I, Richard B. West, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of Packaging Corporation of America (PCA);
- (2) Based on my knowledge, this 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 report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this 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 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) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) 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
  - d) 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 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.

Dated: November 8, 2005

/s/ RICHARD B. WEST

Richard B. West

*Senior Vice President, Chief Financial Officer and  
Corporate Secretary*

**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, 2005 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 8, 2005

**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, 2005 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 8, 2005