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 June 30, 2002

or

o **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 o

As of August 9, 2002, the Registrant had outstanding 104,630,748 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

	June 30, 2002 (unaudited)	December 31, 2001
(In thousands, except share and per share amounts)		
Assets		
Current assets:		
Cash and cash equivalents	$ 89,432	$ 82,465

Accounts and notes receivable, net of allowance for doubtful accounts of $6,016 and $5,232 as of June 30, 2002 and December 31, 2001, respectively	205,462	170,175
Inventories	152,797	170,173
Prepaid expenses and other current assets	23,995	12,058
Deferred income taxes	15,466	13,346
Total current assets	487,152	448,217
Property, plant and equipment, net	1,430,088	1,451,224
Intangible assets, net of accumulated amortization of $1,819 and $1,647 as of June 30, 2002 and December 31, 2001, respectively	4,030	4,037
Other long-term assets	63,095	68,302
Total assets	$ 1,984,365	$ 1,971,780
Liabilities and shareholders' equity		
Current liabilities:		
Current portion of long-term debt	$ 94	$ 54
Accounts payable	100,201	93,873
Accrued interest	13,841	13,590
Accrued liabilities	72,594	84,378
Total current liabilities	186,730	191,895
Long-term liabilities:		
Long-term debt	777,168	795,163
Deferred income taxes	213,949	194,452
Other liabilities	18,331	20,436
Total long-term liabilities	1,009,448	1,010,051
Shareholders' equity:		
Common stock (par value $.01 per share, 300,000,000 shares authorized, 105,563,423 shares and 105,570,203 shares issued as of June 30, 2002 and December 31, 2001, respectively)	1,056	1,056
Additional paid in capital	487,160	490,915
Retained earnings	302,107	280,886
Accumulated other comprehensive loss	(2,136)	(2,967)
Common stock held in treasury, at cost (3,000 shares at December 31, 2001)	—	(56)
Total shareholders' equity	788,187	769,834
Total liabilities and shareholders' equity	$ 1,984,365	$ 1,971,780

See notes to condensed consolidated financial statements.

Packaging Corporation of America
Condensed Consolidated Statements of Income
(unaudited)

	Three Months Ended June 30,	
	2002	**2001**
(In thousands, except per share amounts)		
Net sales	$ 447,390	$ 466,964
Cost of sales	(363,700)	(354,783)
Gross profit	83,690	112,181
Selling and administrative expenses	(33,825)	(31,369)
Other expense, net	(2,201)	(492)
Corporate overhead	(11,104)	(10,766)
Income before interest and taxes	36,560	69,554
Interest expense, net	(17,296)	(18,856)

Income before taxes		19,264		50,698
Provision for income taxes		(7,669)		(19,439)
Net income	$	11,595	$	31,259
Weighted average common shares outstanding:				
Basic		105,527		106,583
Diluted		107,810		109,117
Basic earnings per common share:				
Net income per common share	$	0.11	$	0.29
Diluted earnings per common share:				
Net income per common share	$	0.11	$	0.29

See notes to condensed consolidated financial statements.

Packaging Corporation of America
Condensed Consolidated Statements of Income
(unaudited)

	Six Months Ended June 30,			
		2002		**2001**
(In thousands, except per share amounts)				
Net sales	$	862,096	$	921,630
Cost of sales		(703,994)		(702,271)
Gross profit		158,102		219,359
Selling and administrative expenses		(65,797)		(62,011)
Other expense, net		(1,731)		(711)
Corporate overhead		(20,844)		(21,123)
Income before interest, taxes and cumulative effect of accounting change		69,730		135,514
Interest expense, net		(34,482)		(38,418)
Income before taxes and cumulative effect of accounting change		35,248		97,096
Provision for income taxes		(14,027)		(37,723)
Income before cumulative effect of accounting change		21,221		59,373
Cumulative effect of accounting change, net of tax		—		(495)
Net income	$	21,221	$	58,878
Weighted average common shares outstanding:				
Basic		105,502		106,499
Diluted		107,786		109,039
Basic earnings per common share:				
Income before cumulative effect of accounting change	$	0.20	$	0.55
Cumulative effect of accounting change		—		—
Net income per common share	$	0.20	$	0.55
Diluted earnings per common share:				
Income before cumulative effect of accounting change	$	0.20	$	0.54
Cumulative effect of accounting change		—		—
Net income per common share	$	0.20	$	0.54

See notes to condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2002	**2001**
(In thousands)		
Cash Flows from Operating Activities:		
Net income	$ 21,221	$ 58,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	74,090	69,651
Amortization of financing costs	2,328	2,442
Cumulative effect of accounting change	—	495
Increase in deferred income taxes	16,842	22,606
Gain on sales of property, plant and equipment	(543)	(801)
Tax benefit associated with employee stock option exercises	2,685	—
Other, net	3,159	1,598
Changes in components of working capital:		
(Increase) decrease in current assets—		
Accounts receivable	(35,338)	8,664
Inventories	17,376	8,164
Prepaid expenses and other	(11,963)	(8,323)
Increase (decrease) in current liabilities—		
Accounts payable	6,320	(14,065)
Accrued liabilities	(13,284)	(23,446)
Net cash provided by operating activities	82,893	125,863
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(52,707)	(58,379)
Additions to other long term assets	(2,298)	(2,098)
Acquisition of business	—	(4,823)
Proceeds from disposals of property, plant and equipment	2,623	878
Other, net	816	591
Net cash used for investing activities	(51,566)	(63,831)
Cash Flows from Financing Activities:		
Payments on long-term debt	(17,976)	(53,169)
Repurchases of common stock	(9,109)	(3,465)
Issuance of common stock upon exercise of stock options	2,725	2,399
Net cash used for financing activities	(24,360)	(54,235)
Net increase in cash	6,967	7,797
Cash and cash equivalents, beginning of period	82,465	7,892
Cash and cash equivalents, end of period	$ 89,432	$ 15,689

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Notes to Condensed Consolidated Financial Statements

(unaudited)
June 30, 2002

1. Basis of Presentation

The consolidated financial statements as of June 30, 2002 and 2001 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 June 30, 2002 are not necessarily indicative of the results that may be expected for the period ending 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 operations are primarily located within the United States.

New Accounting Pronouncements

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized but are subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives. Application of the provisions of the Statements did not have a material impact on the Company's consolidated financial position or results of operations. No goodwill amortization was incurred during the year ended December 31, 2001. On June 30, 2002, the Company had $1.8 million of goodwill and $2.2 million of other intangible assets.

Effective January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of," and the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations" for a disposal of a segment

of a business. The adoption of SFAS No. 144 on January 1, 2002, did not have a material impact on the Company's consolidated financial position or results of operations.

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 Company will adopt the new rules on asset retirement obligations on January 1, 2003. The adoption of the Statement is not expected to have a material impact on the Company's financial statements.

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

For the six months ended June 30, 2002 and 2001, total comprehensive income was $0.8 million greater and $1.3 million less than net income due to changes in the fair value of derivatives, respectively.

Reclassifications

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

3. Earnings Per Share

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

	Three Months Ended June 30,	
	2002	**2001**

(In thousands, except per share data)		
Numerator:		
Net income	$ 11,595	$ 31,259
Denominator:		
Basic common shares outstanding	105,527	106,583
Effect of dilutive securities:		
Stock options	2,283	2,534
Dilutive common shares outstanding	107,810	109,117
Basic income per common share	$ 0.11	$ 0.29
Diluted income per common share	$ 0.11	$ 0.29

	Six Months Ended June 30,	
	2002	2001
(In thousands, except per share data)		
Numerator:		
Net income	$ 21,221	$ 58,878
Denominator:		
Basic common shares outstanding	105,502	106,499
Effect of dilutive securities:		
Stock options	2,284	2,540
Dilutive common shares outstanding	107,786	109,039
Basic income per common share	$ 0.20	$ 0.55
Diluted income per common share	$ 0.20	$ 0.54

4. Inventories

The components of inventories are as follows:

	June 30, 2002	December 31, 2001
		(audited)
(In thousands)		
Raw materials	$ 64,664	$ 82,540
Work in progress	5,535	5,989
Finished goods	49,849	46,942
Supplies and materials	58,065	58,118
Inventories at FIFO cost	178,113	193,589
Excess of FIFO over LIFO cost	(25,316)	(23,416)
Inventory, net	$ 152,797	$ 170,173

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. 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 June 30, 2002, the Company repurchased 2,828,400 shares of common stock for approximately $47.4 million. Of those repurchased, 385,100 shares and 120,100 shares were repurchased during the first and second quarters, respectively, of 2002, for approximately $9.1 million. The shares were retired prior to June 30, 2002.

6. 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. 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 $550.0 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 is reflected as a non-guarantor subsidiary.

(In thousands)	PCA	Guarantor Subs	Non-Guarantor Sub	Eliminations	Total
June 30, 2002					
Current assets	$ 329,787	$ 73,546	$ 180,215	$ (96,396)	$ 487,152
Non-current assets	1,622,821	129,812	—	(255,420)	1,497,213
Total assets	1,952,608	203,358	180,215	(351,816)	1,984,365
Current liabilities	310,022	3,320	199	(126,811)	186,730
Non-current liabilities	896,117	331	113,000	—	1,009,448
Total liabilities	1,206,139	3,651	113,199	(126,811)	1,196,178
Net assets	$ 746,469	$ 199,707	$ 67,016	$ (225,005)	$ 788,187
December 31, 2001					
Current assets	$ 260,573	$ 62,264	$ 204,370	$ (78,990)	$ 448,217
Non-current assets	1,649,244	114,932	—	(240,613)	1,523,563
Total assets	1,909,817	177,196	204,370	(319,603)	1,971,780
Current liabilities	288,009	2,651	100	(98,865)	191,895
Non-current liabilities	883,799	252	126,000	—	1,010,051
Total liabilities	1,171,808	2,903	126,100	(98,865)	1,201,946
Net assets	$ 738,009	$ 174,293	$ 78,270	$ (220,738)	$ 769,834
Six months ended June 30, 2002					
Net sales	$ 858,266	$ 3,830	$ —	$ —	$ 862,096
Pre-tax profit	18,989	41,799	53	(25,593)	35,248
Net income	11,327	25,413	53	(15,572)	21,221
Six months ended June 30, 2001					
Net sales	$ 920,979	$ 651	$ —	$ —	$ 921,630
Pre-tax profit	82,097	24,840	4,081	(13,922)	97,096
Net income	49,534	13,950	4,081	(8,687)	58,878

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

Results of Operations

Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001

Net Sales

Net sales decreased by $19.6 million, or 4.2%, for the three months ended June 30, 2002 from the comparable period in 2001. The decrease was primarily the result of decreased sales prices of containerboard and corrugated products.

Total corrugated products volume increased 4.9% for the three months ended June 30, 2002 from the comparable period in 2001. On a comparable shipments-per-workday basis, corrugated products volume was up 3.3% from the second quarter of 2001. The second quarter of 2002 had one more workday, those days not falling on a weekend or holiday, than the second quarter of 2001. Containerboard volume to external domestic and export customers increased 6.8%.

According to Pulp & Paper Week, average linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $415 and $370, respectively, per ton for the three months ended June 30, 2002. This compares to $452 and $408, respectively, per ton for the three months ended June 30, 2001.

Income Before Interest Expense and Taxes

Operating income decreased by $33.0 million, or 47.4%, for the three months ended June 30, 2002 compared to the three months ended June 30, 2001. The decrease in operating income was primarily attributable to the lower sales prices described above.

Gross profit decreased $28.5 million, or 25.4%, for the three months ended June 30, 2002 from the comparable period in 2001. Gross profit as a percentage of sales declined from 24.0% of sales to 18.7% of sales in the current quarter due primarily to the lower sales prices described above.

Selling and administrative expenses increased $2.5 million, or 7.8%, for the three months ended June 30, 2002 compared to the three months ended June 30, 2001. The increase was primarily the result of increased salary and other general selling related expenses.

Corporate overhead for the three months ended June 30, 2002 increased by $0.3 million, or 3.1%, from the comparable period in 2001. The increase was primarily due to annual merit salary increases.

Interest Expense and Income Taxes

Interest expense decreased by $1.6 million, or 8.3%, for the three months ended June 30, 2002 from the three months ended June 30, 2001, primarily as a result of prepayments PCA made in 2001 and during the first quarter of 2002 on the term loans under its senior credit facility and the receivables credit facility.

PCA's effective tax rate was 39.8% for the three months ended June 30, 2002 and 38.3% for the comparable period in 2001. The tax rate is higher than the federal statutory rate of 35% due to state income taxes.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Net Sales

Net sales decreased by $59.5 million, or 6.5%, for the six months ended June 30, 2002 from the comparable period in 2001. The decrease was primarily the result of decreased sales prices of containerboard and corrugated products.

Total corrugated products volume increased 2.2% for the six months ended June 30, 2002 from the comparable period in 2001. On a comparable shipments-per-workday basis, corrugated products volume was up 3.0% from the first half of 2001. The first half of 2002 had one less workday, those days not falling on a weekend or holiday, than the first half of 2001. Containerboard volume to external domestic and export customers increased 4.3%.

According to Pulp & Paper Week, average linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $416 and $372, respectively, per ton for the six months ended June 30, 2002. This compares to $456 and $417, respectively, per ton for the six months ended June 30, 2001.

Income Before Interest Expense and Taxes

Operating income decreased by $65.8 million, or 48.5%, for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. The decrease in operating income was primarily attributable to the lower sales prices described above.

Gross profit decreased $61.3 million, or 27.9%, for the six months ended June 30, 2002 from the comparable period in 2001. Gross margins decreased to 18.3% of sales in the first half of 2002 from 23.8% of sales in the first half of 2001 due primarily to the lower sales prices described above.

Selling and administrative expenses increased $3.8 million, or 6.1%, for the six months ended June 30, 2002 compared to the six months ended June 30, 2001. The increase was primarily the result of increased salary and other general selling related expenses.

Corporate overhead for the six months ended June 30, 2002 decreased by $0.3 million, or 1.3%, from the comparable period in 2001. The decrease was primarily due to reduced expenses related to treasury, legal and investor relations matters.

Interest Expense and Income Taxes

Interest expense decreased by $3.9 million, or 10.2%, for the six months ended June 30, 2002 from the six months ended June 30, 2001, primarily as a result of prepayments PCA made in 2001 and during the first quarter of 2002 on the term loans under its senior credit facility and the receivables credit facility.

PCA's effective tax rate was 39.8% for the six months ended June 30, 2002 and 38.9% for the comparable period in 2001. The tax rate is higher than the federal statutory rate of 35% due to state income taxes.

Liquidity and Capital Resources

Cash flow provided by operating activities decreased $43.0 million, or 34.1%, for the six months ended June 30, 2002 from the comparable period in 2001. The decrease was primarily due to decreases in net income and deferred income taxes.

Net cash used for investing activities decreased $12.3 million, or 19.2%, for the six months ended June 30, 2002 compared to the six months ended June 30, 2001, primarily as a result of decreased additions to property, plant and equipment and one business acquisition in the second quarter of 2001.

Net cash used for financing activities decreased $29.9 million, or 55.1%, for the six months ended June 30, 2002 from the comparable period in 2001. The decrease was primarily attributable to decreased debt prepayments, partially offset by an increase in expenditures to repurchase PCA common stock.

The following table provides the outstanding balance and the weighted average interest rate as of June 30, 2002 for each of PCA's outstanding term loans, revolving credit facility and receivables credit facility:

	Balance at June 30, 2002	Weighted Average Interest Rate

Borrowing Arrangement *(in thousands)*			
Term Loan A	$	78,815	6.21%
Term Loan B		35,185	6.71%
Senior Revolving Credit Facility:			
Revolver—Eurodollar		—	N/A
Revolver—Base Rate		—	N/A
Receivables Credit Facility		113,000	4.25%
Total	$	227,000	5.31%

In addition to the term loans and other borrowing arrangements noted above, PCA has $550 million of $9^{5}/8$% senior subordinated notes due 2009.

The borrowings under the senior revolving credit facility are available to fund PCA's working capital requirements, capital expenditures and other general corporate purposes. The senior revolving credit facility will terminate in 2006. The Term Loan A must be repaid in quarterly installments from March 2004 through June 2006. The Term Loan B must be repaid in quarterly installments from June 2004 through June 2007. The receivables credit facility will terminate in November 2003. As of June 30, 2002, PCA had $150.0 million in availability and no borrowings outstanding under the senior revolving credit facility. Under the receivables credit facility, PCA had $37.0 million in availability and $113.0 million outstanding as of June 30, 2002.

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

- incur additional indebtedness,
- pay dividends or make certain other restricted payments,
- consummate certain asset sales,
- 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 corporate and operating activities.

In addition, we must maintain minimum debt service, minimum net worth and maximum leverage ratios under the senior credit facility. A failure to comply with the restrictions contained in the 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 $105.0 million in capital expenditures in 2002. These expenditures will be used primarily for maintenance capital, cost reduction, business growth, and environmental compliance. As of June 30, 2002, PCA had spent $52.7 million for capital expenditures and had committed to spend an additional $42.3 million.

PCA believes that cash generated from operations will be adequate to meet its anticipated debt service requirements, capital expenditures and working capital needs for the next 12 months, and that cash generated from operations and amounts available under the senior revolving credit facility will be adequate to meet its anticipated debt service requirements, capital expenditures and working capital needs 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

PCA currently has interest rate collar agreements that protect against rising interest rates and simultaneously guarantee a minimum interest rate. The notional amount of these collar agreements was $175.0 million as of June 30, 2002. The weighted average floor of the interest rate collar agreements is 5.02% and the weighted average ceiling of the interest rate collar agreements is 6.85%. The interest rate on approximately 77% of PCA's variable-rate debt as of June 30, 2002 was capped. PCA receives payments under the collar agreements if the applicable interest rate (LIBOR or commercial paper) exceeds the ceiling. Correspondingly, PCA makes payments under the collar agreements if the applicable interest rate drops below the floor. In both cases, the amounts received or paid are based upon the notional amount and the difference between the actual interest rate and the ceiling or floor rate. The weighted average duration of the interest rate collar agreements is approximately 10 months.

As a result of the collar agreements noted above and the interest rate environment, a one percent increase in interest rates would result in an increase in interest expense and a corresponding decrease in income before taxes of approximately $0.5 million annually. As of June 30, 2002, the weighted average LIBOR rate was 1.86% and the weighted average commercial paper rate was 1.86%. The effect of an interest rate change to the fair market value of the outstanding debt is insignificant. This analysis does not consider any other impact on fair value that could exist in such an interest rate environment. In the event of a change in interest rates, management could take actions to further 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

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 recently 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 detailed 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, 2001.

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. During the second quarter of 2002, the Company recorded an additional $1.1 million related to customers who entered into bankruptcy proceedings during the second quarter. For all other customers, we recognize reserves for bad debts based on the length of time the receivables are past due ranging from 0.1% for current amounts to 20% for amounts more than 90 days past due based on our historical experience. If 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 variable rate 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.

To hedge interest rate risk, interest rate collars are used to protect against rising interest rates and simultaneously guarantee minimum interest rates related to our variable rate debt. These instruments are valued using the market standard methodology of netting the discounted future cash receipts and cash payments. The cash receipts and cash payments are based on an expectation of future interest

rates derived from observed market interest rate curves. We have not changed our methods of calculating these fair values or developing the underlying assumptions. The values of these derivatives will change over time as cash receipts and payments are made and as market conditions change. Information about the fair values, notional amounts, and contractual terms of these instruments can be found in Notes 6 and 7 to our audited consolidated financial statements included in our most recent annual report on Form 10-K and the section titled "Quantitative and Qualitative Disclosures About Market Risk" included elsewhere in this report.

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 in 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

The estimated landfill closure and postclosure maintenance costs expected to be incurred upon and subsequent to the closing of existing operating landfill areas are accrued based on the landfill capacity used to date. Amounts are estimates using current technologies for closure and monitoring and are not discounted.

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.

Debt Covenants

Our senior credit facility requires us to maintain minimum debt service, minimum net worth, and maximum leverage ratios as discussed in Note 6 to our audited consolidated financial statements included in our most recent annual report on Form 10-K. As of June 30, 2002, we were in compliance with these covenants. A failure to comply with the restrictions contained in the senior credit facility could lead to an event of default, which could result in an acceleration of such indebtedness. Due to cross-default provisions contained in the notes indenture and the receivables credit facility, all of our debt could become due in full if any of our debt is in default. Given our results of our operations for the six months ended June 30, 2002 and our projections for future operating results, defaulting on our debt covenants is unlikely absent any material negative event affecting the U.S. economy as a whole. We also believe our lenders would provide us waivers if necessary. However, our expectations of future operating results and continued compliance with our debt covenants cannot be assured and we cannot control our lenders. If our projections of future operating results are not achieved and our debt is placed in default, we could experience a material adverse impact on our reported financial position and results of operations.

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 discounted cash flows was required.

Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements include statements about our future financial condition, our industry and our business strategy. Statements that contain words such as "anticipate," "believe," "expect," "intend," "estimate," "hope" or similar expressions, are forward-looking statements. These forward-looking statements are based on the current expectations of PCA. Because forward-looking statements involve inherent risks and uncertainties, the plans, actions and actual results of PCA could differ materially. Among the factors that could cause plans, actions and results to differ materially from PCA's current expectations are those identified under the caption "Risk Factors" in PCA's Registration Statements on Form S-4 and Form S-1, each filed with the Securities and Exchange Commission and available at the SEC's website at "www.sec.gov".

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.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

On May 14, 1999, PCA was named as a defendant in a Consolidated Class Action Complaint which alleged a civil violation of Section 1 of the Sherman Act. The suit, captioned *Winoff Industries, Inc. v. Stone Container Corporation*, MDL No. 1261 (E.D. Pa.), names PCA as a defendant based solely on the allegation that PCA is a successor to the interests of Tenneco Packaging Inc. and Tenneco Inc., both of which were also named as defendants in the suit, along with nine other linerboard manufacturers. The complaint alleges that the defendants, during the period from 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 artificially to increase prices of corrugated containers. The plaintiffs have moved to certify a class of all persons in the United States who purchased corrugated containers directly from any defendant during the above period, and seek treble damages and attorneys' fees on behalf of the purported class. The Court granted plaintiffs' motion on September 4, 2001, but modified the proposed class to

exclude those purchasers whose prices were "not tied to the price of linerboard." The defendants have appealed the Court's class certification decision, and that appeal is currently pending before the Court of Appeals for the Third Circuit. The case is currently set for trial in January 2003. PCA believes that the plaintiffs' allegations have no merit and intends to defend against the suit vigorously. PCA does not believe that the outcome of this litigation should have a material adverse effect on its financial position, results of operations, or cash flow.

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

Item 2. Changes in 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 and Reports on Form 8-K.

Exhibit 99.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. §1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURE

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: August 13, 2002

QuickLinks

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Packaging Corporation of America Notes to Condensed Consolidated Financial Statements (unaudited) June 30, 2002

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Item 3. Quantitative and Qualitative Disclosures about Market Risk.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.
Item 2. Changes in Securities and Use of Proceeds.
Item 3. Defaults Upon Senior Securities.
Item 4. Submission of Matters to a Vote of Security Holders.
Item 5. Other Information.
Item 6. Exhibits and Reports on Form 8-K.

SIGNATURE

Exhibit 99.1

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL 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, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report of Packaging Corporation of America (the "Company") on Form 10-Q for the period ended June 30, 2002 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

August 13, 2002

I, Richard B. West, hereby certify pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Quarterly Report of Packaging Corporation of America (the "Company") on Form 10-Q for the period ended June 30, 2002 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

August 13, 2002

QuickLinks

Exhibit 99.1