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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2001

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**  
(I.R.S. Employer  
Identification No.)

**1900 West Field Court, Lake Forest, Illinois**  
(Address of Principal Executive Offices)

**60045**  
(Zip Code)

Registrant's telephone number, including area code **(847) 482-3000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
<b>Common Stock, \$0.01 par value</b>	<b>New York Stock Exchange</b>

Securities registered pursuant to Section 12(g) of the Act:

**None**

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

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

At March 18, 2002, the aggregate market value of the Registrant's common equity held by nonaffiliates was approximately \$1,177,402,219. This calculation of market value has been made for the purposes of this report only and should not be considered as an admission or conclusion by the Registrant that any person is in fact an affiliate of the Registrant.

On March 18, 2002, there were 105,423,918 shares of Common Stock outstanding.

### Documents Incorporated by Reference

Specified portions of the Proxy Statement for the Registrant's 2002 Annual Meeting of Shareholders are incorporated by reference to the extent indicated in Part III of this Form 10-K.

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## PART I

### Item 1. BUSINESS

#### General

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity as reported in the Pulp & Paper 2001 North American Fact Book. With 2001 net sales of \$1.8 billion, PCA produced about 2.1 million tons of containerboard, about 82% of which was consumed in our corrugated products manufacturing plants, and shipped about 26.1 billion square feet of corrugated products.

In 2001, we produced about 1.3 million tons of kraft linerboard at our mills located in Counce, Tennessee and Valdosta, Georgia. We also produced about 0.8 million tons of semi-chemical corrugating medium at our mills located in Tomahawk, Wisconsin and Filer City, Michigan. We currently lease the cutting rights to approximately 145,000 acres of timberland located near our Counce and Valdosta mills. We also have supply agreements on about 600,000 of the 800,000 acres of timberland we sold during 1999 and 2000.

Our converting operations produce a wide variety of corrugated packaging products, including conventional shipping containers used to protect and transport manufactured goods. We also produce multi-color boxes and displays with strong visual appeal that help to merchandise the packaged product in retail locations. Finally, we are a large producer of meat boxes and wax-coated boxes for the agricultural industry.

#### Corporate Developments

On April 12, 1999, Pactiv Corporation, formerly known as Tenneco Packaging Inc., a wholly owned subsidiary of Tenneco Inc., sold its containerboard and corrugated products business to PCA, an entity formed by Madison Dearborn Partners, LLC, a private equity investment firm, in January 1999, for \$2.2 billion, consisting of \$246.5 million in cash, the assumption of \$1,760.0 million of debt incurred by Pactiv immediately prior to the contribution, and a 45% common equity interest in PCA valued at \$193.5 million. PCA Holdings LLC, an entity organized and controlled by Madison Dearborn, acquired the remaining 55% common equity interest in PCA for \$236.5 million in cash, which was used to finance in part the transactions.

The financing of the transactions consisted of (1) borrowings under a new \$1,469.0 million senior credit facility for which J.P. Morgan Securities Inc. and BT Alex. Brown Incorporated (the predecessor to Deutsche Banc Alex. Brown) were co-lead arrangers, (2) the offering of \$550.0 million of 9<sup>5</sup>/<sub>8</sub>% senior subordinated notes due 2009, and \$100.0 million of 12<sup>3</sup>/<sub>8</sub>% senior exchangeable preferred stock due 2010, (3) a cash equity investment of \$236.5 million by PCA Holdings LLC and (4) an equity investment by Pactiv valued at \$193.5 million. As required by their terms, the \$550.0 million of senior subordinated notes and \$100.0 million of senior exchangeable preferred stock issued in the April 12, 1999 transactions were exchanged for publicly registered securities in the same amounts in a registered exchange offer completed in October 1999.

The senior credit facility was entered into to finance in part the transactions and to pay related fees and expenses and to provide future borrowings to PCA for general corporate purposes, including working capital. The senior credit facility initially consisted of three term loan facilities in an original aggregate principal amount of \$1,219.0 million and a revolving credit facility with up to \$250.0 million in availability. Effective December 14, 1999, PCA elected to reduce its availability under the revolving credit facility from \$250.0 million to \$150.0 million.

On January 28, 2000, PCA became a publicly-traded company with the initial public offering of its common stock. In the offering, Pactiv sold 35,000,000 shares and PCA sold 11,250,000 new shares of common stock, both at an offering price of \$12.00 per share. PCA used its net proceeds to redeem all of the

PCA completed the refinancing of its \$735.0 million senior secured debt and \$150.0 million senior secured revolving credit facility on June 29, 2000. Completion of the refinancing eliminated Term Loan C, and reduced PCA's average effective interest rate on its senior secured term debt by approximately 100 basis points. PCA's total borrowings under the senior credit facility as of December 31, 2001 consisted of \$119.0 million of term loans. No amounts were outstanding under the senior revolving credit facility as of that date.

On November 29, 2000, PCA established an on-balance sheet securitization program for its trade accounts receivable. To effectuate this program, PCA formed a wholly-owned limited purpose subsidiary, Packaging Credit Company, LLC, or PCC, which in turn formed a wholly-owned, bankruptcy-remote, special-purpose subsidiary, Packaging Receivables Company, LLC, or PRC, for the purpose of acquiring receivables from PCC. Both of these entities are included in the consolidated financial statements of PCA. Under this program, PCC purchases on an ongoing basis all of the receivables of PCA and sells such receivables to PRC. PRC and lenders established a \$150.0 million receivables-backed revolving credit facility through which PRC obtains funds to purchase receivables from PCC. The receivables purchased by PRC are and will be solely the property of PRC. In the event of a liquidation of PRC, the creditors of PRC would be entitled to satisfy their claims from PRC's assets prior to any distribution to PCC or PCA. Credit available under the receivables credit facility is on a borrowing-base formula. As a result, the full amount of the facility may not be available at all times. As of December 31, 2001, \$126.0 million was outstanding and \$24.0 million was available for additional borrowing under the receivables credit facility. The highest outstanding principal balance under the receivables credit facility during fiscal 2001 was \$142.0 million.

During the first half of 2001, Pactiv sold approximately 6,160,240 shares of PCA common stock which represented its remaining ownership interest.

## Industry Overview

According to the Fibre Box Association, the value of industry shipments of corrugated products was over \$23 billion in 2001.

The primary end-use markets for corrugated products are shown below:

Food, beverages and agricultural products	41.3%
Paper and fiber products	21.0%
Petroleum, plastic, synthetic and rubber products	11.1%
Toys, amusement, sporting and athletic goods	7.7%
Glass, pottery, fabricated metal and metal containers	5.3%
Electrical and electronic machinery and appliances	3.3%

Converting plants tend to be located in close proximity to customers to minimize freight costs. The corrugated products industry consists of an estimated 676 companies in the United States.

Containerboard, which includes both linerboard and corrugating medium, is the principal raw material used to manufacture corrugated products. Linerboard is used as the inner and outer facings, or liners, of corrugated products. Corrugating medium is fluted and laminated to linerboard in corrugator plants to produce corrugated sheets. The sheets are subsequently printed, cut, folded and glued in corrugator plants or sheet plants to produce corrugated products.

Containerboard may be manufactured from both softwood and hardwood fibers, as well as from recycled fibers from used corrugated and waste from converting operations. Kraft linerboard is made predominantly from softwoods like pine. Semi-chemical corrugating medium is made from hardwoods such as oak. The finished paper product is wound into large rolls, which are slit to size as required by converters, and shipped to them.

Linerboard is made in a range of grades or basis weights. The most common basis weight for linerboard is 42 lb., although linerboard is produced in weights that vary from under 26 lb. to over 90 lb. Basis weight represents the weight in pounds per thousand square feet of linerboard. Producers also market linerboard by performance characteristics, appearance and color. The following table describes different product weight, performance and color characteristics:

Category	Products	Description
Weights (lb./1,000 sq. ft.)	26-38 lb. 41-56 61-90 >90	Lightweights Middleweights Heavyweights Super heavyweights
Performance	High ring crush Tare weight Wet strength	Stacking or compression strength Minimal variations in basis weight Strength while wet
Color	Mottled white White top Full bleached	Bleached pulp applied to unbleached sheet; mottled appearance Even, white surface appearance Solid white throughout

Historically, pricing for containerboard has reflected changes in containerboard supply that resulted from major capacity additions, as well as changes in demand.

## PCA Operations and Products

Our two linerboard mills can manufacture a broad range of linerboard grades ranging from 26 lb. to 96 lb. Our two semi-chemical corrugating medium mills can manufacture grades ranging in weight from 21 lb. to 47 lb. All four of our mills have completed an extensive independent review process to become ISO 9002 certified. ISO 9002 is an international quality certification that verifies a facility maintains and follows stringent procedures for manufacturing, sales and customer service.

**Counce.** Our Counce, Tennessee mill is one of the largest linerboard mills in the United States. Its production capacity is approximately 980,000 tons per year. In 2001, we produced approximately 952,000 tons of kraft linerboard on two paper machines at Counce. We produced a broad range of basis weights from 26 lb. to 96 lb. The mill also produces a variety of performance and specialty grades of linerboard including high-ring crush and wet strength.

**Valdosta.** Our Valdosta, Georgia mill is a kraft linerboard mill that has a production capacity of approximately 406,000 tons per year. In 2001, our single paper machine at Valdosta produced approximately 391,000 tons of kraft linerboard. Valdosta primarily produces light to middleweight linerboard ranging from 35 lb. to 56 lb., and heavyweight/super heavyweight linerboard ranging from 61 lb. to 96 lb.

**Tomahawk.** Our Tomahawk, Wisconsin mill is the second largest corrugating medium mill in the United States with production capacity of 547,000 tons per year. In 2001, we produced approximately 528,000 tons of semi-chemical corrugating medium at Tomahawk using three paper machines, one of which is among the largest corrugating medium machines in the world. These machines produce a broad range of basis weights from 21 lb. to 47 lb. Our Tomahawk mill also produces a variety of performance and specialty grades of corrugating medium. This includes high ring crush, wet strength, tare weight and super heavyweight.

**Filer City.** Our Filer City, Michigan mill is a semi-chemical corrugating medium mill currently operating with two machines with a production capacity of 292,000 tons. In 2001, we produced approximately 254,000 tons of corrugating medium on two paper machines at Filer City. In July 1998,

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we shut down one machine at Filer City. Mill production capacity at Filer City is 362,000 tons a year if we run all three paper machines. Filer City produces a range of corrugating medium grades in basis weights from 21 lb. to 40 lb.

We operate 65 corrugated products plants, a supply services group, a technical and development center and five graphic design centers. Of the 65 corrugated products plants, 38 have a corrugator on site and manufacture both combined sheets and finished products. The remaining 27 corrugated products plants purchase combined sheets and create finished products. Two other small specialty facilities include a collating and distribution packaging center, as well as a machine rebuild facility. The five graphic design centers are located in Westmont, Illinois; Cincinnati, Ohio; Dallas, Texas; South Brunswick, New Jersey; and South Gate, California.

These graphic design centers were established in response to customers' increasing need for sophisticated, high impact graphics on their corrugated products. Customers are increasingly using special in-store corrugated displays to market their products and are requiring more intricate packaging designs. Our graphic design centers offer state-of-the-art computers and equipment that are capable of 24-hour design turnaround and reduced product delivery times.

Our converting operations are spread throughout the United States. Each corrugator plant serves a market radius that typically averages 150 miles. Our sheet plants are generally located in close proximity to our larger corrugator plants which enables us to offer additional services and converting capabilities such as small volume and quick turnaround items.

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 customers more attractive packaging.

### **Timberland**

We currently lease the cutting rights to approximately 145,000 acres of timberland located near our Counce and Valdosta mills. Virtually all of the acres under cutting rights agreements are located within 100 miles of our mills, which results in lower wood transportation costs and provides a secure source of wood fiber. Most of these leased cutting rights agreements have terms with over 20 years remaining.

During 1999 and 2000, PCA sold about 800,000 acres of timberland. As part of the timberland sale agreements, we entered into supply arrangements covering about 600,000 acres of the total acres sold. We also retained a one-third equity ownership interest in 385,000 acres sold to Southern Timber Venture, LLC in November 2000.

In addition to the timberland we manage ourselves, our Forest Management Assistance Program provides professional forestry assistance to private timberland owners to improve harvest yields and to optimize their harvest schedule. We have managed the regeneration of approximately 120,000 acres by supplying pine seedlings. In exchange for our expertise, we are given the right of first refusal over timber sales from those lands. These private lands include over 185,000 acres of timberland. We expect to harvest approximately 115,000 cords of wood from these forests annually.

PCA also participates in the Sustainable Forestry Initiative, which is organized by the American Forest and Paper Association. This initiative is aimed at ensuring the long-term health and conservation of America's forestry resources. Activities include limiting tree harvest sizes, replanting harvest acreage, participating in flora and fauna research and protecting water streams.

### **Solid Wood and Recycling Facilities**

We own three sawmills located in Ackerman and Fulton, Mississippi and Selmer, Tennessee. During 2001, these three sawmills sold approximately 118 million board feet of lumber used to make

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furniture and building products. We also have an air-dry yard operation in Burnsville, Mississippi that holds newly cut lumber while it dries.

We also operate two paper recycling centers, one in Jackson, Tennessee and one in Nashville, Tennessee. These recycling centers collect old corrugated containers, newspapers and other paper that provide a source of recycled fiber to our nearby Counce mill.

## Sales and Marketing

Our corrugated products are sold through a direct sales and marketing organization. Sales representatives and a sales manager at each converting operations facility serve local and regional accounts. Corporate account managers serve large national accounts at multiple customer locations. Additionally, our graphic design centers maintain an on-site dedicated graphics sales force. General marketing support is located at our corporate headquarters.

Our containerboard sales group is responsible for the sale of linerboard and corrugating medium to our corrugator plants, to other domestic customers and to the export market. This group handles order processing for all shipments of containerboard from our mills to our corrugator plants. These personnel also coordinate and execute all containerboard trade agreements with other containerboard manufacturers.

In addition to direct sales and marketing personnel, we utilize support personnel that are new product development engineers and product graphics and design specialists. These individuals are located at both the corrugator plants as well as the graphic design centers.

## Distribution

Our corrugated products are usually delivered by truck due to our large number of customers and their demand for timely service. Shipping costs represent a relatively high percentage of our total costs due to the high bulk of corrugated products. As a result, our converting operations typically service customers within a 150 miles radius.

Containerboard produced in our mills is shipped by rail or truck. Our individual mills do not own or maintain outside warehousing facilities. We do use some third-party warehouses for short-term storage.

## Customers

PCA's corrugated products group sells to over 8,000 customers in over 14,000 locations. About 70% of our corrugated products customers are regional and local accounts, which are broadly diversified across industries and geographic locations. The remaining 30% of our customer base consists primarily of national accounts, or those customers with a national presence. These customers typically purchase corrugated products from several of our box plants throughout the United States.

In 2001, our 65 corrugated products plants consumed approximately 82% of our mills' containerboard production. Of the remaining 18% of our containerboard production that we did not consume at our own converting operations, about 13% is sold to domestic customers, and about 5% is sold to export customers.

## Major Raw Materials Used

**Fiber supply.** Fiber is the single largest cost in the manufacture of containerboard. To reduce our fiber costs, we have invested in processes and equipment to ensure a high degree of fiber flexibility. Our mills have the capability to shift a portion of their fiber consumption between softwood, hardwood and recycled sources. With the exception of our Valdosta mill, our other mills can utilize some recycled fiber in their containerboard production. Our ability to use various types of virgin and recycled fiber helps mitigate the impact of changes in the prices of various fibers.

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**Energy supply.** Energy at the mills is obtained through purchased electricity or through various fuels which are then converted to steam or electricity on-site. Fuel sources include coal, natural gas, oil, internally produced and purchased bark and by-products of the containerboard manufacturing and pulping process. These fuels are burned in boilers to produce steam. Steam turbine generators are used to produce electricity. To reduce our mill energy cost, we have invested in processes and equipment to ensure a high level of purchased fuel flexibility. Approximately 70% of our mill purchased fuel needs are from purchased bark and coal, historically our two lowest cost fuels.

Our two kraft linerboard mills at Counce and Valdosta generate approximately 65% to 70% of their fuel requirements from their own by-products. Approximately 50% of our electricity consumption for the four mills is generated on-site.

## Competition

Corrugated products are produced by about 676 U.S. companies operating approximately 1,450 plants. Most corrugated products are custom manufactured to the customer's specifications. Corrugated producers generally sell within a 150-mile radius of their plants and compete with other corrugated producers in their local market. In fact, the Fibre Box Association tracks industry data by 47 distinct market regions.

The larger, multi-plant integrated companies may also solicit larger, multi-plant customers who purchase for all of their facilities on a consolidated basis. These customers are often referred to as national or corporate accounts.

Corrugated products businesses seek to differentiate themselves through pricing, quality, service, design and product innovation. We compete for both local and national account business and we compete against producers of other types of packaging products. On a national level, our competitors include Four M Corporation, Georgia-Pacific Corporation, International Paper Company, Smurfit-Stone Container Corporation, Temple-Inland Inc. and Weyerhaeuser Company. However, with our strategic focus on local and regional accounts, we believe we compete as much with the smaller, independent converters as with the larger, integrated producers.

The competition relative to PCA's containerboard produced but not consumed at our own corrugated products plants are a number of large, diversified paper companies, including Georgia-Pacific Corporation, International Paper Company, Smurfit-Stone Container Corporation, Temple-Inland Inc. and Weyerhaeuser Company, as well as other regional manufacturers. Containerboard is generally considered a commodity-type product and can be purchased from numerous suppliers.

## Employees

As of December 31, 2001, we had approximately 7,900 employees. Approximately 2,200 of these employees were salaried and approximately 5,700 were hourly. Approximately 75% of our hourly employees are represented by unions. Our unionized employees are represented primarily by the Paper, Allied Industrial, Chemical, Energy Workers International Union, the International Association of Machinists, the Graphic Communications International Union and the United Steel Workers of America (USWA).

Contracts for our unionized mill employees expire between June 2002 and June 2007. Contracts for unionized converting plant employees expire between January 2002 and June 2007. We are currently in negotiations to renew or extend any union contracts that have recently expired or are expiring in the near future.

In 2001, we experienced a one-month strike at the Filer City mill with the USWA. The strike was settled, and the mill's current agreement expires in May 2006. Prior to this incident we had experienced no instances of significant work stoppages in the previous 15 years. We believe we have satisfactory relations with our employees.

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## Environmental Matters

Compliance with environmental requirements is a significant factor in our business operations. We commit substantial resources to maintaining environmental compliance and managing environmental risk. 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. We believe that we are currently in material compliance with 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 those laws. We work diligently to anticipate and budget for the impact of applicable environmental regulations and do not currently expect that future environmental compliance obligations will materially affect our business or financial condition.

In April 1998, the United States Environmental Protection Agency (EPA) finalized a new Clean Air and Water Act commonly referred to as the Cluster Rules, which govern all pulp and paper mill operations, including those at our mills. Over the next several years, the Cluster Rules will affect our allowable discharges of air and water pollutants. As a result, PCA and its competitors are required to incur costs to ensure compliance with these new rules. From 1997 through 2001, we spent approximately \$29.9 million on Cluster Rule compliance to meet Clean Air Act requirements. Total capital costs for environmental matters, including Cluster Rule compliance, were \$8.6 million for 2001. We currently estimate 2002 environmental expenditures will be \$6.8 million, of which \$1.0 million of the expenditures are to meet 2002 to 2005 Cluster Rule requirements. Our current spending projections to complete all Cluster Rule compliance requirements at our four mills is about \$23.6 million from 2002 to 2005.

As is the case with any industrial operation, we have in the past incurred costs associated with the remediation of soil or groundwater contamination. From January 1994 through December 2001, remediation costs at our mills and converting plants totaled about \$2.8 million. We do not believe that any on-going remedial projects are material in nature. As of December 31, 2001, we maintained an environmental reserve of \$3.4 million, which includes funds relating to onsite landfill and surface impoundments as well as on-going and anticipated remedial projects. We believe these reserves are adequate.

We could also incur environmental liabilities as a result of claims by third parties for civil damages, including liability for personal injury or property damage, arising from releases of hazardous substances or contamination. We are not aware of any material claims of this type currently pending against us.

In the transactions, Pactiv agreed to retain all liability for all former facilities and all sites associated with pre-closing offsite waste disposal. Pactiv also retained environmental liability for a closed landfill located near the Filer City mill.

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## Item 2. PROPERTIES

The table below provides a summary of our containerboard mills, the principal products produced and each mill's capacity.

Location	Function	Capacity (tons)
Counce, TN	Kraft linerboard mill	980,000
Valdosta, GA	Kraft linerboard mill	406,000
Tomahawk, WI	Semi-chemical medium mill	547,000
Filer City, MI	Semi-chemical medium mill	362,000*
Total		2,295,000

\* We have operated only two of our three paper machines at Filer City since July 1998, reducing the total productive capacity by 70,000 tons to 292,000 tons, and to 2,225,000 tons for our total mill containerboard system.

Each of the mills is currently subject to a mortgage held by Morgan Guaranty Trust Company of New York on behalf of the lenders under the senior credit facility.

In addition to our mills, we own 42 corrugated products plants. We also own three sawmills, an air-drying yard, one recycling facility, one warehouse and miscellaneous other property, which includes sales offices and woodlands forest management offices. These sales offices and woodlands forest management offices generally have one to four employees and serve as administrative offices. We lease 23 corrugated products plants, five regional design centers, one

recycling facility and numerous other distribution centers, warehouses and facilities. PCA has one leased property outside of the continental United States in Nogales, Mexico. All of our owned real property is subject to a first priority mortgage held by Morgan Guaranty Trust Company of New York on behalf of the lenders under the senior credit facility.

We lease the cutting rights to approximately 145,000 acres of timberland located near our Counce and Valdosta mills. Most of these cutting rights agreements have terms with over 20 years remaining.

We currently lease our executive and administrative offices in Lake Forest, Illinois from Pactiv under a lease expiring in January 2003. We currently believe that our facilities and properties are sufficient to meet our operating requirements for the foreseeable future.

### Item 3. LEGAL PROCEEDINGS

On May 14, 1999, we were 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 us as a defendant based solely on the allegation that PCA is successor to the interests of Tenneco Packaging Inc. and Tenneco Inc., both of which were also named as defendants in the suit, along with nine other linerboard manufacturers. The complaint alleges 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 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. We believe that the plaintiffs' allegations have no merit and intend to defend against the suit vigorously. We do not believe

that the outcome of this litigation should have a material adverse effect on our financial position, results of operations, or cash flow.

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

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

No matters were submitted to a vote of security holders in the fourth quarter of 2001.

## PART II

### Item 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED SHAREHOLDER MATTERS

#### Market for Common Stock; Dividends

PCA's common stock is listed on the New York Stock Exchange under the symbol "PKG". The following table sets forth the high and low sale prices as reported by the New York Stock Exchange during the last year.

	Fiscal Year 2001				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Stock sale prices per share:					
High	\$ 16.50	\$ 16.98	\$ 20.70	\$ 18.64	\$ 20.70
Low	\$ 12.65	\$ 12.85	\$ 14.75	\$ 14.23	\$ 12.65
	Fiscal Year 2000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Stock sale prices per share:					
High	\$ 12.19	\$ 12.75	\$ 13.19	\$ 16.81	\$ 16.81
Low	\$ 9.25	\$ 9.88	\$ 10.25	\$ 10.88	\$ 9.25

As of March 1, 2002, there were 72 holders of record of PCA's common stock.

PCA has never paid dividends on the common stock, and PCA currently has no plans to do so. The payment of any future dividends will be determined by PCA's Board of Directors in light of conditions then existing, including PCA's earnings, financial condition and capital requirements, restrictions in financing agreements, business conditions and other factors. Under the terms of the agreements governing our outstanding indebtedness, we are restricted in the amount of dividends we can pay on our common stock. In addition, under Delaware law, we are prohibited from paying any dividends unless we have "capital surplus" or "net profits" available for this purpose, as these terms are defined under Delaware law.

No equity securities of PCA were sold by PCA during fiscal year 2001 which were not registered under the Securities Act of 1933.

**Item 6. SELECTED FINANCIAL DATA**

The following table sets forth the selected historical financial and other data of PCA and the containerboard and corrugated products business of Pactiv Corporation (the "Group"). The selected historical financial and other data as of and for the years ended December 31, 1997 and 1998, and for the period from January 1, 1999 to April 11, 1999, was derived from the audited combined financial statements of the Group. The historical financial data as of December 31, 1999 and for the period from April 12, 1999 to December 31, 1999, and for the years ended December 31, 2000 and 2001 has been derived from the audited consolidated financial statements of PCA included elsewhere in this report. The information contained in the following table also should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the historical consolidated financial statements of PCA including the notes thereto, contained elsewhere in this report.

	Group			PCA(1)		
	Year Ended Dec. 31, 1997	Year Ended Dec. 31, 1998	Jan. 1, 1999 Through April 11, 1999	April 12, 1999 Through Dec. 31, 1999	Year Ended Dec. 31, 2000	Year Ended Dec. 31, 2001
<i>(In thousands, except per share data)</i>						
<b>Statement of Income Data:</b>						
Net sales	\$ 1,482,889	\$ 1,643,823	\$ 453,207	\$ 1,317,342	\$ 1,921,868	\$ 1,789,956
Income (loss) before cumulative effect of accounting change and extraordinary item	\$ 27,390	\$ 71,439	\$ (128,599)	\$ 47,397	\$ 172,961	\$ 107,522
Cumulative effect of accounting change	—	—	—	—	—	(495)
Extraordinary item	—	—	(6,327)	(6,897)	(11,060)	(609)
Net income (loss)	27,390	71,439	(134,926)	40,500	161,901	106,418
Preferred dividends and accretion of preferred stock issuance costs	—	—	—	(9,296)	(18,637)	—
Net income (loss) available to common stockholders	\$ 27,390	\$ 71,439	\$ (134,926)	\$ 31,204	\$ 143,264	\$ 106,418
<b>Basic earnings per share(2):</b>						
Income (loss) before cumulative effect of accounting change and extraordinary item	\$ .29	\$ .76	\$ (1.36)	\$ .41	\$ 1.47	\$ 1.01
Cumulative effect of accounting change	—	—	—	—	—	—
Extraordinary item	—	—	(.07)	(.07)	(.10)	(.01)
Net income (loss) per common share	\$ .29	\$ .76	\$ (1.43)	\$ .34	\$ 1.37	\$ 1.00
<b>Diluted earnings per share(2):</b>						
Income (loss) before cumulative effect of accounting change and extraordinary item	\$ .29	\$ .76	\$ (1.36)	\$ .39	\$ 1.43	\$ .99
Cumulative effect of accounting change	—	—	—	—	—	—
Extraordinary item	—	—	(.07)	(.07)	(.10)	(.01)
Net income (loss) per common share	\$ .29	\$ .76	\$ (1.43)	\$ .32	\$ 1.33	\$ .98
Weighted average common shares outstanding	94,600	94,600	94,600	92,108	104,890	106,277

**Balance Sheet Data:**

Total assets	\$ 1,317,263	\$ 1,367,403	\$ 2,391,089	\$ 2,153,208	\$ 1,942,112	\$ 1,971,780
Total long-term obligations(3)	27,864	17,552	1,760,466	1,432,553	869,414	795,217
Shareholders equity/interdivision account	854,060	908,392	156,697	416,699	687,424	769,834

1) There was no activity for PCA from January 25, 1999, its date of inception, through April 11, 1999.



2) Earnings per share through April 11, 1999 has been calculated using the historical earnings of the Group and the number of common shares resulting from the closing of the acquisition on April 12, 1999 (94,600,000 common shares after giving effect to the 220-for-one stock split). For the PCA historical period from April 12, 1999 to December 31, 1999, earnings available to common stockholders includes a reduction for \$9,296 of preferred stock dividends. For the year ended December 31, 2000, earnings available to common stockholders includes reductions of \$2,371 of preferred stock dividends and \$16,266 for the redemption of PCA's 12<sup>3</sup>/<sub>8</sub>% preferred stock. PCA did not declare any dividends on its common shares in 1999, 2000 or 2001.

For all periods presented through April 11, 1999, basic and diluted earnings per share are the same because there are no potentially dilutive other securities. For the PCA historical period from April 12, 1999 to December 31, 1999, and for the years ended December 31, 2000 and 2001, diluted earnings per share includes the dilutive effect of the portion of the 6,576,460 options granted in June 1999 and the 1,059,700 options granted in 2000 that remained unexercised, and the dilutive effect of the 953,350 options granted in 2001. This dilutive effect is calculated using the treasury stock method.

3) Total long-term obligations include long-term debt, the current maturities of long-term debt and redeemable preferred stock. The amount excludes amounts due to Pactiv or other Tenneco affiliates as part of the Group's interdivision account or other financing arrangement.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements about us within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are subject to risks and uncertainties. Forward-looking statements include information concerning our future financial condition and business strategy. Statements that contain words such as "believes," "expects," "anticipates," "intends," "prospect," "estimates," "should," "may" or similar expressions are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. While we believe these expectations and projections are reasonable, forward-looking statements are inherently subject to risks, uncertainties and assumptions about us.

The following discussion of historical results of operations and financial condition should be read in conjunction with the audited financial statements and the notes thereto which appear elsewhere in this report.

### Overview

In connection with the April 12, 1999 transactions, PCA acquired the containerboard and corrugated products business of Pactiv Corporation (the "Group"), formerly known as Tenneco Packaging Inc., a wholly owned subsidiary of Tenneco, Inc. From its formation in January 1999 and through the closing of the acquisition on April 12, 1999, PCA did not have any significant operations. Accordingly, the historical financial results for periods prior to April 12, 1999 described below are those of the Group.

The Group operated prior to April 12, 1999 as a division of Pactiv, and not as a separate, stand-alone entity. As a result, the historical financial information included in this report does not necessarily reflect what the Group's financial position and results of operations would have been had the Group been operated as a separate, stand-alone entity during the periods prior to April 12, 1999.

The April 12, 1999 acquisition was accounted for using historical values for the contributed assets. Purchase accounting was not applied because, under the applicable accounting guidance, a change of control was deemed not to have occurred as a result of the participating veto rights held by Pactiv after the closing of the transactions under the terms of the stockholders agreement entered into in connection with the transactions.

### General

Containerboard demand is dependent upon both domestic demand for corrugated products and linerboard export activity.

According to Pulp & Paper Week, after giving effect to price decreases in 2001, average prices in December 2001 for linerboard and corrugating medium were 12% and 15% lower, respectively, than December 2000 prices.

Pulp & Paper Week, in its February 18, 2002 publication, reported that prices for linerboard and corrugating medium decreased \$5 per ton, or 1%, and \$10 per ton, or 3%, respectively, compared to December 2001 levels. The March 18, 2002 Pulp & Paper Week Publication reported that prices remained unchanged from February 2002 levels.

## Results of Operations

The historical results of operations of the Group and PCA are set forth below:

	Group		PCA		
	For the Period From January 1, 1999 Through April 11, 1999	For the Period From April 12, 1999 Through December 31, 1999	For the Pro Forma Year Ended December 31, 1999	For the Year Ended December 31, 2000	For the Year Ended December 31, 2001
<i>(In millions)</i>					
Net Sales	\$ 453.2	\$ 1,317.3	\$ 1,770.5	\$ 1,921.9	\$ 1,790.0

Operating Income (Loss)	\$	(212.1)	\$ 192.2	\$ 218.2	\$ 404.8	\$ 249.5
Interest Expense		(0.2)	(107.6)	(151.7)	(117.6)	(74.1)
<hr/>						
Income (Loss) Before Taxes, Cumulative Effect of Accounting Change and Extraordinary Item		(212.3)	84.6	66.5	287.2	175.4
Provision for Income Taxes		83.7	(37.2)	(30.3)	(114.2)	(67.9)
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Income (Loss) Before Cumulative Effect of Accounting Change and Extraordinary Item		(128.6)	47.4	36.2	173.0	107.5
Cumulative Effect of Accounting Change		—	—	—	—	(0.5)
Extraordinary Item		(6.3)	(6.9)	(6.9)	(11.1)	(0.6)
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Net Income (Loss)		(134.9)	40.5	29.3	161.9	106.4
Preferred Dividends and Accretion of Preferred Stock Issuance Costs		—	(9.3)	(12.8)	(18.6)	—
<hr/>						
Net Income (Loss) Available to Common Shareholders	\$	(134.9)	\$ 31.2	\$ 16.5	\$ 143.3	\$ 106.4
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### Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

#### Net Sales

Net sales decreased by \$131.9 million, or 6.9%, for the year ended December 31, 2001 from the year ended December 31, 2000. The decrease was primarily the result of decreased sales prices, reduced volume of containerboard sold to third parties, and slightly lower corrugated products volume.

Total corrugated products volume decreased 1.1% to 26.1 billion square feet in 2001 compared to 26.4 billion square feet in 2000. On a comparable shipment-per-workday basis, corrugated products volume decreased 1.6% in 2001 from 2000. The larger percentage decrease was due to the fact that 2001 had one more workday, those days not falling on a weekend or holiday, than 2000. Containerboard volume to external domestic and export customers decreased 11.2% to 520,000 tons for the year ended December 31, 2001 from 586,000 tons in the comparable period of 2000.

According to Pulp & Paper Week, average industry mid-point linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were \$444 and \$404, respectively, per ton in 2001. This compares to \$468 and \$446, respectively, per ton in 2000.

#### Income Before Interest Expense and Income Taxes (Operating Income)

Operating income decreased by \$95.0 million, or 27.6%, for the year ended December 31, 2001 compared to 2000. The decrease was the result of decreased sales prices, lower volume of containerboard sold to third parties, and slightly lower corrugated products volume. Operating income for 2000 excludes a fourth quarter gain on timberland sales of \$60.4 million.

Gross profit decreased \$85.5 million, or 17.0%, for the year ended December 31, 2001 from the year ended December 31, 2000. Gross profit as a percentage of sales declined from 26.2% of sales in 2000 to 23.3% of sales in the current year primarily due to the sales price decreases described above.

Corporate overhead for the year ended December 31, 2001, increased by \$0.4 million, or 0.9%, from the year ended December 31, 2000.

Selling and administrative expenses increased \$5.3 million, or 4.4%, for the year ended December 31, 2001 from the comparable period in 2000. The increase was primarily the result of increased salary and other general selling related expenses.

#### Interest Expense and Income Taxes

Interest expense decreased by \$43.7 million, or 37.1%, for the year ended December 31, 2001 from the comparable period in 2000, primarily due to prepayments PCA made on its term loans under the senior credit facility.

PCA's effective tax rate was 38.7% for the year ended December 31, 2001 and 39.8% for the year ended December 31, 2000. The tax rate is higher than the federal statutory rate of 35.0% due to state income taxes.

### Year Ended December 31, 2000 Compared to Pro Forma Year Ended December 31, 1999

#### Net Sales

Net sales increased by \$151.3 million, or 8.5%, for the year ended December 31, 2000 from the pro forma year ended December 31, 1999. The increase was primarily the result of increased sales prices of corrugated products and containerboard to third parties.

Corrugated products volume was essentially flat in 2000 compared to record volume in 1999 of 26.6 billion square feet. Containerboard volume to external domestic and export customers increased 2.6% to 586,000 tons for the year ended December 31, 2000 from 572,000 tons in the comparable period of 1999.

According to Pulp & Paper Week, average industry mid-point linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were \$468 and \$446, respectively, per ton in 2000. This compares to \$401 and \$361, respectively, per ton in 1999.

### ***Income Before Interest Expense and Income Taxes (Operating Income)***

Operating income increased by \$138.4 million, or 67.2%, for the year ended December 31, 2000 compared to pro forma 1999. The increase was the result of increased sales prices of corrugated products and containerboard to third parties and reduced corporate overhead expenses. Operating income results for both years exclude fourth quarter gains on timberland sales of \$60.4 million and \$12.2 million for 2000 and 1999, respectively.

Gross profit increased \$144.0 million, or 40.1%, for the year ended December 31, 2000 from the pro forma year ended December 31, 1999. Gross profit as a percentage of sales improved from 20.3% of sales in 1999 to 26.2% of sales in 2000 primarily due to the sales price increases described above.

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Corporate overhead for the year ended December 31, 2000, decreased by \$2.5 million, or 5.8%, from the pro forma year ended December 31, 1999. The reduction primarily reflects the difference in cost between the overhead charged to the Group by Tenneco and Pactiv and overhead expenses incurred by PCA as a stand-alone entity. Corporate overhead for the pro forma year ended December 31, 1999 included three and one-half months of corporate overhead, through April 11, 1999, charged by Tenneco and Pactiv and eight and one-half months of corporate overhead expenses incurred by PCA as a stand-alone entity.

Selling and administrative expenses increased \$8.6 million, or 7.8%, for the year ended December 31, 2000 from the comparable period in 1999. The increase was primarily the result of increased salary and other general selling related expenses.

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

Interest expense decreased by \$34.0 million, or 22.4%, for the year ended December 31, 2000 from the comparable pro forma period in 1999, primarily due to prepayments PCA made on its term loans under the senior credit facility.

PCA's effective tax rate was 39.8% for the year ended December 31, 2000 and 45.5% for the pro forma year ended December 31, 1999. The tax rate is higher than the federal statutory rate of 35.0% due to state income taxes.

### ***Liquidity and Capital Resources***

#### ***Operating Activities***

Cash flow provided by operating activities decreased \$25.6 million, or 7.6%, for the year ended December 31, 2001 from the comparable period in 2000. The decrease was primarily due to lower income.

Cash flow provided by operating activities increased \$127.8 million, or 60.5%, for the year ended December 31, 2000 from the comparable pro forma period in 1999. The increase was primarily due to an increase in net income.

#### ***Investing Activities***

Cash used for investing activities increased by \$252.9 million, or 212.7%, for the year ended December 31, 2001 compared to the year ended December 31, 2000. The change was primarily attributable to a reduction in proceeds from timberland sales of \$247.9 million.

Cash used for investing activities increased by \$31.5 million, or 20.9%, for the year ended December 31, 2000 compared to the pro forma year ended December 31, 1999. The increase was primarily attributable to increased capital expenditures and a reduction in proceeds from timberland sales.

As of December 31, 2001, PCA had commitments for capital expenditures of \$44.5 million. PCA believes operating cash flow from continuing operations will be sufficient to fund these commitments.

#### ***Financing Activities***

Cash used for financing activities decreased by \$355.5 million, or 77.2%, for the year ended December 31, 2001 compared to the year ended December 31, 2000, primarily reflecting decreased prepayments made by PCA on its various debt agreements.

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Cash used for financing activities increased by \$29.4 million, or 6.8%, for the year ended December 31, 2000 compared to the pro forma year ended December 31, 1999, primarily reflecting increased prepayments made by PCA on its term loans under the senior credit facility.

### ***Prior to the 1999 Transactions***

As a division of Pactiv, the Group did not maintain separate cash accounts other than for petty cash. The Group's disbursements for payroll, capital projects, operating supplies and expenses were processed and funded by Pactiv through centrally managed accounts. In addition, cash receipts from the collection of accounts receivable and the sales of assets were remitted directly to bank accounts controlled by Pactiv.

Because of Pactiv's centrally managed cash system, in which the cash receipts and disbursements of Pactiv's various divisions were commingled, it was not feasible to segregate cash received from Pactiv, such as financing for the business, from cash transmitted to Pactiv, such as a distribution. Accordingly, the net effect of these cash transactions with Pactiv is represented as a single line item within the financing section of the statement of cash flows. Similarly, the activity of the interdivision account presents the net transfer of funds and charges between Pactiv and the Group as a single line item.

Since April 12, 1999, PCA has maintained its own cash accounts.

### After the 1999 Transactions

Following the transactions, PCA's primary sources of liquidity are cash flow from operations and borrowings under PCA's revolving credit facility. PCA's primary uses of cash are for debt service and capital expenditures. PCA expects to be able to fund its debt service and capital expenditures from these sources.

PCA incurred substantial indebtedness in connection with the transactions. On April 12, 1999, PCA had approximately \$1,769.0 million of indebtedness outstanding which included \$1,219.0 million of senior secured bank debt and \$550.0 million of 9<sup>5</sup>/<sub>8</sub>% subordinated notes. In addition to the indebtedness, PCA also had \$100.0 million of 12<sup>3</sup>/<sub>8</sub>% preferred stock as of April 12, 1999.

Concurrently with the transactions, PCA issued the notes and preferred stock and entered into the senior credit facility. The senior credit facility initially provided for three term loans in an aggregate amount of \$1,219.0 million and a revolving credit facility with up to \$250.0 million in availability. Upon the closing of the acquisition, PCA borrowed the full amount available under the term loans and \$9.0 million under the senior revolving credit facility, the latter of which was repaid immediately thereafter.

In October and November 1999, PCA completed the sales of approximately 405,000 acres of timberland. Total proceeds received from the sales were \$263.3 million, resulting in a pre-tax gain of \$12.2 million.

Effective December 14, 1999, PCA elected to reduce its availability under the revolving credit facility from \$250.0 million to \$150.0 million. On June 29, 2000, PCA completed the refinancing of its \$885.0 million senior credit facility.

On January 28, 2000, PCA became a publicly traded company with an initial public offering of its common stock. On March 3, 2000, PCA used the net proceeds from the offering to redeem all of its outstanding shares of 12<sup>3</sup>/<sub>8</sub>% senior exchangeable preferred stock due 2010.

On November 16, 2000, PCA completed the sale of approximately 385,000 acres of timberland to Southern Timber Venture, LLC. PCA received \$247.9 million in cash and a 33<sup>1</sup>/<sub>3</sub>% equity ownership interest in Southern Timber Venture, LLC. PCA recorded a pre-tax gain of \$60.4 million, and a portion of the gain was not recognized as a result of PCA's continuing ownership interest.

On November 29, 2000, PCA established an on-balance sheet securitization program for its trade accounts receivable. To effectuate this program, PCA formed a wholly-owned limited purpose subsidiary, Packaging Credit Company, LLC, or PCC, which in turn formed a wholly-owned, bankruptcy-remote, special-purpose subsidiary, Packaging Receivables Company, LLC, or PRC, for the purpose of acquiring receivables from PCC. Both of these entities are included in the consolidated financial statements of PCA. Under this program, PCC purchases on an ongoing basis all of the receivables of PCA and sells such receivables to PRC. PRC and lenders established a \$150.0 million receivables-backed revolving credit facility through which PRC obtains funds to purchase receivables from PCC. The receivables purchased by PRC are and will be solely the property of PRC. In the event of a liquidation of PRC, the creditors of PRC would be entitled to satisfy their claims from PRC's assets prior to any distribution to PCC or PCA. Credit available under the receivables credit facility is on a borrowing-base formula. As a result, the full amount of the facility may not be available at all times. As of December 31, 2001, \$126.0 million was outstanding and \$24.0 million was available for additional borrowing under the receivables credit facility. The highest outstanding principal balance under the receivables credit facility during fiscal 2001 was \$142.0 million.

The following table provides the outstanding balance and the weighted average interest rate as of December 31, 2001 for each of PCA's outstanding term loans, the revolving credit facility and the receivables credit facility:

Borrowing Arrangement (in thousands)	Balance at December 31, 2001	Weighted Average Interest Rate
Term Loan A	\$ 82,272	5.84%
Term Loan B	36,728	6.59%
Senior Revolving Credit Facility:		
Revolver—Eurodollar	—	N/A
Revolver—Base Rate	—	N/A
Receivables Credit Facility	126,000	4.09%
<b>Total</b>	<b>\$ 245,000</b>	<b>5.05%</b>

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 Term Loan A must be repaid in quarterly installments from December 2003 through 2006. The Term Loan B must be repaid in quarterly installments from March 2004 through 2007. The senior revolving credit facility will terminate in 2006. The receivables credit facility will terminate in 2003.

In 1999, 2000 and 2001, PCA made prepayments totaling approximately \$440.0 million, \$460.0 million, and \$74.0 million, respectively, using free cash flow from operations of \$463.0 million and proceeds from the sales of timberland of \$511.0 million to permanently reduce its borrowings under the term loans and variable rate debt.

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.

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 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.

### **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. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with those laws. In particular, the EPA recently finalized the Cluster Rules which 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.

As is the case with any industrial operation, we have, in the past, incurred costs associated with the remediation of soil or groundwater contamination, as required by the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as the federal "Superfund" law, and analogous state laws. Cleanup requirements arise with respect to properties we currently own or operate, former facilities and off-site facilities where we have disposed of hazardous substances. Under the terms of the contribution agreement, Pactiv has agreed to retain all liability for all former facilities and all sites associated with pre-closing off-site waste disposal. Pactiv has also retained environmentally impaired real property in Filer City, Michigan unrelated to current mill operations.

Because liability for remediation costs under environmental laws is strict, meaning that liability is imposed without fault, joint and several, meaning that liability is imposed on each party without regard to contribution, and retroactive, we could receive notifications of cleanup liability in the future and this liability could be material. From January 1994 through December 2001, remediation costs at our mills and converting plants totaled about \$2.8 million. As of December 31, 2001, we maintained an environmental reserve of \$3.4 million, which includes funds relating to onsite landfills and surface impoundments as well as on-going and anticipated remedial projects. Total capital costs for environmental matters, including Cluster Rule compliance, were \$8.6 million for 2001 and we currently estimate 2002 environmental expenditures will be \$6.8 million, of which \$1.0 million of the expenditures are to meet 2002 to 2005 Cluster Rule requirements.

### **Impact of Inflation**

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

### **Critical Accounting Policies**

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

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. For a further discussion on the application of these and other accounting policies, see Note 2 to our audited consolidated financial statements included elsewhere in this report.

#### ***Accounts Receivable—Allowance for Doubtful Accounts***

We evaluate the collectibility of our accounts receivable based upon a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, substantial downgrading of credit sources), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts 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 collection 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.

As of December 31, 2001, the balance in the allowance for doubtful accounts reserves was \$5.2 million, compared to \$6.4 million at December 31, 2000. Bad debt expense decreased \$5.1 million, or 88.4%, from \$5.8 million to \$0.7 million, for the year ended December 31, 2001 compared to the year ended December 31, 2000 due to specific accounts deemed uncollectable in 2000. For the year ended December 31, 2000 bad debt expenses increased \$4.4 million, or 309.6%, from the pro forma year ended December 31, 1999 due to specific accounts deemed uncollectable in 2000.

### ***Inventory***

We record our inventory at the lower of LIFO 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.

### ***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. 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 and the section titled "Quantitative and Qualitative Disclosures About Market Risk."

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 Statement 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. At December 31, 2001, estimated future payments under these contracts amounted to \$28.6 million.

### ***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 the transactions, Pactiv agreed to retain all liability for all former facilities and all sites associated with pre-closing offsite waste disposal. 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. As of December 31, 2001, 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 would become due in full if any of our debt is in default. Given our results of our operations for 2001 and our projections for future operating results, the likelihood of our 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 our lenders' actions are not controllable by us. If our projections of future operating results are not achieved and our debt is placed in default, we would 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 were required.

### **New Accounting Standards**

For a description of changes in accounting principles affecting PCA, see Note 2 to PCA's audited consolidated financial statements included elsewhere in this report.

### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

While part of Tenneco, PCA has not had any material market risk due to the fact that its debt financing and risk management activities were conducted by Pactiv or Tenneco. As a result of the April 1999 transactions, 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.

Under the terms of the senior credit agreement dated as of April 12, 1999, PCA was required to maintain for at least two years after the closing of the transactions interest rate protection agreements establishing a fixed maximum interest rate with respect to at least 50% of the outstanding term loans under the senior credit agreement. Upon the refinancing of the senior credit agreement on June 29, 2000, this requirement was deleted.

PCA currently has interest rate collar agreements that protect against rising interest rates and simultaneously guarantee a minimum interest rate. The original notional amount of these collar agreements was \$720.0 million. As PCA has made debt prepayments, the need for these collar agreements has diminished. Accordingly, PCA has reduced the notional amount of the collars to \$175.0 million as of December 31, 2001. 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 71% of PCA's variable-rate debt at December 31, 2001 is 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

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ceiling or floor rate. The weighted average duration of the interest rate collar agreements is approximately 16 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 \$0.7 million and \$3.2 million annually for the years ended December 31, 2001 and 2000, respectively. As of December 31, 2001 and 2000, the weighted average LIBOR was 1.91% and 6.73%, respectively, and the weighted average commercial paper rate was 1.92% and 6.60%, respectively. 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 market 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.

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this item is included in a separate section of this report on page F-1.

### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES**

There were no changes in or disagreements with PCA's accountants during 2001.

## **PART III**

### **Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information with respect to PCA's directors is included under the caption "Board of Directors" in PCA's Proxy Statement, and is incorporated herein by reference. Information regarding certain Section 16(a) compliance is included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in PCA's Proxy Statement, and is incorporated herein by reference.

#### **Executive Officers**

Brief statements setting forth the age at March 19, 2002, the principal occupation, employment during the past five years, the year in which such person first became an officer of PCA, and other information concerning each executive officer appears below.

**Paul T. Stecko** is 57 years old and has served as Chief Executive Officer of PCA since January 1999 and as Chairman of PCA since March 1999. From November 1998 to April 1999, Mr. Stecko served as President and Chief Operating Officer of Tenneco Inc. From January 1997 to November 1998, Mr. Stecko served as Chief Operating Officer of Tenneco. From December 1993 through January 1997, Mr. Stecko served as President and Chief Executive Officer of Tenneco Packaging Inc. Prior to joining Tenneco Packaging, Mr. Stecko spent 16 years with International Paper Company. Mr. Stecko is a member of the board of

directors of Pactiv Corporation, Tenneco Automotive Inc., State Farm Mutual Insurance Company, American Forest and Paper Association and Cives Corporation.

**William J. Sweeney** is 61 years old and has served as Executive Vice President—Corrugated Products of PCA since April 1999. From May 1997 to April 1999, Mr. Sweeney served as Executive Vice President—Paperboard Packaging of Tenneco Packaging Inc. From May 1990 to May 1997, Mr. Sweeney served as Senior Vice President and General Manager—Containerboard Products of Tenneco Packaging. From 1983 to May 1990, Mr. Sweeney served as General Manager and Vice President of Stone Container Corporation. From 1978 to 1983, Mr. Sweeney served as Sales Manager,

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Operations Manager and Division Vice President at Continental Group and from 1967 to 1978, as Sales Manager and General Manager of Boise Cascade Corporation.

**Mark W. Kowlzan** is 47 years old and has served as Senior Vice President—Containerboard of PCA since March 2002 and as Vice President from April 1999 to March 2002. From 1998 to April 1999, Tenneco Packaging Inc. employed Mr. Kowlzan as Vice President and General Manager—Containerboard and from May 1996 to 1998, as Operations Manager and Mill Manager of the Counce mill. Prior to joining Tenneco Packaging, Mr. Kowlzan spent 15 years at International Paper Company, where he held a series of operational positions within its mill organization.

**Richard B. West** is 49 years old and has served as Chief Financial Officer of PCA since March 1999, as Corporate Secretary since April 1999 and also as Senior Vice President since March 2002. From April 1999 to March 2002, Mr. West served as Vice President and from March 1999 to June 1999, Mr. West also served as Treasurer of PCA. Mr. West served as Vice President of Finance—Paperboard Packaging of Tenneco Packaging Inc. from 1995 to April 1999. Prior to joining Tenneco Packaging, Mr. West spent 20 years with International Paper Company where he served as an Internal Auditor, Internal Audit Manager and Manufacturing Controller for the Printing Papers Group and Director/ Business Process Redesign.

**Andrea L. Davey** is 45 years old and has served as Vice President—Human Resources of PCA since April 1999. From 1994 to April 1999, Ms. Davey was employed principally by Tenneco Packaging Inc. where she held the positions of Director of Field Employee Relations, Director of Training and Development, Director of Compensation and Benefits, and Project Manager of HRIS project and also served in the capacity of Vice President—Human Resources, Paperboard Packaging from May 1997 to April 1999. From 1992 until joining Tenneco Packaging in 1994, Ms. Davey served as Director of Human Resources for the Bakery division of Sara Lee Corporation. From 1989 to that time, she served as Human Resource Manager for the Converting Group of International Paper Company. Prior to that time, Ms. Davey spent five years with ITT Corporation, where she served in several human resources positions.

#### Item 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation is included under the caption "Executive Compensation" in PCA's Proxy Statement and is incorporated herein by reference, other than the Report of the Compensation Committee and the Performance Graph.

#### Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information with respect to security ownership of certain beneficial owners and management is included under the caption "Information Regarding Beneficial Ownership of our Principal Shareholders, Directors and Management" in PCA's Proxy Statement and is incorporated herein by reference.

#### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions is included under the caption "Certain Relationships and Related Transactions" in PCA's Proxy Statement and is incorporated herein by reference.

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### PART IV

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

(a) The following documents are filed as a part of this report:

- (1) The financial statements listed in the "Index to Financial Statements."
- (2) Financial Statement Schedules

The following consolidated financial statement schedule of the Group for the period from January 1, 1999 through April 11, 1999 is included in this report.

Schedule II—The Containerboard Group—Valuation and Qualifying Accounts.

Allowance for doubtful accounts receivable	Balance Beginning of Year	Provision (Benefit)	Additions/Deductions from Reserves*	Translation Adjustments	Balance End of Year
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January 1, 1999 through April 11, 1999	5,220	(412)	(861)	—	3,947
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\* Consists primarily of write-offs and recoveries of bad debts.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements and therefore has been omitted.

We have audited in accordance with generally accepted auditing standards the financial statements of The Containerboard Group (a division of Tenneco Packaging Inc., which is a Delaware corporation and a wholly owned subsidiary of Tenneco Inc.), included in this report and have issued our report on the April 11, 1999 financial statements dated July 16, 1999. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed above is the responsibility of the company's management and is presented for purposes of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Chicago, Illinois  
August 26, 1999

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## (2) Financial Statement Schedules (Continued)

The following consolidated financial statement schedule of PCA for the years ended December 31, 2001 and 2000 and for the period from April 12, 1999 through December 31, 1999 is included in this report.

Schedule II—Packaging Corporation of America—Valuation and Qualifying Accounts.

Allowance for doubtful accounts receivable	Balance Beginning of Year	Provision (Benefit)	Additions/Deductions from Reserves*	Translation Adjustments	Balance End of Year
2001	6,394	674	(1,836)	—	5,232
2000	4,681	5,820	(4,107)	—	6,394
April 12, 1999 through December 31, 1999	3,947	1,833	(1,099)	—	4,681

\* Consists primarily of write-offs and recoveries of bad debts.

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions, are inapplicable or not material, or the information called for thereby is otherwise included in the financial statements and therefore has been omitted.

### (b) Reports on Form 8-K

PCA did not file any Reports on Form 8-K during the period covered by this report.

### (c) Exhibits

Exhibit Number	Description
2.1	Contribution Agreement, dated as of January 25, 1999, among Pactiv Corporation (formerly known as Tenneco Packaging Inc.) ("Pactiv"), PCA Holdings LLC ("PCA Holdings") and Packaging Corporation of America ("PCA").(2)
2.2	Letter Agreement Amending the Contribution Agreement, dated as of April 12, 1999, among Pactiv, PCA Holdings and PCA.(2)
3.1	Restated Certificate of Incorporation of PCA.(2)
3.2	Form of Certificate of Amendment to Restated Certificate of Incorporation of PCA.(1)
3.3	Form of Second Amended and Restated By-laws of PCA.(1)
4.1	Indenture, dated as of April 12, 1999, by and among PCA, Dahlonga Packaging Corporation ("Dahlonga"), Dixie Container Corporation ("Dixie"), PCA Hydro Inc. ("PCA Hydro"), PCA Tomahawk Corporation ("PCA Tomahawk"), PCA Valdosta Corporation ("PCA Valdosta") and United States Trust Company of New York.(2)
4.2	Intentionally omitted.

- 4.3 Intentionally omitted.
- 4.4 Intentionally omitted.
- 4.5 Intentionally omitted.
- 4.6 Form of Rule 144A Global Note and Subsidiary Guarantee.(2)

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- 4.7 Intentionally omitted.
  - 4.8 Intentionally omitted.
  - 4.9 Form of certificate representing shares of common stock.(1)
  - 10.1 Amended and Restated Credit Agreement, dated as of April 12, 1999, and Amended and Restated as of June 29, 2000, among PCA, the lenders party thereto from time to time, J.P. Morgan Securities Inc. ("J.P. Morgan"), Deutsche Bank Securities Inc. ("Deutsche Bank"), Goldman Sachs Credit Partners L.P. ("Goldman Sachs") and Morgan Guaranty Trust Company of New York ("Morgan Guaranty").(3)
  - 10.2 First Amendment, dated as of September 11, 2000, among PCA, the lenders party to the Amended and Restated Credit Agreement, J.P. Morgan, Deutsche Bank, Goldman Sachs, and Morgan Guaranty.(4)
  - 10.3 Subsidiaries Guaranty, dated as of April 12, 1999, made by Dahlonge, Dixie, PCA Hydro, PCA Tomahawk, PCA Valdosta and Morgan Guaranty.(2)
  - 10.4 Pledge Agreement, dated as of April 12, 1999, among PCA, Dahlonge, Dixie, PCA Hydro, PCA Tomahawk, PCA Valdosta and Morgan Guaranty.(2)
  - 10.5 TPI Security Agreement, dated as of April 12, 1999, between Pactiv and Morgan Guaranty.(2)
  - 10.6 PCA Security Agreement, dated as of April 12, 1999, among PCA, Dahlonge, Dixie, PCA Hydro, PCA Tomahawk, PCA Valdosta and Morgan Guaranty.(2)
  - 10.7 Intentionally omitted.
  - 10.8 Registration Rights Agreement, dated as of April 12, 1999, by and among Pactiv, PCA Holdings and PCA.(2)
  - 10.9 Holding Company Support Agreement, dated as of April 12, 1999, by and between PCA Holdings and PCA. (2)
  - 10.10 Facility Use Agreement, dated as of April 12, 1999, by and between Pactiv and PCA.(2)
  - 10.11 Human Resources Agreement, dated as of April 12, 1999, by and among Tenneco Automotive Inc. (formerly known as Tenneco Inc.), Pactiv and PCA.(2)
  - 10.12 Purchase/Supply Agreement, dated as of April 12, 1999, between PCA and Tenneco Packaging Speciality and Consumer Products Inc.(2)
  - 10.13 Purchase/Supply Agreement, dated as of April 12, 1999, between PCA and Pactiv.(2)
  - 10.14 Purchase/Supply Agreement, dated as of April 12, 1999, between PCA and Tenneco Automotive Inc.(2)
  - 10.15 Technology, Financial and Administrative Transition Services Agreement, dated as of April 12, 1999, between Pactiv and PCA.(2)
  - 10.16 Letter Agreement Regarding Terms of Employment, dated as of January 25, 1999, between PCA and Paul T. Stecko.\*(2)
  - 10.17 Letter Agreement Regarding Terms of Employment, dated as of May 19, 1999, between PCA and Paul T. Stecko.\*(2)
  - 10.18 1999 Long-Term Equity Incentive Plan, effective as of October 19, 1999.\*(1)

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- 10.19 Management Equity Agreement, dated as of June 1, 1999, among PCA, Paul T. Stecko and the Paul T. Stecko 1999 Dynastic Trust.\*(2)

- 10.20 Form of Management Equity Agreement, dated as of June 1, 1999, among PCA and the members of management party thereto.\*(2)
- 10.21 Memorandum Regarding Special Retention Bonus, dated as of April 16, 1999, from PCA to William J. Sweeney.\*(2)
- 10.22 Amended and Restated 1999 Management Equity Compensation Plan, effective as of June 2, 1999.\*(2)
- 10.23 Credit and Security Agreement, dated as of November 29, 2000, among Packaging Receivables Company, LLC ("PRC"), Packaging Credit Company, LLC ("PCC"), Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A.
- 10.24 Receivables Sale Agreement, dated as of November 29, 2000, between PCC and PCA.
- 10.25 Purchase and Sale Agreement, dated as of November 29, 2000, between PCC and PRC.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Arthur Andersen LLP.
- 23.2 Consent of Ernst & Young LLP.
- 24.1 Powers of Attorney.

\* Management contract or compensatory plan or arrangement.

- (1) Incorporated herein by reference to the same numbered exhibit to PCA's Registration Statement on Form S-1 (Registration No. 333-86963).
- (2) Incorporated herein by reference to the same numbered exhibit to PCA's Registration Statement on Form S-4 (Registration No. 333-79511).
- (3) Incorporated herein by reference to the same numbered exhibit to PCA's Quarterly Report on Form 10-Q for the period ended June 30, 2000.
- (4) Incorporated herein by reference to Exhibit 10.1 to PCA's Quarterly Report on Form 10-Q for the period ended September 30, 2000.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on March 19, 2002.

Packaging Corporation of America

By: /s/ RICHARD B. WEST

\_\_\_\_\_  
 Name: Richard B. West  
 Title: Senior Vice President, Chief Financial Officer and  
 Corporate Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 19, 2002.

Signature	Title
*  _____ Paul T. Stecko	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)
/s/ RICHARD B. WEST  _____ Richard B. West	Senior Vice President, Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer)
*  _____ Henry F. Frigon	Director
*  _____	Director

Louis A. Holland

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Justin S. Huscher Director

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Samuel M. Mencoﬀ Director

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Thomas S. Souleles Director

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Rayford K. Williamson Director

\*By: /s/ RICHARD B. WEST

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Richard B. West  
(Attorney-In-Fact)

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## INDEX TO FINANCIAL STATEMENTS

### **Packaging Corporation of America Consolidated Financial Statements as of December 31, 2001, 2000 and 1999**

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### **The Containerboard Group (a Division of Tenneco Packaging Inc.) Combined Financial Statements as of April 11, 1999**

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Shareholders of Packaging Corporation of America:

We have audited the accompanying consolidated balance sheets of Packaging Corporation of America as of December 31, 2001 and 2000 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years ended December 31, 2001 and 2000 and the period from January 25, 1999 (date of incorporation) to December 31, 1999. Our audits also included the financial statement schedule listed in the index at Item 14(a). These financial statements and schedule are the responsibility of Packaging Corporation of America management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Packaging Corporation of America at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for the years ended December 31, 2001 and 2000 and the period from January 25, 1999 to December 31, 1999 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the audited consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001.

Ernst & Young LLP

Chicago, Illinois  
January 18, 2002

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**Packaging Corporation of America**  
**Consolidated Balance Sheets**  
**As of December 31, 2001 and 2000**

	2001	2000
<i>(In thousands, except share and per share amounts)</i>		
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 82,465	\$ 7,892
Accounts and notes receivable, net of allowance for doubtful accounts of \$5,232 and \$6,394 as of December 31, 2001 and 2000, respectively	170,175	215,994
Inventories	170,173	159,712
Prepaid expenses and other current assets	12,058	5,755
Deferred income taxes	13,346	14,356
<b>Total current assets</b>	<b>448,217</b>	<b>403,709</b>
Property, plant and equipment, net	1,451,224	1,455,990
Intangible assets, net of accumulated amortization of \$1,647 and \$1,380 as of December 31, 2001 and 2000, respectively	4,037	1,758
Other long-term assets	68,302	80,655
<b>Total assets</b>	<b>\$ 1,971,780</b>	<b>\$ 1,942,112</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Current portion of long-term debt	\$ 54	\$ 239
Accounts payable	93,873	113,701
Accrued interest	13,590	15,438
Accrued liabilities	84,378	89,170
<b>Total current liabilities</b>	<b>191,895</b>	<b>218,548</b>
<b>Long-term liabilities:</b>		
Long-term debt	795,163	869,175
Deferred income taxes	194,452	151,728
Other liabilities	20,436	15,237
<b>Total long-term liabilities</b>	<b>1,010,051</b>	<b>1,036,140</b>
<b>Shareholders' equity:</b>		
Common stock (par value \$.01 per share, 300,000,000 shares authorized, 105,570,203 shares and 106,248,138 shares issued as of December 31, 2001 and 2000, respectively)	1,056	1,062
Additional paid in capital	490,915	512,208
Retained earnings	280,886	174,468
Accumulated other comprehensive income (loss)	(2,967)	—
Common stock held in treasury, at cost (3,000 shares and 27,470 shares as of December 31, 2001 and 2000, respectively)	(56)	(314)
<b>Total shareholders' equity</b>	<b>769,834</b>	<b>687,424</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,971,780</b>	<b>\$ 1,942,112</b>

See notes to consolidated financial statements.

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**Packaging Corporation of America**  
**Consolidated Statements of Income**

Year Ended  
December 31,

January 25, 1999  
Through

	2001	2000	December 31, 1999
<i>(In thousands, except per share amounts)</i>			
Net sales	\$ 1,789,956	\$ 1,921,868	\$ 1,317,342
Cost of sales	(1,372,019)	(1,418,465)	(1,028,582)
Gross profit	417,937	503,403	288,760
Selling and administrative expenses	(123,627)	(118,373)	(79,794)
Other income (expense), net	(4,306)	59,996	11,020
Corporate overhead	(40,549)	(40,192)	(27,756)
Income before interest, taxes, cumulative effect of accounting change and extraordinary item	249,455	404,834	192,230
Interest expense, net	(74,021)	(117,683)	(107,594)
Income before taxes, cumulative effect of accounting change and extraordinary item	175,434	287,151	84,636
Provision for income taxes	(67,912)	(114,190)	(37,239)
Income before cumulative effect of accounting change and extraordinary item	107,522	172,961	47,397
Cumulative effect of accounting change, net of tax	(495)	—	—
Income before extraordinary item	107,027	172,961	47,397
Extraordinary item, net of tax	(609)	(11,060)	(6,897)
Net income	106,418	161,901	40,500
Preferred dividends and accretion of preferred stock issuance costs	—	(18,637)	(9,296)
Net income available to common shareholders	\$ 106,418	\$ 143,264	\$ 31,204
Weighted average common shares outstanding			
Basic	106,277	104,890	92,108
Diluted	108,801	107,518	96,549
Basic earnings per common share:			
Income before cumulative effect of accounting change and extraordinary item	\$ 1.01	\$ 1.47	\$ 0.41
Cumulative effect of accounting change	—	—	—
Extraordinary item	(0.01)	(0.10)	(0.07)
Net income per common share	\$ 1.00	\$ 1.37	\$ 0.34
Diluted earnings per common share:			
Income before cumulative effect of accounting change and extraordinary item	\$ 0.99	\$ 1.43	\$ 0.39
Cumulative effect of accounting change	—	—	—
Extraordinary item	(0.01)	(0.10)	(0.07)
Net income per common share	\$ 0.98	\$ 1.33	\$ 0.32

See notes to consolidated financial statements.

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**Packaging Corporation of America**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**For the Period January 25, 1999 (date of incorporation) through December 31, 2001**

<i>(In thousands except share data)</i>	Junior Preferred Stock		Common Stock		Treasury Stock		Additional Paid In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Shareholders' Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance at January 25, 1999	—	\$ —	—	\$ —	—	\$ —	\$ —	\$ —	\$ —	\$ —
Pactiv contribution of assets to PCA	—	—	193,500	2	—	—	399,323	—	—	399,325
Payment to Pactiv	—	—	—	—	—	—	(246,500)	—	—	(246,500)
Investment by PCA Holdings	—	—	236,500	2	—	—	236,500	—	—	236,502

Issuance of junior preferred stock	100	—	—	—	—	—	—	—	—	—							
Non-financing transaction costs	—	—	—	—	—	—	(23,832)	—	—	(23,832)							
Post-closing adjustment to contribution of assets	—	—	—	—	—	—	20,000	—	—	20,000							
220-for-one common stock split	—	—	94,170,000	942	—	—	(942)	—	—	—							
Net income	—	—	—	—	—	—	—	—	40,500	40,500							
Dividends declared on preferred stock	—	—	—	—	—	—	—	—	(9,084)	(9,084)							
Accretion of preferred stock costs	—	—	—	—	—	—	—	—	(212)	(212)							
Balance at December 31, 1999	100	\$	—	94,600,000	\$	946	—	\$	—	\$	384,549	\$	—	\$	31,204	\$	416,699
Net income	—	—	—	—	—	—	—	—	—	161,901	161,901						
Initial public offering	—	—	11,250,000	112	—	—	125,852	—	—	125,964							
Redemption of preferred stock	—	—	—	—	—	—	—	—	(16,266)	(16,266)							
Dividends declared on preferred stock	—	—	—	—	—	—	—	—	(2,291)	(2,291)							
Accretion of preferred stock costs	—	—	—	—	—	—	—	—	(80)	(80)							
Exercise of stock options	—	—	398,138	4	—	—	1,807	—	—	1,811							
Treasury stock	—	—	—	—	(27,470)	(314)	—	—	—	(314)							
Buyout of preferred stock	(100)	—	—	—	—	—	—	—	—	—							
Balance at December 31, 2000	—	\$	—	106,248,138	\$	1,062	(27,470)	\$	(314)	\$	512,208	\$	—	\$	174,468	\$	687,424
Net income	—	—	—	—	—	—	—	—	—	106,418	106,418						
Loss on derivatives:																	
Loss on derivatives, net of \$2,143 income taxes	—	—	—	—	—	—	—	—	(3,329)	—	(3,329)						
Less: reclassification adjustment, net of (\$233) income taxes	—	—	—	—	—	—	—	—	362	—	362						
Total comprehensive income, net of tax											103,451						
Exercise of stock options	—	—	1,669,735	17	—	—	17,270	—	—	17,287							
Common stock (repurchases)/retirement, net	—	—	(2,347,670)	(23)	24,470	258	(38,563)	—	—	(38,328)							
Balance at December 31, 2001	—	\$	—	105,570,203	\$	1,056	(3,000)	\$	(56)	\$	490,915	\$	(2,967)	\$	280,886	\$	769,834

See notes to consolidated financial statements.

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**Packaging Corporation of America**  
**Consolidated Statements of Cash Flows**

	Year Ended December 31,		January 25, 1999 Through December 31, 1999
	2001	2000	
<i>(In thousands)</i>			
<b>Cash Flows from Operating Activities:</b>			
Net income	\$ 106,418	\$ 161,901	\$ 40,500
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	141,516	140,841	105,935
Amortization of financing costs	4,851	7,375	6,299
Cumulative effect of accounting change	495	—	—
Extraordinary loss—early debt extinguishment	609	11,060	6,897
Increase in deferred income taxes	46,354	83,276	33,228
Gain on sale of timberlands	—	(60,414)	(12,157)
(Gain) loss on disposal of property, plant and equipment	1,718	(1,895)	(947)
Tax benefit associated with stock option exercises	9,562	—	—
Other, net	1,641	2,367	1,917
Changes in components of working capital:			
(Increase) decrease in current assets—			
Accounts receivable	47,077	(6,940)	(30,007)
Inventories	(9,821)	5,207	(5,625)
Prepaid expenses and other	(6,285)	2,443	(3,379)
Increase (decrease) in current liabilities—			
Accounts payable	(21,910)	(13,663)	54,738
Accrued liabilities	(8,799)	7,490	57,049
<b>Net cash provided by operating activities</b>	<b>313,426</b>	<b>339,048</b>	<b>254,448</b>

<b>Cash Flows from Investing Activities:</b>			
Additions to property, plant and equipment	(131,158)	(128,991)	(88,938)
Additions to long term assets	(3,467)	(4,748)	(5,302)
Acquisition of businesses	(4,827)	—	—
Proceeds from disposals of property, plant and equipment	4,570	3,249	1,347
Proceeds from timberlands sales	—	247,936	263,255
Payment to Pactiv for contribution of assets	—	—	(246,500)
Investments in joint venture	—	(500)	—
Other, net	871	1,955	(230)
<b>Net cash provided by (used for) investing activities</b>	<b>(134,011)</b>	<b>118,901</b>	<b>(76,368)</b>
<b>Cash Flows from Financing Activities:</b>			
Proceeds from preferred stock	—	—	96,500
Redemption of preferred stock	—	(124,432)	—
Proceeds from long-term debt issued	—	142,605	9,619
Payments on long-term debt	(74,239)	(602,826)	(440,075)
Proceeds from initial public offering	—	126,364	—
Financing costs	—	(3,565)	(90,324)
Proceeds from post-closing adjustment	—	—	20,000
Proceeds from issuance of common stock to PCA Holdings	—	—	236,500
Repurchases of common stock	(38,328)	(314)	—
Issuance of common stock upon exercise of stock options	7,725	1,811	—
<b>Net cash used for financing activities</b>	<b>(104,842)</b>	<b>(460,357)</b>	<b>(167,780)</b>
<b>Net Increase (Decrease) in Cash and cash equivalents</b>	<b>74,573</b>	<b>(2,408)</b>	<b>10,300</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>7,892</b>	<b>10,300</b>	<b>—</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 82,465</b>	<b>\$ 7,892</b>	<b>\$ 10,300</b>

See notes to consolidated financial statements.

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## Packaging Corporation of America

### Notes to Consolidated Financial Statements

December 31, 2001

#### 1. BASIS OF PRESENTATION

Packaging Corporation of America ("PCA" or the "Company") was incorporated on January 25, 1999 pursuant to the General Corporation Law of the State of Delaware. PCA was formed to acquire the containerboard and corrugated packaging products business (the "Group") of Pactiv Corporation, formerly known as Tenneco Packaging Inc., a wholly owned subsidiary of Tenneco Inc. PCA had no operations from the date of incorporation on January 25, 1999 to April 11, 1999.

On April 12, 1999, Pactiv Corporation ("Pactiv") sold the Group to PCA for \$2.2 billion. The Group is the predecessor to PCA. The \$2.2 billion purchase price paid to Pactiv for the Group consisted of \$246.5 million in cash, the assumption of \$1.8 billion of debt incurred by Pactiv immediately prior to closing, and the issuance of a 45% common equity interest in PCA. PCA Holdings LLC, an entity organized and controlled by Madison Dearborn Partners, LLC, acquired the remaining 55% common equity interest in PCA for \$236.5 million in cash. These events are collectively referred to as the "Transactions." Because significant veto rights were retained by Pactiv, the carryover basis of accounting was used and no goodwill was recognized. Fees of \$23.8 million were incurred as part of the Transactions and were recorded as a charge to shareholders' equity.

On August 25, 1999, PCA Holdings LLC and Pactiv agreed that the acquisition consideration should be reduced as a result of a post-closing price adjustment by \$20.0 million. On September 23, 1999, Pactiv paid PCA \$20.7 million, representing the \$20.0 million adjustment and \$0.7 million of interest through the date of payment by Pactiv.

The Company is comprised of mills and corrugated products operations. The mill operations (the "Mills") consist of two kraft linerboard mills located in Counce, Tennessee, and Valdosta, Georgia, and two medium mills located in Filer City, Michigan, and Tomahawk, Wisconsin. The Mills also include two recycling centers located in Nashville and Jackson, Tennessee. The Company leases the cutting rights to approximately 145,000 acres of timberland as of December 31, 2001. The Mills transfer the majority of their output to PCA's corrugated products operations ("Corrugated").

PCA's corrugated operations consist of 65 corrugated products plants, a supply services group, a technical and development center, and five graphic design centers. All plants are located in North America. Corrugated combines linerboard and medium (primarily from the Mills) into sheets that are converted into corrugated shipping containers, point-of-sale graphics packaging, point-of-purchase displays and other specialized packaging. Corrugated sells to diverse customers primarily in North America.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES



## Basis of Consolidation

The accompanying consolidated financial statements of Packaging Corporation of America 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.

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## 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.

## Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and highly liquid investments with a maturity of three months or less. Cash equivalents are stated at cost, which approximates market.

## Inventories

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. All inventories are stated at the lower of cost or market. Inventories valued using the LIFO method comprised 73% and 77% of inventories at current cost at December 31, 2001 and 2000, respectively.

The components of inventories are as follows:

	December 31,	
	2001	2000
<i>(In thousands)</i>		
Raw materials	\$ 82,540	\$ 71,256
Work in process	5,989	5,908
Finished goods	46,942	56,157
Supplies and materials	58,118	51,222
Inventories at FIFO cost	193,589	184,543
Excess of FIFO over LIFO cost	(23,416)	(24,831)
Inventory, net	\$ 170,173	\$ 159,712

## Property, Plant and Equipment

Property, plant and equipment and timber and timberlands are recorded at cost.

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Property, plant and equipment by major classification are as follows:

	December 31,	
	2001	2000
<i>(In thousands)</i>		
Land	\$ 71,936	\$ 64,348
Buildings	292,571	286,505
Machinery and equipment	2,071,048	1,974,677
Other	32,802	33,776
Property, plant and equipment, at cost	2,468,357	2,359,306
Less: Accumulated depreciation	(1,065,425)	(954,985)
Total	1,402,932	1,404,321
Construction in progress	44,997	48,330
Timber and timberlands, at cost, less depletion	3,295	3,339
Property, plant and equipment, net	\$ 1,451,224	\$ 1,455,990

The amount of interest capitalized related to construction in progress was approximately \$0.9 million and \$0.6 million for the years ended December 31, 2001 and 2000, respectively, and \$0.1 million for the period April 12, 1999 through December 31, 1999.

Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The following lives are used for the various categories of assets:

Buildings and land improvements	5 to 40 years
Machinery and equipment	3 to 25 years
Trucks and automobiles	3 to 10 years
Furniture and fixtures	3 to 20 years
Computers and hardware	3 to 7 years
Leasehold improvements	Period of the lease

Timber depletion is provided on the basis of timber cut during the period related to the estimated quantity of recoverable timber. Assets under capital leases are depreciated on the straight-line method over the term of the lease.

Expenditures for repairs and maintenance are expensed as incurred.

### ***Intangible Assets***

The Company has capitalized certain intangible assets based on their estimated fair value at the date of acquisition. Amortization is provided for these intangible assets on a straight-line basis over periods ranging from three to 15 years. Covenants not to compete are amortized on a straight-line basis over the terms of the respective agreements.

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### ***Other Long-Term Assets***

PCA has capitalized certain costs related to obtaining its financing. These costs are amortized to interest expense using the effective interest rate method over the terms of the senior credit facility and senior subordinated notes, which range from five years to eight years. Unamortized deferred financing costs were \$23.2 million and \$29.0 million as of December 31, 2001 and 2000, respectively.

PCA currently leases the cutting rights to approximately 145,000 acres of timberland and capitalizes the annual lease payments and reforestation costs associated with these leases. These costs are recorded as depletion when timber is harvested and used in PCA's business operations. Long-term lease costs were \$23.1 million and \$25.1 million as of December 31, 2001 and 2000, respectively.

PCA also capitalizes certain costs related to the purchase and development of software which is used in its business operations. The costs attributable to these software systems are amortized over their estimated useful lives based on various factors such as the effects of obsolescence, technology and other economic factors. Capitalized software costs were \$12.4 million and \$15.7 million as of December 31, 2001 and 2000, respectively.

### ***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 is 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 is required.

### ***Financial Instruments***

The Company uses interest rate collar agreements to manage interest costs and the risk associated with changing interest rates.

### ***Income Taxes***

PCA utilizes the liability method of accounting for income taxes whereby it recognizes deferred tax assets and liabilities for the future tax consequences of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets will be reduced by a valuation allowance if, based upon management's estimates, it is more likely than not that a portion of the deferred tax assets will not be realized in a future period. The estimates utilized in the recognition of deferred tax assets are subject to revision in future periods based on new facts or circumstances.

### ***Revenue Recognition***

The Company recognizes revenue as title to the products is transferred to customers. In the fourth quarter of 2000, the Company adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs". Shipping and handling costs are included in cost of sales. Shipping and handling billings to a

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customer in a sales transaction are included in revenue. Prior year amounts have been reclassified to conform to this treatment.

### ***Research and Development***

Research and development costs are expensed as incurred. The amount charged was \$5.5 million, \$3.4 million, and \$2.5 million for the years ended December 31, 2001 and 2000 and for the period from April 12, 1999 through December 31, 1999, respectively.

### ***Freight Trades***

PCA regularly trades containerboard with other manufacturers primarily to reduce shipping costs. The freight trade transactions are accounted for primarily as transactions in the inventory accounts; the impact on income is not material.

### **Segment Information**

The Company 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. As a result of a recent acquisition, PCA now has a small warehouse and assembly operation in Nogales, Mexico.

### **Derivative Instruments and Hedging Activities and Accounting Change**

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137 and SFAS No. 138. The Statement requires the Company to recognize derivative instruments as either assets or liabilities in the balance sheet at fair value. It further provides criteria for derivative instruments to be designated as fair value, cash flow or foreign currency hedges and establishes respective accounting standards for reporting changes in the fair value of the derivative instruments. The gains or losses resulting from adjusting the derivative instruments to fair value are recorded in net income or accumulated other comprehensive income (loss) (OCI), as appropriate.

The Company recorded a transition adjustment upon adoption of SFAS No. 133 to recognize its derivative instruments at fair value and to recognize the effective and ineffective portions of the cash flow hedges. The effect of this transition adjustment was to decrease reported net income in the first quarter by approximately \$0.5 million (\$0.8 million pre-tax). The Company also recorded a minimal transition adjustment in OCI and an increase in noncurrent liabilities of approximately \$0.8 million.

The Company uses derivative instruments to manage interest costs and the risk associated with changing interest rates. The Company's objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the impacts of these exposures. The Company has two interest rate collar agreements that protect against rising interest rates and simultaneously guarantee a minimum interest rate. As interest rates change, the differential paid or received is recognized in interest expense of the period. Interest rate collar agreements are accounted for as cash flow hedges.

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For the year ended December 31, 2001, reported net income increased \$0.3 million (\$0.5 million pre-tax) for changes in the time value of the interest rate collars, or hedge ineffectiveness. All amounts have been included in other expense in the statement of income. Derivative losses included in OCI as of December 31, 2001, will be reclassified into earnings over the lives of the collar agreements, through June 30, 2003.

### **New Accounting Pronouncements**

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations," effective for acquisitions completed after June 30, 2001, and SFAS No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests. Other intangible assets will continue to be amortized over their useful lives.

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statement will not have a material impact on the Company's consolidated financial position or results of operations. The Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets during the first six months of 2002 and has not yet determined what the effect, if any, of these tests will be on the earnings and financial position of the Company.

In June 2001, the FASB 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.

In August 2001, the FASB issued 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. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001, with earlier application encouraged. The adoption of SFAS No. 144 on January 1, 2002, is not expected to have a material impact on the Company's consolidated financial position or results of operations.

### **Comprehensive Income (Loss)**

For the year ended December 31, 2001, total comprehensive income was \$3.0 million less than net income due to derivative losses. There was no difference for the year ended December 31, 2000 or for the period from April 12, 1999 through December 31, 1999.

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### **Reclassifications**

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

## **3. EARNINGS PER SHARE**

All share and per share data included in the accompanying consolidated financial statements have been adjusted to reflect a 220-for-one-split of the Company's common stock which became effective on October 19, 1999.

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

	Year Ended December 31,		April 12, 1999 Through December 31, 1999
	2001	2000	
<i>(In thousands, except per share data)</i>			
Numerator:			
Net income available to common stockholders	\$ 106,418	\$ 143,264	\$ 31,204
Denominator:			
Basic common shares outstanding	106,277	104,890	92,108
Effect of dilutive securities:			
Stock options	2,524	2,397	1,949
Non-vested stock	—	231	2,492
Dilutive common shares outstanding	108,801	107,518	96,549
Basic income per common share	\$ 1.00	\$ 1.37	\$ 0.34
Diluted income per common share	\$ 0.98	\$ 1.33	\$ 0.32

#### 4. ACCRUED LIABILITIES

The components of accrued liabilities are as follows:

	December 31,	
	2001	2000
<i>(In thousands)</i>		
Benefits	\$ 20,332	\$ 21,649
Medical insurance and workers' compensation	16,138	13,430
Vacation and holiday pay	11,290	11,586
Customer volume discounts and rebates	10,841	9,359
Other	25,777	33,146
Total	\$ 84,378	\$ 89,170

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#### 5. EMPLOYEE BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS

In connection with the Transactions, PCA and Pactiv entered into a human resources agreement which, among other items, granted PCA employees continued participation in the Pactiv pension plan for a period of up to five years following the closing of the Transactions for an agreed upon fee. For salaried employees, PCA will pay Pactiv \$4.0 million in the first and second years, \$6.0 million in the third year, \$8.0 million in the fourth year, and \$10.0 million in the fifth year following the closing date of the Transactions. For hourly employees, PCA will pay Pactiv \$1.2 million per year through December 31, 2000 and then \$4.5 million per year for two additional years. These amounts can be adjusted if there are material increases in the pension costs to Pactiv. The fees paid to Pactiv are expensed ratably throughout the year. PCA intends to adopt its own retirement plans with respect to its employees sometime in the future.

The Company adopted a supplemental executive retirement plan in 2000 that provides supplemental pension benefits for certain executive officers of the Company. Benefits are based upon years of service and the highest three year average of compensation. The benefit obligation and pension costs were not significant.

PCA also provides certain medical benefits for retired salaried employees and certain medical and life insurance benefits for certain employees. For salaried employees, the plan covers employees retiring from PCA on or after attaining age 58 who have had at least 10 years of full-time service with PCA after attaining age 48. For hourly employees, the postretirement medical coverage, where applicable, is available according to the eligibility provisions in effect at the employee's work location. Per the human resources agreement referred to above, Pactiv retained the liability relating to retiree medical and life benefits for PCA employees who had retired on or before the closing date of the Transactions or who will be eligible to retire within two years of that date. Any postretirement liability recorded on PCA's balance sheet relates to active employees only.

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Financial data pertaining to the Company's postretirement benefit plans follow:

	2001	2000	April 12, 1999 Through Dec. 31, 1999
<i>(In thousands)</i>			
Change in benefit obligation:			
Benefit obligation at beginning of period	\$ 5,276	\$ 4,044	\$ 4,007

Service cost	855	587	441
Interest cost	406	304	210
Plan amendments	132	—	—
Actuarial loss (gain)	1,034	341	(614)
Benefit obligation at September 30	\$ 7,703	\$ 5,276	\$ 4,044
Plan assets at fair value at September 30	\$ —	\$ —	\$ —
Development of net amount recognized:			
Funded status at September 30	\$ (7,703)	\$ (5,276)	\$ (4,044)
Unrecognized cost:			
Actuarial loss (gain)	567	(479)	(849)
Prior service cost	121	—	—
Other	371	—	—
Accrued benefit recognized at December 31	\$ (6,644)	\$ (5,755)	\$ (4,893)
Components of net periodic benefit cost:			
Service cost for benefits earned during the year	\$ 855	\$ 587	\$ 441
Interest cost on accumulated postretirement benefit obligation	406	304	210
Net amortization of unrecognized amounts	3	(29)	(2)
Net periodic pension and postretirement benefit cost	\$ 1,264	\$ 862	\$ 649

The accrued postretirement benefit cost has been recorded based upon certain actuarial estimates as of September 30, 2001, 2000 and 1999, as shown below. These estimates are subject to revision in future periods given new facts or circumstances.

	Postretirement Plan		
	2001	2000	1999
Discount rate	7.25%	7.50%	7.50%

As of September 30, 2001, the Company assumed health care cost trend rates of 9.50% for 2002 and 2003, 8.00% for 2004, 7.00% for 2005, 6.00% for 2006, and 5.00% for 2007 and thereafter. As of both September 30, 2000 and 1999, the Company assumed a health care cost trend rate of 5.00%.

Increasing the assumed health care cost trend rate by one percentage point would increase the 2001 postretirement benefit obligation by approximately \$1.2 million and would increase the net postretirement benefit cost by approximately \$0.3 million.

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## 5. EMPLOYEE BENEFIT PLANS AND OTHER POSTRETIREMENT BENEFITS (Continued)

On February 1, 2000, the Company adopted two defined contribution benefit plans that cover all full-time salaried employees and certain hourly employees at several of the Company's facilities. Employees can make voluntary contributions in accordance with the provisions of their respective plan. The Company expensed \$6.7 million and \$6.1 million for employer contributions during the years ended December 31, 2001 and 2000, respectively.

## 6. LONG-TERM DEBT

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

	December 31,	
	2001	2000
<i>(In thousands)</i>		
Senior credit facility—		
Term Loan A, effective interest rate of 3.16% and 8.26% at December 31, 2001 and 2000, respectively, due in varying quarterly installments through June 30, 2006	\$ 82,272	\$ 122,371
Term Loan B, effective interest rate of 3.91% and 8.67% as of December 31, 2001 and 2000, respectively, due in varying quarterly installments through June 30, 2007	36,728	54,629
Receivables credit facility, effective interest rate of 2.30% and 6.95% as of December 31, 2001 and 2000, respectively, due November 29, 2003	126,000	142,000
Senior subordinated notes, interest at 9.625% payable semi-annually, due April 1, 2009	550,000	550,000
Other	217	414
Total	795,217	869,414
Less: Current portion	54	239

Total long-term debt \$ 795,163 \$ 869,175

Additional information regarding PCA's variable rate debt before the effects of the interest rate collars described below, is shown below:

	Weighted-Average Reference Interest Rate		Applicable Margin	
	December 31,		December 31,	
	2001	2000	2001	2000
<b>LIBOR based debt:</b>				
<b>Senior credit facility</b>				
Term Loan A	1.91%	6.76%	1.25%	1.50%
Term Loan B	1.91%	6.67%	2.00%	2.00%
<b>Commercial paper based debt:</b>				
Receivables credit facility	1.92%	6.60%	0.38%	0.35%

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Since April 12, 1999, PCA has made debt prepayments totaling approximately \$974.0 million using excess cash and proceeds from the sale of certain timberlands to permanently reduce its borrowings under the term loans. As a result of these prepayments, PCA recorded a charge of \$1.0 million (\$0.6 million after tax), \$18.4 million (\$11.1 million after tax), and \$11.4 million (\$6.9 million after tax), respectively, as an early extinguishment of debt for the years ended December 31, 2001 and 2000 and for the period from April 12, 1999 through December 31, 1999. No quarterly installments will be required under any of the term loans until December 31, 2003.

As of December 31, 2001, annual principal payments for debt during the next five years are: \$0.1 million (2002), \$128.6 million (2003), \$35.2 million (2004), \$36.3 million (2005), \$9.8 million (2006), and \$585.3 million (2007 and thereafter).

Interest payments in connection with the Company's debt obligations for the years ended December 31, 2001 and 2000, and for the period from April 12, 1999 through December 31, 1999 amounted to \$73.6 million, \$112.6 million, and \$89.5 million, respectively.

On June 29, 2000, the Company completed the refinancing of its senior credit facility. The new refinancing lowered the Company's margins over LIBOR on Term Loans A and B and eliminated Term Loan C, resulting in an average margin reduction of about 100 basis points. The Company incurred approximately \$3.6 million in bank syndication and arrangement fees, which were rolled into the current debt structure.

On November 29, 2000, the Company established an on-balance sheet securitization program for its trade accounts receivable. To effectuate this program, the Company formed a wholly owned limited purpose subsidiary, Packaging Credit Company, LLC ("PCC"), which in turn formed a wholly owned, bankruptcy-remote, special-purpose subsidiary, Packaging Receivables Company, LLC ("PRC"), for the purpose of acquiring receivables from PCC. Both of these entities are included in the consolidated financial statements of the Company. Under this program, PCC purchases on an ongoing basis all of the receivables of the Company and sells such receivables to PRC. PRC and lenders established a \$150.0 million receivables-backed revolving credit facility ("Receivables Credit Facility") through which PRC obtains funds to purchase receivables from PCC. The receivables purchased by PRC are and will be solely the property of PRC. In the event of liquidation of PRC, the creditors of PRC would be entitled to satisfy their claims from PRC's assets prior to any distribution to PCC or the Company. Credit available under the receivables credit facility is on a borrowing-base formula. As a result, the full amount of the facility may not be available at all times. At December 31, 2001, \$126.0 million was outstanding and \$24.0 million was available for additional borrowing under the receivables credit facility. The highest outstanding principal balance under the receivables credit facility during fiscal 2001 was \$142.0 million.

The senior credit facility is (1) jointly and severally guaranteed by each of PCA's existing subsidiaries and (2) secured by a first priority lien covering substantially all of the owned timberland, mills, plants and other facilities and substantially all tangible and intangible personal property of PCA and its domestic subsidiaries and by a pledge of all of the capital stock of PCA's domestic subsidiaries. In addition, the senior credit facility will also be secured by a pledge of 65% of the capital stock of any first tier foreign subsidiaries that PCA may acquire or form in the future. PCA's future domestic

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subsidiaries will guarantee the senior credit facility and secure that guarantee with certain of their real property and substantially all of their tangible and intangible personal property.

PCA's various debt agreements contain covenants that restrict 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 dispose of all or substantially all of the assets of the Company. They also require PCA to comply with certain financial covenants, including the ratio of earnings before interest, taxes, depreciation, and amortization (EBITDA) to cash interest expense, the ratio of debt to EBITDA, and minimum net worth levels. 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. At December 31, 2001, the Company was in compliance with all of its covenants.

The Company maintains interest rate collar agreements for its variable rate debt. The interest rate collar agreements protect against rising interest rates while simultaneously guaranteeing minimum interest rates. The notional amount of these collars is \$175.0 million and \$250.0 million at December 31, 2001 and 2000, respectively. Approximately 71% of PCA's variable rate debt are capped. The weighted average floor of the interest rate collar agreements is 5.02% and the weighted average ceiling is 6.85%. On November 29, 1999, PCA terminated \$180.0 million of interest rate collar agreements and received \$1.2 million. On January 14, 2000, PCA terminated \$110.0 million of interest rate collar agreements and received \$1.9 million. The senior credit facility provides PCA with the right to lock-in LIBOR interest rates for any amount of term loans for one, two, three, or six-month periods. With the approval of the lenders, PCA can lock-in

LIBOR interest rates for either a two-week or twelve-month period. The receivables credit facility also provides PCA with the right to lock-in commercial paper interest rates for a one, two, or three-month period.

A summary of the Company's drawings under credit facilities as of December 31, 2001 follows:

	Term	Commitments	Utilized	Available
<i>(In thousands)</i>				
Receivables credit facility	2003	\$ 150,000	\$ 126,000	\$ 24,000
Senior revolving credit facility	2006	150,000	—	150,000
		\$ 300,000	\$ 126,000	\$ 174,000

PCA is required to pay commitment fees on the unused portions of the credit facilities. In December of 2000, PCA reduced the availability under the senior revolving credit facility from \$250.0 million to \$150.0 million.

At December 31, 2001 and 2000, letters of credit amounting to approximately \$23.8 million and \$21.9 million, respectively, were outstanding which relate primarily to various environmental obligations, including landfills and solid waste programs, management equity loans, workers' compensation, and equipment leases.

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## 7. FINANCIAL INSTRUMENTS

The carrying and estimated fair values of PCA's financial instruments at December 31, 2001 and 2000 were as follows:

	2001		2000	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
Short-term assets	\$ 252,640	\$ 252,640	\$ 223,886	\$ 223,886
Short-term liabilities	(93,873)	(93,873)	(113,701)	(113,701)
Long-term debt—				
Senior credit facility	(119,000)	(119,000)	(177,000)	(177,000)
9.625% Senior subordinated notes	(550,000)	(596,750)	(550,000)	(558,250)
Receivables credit facility	(126,000)	(126,000)	(142,000)	(142,000)
Other	(217)	(217)	(414)	(414)
Interest rate collars	(5,228)	(5,228)	—	(816)

### **Short-Term Assets and Liabilities**

The fair value of cash and cash equivalents, accounts receivable, notes receivable and accounts payable approximate their carrying amounts due to the short-term nature of these financial instruments.

### **Long-Term Debt**

The fair value of the senior credit facility and the receivables credit facility approximates their carrying amount due to the variable interest-rate feature of the instruments. The fair value of the senior subordinated notes is based on quoted market prices. The fair values of the remaining debt were considered to be the same as or were not determined to be materially different from the carrying amounts.

### **Interest Rate Collars**

The fair values of the interest rate collars are the amounts at which they could be settled and are estimated by obtaining quotes from banks.

## 8. MANDATORY REDEEMABLE PREFERRED STOCK

On April 12, 1999, PCA issued 1,000,000 shares of 12.375% senior exchangeable preferred stock, liquidation preference of \$100 per share. Holders of the preferred shares were entitled to receive cumulative dividends paid in cash or in kind at a rate of 12.375% which were paid semi-annually. If PCA failed to pay dividends, holders of the preferred stock were entitled to elect two additional members to PCA's Board of Directors. Holders of the preferred stock had no voting rights. The preferred stock ranked senior to the common stock. 3,000,000 shares were authorized, and 1,058,094 shares were issued and outstanding as of December 31, 1999. PCA incurred \$3.5 million of issuance costs, which were being amortized through 2010 at which time the preferred stock was required to be redeemed.

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PCA used substantially all of the net proceeds from its initial public offering to redeem all outstanding shares of its 12.375% senior exchangeable preferred stock due 2010 (1,058,094 shares as of March 3, 2000) at a redemption price of 112.375% of its liquidation preference, plus accrued and unpaid dividends

through March 3, 2000, the date of redemption. The total paid to redeem the senior exchangeable preferred stock was \$124.4 million, which included \$5.5 million of accrued and unpaid dividends.

## 9. SHAREHOLDERS' EQUITY

On April 12, 1999, PCA issued 100 shares of Junior Preferred Stock, liquidation preference of \$1.00 per share. Holders of the Junior Preferred Stock are not entitled to receive any dividends or distributions and had, prior to February 2, 2000, the right to elect one director to PCA's Board of Directors. Shares of Junior Preferred Stock may not be reissued after being reacquired in any manner by PCA. On December 20, 2000, PCA redeemed the Junior Preferred Stock.

In June 1999, PCA entered into management equity agreements with 125 of its management-level employees. Under these agreements, PCA Holdings LLC and Pactiv Corporation sold 3,132,800 shares of common stock to 113 of these employees at \$4.55 per share. The stock purchased under the management equity agreements is subject to vesting. As of August 2001, the stock was fully vested. The management equity agreements also provide for the grant of options (see Note 16).

On October 19, 1999, PCA effected a 220-for-one stock split of its common stock which resulted in an increase in the number of shares outstanding from 430,000 to 94,600,000. All historical share numbers for PCA contained in the financial statements and related notes reflect the 220-for-one split.

On January 28, 2000, PCA became a publicly traded company through the initial public offering of its common stock in which Pactiv Corporation sold 35,000,000 of its 41,160,240 shares of common stock in PCA, and PCA issued an additional 11,250,000 shares. The net proceeds to PCA were approximately \$126.4 million, after deducting underwriting discounts and offering expenses at an initial public offering price of \$12.00 per share. PCA utilized these proceeds to redeem its senior exchangeable preferred stock (see Note 8).

On May 16, 2001, the Company announced a \$100.0 million common stock repurchase program. PCA currently expects to repurchase the shares from time to time. Through December 31, 2001, the Company repurchased 2,323,200 shares of common stock for approximately \$38.3 million. Of these shares, 3,000 were held in treasury at December 31, 2001 and were subsequently retired in January 2002. The remaining shares were retired prior to December 31, 2001.

## 10. COMMITMENTS AND CONTINGENCIES

### Capital Commitments

The Company had authorized capital expenditures of approximately \$44.5 million and \$37.9 million as of December 31, 2001 and 2000, respectively, in connection with the expansion and replacement of existing facilities and equipment.

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### Lease Commitments

The Company holds certain of its facilities, equipment, and other assets under long-term leases. The minimum lease payments under non-cancelable operating leases with lease terms in excess of one year are as follows:

(In thousands)

2002	\$ 18,283
2003	14,584
2004	11,260
2005	8,297
2006	5,204
Thereafter	37,613
	<hr/>
Total	\$ 95,241
	<hr/>

Commitments under capital leases were not significant to the accompanying financial statements. Total lease expense for the years ended December 31, 2001 and 2000, and for the period from April 12, 1999 through December 31, 1999 was \$26.7 million, \$24.7 million and \$15.0 million, respectively. These costs are included primarily in cost of goods sold.

### Purchase Commitments

The Company has entered into various minimum purchase agreements to buy energy over periods ranging from one to three years at fixed prices. Total purchase commitments over the next three years are as follows:

(In thousands)

2002	\$ 23,379
2003	2,622
2004	2,622
	<hr/>
Total	\$ 28,623
	<hr/>

These purchase agreements are not marked to market. The Company purchased approximately \$18.8 million during the year ended December 31, 2001, \$9.3 million during the year ended December 31, 2000, and \$7.8 million during the period from April 12, 1999 through December 31, 1999 under these purchase agreements.



## Litigation

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 the Company 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 suit, along with nine other linerboard manufacturers. The complaint alleges that the defendants, during the period October 1, 1993

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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.

The Company is involved in various legal proceedings and litigation arising in the ordinary course of business. In the opinion of management and in-house legal counsel, the outcome of such proceedings and litigation will not materially affect the Company's financial position or results of operations.

## 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 by the Company for environmental contingencies are estimates of the probable costs based upon available information and assumptions. Because of these uncertainties, however, PCA's estimates may change. PCA believes that any additional costs identified as further information becomes available would not have a material effect on its financial statements.

In the transactions, Pactiv agreed to retain all liability for all former facilities and all sites associated with pre-closing offsite waste disposal. Pactiv also retained environmental liability for a closed landfill located near the Filer City mill.

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## 11. INCOME TAXES

Following is an analysis of the components of consolidated income tax expense (benefit):

	2001	2000	April 12, 1999 Through Dec. 31, 1999
<i>(In thousands)</i>			
Current—			
U.S.	\$ 17,816	\$ 30,273	\$ (16,207)
State and local	3,742	4,074	(1,083)
Total current provision for taxes	21,558	34,347	(17,290)
Deferred—			
U.S.	40,793	70,948	44,976
State and local	5,561	8,895	9,533
Total deferred provision for taxes	46,354	79,843	54,509
Total provision for taxes	\$ 67,912	\$ 114,190	\$ 37,219

The effective tax rate varies from the U.S. Federal statutory tax rate principally due to the following:

	2001	2000	April 12, 1999 Through Dec. 31, 1999
<i>(In thousands)</i>			
Provision computed at U.S. Federal statutory rate of 35%	\$ 61,402	\$ 100,503	\$ 29,623
State and local taxes	7,339	12,963	4,855
Other	(829)	724	2,761
Total	\$ 67,912	\$ 114,190	\$ 37,239

The components of the deferred tax assets (liabilities) were as follows:

	December 31,	
	2001	2000
<i>(In thousands)</i>		
Current deferred taxes—		
Accrued liabilities	\$ 1,980	\$ 2,313
Employee benefits and compensation	7,929	8,976
Reserve for doubtful accounts	1,365	1,675
Inventory	1,064	1,307
Pensions and postretirement benefits	1,808	85
Derivatives	(800)	—
<b>Total current deferred taxes</b>	<b>\$ 13,346</b>	<b>\$ 14,356</b>
Noncurrent deferred taxes—		
Pension and postretirement benefits	\$ 3,042	\$ 2,279
Excess of financial reporting over tax basis in plant and equipment	(209,170)	(181,071)
Accrued liabilities	(3,666)	11,536
Asset for alternative minimum tax credits	12,495	15,528
Derivatives	2,847	—
<b>Total noncurrent deferred taxes</b>	<b>\$ (194,452)</b>	<b>\$ (151,728)</b>

Cash payments for income taxes were \$23.4 million and \$23.7 million for the years ended December 31, 2001 and 2000, respectively, and \$4.1 million for the period April 12, 1999 through December 31, 1999. As of December 31, 2001 and 2000, the Company has available for income tax purposes approximately \$12.5 million and \$15.5 million, respectively, in alternative minimum tax credits which may be used to offset future taxable income.

## 12. RELATED PARTY TRANSACTIONS

PCA owns 33<sup>1</sup>/<sub>3</sub>% interest in Southern Timber Venture, LLC ("STV"). At December 31, 2001, PCA has not guaranteed the debt of STV and has no future funding requirements.

PCA purchases pulpwood from STV in accordance with the terms of a fiber supply agreement between the two companies which expires December 31, 2017. The price of pulpwood in this agreement is based upon the fair market value of pulpwood and will be adjusted annually for any changes in market value beginning January 2003. PCA purchased \$19.7 million and \$1.7 million of pulpwood for its Counce, Tennessee and Valdosta, Georgia mills from STV during the year ended December 31, 2001 and from November 16, 2000, through December 31, 2000, respectively.

As Pactiv Corporation sold its remaining interest in PCA during the first half of 2001, it is no longer considered a related party. PCA's sales to Pactiv Corporation, which includes both containerboard and corrugated products, are included in the accompanying consolidated financial statements. The net sales to Pactiv Corporation for the year ended December 31, 2001 and 2000 were

\$92.9 million and \$100.5 million, respectively. The net sales to Pactiv Corporation for the period April 12, 1999 through December 31, 1999 were approximately \$57.4 million. The accounts receivable relating to these sales as of December 31, 2001 and 2000 were \$9.3 million and \$13.3 million, respectively.

PCA entered into a transition services agreement with Pactiv which provided for the performance of transitional services by Pactiv and its affiliates to PCA that PCA required to operate its business. These services included: payroll, general accounting, tax support, treasury/cash management, insurance/risk management, procurement, human resources, telecommunications and information services. The initial term of the transition services agreement was for one year, but was extended by PCA for an additional six month term. During the period April 12, 1999 through December 31, 1999, PCA paid Pactiv \$6.5 million for these services. For the year 2000, PCA paid Pactiv \$2.6 million. As of October 2000, the transition services agreement was terminated.

Pactiv also agreed to reimburse PCA for up to \$5.4 million in expenditures incurred by PCA relating to system enhancement and year 2000 compliance in the transition services agreement. The full \$5.4 million was received by PCA during 1999.

PCA and Pactiv entered into a facility use agreement which provides for PCA's use of a portion of Pactiv's headquarters located in Lake Forest, Illinois and certain building and business services through January, 2003. PCA paid Pactiv \$1.8 million and \$2.4 million for the years ended December 31, 2001 and 2000, respectively, and \$1.5 million for the period April 12, 1999 through December 31, 1999.

## 13. RESTRUCTURING AND OTHER CHARGES

As part of the April 12, 1999 Transactions, the Company assumed accruals related to a previously recorded restructuring charge set forth below. This charge was recorded prior to the Transactions following approval by Tenneco's Board of Directors of a comprehensive restructuring plan for all of Tenneco's operations, including those of the Company. In connection with this restructuring plan, four corrugated facilities were closed and 109 positions were eliminated.

The following table reflects the components of this assumed accrual:

	Balance April 12, 1999	Activity	Balance Dec. 31, 1999	Activity	Balance Dec. 31, 2000	Activity	Balance Dec. 31, 2001
<i>(In thousands)</i>							
Severance	\$ 1,087	\$ 819	\$ 268	\$ 268	\$ —	\$ —	\$ —
Facility exit costs	1,920	278	1,642	1,489	153	138	15
Total accrual	\$ 3,007	\$ 1,097	\$ 1,910	\$ 1,757	\$ 153	\$ 138	\$ 15

The fixed assets at the closed facilities were written down to their estimated fair value. No significant cash proceeds are expected from the ultimate disposal of these assets. The remaining liability balance at December 31, 2001 will be used for rent payments related to the closed facilities.

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#### 14. SALE OF TIMBERLANDS

In October and November, 1999, PCA completed the sales of approximately 405,000 acres of timberland. Total proceeds received from the sales were \$263.3 million, resulting in a pre-tax gain of \$12.2 million.

On November 16, 2000, PCA completed the sale of approximately 385,000 acres of timberland to Southern Timber Venture, LLC. The Company received \$247.9 million in cash and a 33<sup>1</sup>/<sub>3</sub>% equity ownership interest in Southern Timber Venture, LLC. PCA recorded a pre-tax gain of \$60.4 million, and a portion of the gain was not recognized as a result of PCA's continuing ownership interest.

#### 15. ACQUISITIONS

On May 25, 2001, PCA International, Inc. a wholly owned subsidiary of PCA, was formed to acquire the assets of Sunbelt Packaging Services, Inc. for approximately \$4.8 million. The transaction was completed on June 1, 2001. The purchase method of accounting was used to account for the acquisition. Sales and total assets of the acquisition were not material.

#### 16. STOCK-BASED COMPENSATION

PCA entered into management equity agreements in June 1999 with 125 of its management-level employees. These agreements provide for the grant of options to purchase up to an aggregate of 6,576,460 shares of PCA's common stock at \$4.55 per share, the same price per share at which PCA Holdings LLC purchased common stock in the Transactions. The agreement called for these options to vest ratably over a five-year period, or upon completion of an initial public offering, full vesting 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 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. Under the plan, which will terminate on June 1, 2009, up to 4,400,000 shares of common stock is available for issuance under the long-term equity incentive plan.

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A summary of the Company's stock option activity, and related information for the years ended December 31, 2001 and 2000 and for the period January 25, 1999 through December 31, 1999 follows:

	Options	Weighted-Average Exercise Price
Balance, January 25, 1999	—	\$ —
Granted	6,576,460	4.55
Exercised	—	—
Forfeited	(7,260)	4.55
Balance, December 31, 1999	6,569,200	\$ 4.55
Granted	1,059,700	11.92
Exercised	(398,138)	4.55
Forfeited	(26,560)	6.88
Balance, December 31, 2000	7,204,202	\$ 5.62
Granted	953,350	15.45
Exercised	(1,662,475)	4.59
Forfeited	(16,634)	11.18

Balance, December 31, 2001

6,478,443

\$

7.31

The following table summarizes information for options outstanding and exercisable at December 31, 2001:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number	Weighted-Avg Remaining Life	Weighted-Avg Exercise Price	Number	Weighted-Avg Exercise Price	
\$ 4.55	4,505,618	7.50	\$ 4.55	4,505,618	\$ 4.55	
\$10.44-\$15.50	1,972,825	8.67	13.62	285,325	12.00	
\$ 4.55-\$15.50	6,478,443	7.86	\$ 7.31	4,790,943	\$ 4.99	

Black-Scholes option-pricing model assumptions and fair value for these options are shown in the following table:

	Year of Grant		
	2001	2000	1999
Actuarial assumptions			
Risk-free interest rate (%)	5.67	6.68	6.65
Expected life (years)	5	5	5
Volatility (%)	37.50	39.00	N/A
Dividend yield (%)	0.00	0.00	N/A
Weighted-average fair value (\$)	6.52	5.36	1.29

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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.

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation," 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. Under APB No. 25, no compensation costs are recognized because the number of options is fixed and the option exercise price is equal to the fair market price of the common stock on the date of the grant. Under SFAS No. 123, stock options are valued at the grant date using the Black-Scholes valuation model and compensation costs are recognized ratably over the vesting period. Had compensation costs been determined as prescribed by SFAS No. 123, the Company's net earnings and diluted earnings per common share for the years ended December 31, 2001 and 2000, and the period January 25, 1999 through December 31, 1999, would have been lower by \$1.4 million or \$0.01 per diluted common share, \$5.1 million or \$0.05 per diluted common share, and \$0.6 million or \$0.01 per diluted common share, respectively.

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## 17. SUMMARIZED COMBINED FINANCIAL INFORMATION ABOUT GUARANTOR SUBSIDIARIES

The following is summarized aggregated financial information for PCA International, Inc., Packaging Credit Company, LLC, Dahlenega Packaging Corporation, Dixie Container Corporation, PCA Hydro, Inc., PCA Tomahawk Corporation and PCA Valdosta Corporation, 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 in connection with the Transactions. Effective January 1, 2000, Dahlenega Packaging Corporation, PCA Tomahawk Corporation and PCA Valdosta Corporation were merged into 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.

	PCA	Guarantor Subs	Non-Guarantor Subs	Eliminations	Total
<i>(In thousands)</i>					
<b>December 31, 2001</b>					
Current assets	\$ 260,573	\$ 69,568	\$ 197,066	\$ (78,990)	\$ 448,217
Non-current assets	1,649,244	114,932	—	(240,613)	1,523,563
Total assets	1,909,817	184,500	197,066	(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	\$ 181,597	\$ 70,966	\$ (220,738)	\$ 769,834

December 31, 2000

Current assets	\$ 192,295	\$ 63,501	\$ 207,976	\$ (60,063)	\$ 403,709
Non-current assets	1,663,269	65,883	—	(190,749)	1,538,403
<b>Total assets</b>	<b>1,855,564</b>	<b>129,384</b>	<b>207,976</b>	<b>(250,812)</b>	<b>1,942,112</b>
Current liabilities	278,581	3,441	1,372	(64,846)	218,548
Non-current liabilities	893,978	162	142,000	—	1,036,140
<b>Total liabilities</b>	<b>1,172,559</b>	<b>3,603</b>	<b>143,372</b>	<b>(64,846)</b>	<b>1,254,688</b>
<b>Net assets</b>	<b>\$ 683,005</b>	<b>\$ 125,781</b>	<b>\$ 64,604</b>	<b>\$ (185,966)</b>	<b>\$ 687,424</b>

**Year ended December 31, 2001**

Net sales	\$ 1,784,765	\$ 5,191	\$ —	\$ —	\$ 1,789,956
Pre-tax profit	131,731	76,620	19,865	(52,782)	175,434
Net income	79,012	48,482	12,549	(33,625)	106,418

**Year ended December 31, 2000**

Net sales	\$ 1,921,868	\$ —	\$ —	\$ —	\$ 1,921,868
Pre-tax profit	280,075	3,907	1,630	1,539	287,151
Net income	155,432	3,884	1,630	955	161,901

**For the period January 25, 1999 through December 31, 1999**

Net sales	\$ 1,273,401	\$ 43,941	\$ —	\$ —	\$ 1,317,342
Pre-tax profit	85,025	(389)	—	—	84,636
Net income	40,679	(179)	—	—	40,500

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**18. QUARTERLY FINANCIAL DATA (UNAUDITED)**

	Fiscal Quarter				
	First	Second	Third	Fourth	Total
<i>(In thousands, except per share amounts)</i>					
<b>2001:</b>					
Net sales	\$ 454,666	\$ 466,964	\$ 455,214	\$ 413,112	\$ 1,789,956
Income before interest, taxes, cumulative effect of accounting change and extraordinary item	65,960	69,554	65,364	48,577	249,455
Net income available to common shareholders	27,619	31,259	29,154	18,386	106,418
Basic earnings per share	0.26	0.29	0.27	0.17	1.00
Diluted earnings per share	0.25	0.29	0.27	0.17	0.98
Stock price—high	16.50	16.98	20.70	18.64	20.70
Stock price—low	12.65	12.85	14.75	14.23	12.65
<b>2000:</b>					
Net sales	\$ 475,890	\$ 492,372	\$ 487,676	\$ 465,930	\$ 1,921,868
Income before interest, taxes and extraordinary item	72,741	88,537	96,568	146,988	404,834
Net income	25,246	33,278	40,009	63,368	161,901
Net income available to common shareholders	6,609	33,278	40,009	63,368	143,264
Basic earnings per share	0.07	0.31	0.38	0.60	1.37
Diluted earnings per share	0.06	0.31	0.37	0.58	1.33
Stock price—high	12.19	12.75	13.19	16.81	16.81
Stock price—low	9.25	9.88	10.25	10.88	9.25
<b>1999(2):</b>					
Net sales	N/A <sup>(1)</sup>	\$ 389,277 <sup>(1)</sup>	\$ 462,910	\$ 465,155	\$ 1,317,342
Income before interest, taxes and extraordinary item	N/A <sup>(1)</sup>	45,390 <sup>(1)</sup>	63,824	83,016	192,230
Net income	N/A <sup>(1)</sup>	6,766 <sup>(1)</sup>	14,167	19,567	40,500
Net income available to common shareholders	N/A <sup>(1)</sup>	4,088 <sup>(1)</sup>	11,036	16,080	31,204
Basic earnings per share	N/A <sup>(1)</sup>	0.04 <sup>(1)</sup>	0.12	0.18	0.34
Diluted earnings per share	N/A <sup>(1)</sup>	0.04 <sup>(1)</sup>	0.11	0.17	0.32

Note: The sum of the quarters may not equal the total of the respective year's earnings per share on either a basic or diluted basis due to changes in the weighted average shares outstanding throughout the year.

- (1) PCA acquired the Group on April 12, 1999. As such, operating results for the period prior to April 12, 1999 have been excluded from PCA's 1999 results.
- (2) PCA became a publicly traded company on January 28, 2000, as such, there are no stock prices for 1999.

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**Report of Independent Public Accountants**

To Tenneco Inc.:

We have audited the accompanying combined statements of assets, liabilities and interdivision account of **THE CONTAINERBOARD GROUP** (a division of Tenneco Packaging Inc., which is a Delaware corporation and a wholly owned subsidiary of Tenneco Inc.) as of April 11, 1999, and the related combined statements of revenues, expenses and interdivision account and cash flows for the period from January 1, 1999, through April 11, 1999. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of The Containerboard Group as of April 11, 1999, and the results of its operations and its cash flows for the period from January 1, 1999, through April 11, 1999, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Chicago, Illinois  
July 16, 1999

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**The Containerboard Group**  
**(a Division of Tenneco Packaging Inc.)**  
**Combined Statement of**  
**Assets, Liabilities and Interdivision Account**  
**As of April 11, 1999**  
**(In thousands)**

<b>ASSETS</b>	
Current assets:	
Cash	\$ 1
Accounts receivable (net of allowance for doubtful accounts of \$3,947)	171,710
Receivables from affiliated companies	9,037
Notes receivable	27,933
Inventories	158,233
Prepaid expenses and other current assets	32,950
Total current assets	399,864
Property, plant and equipment, at cost:	
Land, timber, timberlands and buildings	701,922
Machinery and equipment	1,864,962
Other, including construction in progress	110,842
Less—Accumulated depreciation and depletion	(757,476)
Property, plant and equipment, net	1,920,250
Intangibles	1,942
Investment	1,388
Other long-term assets	67,645
Total assets	\$ 2,391,089

**LIABILITIES AND INTERDIVISION ACCOUNT**

Current liabilities:	
Accounts payable	\$ 114,050
Payables to Tenneco affiliates	7,652
Current portion of long-term debt	31,841
Accrued liabilities	64,371
Total current liabilities	217,914
Long-term liabilities:	
Long-term debt, net of current portion	1,728,625
Deferred taxes	263,936

Other	23,917
<b>Total long-term liabilities</b>	<b>2,016,478</b>
Interdivision account	156,697
<b>Total liabilities and interdivision account</b>	<b>\$ 2,391,089</b>

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

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**The Containerboard Group**  
**(a Division of Tenneco Packaging Inc.)**  
**Combined Statement of Revenues,**  
**Expenses and Interdivision Account**  
**For the Period from January 1, 1999, Through April 11, 1999**  
**(In thousands)**

Net sales	\$ 453,207
Cost of sales	(387,508)
<b>Gross profit</b>	<b>65,699</b>
Selling and administrative expenses	(30,584)
Impairment loss	(230,112)
Other expense, net	(2,207)
Corporate allocations	(14,890)
<b>Loss before interest, income taxes and extraordinary loss</b>	<b>(212,094)</b>
Interest expense, net	(221)
<b>Loss before income taxes and extraordinary loss</b>	<b>(212,315)</b>
Benefit for income taxes	83,716
Extraordinary loss, net of income tax	(6,327)
<b>Net loss</b>	<b>(134,926)</b>
Interdivision account, beginning of period	908,392
Interdivision account activity, net	(616,769)
<b>Interdivision account, end of period</b>	<b>\$ 156,697</b>
<b>Basic and diluted earnings per share (unaudited):</b>	
Loss before extraordinary item	\$ (1.36)
Extraordinary item	(.07)
<b>Net loss per common share</b>	<b>\$ (1.43)</b>
<b>Weighted average common shares outstanding</b>	<b>94,600</b>

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

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**The Containerboard Group**  
**(a Division of Tenneco Packaging Inc.)**  
**Combined Statement of Cash Flows**  
**For the Period from January 1, 1999, Through April 11, 1999**  
**(In thousands)**

<b>Cash flows from operating activities:</b>	
Net loss	\$ (134,926)
<b>Adjustments to reconcile net loss to net cash provided by operating activities—</b>	
Depreciation, depletion and amortization	30,905
Extraordinary loss—early debt extinguishment	6,327
Loss on sale of assets	230,112

Amortization of deferred gain	(493)
Increase in deferred income taxes	9,782
Undistributed earnings of affiliated companies	(106)
Increase in other noncurrent reserves	56
Total charges to net income not involving cash	276,583
Changes in noncash components of working capital—	
Working capital transactions, excluding transactions with Tenneco and working capital from acquired businesses—	
Decrease (increase) in current assets—	
Accounts and notes receivable	(8,183)
Inventories, net	(7,514)
Prepaid expenses and other current assets	4,201
(Decrease) increase in current liabilities—	
Accounts payable	26,996
Accrued liabilities	(3,508)
Net decrease in noncash components of working capital	11,992
Net cash provided by operating activities	153,649
Cash flows from investing activities:	
Additions to property, plant and equipment	(1,128,255)
Other long-term assets	2,284
Proceeds from disposals	825
Other transactions, net	4,001
Net cash used for investing activities	(1,121,145)
Cash flows from financing activities:	
Proceeds from long-term debt issued	1,760,000
Payments on long-term debt	(27,550)
Decrease in interdivision account	(616,769)
Working capital transactions with Tenneco and affiliated companies—	
Decrease in receivables from affiliated companies	1,353
Decrease in factored receivables	(150,099)
Increase in accounts payable to affiliated companies	561
Net cash provided by financing activities	967,496
Net change in cash	
Cash, beginning of period	1
Cash, end of period	\$ 1

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

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**The Containerboard Group  
(a Division of Tenneco Packaging Inc.)**

**Notes to Combined Financial Statements**

**April 11, 1999**

**1. BUSINESS DESCRIPTION**

The Containerboard Group (the "Group") is a division of Tenneco Packaging Inc., ("Packaging") which is a wholly owned subsidiary of Tenneco Inc. ("Tenneco"). The Group is comprised of mills and corrugated products operations. Madison Dearborn Partners, LLC ("MDP"), is a private equity investment firm.

The Mill operations ("The Mills") consist of two Kraft linerboard mills located in Counce, Tennessee, and Valdosta, Georgia, and two medium mills located in Filer City, Michigan, and Tomahawk, Wisconsin. The Mills also include two recycling centers located in Nashville, Tennessee, and Jackson, Tennessee. The



Mills also control and manage approximately 950,000 acres of timberlands. The Mills transfer the majority of their output to The Corrugated Products operations ("Corrugated").

Corrugated operations consist of 39 corrugated combining plants, 28 specialty/sheet plants and 5 design centers. All plants are located in North America. Corrugated combines linerboard and medium (primarily from The Mills) into sheets that are converted into corrugated shipping containers, point-of-sale graphics packaging, point-of-purchase displays and other specialized packaging. Corrugated sells to diverse customers primarily in North America.

On January 25, 1999, Packaging entered into a definitive agreement (the "Contribution Agreement") to sell its containerboard and corrugated packaging products business to Packaging Corporation of America ("PCA") for \$2.2 billion. Under the terms of the Contribution Agreement, PCA Holdings, an entity organized and controlled by MDP and its coinvestors, acquired a 55% common equity interest in PCA, and Packaging contributed the Group to PCA in exchange for cash, the assumption of debt and a 45% common equity interest in PCA (in each case before giving effect to issuances of common equity to management).

The sale was completed on April 12, 1999. The financing of the transaction consisted of borrowings under a new \$1.46 billion senior credit facility, the offering of notes and preferred stock, the cash equity investment of \$236.5 million by PCA Holdings and a rollover equity investment by Packaging valued at \$193.5 million.

The Group's sales to other Packaging entities and other Tenneco entities are included in the accompanying combined financial statements. The net sales to other Packaging entities for the period from January 1, 1999, through April 11, 1999, were approximately \$21,350,000. The net sales to other Tenneco entities for the period from January 1, 1999, through April 11, 1999, were approximately \$3,298,000. The profit relating to these sales is included in the accompanying combined financial statements.

As a result of the Group's relationship with Packaging, the combined statements of assets, liabilities and interdivision account and the related combined statements of revenues, expenses and interdivision account are not necessarily indicative of what actually would have occurred had the Group been a stand-alone entity. Additionally, these combined financial statements are not necessarily indicative of the future financial position or results of operations of the Group.

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## 2. SUMMARY OF ACCOUNTING POLICIES

### *Basis of Presentation*

The accompanying combined financial statements include the selected assets and liabilities of the Group as of April 11, 1999, and the revenues and expenses of the Group for the period January 1, 1999, through April 11, 1999. All significant intragroup accounts and transactions have been eliminated.

### *Revenue Recognition*

The Group recognizes revenue as products are shipped to customers.

### *Accounts Receivable*

Historically, a substantial portion of the Group's trade accounts receivable were sold by Packaging, generally without recourse, to a financing subsidiary of Tenneco Inc. Expenses relating to cash discounts, credit losses, pricing adjustments and other allowances on these factored receivables are accrued and charged to the Group. As part of the Containerboard transaction, these receivables were purchased by Packaging from the financing subsidiary and contributed to PCA. All purchase and sale transactions were consummated at fair value, which was the same as the net book value of the receivables as reflected on the Group's financial statements prior to the initial sale. Therefore, due to the pending sale transaction, the amount of trade accounts receivable sold was \$0 at April 11, 1999.

### *Inventories*

Raw materials and finished goods are valued using the last-in, first-out ("LIFO") cost method and include material, labor and manufacturing-related overhead costs. Supplies and materials inventories are valued using a moving average cost. All inventories are stated at the lower of cost or market.

### *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost. Interest costs relating to construction in progress are capitalized based upon the total amount of interest cost (including interest costs on notes payable to Tenneco) incurred by Packaging.

The amount of interest capitalized related to construction in progress at the Group was approximately \$19,000 for the period ended April 11, 1999.

Depreciation is computed on the straight-line basis over the estimated useful lives of the related assets. The following useful lives are used for the various categories of assets:

Buildings and land improvements	5 to 40 years
Machinery and equipment	3 to 25 years
Trucks and automobiles	3 to 10 years
Furniture and fixtures	3 to 20 years
Computers and software	3 to 7 years
Leasehold improvements	Period of the lease

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Timber depletion is provided on the basis of timber cut during the period related to the estimated quantity of recoverable timber. Assets under capital leases are depreciated on the straight-line method over the term of the lease.

Expenditures for repairs and maintenance are expensed as incurred.

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 is 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 is required.

### ***Changes in Accounting Principles***

In June, 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." This statement establishes new accounting and reporting standards requiring that all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded in the balance sheet as either an asset or liability measured at its fair value. The statement requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. This statement is effective for all fiscal years beginning after June 15, 2000. The adoption of this new standard is not expected to have a significant effect on the Group's financial position or results of operations.

In April, 1998, the American Institute of Certified Public Accountants ("AICPA") issued Statement of Position ("SOP") 98-5, "Reporting on the Costs of Start-Up Activities," which requires costs of start-up activities to be expensed as incurred. This statement is effective for fiscal years beginning after December 15, 1998. The statement requires capitalized costs related to start-up activities to be expensed as a cumulative effect of a change in accounting principle when the statement is adopted. Tenneco adopted this new accounting principle in the first quarter of 1999. The adoption of this new standard did not have a significant effect on the Group's financial position or results of operations.

In March, 1998, the AICPA issued SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," which establishes new accounting and reporting standards for the costs of computer software developed or obtained for internal use. This statement will be applied prospectively and is effective for fiscal years beginning after December 15, 1998. The adoption of this new standard did not have a significant effect on the Group's financial position or results of operations.

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### ***Freight Trades***

The Group regularly trades containerboard with other manufacturers primarily to reduce shipping costs. The freight trade transactions are accounted for primarily as transactions in the inventory accounts; the impact on income is not material.

### ***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 related to the Group 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 by the Group for environmental contingencies are estimates of the probable costs based upon available information and assumptions relating to the Group. Because of these uncertainties, however, the Group's estimates may change. The Group believes that any additional costs identified as further information becomes available would not have a material effect on the combined statements of assets, liabilities and interdivision account or revenues, expenses and interdivision account of the Group.

### ***Combined Statements of Cash Flows***

As a division of Packaging, the Group does not maintain separate cash accounts other than for petty cash. The Group's disbursements for payroll, capital projects, operating supplies and expenses are processed and funded by Packaging through centrally managed accounts. In addition, cash receipts from the collection of accounts receivable and the sales of assets are remitted directly to bank accounts controlled by Packaging. In this type of centrally managed cash system in which the cash receipts and disbursements of Packaging's various divisions are commingled, it is not feasible to segregate cash received from Packaging (e.g., as financing for the business) from cash transmitted to Packaging (e.g., as a distribution). Accordingly, the net effect of these cash transactions with Packaging are presented as a single line item within the financing section of the cash flow statements. Similarly, the activity of the interdivision account presents the net transfer of funds and charges between Packaging and the Group as a single line item.

### ***Research and Development***

Research and development costs are expensed as incurred. The amounts charged were \$1,015,000 from January 1, 1999, through April 11, 1999.

### ***Intangible Assets***

The Group has capitalized certain intangible assets, primarily trademarks and patents, based on their estimated fair value at the date of acquisition. Amortization is provided for these intangible assets

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on a straight-line basis over periods ranging from 3 to 10 years. Covenants not to compete are amortized on a straight-line basis over the terms of the respective agreements. Such amortization amounted to \$890,000 as of April 11, 1999.

Intangible 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 intangible assets may be impaired, an evaluation of recoverability would be performed. If an evaluation is required, the estimated future undiscounted cash flows through the remaining amortization period associated with the asset would be compared to the asset's carrying amount to determine if a write-down to discounted cash flows is required.

### *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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *Segment Information*

The Group adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information," in 1998 and determined that the Group 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. The Group has no foreign operations.

### *Earnings Per Share (unaudited)*

Earnings per share has been calculated using the historical earnings of the Group and the number of shares resulting from the April 12, 1999 transaction (430,000 common shares), as adjusted to reflect the anticipated 220-for-one stock split. For the period presented, basic and diluted earnings per share are the same because there are not potentially dilutive securities.

## 3. INVESTMENT IN JOINT VENTURE

The Group has a 50% U.S. joint venture with American Cellulose Corporation to manufacture and market hardwood chips. The net investment, which was accounted for under the equity method, was \$1,388,000 as of April 11, 1999.

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## 4. LONG-TERM DEBT

<i>(In thousands)</i>	<u>As of April 11, 1999</u>
Senior subordinated notes, interest at 9.625%, payable semiannually, due in 2009	\$ 550,000
Senior credit facility—	
Term loan A, interest at LIBOR plus 2.75%, due in varying quarterly installments through 2005	460,000
Term loan B, interest at LIBOR plus 3.25%, due in varying quarterly installments through 2007	375,000
Term loan C, interest at LIBOR plus 3.50%, due in varying quarterly installments through 2008	375,000
Other obligations	466
	<hr/>
Total	1,760,466
Less—Current portion	31,841
	<hr/>
Total long-term debt	<u>\$ 1,728,625</u>

As of April 11, 1999, the annual payments for debt during the next five years and thereafter are (in thousands): \$31,841 (1999), \$35,699 (2000), \$67,570 (2001), \$97,570 (2002), \$107,536 (2003) and \$1,420,250 (2004 and thereafter).

In February, 1999, Tenneco Inc. paid off the remaining note payable as it relates to the Counce Limited Partnership. The payment was \$27,220,000, including a \$10,456,000 premium payment (net of tax \$6,327,000) for the early extinguishment of debt.

Going-forward, PCA's various debt agreements require that it comply with certain covenants and restrictions, including specific financial ratios that must be maintained on the last day at the end of each fiscal quarter. Under the provisions of the credit agreement dated April 12, 1999 ("Credit Agreement"), PCA must maintain a consolidated interest coverage ratio of a minimum of 1.5 beginning on September 30, 1999, increasing per the guidelines set forth in the Credit Agreement to 2.5 as of March 31, 2005, and each fiscal quarter thereafter. Also, PCA must not exceed a leverage ratio of 6.75 at September 30, 1999, decreasing per the guidelines set forth in the Credit Agreement to 4.0 as of March 31, 2006, and each fiscal quarter thereafter. Lastly, PCA must maintain a minimum consolidated net worth beginning on June 30, 1999 of \$315,000,000, increasing per the guidelines set forth in the Credit Agreement to \$690,000,000 as of March 31, 2008.

In May through October of 1999, PCA made voluntary prepayments totaling approximately \$322,100,000 using excess cash and proceeds from the sale of certain timberlands to permanently reduce its borrowings under the term loans. As a result of this prepayment, no payments will be required under any of the term loans until December, 2001.

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## 5. PENSION AND OTHER BENEFIT PLANS

Substantially all of the Group's salaried and hourly employees are covered by retirement plans sponsored by Packaging and Tenneco. Benefits generally are based on years of service and, for most salaried employees, on final average compensation. Packaging's funding policies are to contribute to the plans, at a minimum, amounts necessary to satisfy the funding requirements of federal laws and regulations. The assets of the plans consist principally of listed equity and fixed and variable income securities, including Tenneco Inc. common stock.

The Group's eligible salaried employees participate in the Tenneco Inc. Retirement Plan (the "Retirement Plan"), a defined benefit plan, along with other Tenneco divisions and subsidiaries. The pension expense allocated to the Group by Packaging for this plan was approximately \$1,696,000 for the period ended April 11, 1999. Amounts allocated are principally determined based on payroll. This plan is overfunded and a portion of the prepaid pension costs has not been allocated to the Group.

The Group's eligible hourly employees participate in the Tenneco Packaging Pension Plan for Certain Hourly-Rated Employees, also a defined benefit plan, along with other Packaging divisions. As stated, due to the fact that other divisions within Packaging participate in the plan, certain of the disclosures required by SFAS No. 132, "Employers' Disclosures About Pension and Other Postretirement Benefits, such as a summary of the change in benefit obligation and the change in plan assets, are not available. Actuarial information as of April 11, 1999 is not available and in connection with the sale of the Group as described in Note 1 to these financial statements, the pension asset allocated to the Group will be excluded from the sale transaction and remain with Tenneco. As such, the actuarial information below is reported as of December 31, 1998.

The net pension income allocated to the Group for this plan was \$213,000 for the period ended April 11, 1999. This plan is overfunded, and a portion of the related pension asset of \$41,965,000 for April 11, 1999, has been allocated to the Group and is included in Other Long-Term Assets.

Actuarially allocated net pension cost for the Group's defined benefit plans, excluding the Retirement Plan, consists of the following components for the year ended December 31, 1998 (in thousands):

Service cost—benefits earned during the year	\$ 3,112
Interest cost on projected benefit obligations	6,990
Expected return on plan assets	(11,312)
Amortization of—	
Transition liability	(164)
Unrecognized loss	—
Prior service cost	908
	<hr/>
Net pension income	\$ (466)
	<hr/>

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The funded status of the Group's allocation of defined benefit plans, excluding the Retirement Plan, reconciles with amounts recognized in the 1998 statements of assets and liabilities and interdivision account as follows (in thousands):

Actuarial present value at September 30, 1998—	
Vested benefit obligation	\$ (98,512)
Accumulated benefit obligation	(108,716)
	<hr/>
Projected benefit obligation	\$ (108,716)
Plan assets at fair value at September 30, 1998	146,579
Unrecognized transition liability	(1,092)
Unrecognized net gain	(14,623)
Unrecognized prior service cost	13,455
	<hr/>
Prepaid pension cost at December 31, 1998	\$ 35,603
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The weighted average discount rate used in determining the actuarial present value of the benefit obligations was 7.00% for the year ended December 31, 1998. The weighted average expected long-term rate of return on plan assets was 10% for 1998.

Middle management employees participate in a variety of incentive compensation plans. These plans provide for incentive payments based on the achievement of certain targeted operating results and other specific business goals. The targeted operating results are determined each year by senior management of Packaging. The amounts charged to expense for these plans were \$1,599,000 for the period ended April 11, 1999.

In June, 1992, Tenneco initiated an Employee Stock Purchase Plan ("ESPP"). The plan allows U.S. and Canadian employees of the Group to purchase Tenneco Inc. common stock through payroll deductions at a 15% discount. Each year, an employee in the plan may purchase shares with a discounted value not to exceed \$21,250. The weighted average fair value of the employee purchase right, which was estimated using the Black-Scholes option pricing model and the assumptions described below except that the average life of each purchase right was assumed to be 90 days, was \$6.31 for the period ended December 31, 1998. The ESPP was terminated as of September 30, 1996. Tenneco adopted a new employee stock purchase plan effective April 1, 1997. Under the respective ESPPs, Tenneco sold 36,883 shares to Group employees for the period ended April 11, 1999.

In December, 1996, Tenneco adopted the 1996 Stock Ownership Plan, which permits the granting of a variety of awards, including common stock, restricted stock, performance units, stock appreciation rights, and stock options to officers and employees of Tenneco. Tenneco can issue up to 17,000,000 shares of common stock under this plan, which will terminate December 31, 2001.

The April 11, 1999, fair market value of the options granted was calculated using Tenneco's stock price at the grant date and multiplying the amount by the historical percentage of past Black-Scholes pricing values fair value (approximately 25%). The fair value of each stock option issued by Tenneco to the Group in prior periods was estimated on the date of grant using the Black-Sholes option pricing model using the following ranges of weighted average assumptions for grants during the past three

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years: (a) risk-free interest rate ranging from 5.7% to 6.7%, (b) expected lives ranging from 5.0 years to 19.7 years, (c) expected volatility ranging from 24.6% to 27.8%, and (d) dividend yields ranging from \$10.91 to \$13.99.

The Group applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," to its stock-based compensation plans. The Group recognized after-tax stock-based compensation expense of approximately \$146,000 for the period ended April 11, 1999. Had compensation costs for the Group's stock-based compensation plans been determined in accordance with SFAS 123, "Accounting for Stock-Based Compensation," based on the fair value at the grant dates for the awards under those plans, the Group's pro forma net income for the year ended April 11, 1999, would have been lower by \$734,000.

## 6. POSTRETIREMENT AND POSTEMPLOYMENT BENEFITS

In addition to providing pension benefits, the Group provides certain health care and life insurance benefits for certain retired and terminated employees. A substantial number of the Group's employees may become eligible for such benefits if they reach normal retirement age while working for the Group. The cost of these benefits for salaried employees is allocated to the Group by Packaging through a payroll charge and the interdivision account. Amounts allocated are principally determined based on payroll. The net obligation for these salaried benefits is maintained by Packaging and is not included in the liabilities section of the accompanying combined statements of assets, liabilities and interdivision account for the Group's share of the obligation.

Currently, the Group's postretirement benefit plans are not funded and a portion of the related postretirement obligation has been allocated to the Group. However, due to the fact that other divisions participate in the plan, certain of the disclosures required by SFAS No. 132, such as a summary of the change in benefit obligation, are not available. Actuarial information as of April 11, 1999, is not available and in connection with the sale of the Group as described in Note 1 to these financial statements, the long-term portion of the postretirement liability will not be assumed by PCA but will remain with Tenneco. As such, the actuarial information below is reported as of December 31, 1998, and the portion of the liability allocated as of April 11, 1999, is the same as the allocated amount as of December 31, 1998.

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The obligation of the plans, related to hourly employees, reconciles with amounts recognized in the combined statements of assets, liabilities and interdivision account at December 31, 1998, and April 11, 1999, as follows (in thousands):

Actuarial present value at September 30—	
Accumulated postretirement benefit obligation—	
Retirees and beneficiaries	\$ (8,401)
Fully eligible active plan participants	(3,582)
Other active plan participants	(2,950)
	<hr/>
Total	(14,933)
Plan assets at fair value at September 30	—
Funded status	(14,933)
Claims paid during the fourth quarter	473
Unrecognized prior service cost	—
Unrecognized net gain	(1,764)
	<hr/>
Accrued postretirement benefit cost at December 31	\$ (16,224)
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The net periodic postretirement benefit costs as determined by actuaries for hourly employees for 1998 consist of the following components (in thousands):

Service cost	\$ 159
Interest cost	1,024
Amortization of net (gain) loss	(138)
Amortization of prior service cost	(293)
	<hr/>
Net periodic postretirement benefit cost	\$ 752
	<hr/>

The amounts expensed by the Group may be different because it was allocated by Packaging.

The weighted average assumed health care cost trend rate used in determining the 1998 accumulated postretirement benefit obligation was 5%.

Increasing the assumed health care cost trend rate by one percentage point would increase the accumulated postretirement benefit obligation as of September 30, 1998, by approximately \$1,268,000, and would increase the net postretirement benefit cost for 1998 by approximately \$130,000.

## 7. INVENTORIES

The components of inventories as of April 11, 1999, are as follows (in thousands):

Raw materials	\$ 87,159
Work in process and finished goods	22,419
Materials and supplies	48,655
	<u>\$ 158,233</u>

The amount by which current FIFO cost exceeded the stated LIFO inventory was \$22,588,000 as of April 11, 1999.

## 8. RESTRUCTURING AND OTHER CHARGES

In the fourth quarter of 1998, the Group recorded a pretax restructuring charge of approximately \$14 million. This charge was recorded following the approval by Tenneco's Board of Directors of a comprehensive restructuring plan for all of Tenneco's operations, including those of the Group. In connection with this restructuring plan, the Group will close four corrugated facilities and eliminate 109 positions.

The following table reflects components of this charge (in thousands):

Component	Balance, December 31, 1998	Interim Activity	Balance April 11, 1999
<b>Cash charges—</b>			
Severance	\$ 4,283	\$ 1,290	\$ 2,993
Facility exit costs and other	3,447	748	2,699
	<u>7,730</u>	<u>2,038</u>	<u>5,692</u>
<b>Noncash charges—</b>			
Asset impairments	1,596	1,510	86
	<u>\$ 9,326</u>	<u>\$ 3,548</u>	<u>\$ 5,778</u>

Asset impairments are comprised mainly of goodwill totaling approximately \$1,510,000 related to two of the facilities. The fixed assets at the closed facilities were written down to their estimated fair value. No significant cash proceeds are expected from the ultimate disposal of these assets. Of the \$5,692,000 remaining cash charges at April 11, 1999, approximately \$4,514,000 is expected to be spent in 1999. The actions contemplated by the restructuring plan should be substantially completed during 1999.

## 9. IMPAIRMENT LOSS

As a result of the sale transaction (Note 1), Tenneco recognized a pretax loss in the first quarter of 1999 of approximately \$293 million. Part of that loss consisted of an impairment charge relating to the Group's property, plant and equipment and intangible assets, which was pushed down to the

accompanying combined financial statements. The amount of the impairment charge was approximately \$230.1 million.

The impairment charge of \$230.1 million has been allocated to the following financial statement line items (in thousands):

Intangibles	\$ 46,206
Machinery and equipment	183,906
	<u>\$ 230,112</u>

The impairment charge will first be applied against the goodwill specifically attributable to the containerboard assets and the remaining amount will be applied against plant, property and equipment.

## 10 INCOME TAXES

The Group's method of accounting for income taxes requires that a deferred tax be recorded to reflect the tax expense (benefit) resulting from the recognition of temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in differences between income for tax purposes and income for financial statement purposes in future years.

As a division, this Group is not a taxable entity. For purposes of these combined financial statements, income taxes have been allocated to the Group and represent liabilities to Packaging.

Following is an analysis of the components of combined income tax benefit through April 11, 1999 (in thousands):

Current—	
U.S.	\$ 82,867
State and local	10,630
	<u>93,497</u>
Deferred—	
U.S.	(8,670)
State and local	(1,111)
	<u>(9,781)</u>
Income tax benefit	<u>\$ 83,716</u>

The primary difference between income taxes computed at the statutory U.S. federal income tax rate and the income tax benefit in the combined statement of revenues, expenses and interdivision account is due to the effect of state income taxes.

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The components of the deferred tax assets (liabilities) at April 11, 1999, were as follows (in thousands):

Current deferred taxes—	
Accrued liabilities	\$ 10,232
Employee benefits and compensation	(6,314)
Reserve for doubtful accounts	1,148
Inventory	829
Pensions and postretirement benefits	(3,154)
State deferred tax	10,695
Other	(75)
	<u>13,361</u>
Noncurrent deferred taxes—	
Pension and postretirement benefits	13,945
Excess of financial reporting over tax basis in plant and equipment	(302,029)
Accrued liabilities	1,130
Capital leases	9,333
Other	13,685
	<u>(263,936)</u>
Net deferred tax liabilities	<u>\$ (250,575)</u>

## 11. ASSETS, LIABILITIES AND OTHER EXPENSE, NET DETAIL

### *Prepaid Expenses and Other Current Assets*

The components of prepaid expenses and other current assets include (in thousands):

Prepaid stumpage	\$ 13,877
Deferred taxes	13,361
Prepaid professional services	2,392
Other	3,320
	<u>32,950</u>
Total	<u>\$ 32,950</u>

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The components of the other long-term assets include (in thousands):

Prepaid pension cost	\$ 41,965
Deferred software	12,556
Timberland rights	11,739
Other	1,385
	<hr/>
Total	\$ 67,645
	<hr/>

#### ***Accrued Liabilities***

The components of accrued liabilities include (in thousands):

Accrued payroll, vacation and taxes	\$ 29,608
Accrued insurance	11,618
Accrued volume discounts and rebates	5,414
Restructuring	5,778
Current portion of accrued postretirement benefit cost	1,460
Shutdown reserve	988
Other	9,505
	<hr/>
Total	\$ 64,371
	<hr/>

#### ***Other Long-Term Liabilities***

The components of the other long-term liabilities include (in thousands):

Accrued postretirement benefit cost	\$ 14,764
Environmental liabilities	7,034
Other	2,119
	<hr/>
Total	\$ 23,917
	<hr/>

#### ***Other Expense, Net***

The components of other expense, net include (in thousands):

Discount on sale of factored receivables	\$ (2,369)
Other	162
	<hr/>
Total	\$ (2,207)
	<hr/>

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## **12. RELATED-PARTY TRANSACTIONS**

### ***Funding of Cash Requirements***

As discussed in Note 2, Packaging provides centralized treasury functions and financing for the Group including funding of its cash requirements for processing of accounts payable and payroll requirements.

### ***Corporate Allocations***

Packaging and Tenneco provide various services to the Group, including legal, human resources, data processing systems support, training, finance and treasury, public relations and insurance management. These expenses are allocated based on a combination of factors such as actual usage of the service provided, revenues, gross salaries and fixed assets and may not reflect actual costs the Group would incur if it were a stand-alone entity.

Certain receivables and transactions resulting from the financing relationship between Packaging and Tenneco are not reflected in the accompanying financial statements.

### ***Insurance and Benefits***

The Group is self-insured for medical benefits and workers' compensation. Expenses related to workers' compensation, health care claims for hourly and salaried workers and postretirement health care benefits for hourly and salaried workers are determined by Packaging and are allocated to the Group. The Group incurred charges of \$9,337,000 for health care and \$1,801,000 for workers' compensation for the period ended April 11, 1999.

In general, all costs and expenses incurred and allocated are based on the relationship the Group has with Tenneco. If the Group had been a stand-alone entity, the costs and expenses would differ.



### 13. COMMITMENTS AND CONTINGENCIES

The Group had authorized capital expenditures of approximately \$55,358,000 as of April 11, 1999, in connection with the expansion and replacement of existing facilities.

The Group is involved in various legal proceedings and litigation arising in the ordinary course of business. In the opinion of management and in-house legal counsel, the outcome of such proceedings and litigation will not materially affect the Group's financial position or results of operations.

### 14. LEASES

Rental expense included in the accompanying combined financial statements was \$25,411,000 for the period ended April 11, 1999. These costs are primarily included in cost of goods sold.

As a result of the sale of the Group, Packaging received total consideration of \$2.2 billion, which includes the \$1.1 billion used to buy out certain timber and mill operating leases prior and concurrent

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to the sale transaction on April 12, 1999. Therefore, the remaining outstanding aggregate minimum rental commitments under noncancelable operating leases are as follows:

*(In thousands)*

Remainder of 1999	\$	7,606
2000		7,583
2001		4,891
2002		3,054
2003		1,415
Thereafter		1,178
		<hr/>
Total	\$	25,727
		<hr/>

### 15. SALE OF ASSETS

In the second quarter of 1996, Packaging entered into an agreement to form a joint venture with Caraustar Industries whereby Packaging sold its two recycled paperboard mills and a fiber recycling operation and brokerage business to the joint venture in return for cash and a 20% equity interest in the joint venture. Proceeds from the sale were approximately \$115 million and the Group recognized a \$50 million pretax gain (\$30 million after taxes) in the second quarter of 1996.

In June, 1998, Packaging sold its remaining 20% equity interest in the joint venture to Caraustar Industries for cash and a note of \$26,000,000. The Group recognized a \$15 million pretax gain on this transaction. At April 11, 1999, the balance of the note with accrued interest is \$27,122,000. The note was paid in June, 1999.

### 16. SUBSEQUENT EVENTS

On August 25, 1999, PCA and Packaging agreed that the acquisition consideration should be reduced as a result of a postclosing price adjustment by an amount equal to \$20 million plus interest through the date of payment by Packaging. The Group recorded \$11.9 million of this amount as part of the impairment charge on the accompanying financial statements, representing the amount that was previously estimated by Packaging. PCA intends to record the remaining amount in September, 1999.

In August, 1999, PCA signed purchase and sales agreements with various buyers to sell approximately 405,000 acres of timberland. PCA has completed the sale of approximately 260,000 of these acres and expects to complete the sale of the remaining acres by mid-November, 1999.

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CREDIT AND SECURITY AGREEMENT

dated as of November 29, 2000

among

PACKAGING RECEIVABLES COMPANY, LLC,  
as Borrower

PACKAGING CREDIT COMPANY, LLC,  
as Initial Servicer

BLUE RIDGE ASSET FUNDING CORPORATION,  
as a Lender

and

WACHOVIA BANK, N.A.,  
individually as a Lender and as Agent

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CREDIT AND SECURITY AGREEMENT

THIS CREDIT AND SECURITY AGREEMENT is entered into as of November 29, 2000, by and among:

(1) Packaging Receivables Company LLC, a Delaware limited liability company (together with its successors and permitted assigns, the "BORROWER"),

(2) Packaging Credit Company, LLC, a Delaware limited liability company (together with its successors, "INITIAL SERVICER"), as initial servicer hereunder (in such capacity, together with any successor servicer or sub-servicer appointed pursuant to Section 8.1, the "SERVICER"),

(3) Blue Ridge Asset Funding Corporation, a Delaware corporation (together with its successors, "BLUE RIDGE"), and Wachovia Bank, N.A., a national banking association, in its capacity as a Liquidity Bank to Blue Ridge (together with its successors, "WACHOVIA"), as Lenders (hereinafter defined), and

(4) Wachovia Bank, N.A., as agent for the Lenders (in such capacity, together with any successors thereto in such capacity, the "AGENT").

Unless otherwise indicated, capitalized terms used in this Agreement are defined in Annex A.

W I T N E S S E T H:

WHEREAS, the Borrower is a wholly-owned subsidiary of Packaging Corporation of America;

WHEREAS, Packaging Corporation of America, as Originator, and Packaging Credit Company, LLC ("SELLER") have entered into a Receivables Sale Agreement (the "SALE AGREEMENT") pursuant to which the Originator has sold, and hereafter will sell, to the Seller all of its right, title and interest in and to its accounts receivable and certain related rights;

WHEREAS, the Seller sells or contributes to the Borrower under the Purchase and Sale Agreement all of its right, title and interest in and to its accounts receivable and certain related rights;

WHEREAS, the Borrower has requested that the Lenders make revolving loans to the Borrower from time to time hereafter secured by the Collateral, and, subject to the terms and conditions contained in this Agreement, the Lenders are willing to make such secured loans;

WHEREAS, the Lenders have requested that Initial Servicer act as the initial Servicer for the Collateral, and, subject to the terms and conditions contained in this Agreement, Initial Servicer is willing to act in such capacity; and

WHEREAS, Wachovia has been requested, and is willing, to act as the Agent under this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto hereby agree as follows:

ARTICLE I  
THE CREDIT

SECTION 1.1. THE FACILITY. On the terms and subject to the conditions set forth in this Agreement, the Borrower (or the Servicer on the Borrower's behalf) may from time to time during the Revolving Period request Advances by delivering a Borrowing Request to the Agent in accordance with Section 2.1. Upon receipt of a copy of each Borrowing Request from the Borrower or Servicer, the Agent shall advise the Borrower not later than 12:00 noon (New York City time) on the Business Day following such receipt whether Blue Ridge and/or the Liquidity Banks will fund a Loan (or Loans) in the aggregate amount of the requested Advance, and in the event that Blue Ridge elects not to make any such Loan to

the Borrower, each of the Liquidity Banks severally agrees to make its Ratable Share of such Loan to the Borrower, on the terms and subject to the conditions hereof, provided that at no time may the aggregate principal amount of Blue Ridge's and the Liquidity Banks' Loans at any one time outstanding exceed the lesser of (i) the aggregate amount of the Liquidity Banks' Commitments, and (ii) the Borrowing Base (such lesser amount, the "ALLOCATION LIMIT"). If the Agent advises the Borrower that Blue Ridge elects not to fund a Loan, the Borrower or Servicer may rescind the Borrowing Request. Each Loan shall be in the minimum amount of \$1,000,000 or a larger integral multiple of \$500,000. In no event may the aggregate principal amount of the Advances hereunder exceed the lesser of (x) the Aggregate Commitment, or (y) the Borrowing Base. All Liquidity Banks' Commitments shall terminate on the Termination Date. Each of the Loans, and all other Obligations of the Borrower, shall be secured by the Collateral as provided in Article IX.

SECTION 1.2. FUNDING MECHANICS; LIQUIDITY FUNDINGS. (a) Each Advance hereunder shall consist of Loans made from Blue Ridge and/or the Liquidity Banks.

(b) If a Liquidity Bank fails to transfer to the Agent its full Ratable Share of any Loan when required by Section 1.1 (the aggregate amount not made available to the Agent by each such Liquidity Bank being the "UNPAID AMOUNT"), then, upon notice from the Agent by not later than 1:15 p.m. (Chicago time), each Liquidity Bank not owing an Unpaid Amount shall transfer to the Agent, by not later than 1:45 p.m. (Chicago time), an amount equal to the lesser of such Liquidity Bank's proportionate share (based on its Commitment divided by the Commitments of all Liquidity Banks that have not so failed to pay their full Ratable Share) of the Unpaid Amount and its Commitment. If the Agent does not then receive the Unpaid Amount in full, upon notice from the Agent by not later than 2:00 p.m. (Chicago time) on such day, each Liquidity Bank that has not failed to fund any part of its obligations on such day under this Section 1.2 shall pay to the Agent, by not later than 2:30 p.m. (Chicago time), its proportionate share (determined as described above) of the amount of such remaining deficiency up to the amount of its unused Commitment. Any Liquidity Bank that fails to make a payment under this Section 1.2 on the date of a Liquidity Funding shall pay on demand to each other Liquidity Bank that makes a payment under this subsection (b) the amount paid by it to cover such failure, together with interest thereon, for each day from the date such payment was made until the date such other Liquidity Bank has been paid such amount in full, at a rate per annum equal to the Federal Funds Rate plus two percent (2%) per annum. In addition, without prejudice to any other rights Blue Ridge may have under applicable

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law, any Liquidity Bank that has failed to transfer to the Agent under Section 1.1 its full Ratable Share of any Loan shall pay on demand to Blue Ridge the difference between such unpaid Ratable Share of such Loan and the amount paid by other Liquidity Banks or the Agent to cover such failure, together with interest thereon, for each day from the date such Ratable Share of such Loan was due until the date paid, at a rate per annum equal to the Federal Funds Rate plus two percent (2%) per annum.

(c) While it is the intent of Blue Ridge to fund each requested Advance through the issuance of Commercial Paper Notes, the parties acknowledge that if Blue Ridge is unable, or determines that it is undesirable, to issue Commercial Paper Notes to fund all or any portion of the Loans at a CP Rate, or is unable to repay such Commercial Paper Notes upon the maturity thereof, Blue Ridge may put all or any portion of its Loans to the Liquidity Banks at any time pursuant to the Liquidity Agreement to finance or refinance the necessary portion of its Loans through a Liquidity Funding to the extent available. The Liquidity Fundings may be Alternate Base Rate Loans or Eurodollar Loans, or a combination thereof, selected by the Borrower in accordance with Article II. In addition, the parties acknowledge that Commercial Paper Notes are issued at a discount and at varying discount rates; accordingly, it may not be possible for all CP Rate Loans to be made in amounts precisely equal to the amounts specified in a Borrowing Request. Regardless of whether a Liquidity Funding constitutes an assignment of a Loan or the sale of one or more participations therein, each Liquidity Bank participating in a Liquidity Funding shall have the rights of a "Lender" hereunder with the same force and effect as if it had directly made a Loan to the Borrower in the amount of its Liquidity Funding.

(d) Nothing herein shall be deemed to commit any Lender to make CP Rate Loans.

SECTION 1.3. INTEREST RATES. (a) Each CP Rate Loan shall bear interest on the outstanding principal amount thereof from and including the first day of the CP Tranche Period applicable thereto selected in accordance with Article II of this Agreement to (but not including) the last day of such CP Tranche Period at the applicable CP Rate.

(b) Each Eurodollar Loan shall bear interest on the outstanding principal amount thereof from and including the first day of the Interest Period applicable thereto selected in accordance with Article II of this Agreement to (but not including) the last day of such Interest Period at a rate per annum equal to the sum of (i) the applicable Eurodollar Rate (Reserve Adjusted) for such Interest Period plus (ii) the Bank Rate Spread.

(c) Each Alternate Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from and including the date such Loan is made to but excluding the date it is paid at a rate per annum equal to the Alternate Base Rate for such day. Changes in the rate of interest on Alternate Base Rate Loans will take effect simultaneously with each change in the Alternate Base Rate.

(d) Notwithstanding anything to the contrary contained in Sections 1.3(a), (b) or (c), upon the occurrence of an Event of Default, and during the continuance thereof, all Obligations shall bear interest, payable upon demand, at the Default Rate.

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(e) Interest at any of the aforementioned rates shall be calculated for actual days elapsed on the basis of a 360-day year. Interest shall be payable for the day a Loan is made but not for the day of any payment on the amount paid if payment is received prior to noon (local time) at the place of payment. If any payment of principal of or interest on a Loan shall become due on a day which is not a Business Day, such payment shall be made on the next succeeding Business Day and, in the case of a principal payment, such extension of time shall be included in computing interest in connection with such payment.

SECTION 1.4. PAYMENT DATES; NOTELESS AGREEMENT. (a) The Borrower promises to pay each CP Rate Loan on the last day of its CP Tranche Period.

(b) The Borrower promises to pay each Eurodollar Loan on the last day of its Interest Period.

(c) The Borrower promises to pay each Alternate Base Rate Loan, together with all accrued and unpaid interest thereon, on or before the earlier to occur of (i) the Termination Date, and (ii) refinancing of such Loan with a CP Rate Loan or a Eurodollar Rate Loan.

(d) The Borrower promises to pay all accrued and unpaid interest on each Loan on its applicable Interest Payment Date.

(e) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder. Upon request of the Borrower or the Agent, such Lender will confirm the outstanding principal balances of its Loans and the amount of any accrued and unpaid interest thereon. The entries maintained in the accounts maintained pursuant to this Section shall be prima facie evidence of the existence and amounts of the Obligations therein recorded; PROVIDED, HOWEVER, that the failure of any Lender to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Obligations in accordance with their terms.

SECTION 1.5. PREPAYMENTS. Subject, in the case of CP Rate Loans and Eurodollar Loans, to the funding indemnification provisions of Section 4.3:

(a) The Borrower may from time to time prepay, without penalty or premium, all outstanding Loans, or, in a minimum aggregate amount of \$2,000,000 (or a larger integral multiple of \$1,000,000), any portion of the outstanding Loans upon two Business Days' prior written notice to the Agent (each, a "PREPAYMENT NOTICE"), PROVIDED that each such prepayment of principal is accompanied by a payment of all accrued and unpaid interest thereon and is made ratably amongst the Lenders; it being understood that the Borrower, in its discretion, may designate the outstanding Loans to which the Agent will apply each such prepayment or portion thereof, subject to, in the case of CP Rate Loans or Eurodollar Loans, the funding indemnification provisions of Section 4.3 hereof;

(b) If on any Business Day, the aggregate outstanding principal amount of Blue Ridge's Loans and the Liquidity Fundings made by the Liquidity Banks exceeds the

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Allocation Limit, the Borrower shall prepay such Loans, subject, in the case of CP Rate Loans and Eurodollar Loans, to the funding indemnification provision of Section 4.3 but otherwise without premium or penalty, by initiating a wire transfer to the Agent not later than 11:00 a.m. (New York City time) on the second Business Day thereafter in an amount sufficient to eliminate such excess, together with interest accrued and to accrue unpaid on the amount prepaid; and

(c) Upon receipt of any wire transfer pursuant to Section 1.5(b), the Agent shall initiate a wire transfer to the Lenders of their respective shares thereof not later than 11:00 a.m. (New York City time) on the date when received.

SECTION 1.6. REDUCTIONS IN AGGREGATE COMMITMENT. The Borrower may permanently reduce the Aggregate Commitment in whole, or ratably in part, in a minimum amount of \$5,000,000 (or a larger integral multiple of \$1,000,000), upon at least five Business Days' written notice to the Agent (each, a "COMMITMENT REDUCTION NOTICE"), PROVIDED, HOWEVER, that (a) the amount of the Aggregate Commitment may not be reduced below the aggregate principal amount of the outstanding Advances, and (b) the amount of the Aggregate Commitment may not be reduced below \$5,000,000 unless the Aggregate Commitment is terminated in full. All accrued and unpaid fees shall be payable on the effective date of any termination of the Aggregate Commitment. Each Commitment Reduction Notice shall be irrevocable once delivered to the Agent.

SECTION 1.7. REQUESTS FOR INCREASES IN AGGREGATE COMMITMENT. The Borrower may from time to time request increases in the Aggregate Commitment in a minimum amount of \$5,000,000 (or a larger integral multiple of \$1,000,000), upon at least 30 days' prior written notice to the Agent, which notice shall specify the amount of and proposed effective date for any such requested increase (each, a "COMMITMENT INCREASE REQUEST"). If each of the Lenders agrees to the requested increase by notifying the Agent and the Borrower in writing of their concurrence, such increase shall be made to the Commitments of the Liquidity Banks, ratably in accordance with their respective Ratable Shares as of the effective date specified in the Commitment Increase Request. If less than all of the Lenders agree to such increase, the amount of the Aggregate Commitment shall remain unchanged.

SECTION 1.8. EXTENSION OF THE SCHEDULED TERMINATION DATE. Provided that no Event of Default exists and is continuing, the Borrower may request an extension of the Scheduled Termination Date by submitting a request for an extension (each, an "EXTENSION REQUEST") to the Agent no more than 60 days prior to the Scheduled Termination Date then in effect. The Extension Request must specify the new Scheduled Termination Date requested by the Borrower and the date (which must be at least 30 days after the Extension Request is delivered to the Agent) as of which the Agent, the Lenders and the Liquidity Banks must respond to the Extension Request (the "RESPONSE DATE"). The new Scheduled Termination Date shall be no more than 364 days after the Scheduled Termination Date in effect at the time the Extension Request is received, including the Scheduled Termination Date as one of the days in the calculation of the days elapsed. Promptly upon receipt of an Extension Request, the Agent shall notify Blue Ridge and the Liquidity Banks of the contents thereof and shall request each such Person to approve the Extension Request. Each Lender and Liquidity Bank approving the Extension Request shall deliver its written approval to the Agent no later than the Response Date, whereupon the Agent shall notify the Borrower within one Business Day thereafter as to whether all of the Lenders have approved the Extension Request. If all of the Lenders have approved the Extension Request, the Scheduled Termination Date specified in

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the Extension Request shall become effective on the existing Scheduled Termination Date, and the Agent shall promptly notify the Borrower and the Lenders of the new Scheduled Termination Date. If all of the Lenders do not unanimously agree to an Extension Request, the Scheduled Termination Date shall remain unchanged.

SECTION 1.9. DISTRIBUTION OF CERTAIN NOTICES; NOTIFICATION OF INTEREST RATES. Promptly after receipt thereof, the Agent will notify Blue Ridge and the Liquidity Banks of the contents of each Information Package, Borrowing Request, Extension Request, Commitment Reduction Notice, Prepayment Notice, Commitment Increase Request or notice of default received by it from the Borrower or the Servicer hereunder. In addition, the Agent shall promptly notify the Lenders and the Borrower of each determination of and change in Interest Rates.

## ARTICLE II BORROWING AND PAYMENT MECHANICS; CERTAIN COMPUTATIONS

SECTION 2.1. METHOD OF BORROWING. The Borrower (or the Servicer on the Borrower's behalf) shall give the Agent irrevocable notice in the form of



Exhibit 2.1 hereto (each, a "BORROWING REQUEST") not later than 12:00 noon (New York City time) at least two Business Days before the Borrowing Date of each Advance. On each Borrowing Date, each Lender shall make available its Loan or Loans in immediately available funds to the Agent by initiating a wire transfer in such amount not later than 10:00 a.m. (New York City time). Subject to its receipt of such wire transfers, the Agent will initiate a wire transfer of the funds so received from the Lenders to the Borrower at the account specified in its Borrowing Request not later than 11:00 a.m. (New York City time) on the applicable Borrowing Date. Neither the Borrower, nor the Servicer on the Borrower's behalf, may deliver more than 4 Borrowing Requests in any month.

SECTION 2.2. SELECTION OF CP TRANCHE PERIODS AND INTEREST PERIODS. Prior to the occurrence of an Event of Default, the Borrower or the Servicer in its Borrowing Request may request CP Tranche Periods (or, in the case of Liquidity Fundings, Interest Periods) from time to time to apply to each Lender's CP Rate Loans or Eurodollar Loans, as applicable; provided, however, that (i) at least one CP Tranche Period or one Interest Period shall mature on each Settlement Date, and (ii) no CP Tranche Period or Interest Period which began prior to the Scheduled Termination Date shall extend beyond the Scheduled Termination Date.

While the Agent will use reasonable efforts to accommodate the Borrower's or the Servicer's requests for CP Tranche Periods or Interest Periods prior to an Event of Default, the Agent shall have the right to subdivide any requested Loan into one or more Loans of different CP Tranche Periods or Interest Periods, as the case may be, or, if the requested period is not feasible, to suggest an alternative CP Tranche Period or Interest Period, provided that not less than \$1,000,000 of principal may be allocated to any CP Tranche Period or Interest Period of any Lender, and no Alternate Base Rate Loan may have a principal amount of less than \$1,000,000.

The Borrower (or the Servicer on the Borrower's behalf) may not request an Interest Period for a Eurodollar Loan unless it shall have given the Agent written notice of its desire therefor not later than 12:00 noon (New York City time) at least 3 Business Days prior to the first day of the desired Interest Period. Accordingly, all Liquidity Fundings shall initially be Alternate Base Rate Loans.

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Unless the Agent shall have received written notice by 12:00 noon (New York City time) on the second Business Day prior to the last day of a CP Tranche Period that the Borrower intends to reduce or increase the aggregate principal amount of the CP Rate Loans outstanding, unless an Event of Default exists and is continuing or Blue Ridge determines that it must avail itself of a Liquidity Funding, Blue Ridge shall be entitled to assume that the Borrower desires to refinance the principal and interest maturing CP Rate Loan on the last day of its CP Tranche Period with a new CP Rate Loan with CP Tranche Periods selected by the Agent. In addition, in the event and to the extent Blue Ridge cannot issue Commercial Paper Notes or avail itself of a Liquidity Funding, in either case, in an amount necessary to refinance the maturing CP Rate Loan and the accrued and unpaid interest thereon, Blue Ridge may, by notice to the Agent, the Seller and the Servicer, require the mandatory prepayment of all outstanding CP Rate Loans in accordance with Section 3.2 hereof.

Unless the Agent shall have received written notice by 12:00 noon (New York City time) on the third Business Day prior to the last day of an Interest Period that the Borrower intends to reduce the aggregate principal amount of the Eurodollar Loans outstanding from the Liquidity Banks, each of the Liquidity Banks shall be entitled to assume that the Borrower desires to refinance its maturing Eurodollar Loans on the last day of such Interest Period with Eurodollar Loans with an Interest Period of one month.

The Agent acknowledges and agrees that a Borrowing Request shall not be required in connection with the refinancing on the last day of an Interest Period of maturing CP Rate Loans or maturing Eurodollar Loans.

(c) If the Agent or any Liquidity Bank determines (i) that maintenance of any Eurodollar Loan would violate any applicable law or regulation, (ii) that deposits of a type and maturity appropriate to match fund any of such Liquidity Bank's Eurodollar Loans are not available or (iii) that the maintenance of any Eurodollar Loans will not adequately and fairly reflect the cost of such Liquidity Bank of funding Eurodollar Loans, then the Agent, upon the direction of such Liquidity Bank, shall suspend the availability of future Eurodollar Loans until such time as the Agent or applicable Liquidity Bank provides notice that the circumstances giving rise to such suspension no longer exist, and, if required by any applicable law or regulation, terminate any outstanding Eurodollar Loan so affected. All Loans allocated to any such terminated Eurodollar Loan shall be reallocated to an Alternative Base Rate Loan.

SECTION 2.3. COMPUTATION OF CONCENTRATION LIMITS AND UNPAID BALANCE. The

Obligor Concentration Limits and the aggregate Unpaid Balance of Receivables of each Obligor and its Affiliated Obligors (if any) shall be calculated as if each such Obligor and its Affiliated Obligors were one Obligor.

SECTION 2.4. MAXIMUM INTEREST RATE. No provision of this Agreement shall require the payment or permit the collection of interest in excess of the maximum permitted by applicable law.

SECTION 2.5. PAYMENTS AND COMPUTATIONS, Etc. (a) PAYMENTS. The Borrower or the Servicer, as the case may be, shall initiate a wire transfer of immediately available funds of all amounts to be paid or deposited by the Borrower or the Servicer to the Agent or any of the Lenders (other than amounts payable under Section 4.2) no later than 11:00 a.m. (New York City time) on the day when due in lawful money of the United States of America to the Agent at its address specified in

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Schedule 14.2, and, to the extent such payment is for the account of a Lender, the Agent shall promptly disburse such funds to the appropriate Lender.

(b) LATE PAYMENTS. To the extent permitted by law, upon demand, the Borrower or the Servicer, as applicable, shall pay to the Agent for the account of each Person to whom payment of any Obligation is due, interest on all amounts not paid or deposited by 2:00 p.m. (New York City time) on the date when due (without taking into account any applicable grace period) at the Default Rate as specified in Section 10.1(a), provided, however, that no such interest rate shall at any time exceed the maximum rate permitted by applicable law.

(c) METHOD OF COMPUTATION. All computations of interest, Servicer's Fee, any per annum fees payable under Section 4.1 and any other per annum fees payable by the Borrower to the Lenders, the Servicer or the Agent under the Loan Documents shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day) elapsed.

(d) AVOIDANCE OR RECISSION OF PAYMENTS. To the maximum extent permitted by applicable law, no payment of any Obligation shall be considered to have been paid if at any time such payment is rescinded or must be returned for any reason.

SECTION 2.6. NON-RECEIPT OF FUNDS BY THE AGENT. Unless a Lender notifies the Agent prior to the date and time on which it is scheduled to fund a Loan that it does not intend to fund, the Agent may assume that such funding will be made and may, but shall not be obligated to, make the amount of such Loan available to the intended recipient in reliance upon such assumption. If such Lender has not in fact funded its Loan proceeds to the Agent, the recipient of such payment shall, on demand by the Agent, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date such amount was so made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day.

### ARTICLE III SETTLEMENTS

SECTION 3.1. REPORTING. (a) INFORMATION PACKAGES. On the 15th Business Day after each Cut-Off Date hereafter (each, a "REPORTING DATE"), the Servicer shall deliver to the Agent, a report in the form of Exhibit 3.1(a) (each, an "INFORMATION PACKAGE") accompanied by an electronic file in a form reasonably satisfactory to the Agent; PROVIDED, HOWEVER, that if an Event of Default shall exist and be continuing, the Agent may request that a computation of the Borrowing Base be made more frequently than monthly but no more frequently than once per day.

(b) INTEREST; OTHER AMOUNTS DUE. At or before 12:00 noon (New York City time) on the Business Day before each Settlement Date, the Agent shall notify the Borrower and the Servicer of (i) the aggregate principal balance of all Loans made by the Lenders that are then outstanding, and (ii) the aggregate amount of all principal, interest and fees that will be due and payable by the Borrower to the Agent for the account of the Agent or the Lenders on such Settlement Date.

SECTION 3.2. ALLOCATIONS AND DISTRIBUTIONS.

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(a) MANDATORY PREPAYMENT. On each day which occurs (i) before the Termination Date and after the date on which Blue Ridge delivers the notice requiring prepayment of outstanding CP Rate Loans pursuant to Section 2.2

hereof, the Servicer (i) shall set aside and hold in trust solely for the benefit of Blue Ridge (or deliver to the Collection Account if required pursuant to Section 7.1(i) hereof) Blue Ridge's Ratable Share in the Percentage Share of all Collections received on such day (the "RETAINED COLLECTIONS"). To the extent the Retained Collections are not required to pay interest, fees and Servicing Fee due on any date prior to the last day of a CP Tranche Period ("PRIOR USES"), then the Servicer shall distribute the Retained Collections (net of the amount of Prior Uses) in the following order of priority, in each case only to the extent of amounts available therefor:

(i) FIRST, to the Agent (for the benefit of Blue Ridge) all interest due but not already paid to Blue Ridge;

(ii) SECOND, to the Agent (for the benefit of Blue Ridge) the outstanding principal balance of all Loans made by Blue Ridge;

(iii) THIRD, to the Agent (for the benefit of Blue Ridge) all other amounts owed to Blue Ridge;

(iv) FOURTH, to be retained in trust by the Servicer, to the extent of the principal and interest that will be due on the last day of any subsequent CP Tranche Period with respect to any other outstanding CP Rate Loan as to which the Servicer has received a notice requiring prepayment of such outstanding CP Rate Loan pursuant to Section 2.2 hereof;

(v) FIFTH, to the Servicer until all amounts owed to the Servicer under the Agreement have been paid in full; and

(vi) SIXTH, to the Borrower (or as otherwise required by applicable law).

(b) TERMINATION DATE. On each day on and after the Termination Date, the Servicer shall set aside and hold in trust solely for the account of the Agent, for the benefit of the Agent and the Lenders, (or delivered to the Collection Account as required pursuant to Section 7.1(i) hereof) the Percentage Share of all Collections received on such day and such Collections shall be allocated as follows:

(i) FIRST, to the Lenders (ratably, based on their Ratable Share) until all Loans of, and interest due but not already paid to, the Lenders have been paid in full;

(ii) SECOND, to the Lenders until all other amounts owed to the Lenders have been paid in full;

(iii) THIRD, to the Agent until all amounts owed to the Agent have been paid in full;

(iv) FOURTH, to any other Person to whom any amounts are owed under the Transaction Documents until all such amounts have been paid in full;

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(v) FIFTH, to the Servicer until all amounts owed to the Servicer under the Agreement have been paid in full; and

(vi) SIXTH, to the Borrower (or as otherwise required by applicable law).

On the last day of each Tranche Period, the Servicer shall deposit with the Agent, from such set aside Collections, all amounts allocated to such Tranche Period and all Tranche Periods that ended before such date that are due in accordance with clause (i) above. No distributions shall be made to pay amounts under clauses (ii) - (vi) until sufficient Collections have been set aside to pay all amounts described in clause (i) that may become payable for all outstanding Tranche Periods. All distributions by the Agent shall be made ratably within each priority level in accordance with the respective amounts then due each Person included in such level unless otherwise agreed by the Agent and the Lenders.

SECTION 3.3. NON-DISTRIBUTION OF SERVICER'S FEE. Each of the Agent and the Secured Parties hereby consents to the retention by the Servicer of a portion of the Percentage Share of the Collections equal to the Servicer's Fee (and, if applicable, any invoiced expenses of such Servicer that are due and owing pursuant to Section 8.1(d)) so long as the Collections received by the Servicer are sufficient to pay all amounts pursuant to Section 3.2 of a higher priority as specified in such Section.

SECTION 3.4. DEEMED COLLECTIONS. If on any day:

(a) the Unpaid Balance of any Receivable is reduced as a result of any defective or rejected goods or services, any cash discount or any other adjustment by any Loan Party or any Affiliate thereof, or as a result of any tariff or other governmental or regulatory action, or

(b) the Unpaid Balance of any Receivable is reduced or canceled as a result of a setoff in respect of any claim by the Obligor thereof (whether such claim arises out of the same or a related or an unrelated transaction), or

(c) the Unpaid Balance of any Receivable is reduced on account of the obligation of any Loan Party or any Affiliate thereof to pay to the related Obligor any rebate or refund, or

(d) the Unpaid Balance of any Receivable is less than the amount included in calculating the Net Pool Balance for purposes of any Information Package (for any reason other than such Receivable becoming a Defaulted Receivable), or

(e) any of the representations or warranties of the Borrower set forth in Section 6.1(j), (l) or (p) were not true when made with respect to any Receivable, or any of the representations or warranties of the Borrower set forth in Section 6.1(k) are no longer true with respect to any Receivable, or any Receivable is repurchased by the Seller pursuant to the Purchase and Sale Agreement,

then, on such day, the Borrower shall be deemed to have received a Collection of such Receivable (1) in the case of clauses (a)-(d) above, in the amount of such reduction or cancellation or the difference between the actual Unpaid Balance and the amount included in calculating such Net Pool

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Balance, as applicable; and (2) in the case of clause (e) above, in the amount of the Unpaid Balance of such Receivable.

#### ARTICLE IV FEES AND YIELD PROTECTION

SECTION 4.1. FEES. The Borrower shall pay to the Agent and the Lenders certain fees from time to time in amounts and payable on such dates as are set forth in the Fee Letter.

SECTION 4.2. YIELD PROTECTION. If (i) a change to Regulation D or (ii) any Regulatory Change, in either case, occurring after the date hereof:

(a) shall subject an Affected Party to any tax, duty or other charge with respect to its Obligations or, as applicable, its Commitment or its commitment under any Liquidity Agreement, or shall change the basis of taxation of payments to the Affected Party of any Obligations, owed to or funded in whole or in part by it or any other amounts due under this Agreement in respect of its Obligations or, as applicable, its Commitment or its commitment under any Liquidity Agreement except for (1) taxes based on, or measured by, net income, or changes in the rate of tax on or determined by reference to the overall net income, of such Affected Party, (2) franchise taxes, taxes on, or in the nature of, doing business taxes or capital taxes, or (3) withholding taxes required for payments made to any foreign entity which, at the time such foreign entity issues its Commitment or Liquidity Commitment or becomes an assignee of a Lender hereunder, fails to deliver to the Agent and the Borrower an accurate IRS Form W-8 BEN or W-8 ECI, as applicable; or

(b) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Federal Reserve Board, but excluding any reserve included in the determination of interest), special deposit or similar requirement against assets of any Affected Party, deposits or obligations with or for the account of any Affected Party or with or for the account of any affiliate (or entity deemed by the Federal Reserve Board to be an affiliate) of any Affected Party, or credit extended by any Affected Party; or

(c) shall affect the amount of capital required or expected to be maintained by any Affected Party; or

(d) shall impose any other condition affecting any Obligation owned or funded in whole or in part by any Affected Party, or its rights or obligations, if any, to make Loans or Liquidity Fundings; or

(e) shall change the rate for, or the manner in which the Federal Deposit Insurance Corporation (or a successor thereto) assesses deposit insurance premiums or similar charges;

and the result of any of the foregoing is or would be:

(x) to increase the cost to or to impose a cost on (I) an Affected Party funding or making or maintaining any Loan, any Liquidity Funding, or any

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commitment of such Affected Party with respect to any of the foregoing, or (II) any Agent for continuing its or the Borrower's relationship with any Affected Party, in each case, in an amount deemed to be material by such Affected Party,

(y) to reduce the amount of any sum received or receivable by an Affected Party under this Agreement or under the Liquidity Agreement, or

(z) to reduce the rate of return on such Affected Party's capital as a consequence of its Commitment, its Liquidity Commitment or the Loans made by it to a level below that which such Affected Party could have achieved but for the occurrence of such circumstances,

then, within thirty days after demand by such Affected Party (which demand shall be accompanied by a certificate setting forth, in reasonable detail, the basis of such demand and the methodology for calculating, and the calculation of, the amounts claimed by the Affected Party), the Borrower shall pay directly to such Affected Party such additional amount or amounts as will compensate such Affected Party for such actual additional cost, actual increased cost or actual reduction.

(f) Each Affected Party will promptly notify the Borrower and the Agent of any event of which it has knowledge (including any future event that, in the judgment of such Affected Party, is reasonably certain to occur) which will entitle such Affected Party to compensation pursuant to this Section 4.2; PROVIDED, HOWEVER, no failure to give or delay in giving such notification shall adversely affect the rights of any Affected Party to such compensation.

(g) In determining any amount provided for or referred to in this Section 4.2, an Affected Party may use any reasonable averaging and attribution methods (consistent with its ordinary business practices) that it (in its reasonable discretion) shall deem applicable. Any Affected Party when making a claim under this Section 4.2 shall submit to the Borrower the above-referenced certificate as to such actual increased cost or actual reduced return (including calculation thereof in reasonable detail), which statement shall, in the absence of demonstrable error, be conclusive and binding upon the Borrower.

(h) Each of the Lenders agrees, and will require each Affected Party to agree that, with reasonable promptness after an officer of such Lender or such Affected Party responsible for administering the Transaction Documents becomes aware that it has become an Affected Party under this Section 4.2, is entitled to receive payments under this Section 4.2, or is or has become subject to U.S. withholding taxes payable by any Loan Party in respect of its investment hereunder, it will, to the extent not inconsistent with any internal policy of such Person or any applicable legal or regulatory restriction, (i) use all reasonable efforts to make, fund or maintain its commitment or investment hereunder through another branch or office of such Affected Party, or (ii) take such other reasonable measures, if, as a result thereof, the circumstances which would cause such Person to be an Affected Party under this Section 4.2 would cease to exist, or the additional amounts which would otherwise be required to be paid to such Person pursuant to this Section 4.2 would be reduced, or such withholding taxes would be reduced, and if the making, funding or maintaining of such commitment or investment through such other office or in accordance with such other

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measures, as the case may be, would not otherwise adversely affect such commitment or investment or the interests of such Person; provided that such Person will not be obligated to utilize such other lending office pursuant to this Section 4.2 unless the Borrower agrees to pay all incremental expenses incurred by such Person as a result of utilizing such other office as described in clause (i) above.

SECTION 4.3. FUNDING LOSSES. In the event that any Lender shall actually incur any actual loss or expense (including any actual loss or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired

by such Lender to make any Loan or any Liquidity Funding, as applicable, or maintain any Loan or Liquidity Funding, as applicable) as a result of (i) any payment of principal with respect to such Lender's Loan being made on any day other than the scheduled last day of an applicable CP Tranche Period or Interest Period with respect thereto (it being understood that the foregoing shall not apply to any Alternate Base Rate Loans), or (ii) any Loan not being made in accordance with a request therefor under Section 2.1, then, upon written notice from the Agent to the Borrower and the Servicer, the Borrower shall pay to the Servicer and the Servicer shall pay to the Agent for the account of such Lender the amount of such actual loss or expense. Such written notice (which notice shall set forth in reasonable detail the basis to the loss or expense and shall include the methodology for calculating, and the calculation of, the amount of such actual loss or expense, in reasonable detail) shall, in the absence of demonstrable error or unreasonable assumption, methodology or allocations, be conclusive and binding upon the Borrower and the Servicer.

Notwithstanding the foregoing, unless the Agent gives notice to the Borrower and the Servicer that it is obligated to pay an amount pursuant to this Section 4.3 within one year after the date the Lender incurred the respective actual loss or expense, then such Lender shall only be entitled to be compensated for such actual loss or expense as are incurred or suffered on or after the date which occurs one year prior to the Agent giving notice to the Borrower and the Servicer unless such loss or expense is incurred on a retroactive basis, in which case, such Lender shall be entitled to be compensated for all loss and expense provided the Agent or such Lender gives notice within one year from the date of such retroactive change. If the Borrower pays any additional amount under this Section 4.3 to a Lender and such Lender determines that it has actually received or realized in connection therewith any refund or any reduction of, or credit against its tax liabilities in or with respect to the taxable year in which the additional amount is paid (a "TAX BENEFIT"), such Lender shall pay to the Borrower an amount that such Lender shall determine is equal to the net benefit, after tax, which was obtained by such Lender in such year as a consequence of such Tax Benefit; PROVIDED, HOWEVER, that nothing in this Section 4.3 shall require any Lender to (i) seek a Tax Benefit or (ii) disclose any confidential information to the Borrower or Servicer (including, without limitation, its tax returns).

#### ARTICLE V CONDITIONS OF ADVANCES

SECTION 5.1. CONDITIONS PRECEDENT TO INITIAL ADVANCE. The initial Advance pursuant to this Agreement is subject to the condition precedent that the Agent shall have received, on or before the date of such initial Advance, the following each (unless otherwise indicated) dated such date and in form and substance reasonably satisfactory to the Agent:

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(a) The Sale Agreement and the Purchase and Sale Agreement, duly executed by the parties thereto;

(b) A certificate of the Secretary or Assistant Secretary or other appropriate officer of each Loan Party certifying the names and true signatures of the officers authorized on its behalf to sign this Agreement and the other Transaction Documents to be delivered by it hereunder (on which certificate the Agent and the Lenders may conclusively rely until such time as the Agent shall receive from such Loan Party a revised certificate meeting the requirements of this subsection (b));

(c) The Certificate of Formation or other organizational documents of each Loan Party, duly certified by the Secretary of State of such Loan Party's state of incorporation or organization, as of a recent date acceptable to the Agent in each case together with a copy of the by-laws or other organizational document of such Loan Party, duly certified by the Secretary or an Assistant Secretary of such Loan Party or other appropriate officer;

(d) Copies of good standing certificates or similar certificates of existence for each Loan Party, issued by the Secretaries of State of the state of incorporation or organization of such Loan Party and the state where such Loan Party's principal place of business is located;

(e) Acknowledgment copies (or other evidence of filing reasonably acceptable to the Agent) of (i) proper financing statements (Form UCC-1), in such form as the Agent may reasonably request, naming the Originator as debtor and seller of its Receivables and Related Assets, the Seller as the secured party and purchaser thereof and the Agent, as agent for the Secured Parties, as assignee, (ii) financing statements (Form UCC-1), in such form as the Agent may reasonably request, naming the Seller as debtor and seller of its Receivables and Related Assets, the Borrower as the secured party

and purchaser thereof and the Agent, as agent for the Secured Parties, as assignee and (iii) financing statements (Form UCC-1), in such form as the Agent may reasonably request, naming the Borrower as the debtor and the Agent, as agent for the Secured Parties, as the secured party, or other, similar instruments or documents, as may be necessary or, in the opinion of the Agent desirable under the UCC or any comparable law of all appropriate jurisdictions to perfect the sale by the Originator to the Seller and the Seller to the Borrower of, and the Agent's security interest in, the Collateral;

(f) Search reports provided in writing to the Agent (i) listing all effective financing statements that name any Loan Party as debtor and that are filed in the jurisdictions in which filings were made pursuant to subsection (e) above and in such other jurisdictions that the Agent shall reasonably request, together with copies of such financing statements (none of which (other than any of the financing statements described in subsection (e) above or financing statements in favor of the agent pursuant to the Senior Credit Agreement) shall cover any Receivables or Related Assets), and (ii) listing all tax liens and judgment liens (if any) filed against any debtor referred to in clause (i) above in the jurisdictions described therein and showing no such Liens;

(g) The Seller Note, duly executed by the Borrower and the Initial PCA Note, duly executed by the Seller;

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(h) A favorable opinion of counsel to Loan Parties admitted to practice in the State of Illinois, covering the matters set forth in Exhibit 5.1(h);

(i) Favorable opinions of counsel to Loan Parties, as to:

(1) the existence of a "true sale" of the Receivables from the Originator to the Seller and from the Seller to the Borrower under the Sale Agreement and the Purchase and Sale Agreement, respectively; and

(2) the inapplicability of the doctrine of substantive consolidation to the Borrower and the Originator and to the Borrower and the Seller in connection with any bankruptcy proceeding involving any Loan Party;

(j) A pro forma Information Package, prepared as of the Cut-Off Date of October 31, 2000;

(k) A report in form and substance satisfactory to the Agent from the Initial Due Diligence Auditor as to a pre-closing due diligence audit by the Initial Due Diligence Auditor;

(l) The Liquidity Agreement, in form and substance satisfactory to the Agent, duly executed by the parties thereto;

(m) With respect to the Performance Guarantor, copies of its most recent reports on SEC Forms 10-K and 10-Q;

(n) The Fee Letter, together with payment of any and all fees due on or prior to the date of the initial Advance;

(o) A certificate of an Authorized Officer of each of the Loan Parties certifying that as of the date of the initial Advance, no Event of Default or Unmatured Default exists and is continuing; and

(p) Such other agreements, instruments, certificates, opinions and other documents as the Agent may reasonably request.

SECTION 5.2. CONDITIONS PRECEDENT TO ALL ADVANCES. Each Advance (including the initial Advance) shall be subject to the further conditions precedent that on the applicable Borrowing Date, each of the following statements shall be true (and the Borrower, by accepting the amount of such Advances or by receiving the proceeds of any Loan comprising such Advance, and each other Loan Party, upon such acceptance or receipt by the Borrower, shall be deemed to have certified that):

(a) the representations and warranties contained in Section 6.1 are accurate in all material respects on and as of the date of such Advance as though made on and as of such day and shall be deemed to have been made on such day,

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(b) no event has occurred and is continuing, or would result from such Advance, that constitutes an Event of Default or Unmatured Default,

(c) after giving effect to each proposed Advance, the outstanding Loans made by Blue Ridge and the Liquidity Banks will not exceed the Allocation Limit,

(d) the Termination Date shall not have occurred, and

(e) the Agent shall have timely received an appropriate Borrowing Request in accordance with Section 2.1;

PROVIDED, HOWEVER, the absence of the occurrence and continuance of an Unmatured Default shall not be a condition precedent to any Advance which does not increase the aggregate principal amount of all Advances outstanding over the aggregate outstanding principal balance of the Advances as of the opening of business on such day.

#### ARTICLE VI REPRESENTATIONS AND WARRANTIES

SECTION 6.1. REPRESENTATIONS AND WARRANTIES OF THE BORROWER. The Borrower represents and warrants, as to itself, as follows:

(a) DUE ORGANIZATION AND GOOD STANDING; OWNERSHIP OF THE BORROWER. The Borrower is a limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization or formation. Performance Guarantor owns, directly or indirectly, all outstanding membership interests of the Borrower, and all of such membership interests are fully paid and non-assessable and free and clear of any Liens.

(b) DUE QUALIFICATION. The Borrower is duly qualified to do business as a limited liability company in good standing in all jurisdictions not covered by Section 6.1(a) in which the ownership or lease of property or the conduct of its business requires such qualification, except where the failure to be so qualified or have such licenses or approvals would not have a Material Adverse Effect.

(c) POWER AND AUTHORITY; DUE AUTHORIZATION. The Borrower (i) has all necessary power, authority and legal right, and has obtained all necessary licenses and approvals, (A) to execute and deliver this Agreement and the other Transaction Documents to which it is a party, (B) to carry out the terms of the Transaction Documents to which it is a party, (C) in the case of the Servicer (or any Affiliate thereof that is acting as a sub-servicer), to service the Receivables and the Related Assets in accordance with this Agreement and the Purchase and Sale Agreement, and (D) in the case of the Borrower, to grant the security interest in the Collateral and borrow the Loans on the terms and conditions herein provided, and (ii) has duly authorized by all necessary corporate action the execution, delivery and performance of this Agreement and the other Transaction Documents to which it is a party and, in the case of the Borrower, the security interest described in clause (i)(D) above.

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(d) TITLE TO RECEIVABLES; VALID SECURITY INTEREST. Each Receivable has been acquired by the Borrower from the Seller in accordance with the terms of the Purchase and Sale Agreement, and the Borrower has thereby irrevocably obtained all legal and equitable title to, and has the legal right to sell and encumber, such Receivable and the Related Assets. Each such Receivable has been transferred to the Borrower free and clear of any Lien except as created hereby. Without limiting the foregoing, there have been duly filed all financing statements or other similar instruments or documents necessary under the UCC of all appropriate jurisdictions to perfect the Borrower's ownership interest in such Receivable. This Agreement creates a valid security interest in the Collateral in favor of the Agent, for the benefit of the Secured Parties, enforceable against creditors of and purchasers from the Borrower.

(e) NONCONTRAVENTION. The execution, delivery and performance by the Borrower of this Agreement and each other Transaction Document to which it is party do not and will not: (i) contravene the terms of any of its articles of organization or by-laws or other appropriate organizational documents; (ii) conflict with or result in a material breach or contravention of, or the creation of any Lien under, any document evidencing any material Contractual Obligation to which such Person is a party or any order, injunction, writ or decree of any Governmental Authority to which such Person or its property is subject; or (iii) violate



any Requirement of Law.

(f) NO PROCEEDINGS. There are no actions, suits, labor controversies, proceedings, claims or disputes pending, or to the best knowledge of the Borrower, threatened or contemplated, at law, in equity, in arbitration or before any Governmental Authority, against the Borrower, or its Subsidiaries or any of their respective properties which: (i) purport to affect or pertain to this Agreement or any other Transaction Document, or any of the transactions contemplated hereby or thereby; or (ii) if determined adversely to the Borrower or its Subsidiaries, would reasonably be expected to have a Material Adverse Effect. No injunction, writ, temporary restraining order or order of any nature has been issued by any court or other Governmental Authority purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Transaction Document, or directing that the transactions provided for herein or therein not be consummated as herein or therein provided. The Borrower is generally subject to suit and it does not nor does any of its properties or revenues enjoy any right of immunity from judicial proceedings.

(g) ENFORCEABILITY. This Agreement and each other Transaction Document signed by the Borrower constitutes, a legal, valid and binding obligation of the Borrower, enforceable in accordance with its terms (except as enforceability may be limited by applicable bankruptcy, insolvency, or similar laws affecting the enforcement of creditors' rights generally or by equitable principles relating to enforceability).

(h) GOVERNMENT APPROVALS. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower of this Agreement or any other Transaction Document, except for (i) the filing of the UCC financing statements referred to in Article V, and (ii) the filing of any UCC continuation statements and amendments from time to time required in relation to

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any UCC financing statements filed in connection with this Agreement, as provided in Section 8.5, all of which, at the time required in Article V or Section 8.5, as applicable, shall have been duly made and shall be in full force and effect.

(i) NATURE OF RECEIVABLES. Each Receivable constitutes an Account.

(j) MARGIN REGULATIONS. The use of all funds obtained by the Borrower under this Agreement or any other Transaction Document will not conflict with or contravene any of Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System from time to time.

(k) QUALITY OF TITLE. (i) Each Receivable, together with the Related Assets, is owned by the Borrower free and clear of any Lien (other than any Lien arising solely as the result of any action taken by the Agent or one of the Secured Parties); (ii) the Agent, on behalf of the Secured Parties, has a valid and perfected first priority security interest in the Collateral; and (iii) no financing statement or other instrument similar in effect covering any portion of the Collateral is on file in any recording office except such as may be filed (A) in favor of the Originator in accordance with the Contracts, (B) in favor of the Seller in accordance with the Sale Agreement (C) in favor of the Borrower and its assigns in connection with the Purchase and Sale Agreement, (D) in favor of the Agent in accordance with this Agreement or in connection with any Lien arising solely as the result of any action taken by the Agent or one of the Secured Parties or (E) in favor of the agent pursuant to the Senior Credit Agreement.

(l) ACCURATE REPORTS. No Information Package (if prepared by the Borrower, or to the extent information therein was supplied by the Borrower), no other information furnished verbally or in writing prior to the date of this Agreement, and no other information, exhibit, financial statement, document, book, record or report furnished or to be furnished in writing after the date of this Agreement, by or on behalf of the Borrower to the Agent or any of the Lenders pursuant to this Agreement was or will be inaccurate in any material respect as of the date it was or will be dated or (except as otherwise disclosed to the Agent or the Lenders at such time) as of the date so furnished, or contained or (in the case of information or other materials to be furnished in the future) will contain any material misstatement of fact or omitted or (in the case of information or other materials to be furnished in the future) will omit to state a material fact or any fact necessary to make the statements contained

therein not materially misleading in light of the circumstances made or presented.

(m) OFFICES. The principal places of business and chief executive offices of the Servicer and the Borrower are located at the respective addresses set forth on Schedule 14.2, and the offices where the books, records and documents evidencing the Receivables, the related Contracts and all purchase orders and other agreements related to such Receivables are located are specified in Schedule 6.1(m) (or at such other locations, notified to the Agent in accordance with Section 7.1(f), in jurisdictions where all action required by Section 8.5 has been taken and completed).

(n) LOCK-BOX ACCOUNTS. The names and addresses of all the Lock-Box Banks, together with the account numbers of the accounts of the Borrower at such Lock-Box Banks,

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are specified in Schedule 6.1(n) (or have been notified to and approved by the Agent in accordance with Section 7.3(d)). Each of the Lock-Box Accounts is subject to a Lock-Box Agreement that is in full force and effect.

(o) ELIGIBLE RECEIVABLES. Each Receivable included as an Eligible Receivable in the Net Pool Balance in connection with any computation or recomputation of the Borrowing Base is an Eligible Receivable on such date.

(p) NAMES. In the past five years, the Borrower has not used any corporate names, trade names or assumed names other than the name in which it has executed this Agreement.

(q) CREDIT AND COLLECTION POLICY. With respect to each Receivable, each of the Originator, the Borrower and the Servicer has complied in all material respects with the applicable Credit and Collection Policy, and no change has been made to such Credit and Collection Policy since the date of this Agreement which would be reasonably likely to materially and adversely affect the collectibility of the Receivables or decrease the credit quality of any newly created Receivables except for such changes as to which each of the Agent have received the notice required under Section 7.2(g) and, to the extent that such change is material, has given its prior written consent thereto (which consent shall not be unreasonably withheld or delayed).

(r) PAYMENTS TO SELLER. With respect to each Receivable sold to the Borrower by the Seller, the Borrower has given reasonably equivalent value to the Seller in consideration for such Receivable and the Related Assets with respect thereto under the Purchase and Sale Agreement and such transfer was not made for or on account of an antecedent debt. No transfer by the Seller of any Receivable is or may be voidable under any Section of the Bankruptcy Reform Act of 1978 (11 U.S.C. Sections 101 et seq.), as amended.

(s) NOT AN INVESTMENT COMPANY. The Borrower is not an "investment company" within the meaning of the Investment Company Act of 1940, as amended from time to time, or any successor statute.

(t) BORROWING BASE. As of each Borrowing Date, after giving effect to the Loans to be made on such date, the Borrowing Base is at least equal to the aggregate outstanding principal balance of the Advances.

## ARTICLE VII GENERAL COVENANTS OF THE BORROWER

SECTION 7.1. AFFIRMATIVE COVENANTS OF THE BORROWER. From the date hereof until the Final Payout Date, unless the Agent shall otherwise consent in writing:

(a) COMPLIANCE WITH LAWS, Etc. The Borrower will comply in all material respects with all applicable laws, rules, regulations and orders, including those with respect to the Receivables and related Contracts, except where the failure to so comply would not individually or in the aggregate have a Material Adverse Effect.

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(b) PRESERVATION OF CORPORATE EXISTENCE. The Borrower will preserve and maintain its limited liability existence, rights, franchises and privileges in the jurisdiction of its organization, and qualify and remain qualified in good standing as a limited liability company in each jurisdiction where the failure to preserve and maintain such existence,

rights, franchises, privileges and qualification would have a Material Adverse Effect.

(c) AUDITS. The Borrower will (i) at any time and from time to time upon not less than ten (10) Business Days' notice (unless an Event of Default has occurred and is continuing, in which case no such notice shall be required) during regular business hours, permit the Agent or any of its agents or representatives: (A) to examine and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of or accessible to the Borrower relating to Receivables, including, without limitation, the related Contracts and purchase orders and other agreements, and (B) to visit the offices and properties of the Borrower for the purpose of examining such materials described in clause (i) (A) next above, and to discuss matters relating to Receivables or the Borrower's performance hereunder with any of the officers or employees of the Borrower having knowledge of such matters; and (ii) without limiting the provisions of clause (i) above, from time to time upon not less than ten (10) Business Days notice, at the expense of the Borrower, permit Performance Guarantor's outside auditors (except as hereinafter provided) or other certified public accountants or auditors acceptable to the Agent to conduct a review of the Borrower's books and records with respect to the Receivables and Related Assets (each of the reviews described in clause (i) and (ii) hereof, a "REVIEW"); PROVIDED, HOWEVER, that, so long as no Event of Default has occurred and is continuing, (i) the Borrower shall only be responsible for the costs and expenses of one such Review under this Section or under Section 7.2(h) in any one calendar year and (ii) there shall be no more than two such Reviews under this Section or under Section 7.2(h) in any one calendar year.

(d) KEEPING OF RECORDS AND BOOKS OF ACCOUNT. The Servicer will maintain and implement administrative and operating procedures (including, without limitation, an ability to recreate records evidencing Receivables in the event of the destruction of the originals thereof), and keep and maintain, all documents, books, records and other information reasonably necessary or advisable for the collection of all Receivables (including, without limitation, records adequate to permit the daily identification of outstanding Unpaid Balances by Obligor and related debit and credit details of the Receivables).

(e) PERFORMANCE AND COMPLIANCE WITH RECEIVABLES AND CONTRACTS. The Borrower will, at its expense, timely and fully perform and comply with all material provisions, covenants and other promises, if any, required to be observed by it under the Contracts related to the Receivables and all agreements related to such Receivables.

(f) LOCATION OF CHIEF EXECUTIVE OFFICE. The Borrower will keep its chief place of business and chief executive office, and the offices where records concerning the Receivables and all related Contracts are kept (and all original documents relating thereto), at the address(es) referred to in Section 6.1(n) or, upon 15 days' prior written notice to the Agent, at such other locations in jurisdictions where all action required by Section 8.5 shall have been taken and completed.

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(g) CREDIT AND COLLECTION POLICIES. The Borrower will comply in all material respects with the Credit and Collection Policy in regard to each Receivable and the related Contracts.

(h) PURCHASE AND SALE AGREEMENT. The Borrower will perform and comply in all material respects with all of its covenants and agreements set forth in the Purchase and Sale Agreement, and will enforce the performance by the Seller of its obligations under the Purchase and Sale Agreement.

(i) COLLECTIONS. All Obligors shall be instructed to make payments on Receivables directly to a Lock-Box Account which is the subject of a Lock-Box Agreement. If, notwithstanding the foregoing, any Collections are paid directly to the Borrower, the Borrower shall deposit the same (with any necessary endorsements) to such a Lock-Box Account within two (2) Business Days after receipt thereof. Upon demand of the Agent to the extent that the Agent reasonably determines necessary in order to protect the interests of the Agent or the Secured Parties under this Agreement, the Borrower or the Servicer shall establish a segregated account at Wachovia Bank, N.A. which is subject to a perfected security interest in favor of the Agent, for the benefit of the Secured Parties (the "COLLECTION ACCOUNT"), into which all deposits from time to time in Lock-Box Accounts, and all other Collections, are concentrated pending application in accordance with the terms of this Agreement to the Obligations.

(j) FURTHER ASSURANCES. The Borrower shall take all necessary action to establish and maintain (i) in favor of the Borrower, a valid and perfected ownership interest in the Receivables and Related Assets (other than books and records evidencing or otherwise relating to any Receivables), and (ii) in favor of the Agent for the benefit of the Secured Parties, a valid and perfected first priority security interest in the Receivables and the Related Assets (other than books and records evidencing or otherwise relating to any Receivables), including, without limitation, taking such action to perfect, protect or more fully evidence the interest of the Agent as the Agent may reasonably request.

SECTION 7.2. REPORTING REQUIREMENTS OF THE BORROWER. From the date hereof until the Final Payout Date, unless the Agent shall otherwise consent in writing:

(a) QUARTERLY FINANCIAL STATEMENTS. (i) The Borrower will cause the Performance Guarantor to furnish to the Agent as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of Performance Guarantor, copies of its consolidated balance sheets and related statements of income and statements of cash flow, showing the financial condition of Performance Guarantor and its consolidated Subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, together with a Certificate of Financial Officer in the form attached hereto as Exhibit 7.2 executed by the chief financial officer or treasurer of Performance Guarantor; and (ii) the Borrower will furnish to the Agent, as soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Borrower, copies of the financial statements of the Borrower, consisting of at least a balance sheet as at the close of such quarter and statements of earnings and changes in cash flows for such

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quarter and for the period from the beginning of the fiscal year to the close of such quarter, together with a Certificate of Financial Officer in the form attached hereto as Exhibit 7.2 executed by the chief financial officer or treasurer of the Borrower;

(b) ANNUAL FINANCIAL STATEMENTS. (i) The Borrower will cause the Performance Guarantor to furnish to the Agent, as soon as available and in any event within 90 days after the end of each fiscal year of Performance Guarantor, copies of its consolidated balance sheets and related statements of income and statements of cash flow, showing the financial condition of Performance Guarantor and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by independent public accountants of recognized national standing acceptable to the Agent and accompanied by an opinion of such accountants (which shall not be qualified in any material respect with respect to any matter related to the Receivables or the collectability of the Receivables) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of Performance Guarantor on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied; and (ii) the Borrower will furnish to the Agent, as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, copies of the financial statements of the Borrower, consisting of at least a balance sheet of Borrower for such year and statements of earnings, cash flows and shareholders' equity, setting forth in each case in comparative form corresponding figures from the preceding fiscal year, together with a Certificate of Financial Officer in the form attached hereto as Exhibit 7.2 executed by the chief financial officer or treasurer of the Borrower;

(c) REPORTS TO SEC AND EXCHANGES. In addition to the reports required by subsections (a) and (b) next above, promptly upon the Agent's reasonable request, the Borrower will cause the Performance Guarantor to furnish to the Agent copies of any reports or registration statements that Performance Guarantor files with the Securities and Exchange Commission or any national securities exchange other than registration statements relating to employee benefit plans and to registrations of securities for selling securityholders;

(d) ERISA. Promptly after the filing or receiving thereof, the Borrower will furnish to the Agent copies of all reports and notices with respect to any Reportable Event defined in Article IV of ERISA which the Borrower files under ERISA with the Internal Revenue Service, the Pension Benefit Guaranty Corporation or the U.S. Department of Labor or which the Borrower receives from the Pension Benefit Guaranty Corporation;

(e) EVENTS OF DEFAULT, ETC. As soon as possible and in any event within five (5) Business Days after any Responsible Officer of the Borrower obtains knowledge of the occurrence of any Event of Default or any Unmatured Default, the Borrower will furnish to the Agent a written statement of a Responsible Officer of the Borrower setting forth details of such event and the action that the Borrower will take with respect thereto;

(f) LITIGATION. As soon as possible and in any event within ten Business Days after any Responsible Officer of the Borrower obtains knowledge thereof, the Borrower will furnish to the Agent notice of (i) any litigation, investigation or proceeding which may exist at any time which would reasonably be expected to have a Material Adverse Effect and (ii)

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any development in previously disclosed litigation which development would reasonably be expected to have a Material Adverse Effect;

(g) CHANGE IN BUSINESS OR CREDIT AND COLLECTION POLICY. The Borrower will furnish to the Agent prompt written notice of any material change in the character of the Borrower's business prior to the occurrence of such change, and the Borrower will provide the Agent with not less than 15 Business Days' prior written notice of any material change in the Credit and Collection Policy (together with a copy of such proposed change); and

(h) OTHER. Promptly, from time to time, the Borrower will furnish to the Agent such other information, documents, records or reports respecting the Receivables (including all Records) or the condition or operations, financial or otherwise, of the Borrower as the Agent may from time to time reasonably request in order to protect the interests of the Agent or the Secured Parties under or as contemplated by this Agreement.

Notwithstanding anything herein to the contrary, as long as the Agent is a party to the Senior Credit Agreement, the Borrower shall be deemed to be in compliance with Section 7.2(a)(i), 7.2(b)(i) and 7.2(c) to the extent the Performance Guarantor is in compliance with Section 8.01 of the Senior Credit Agreement.

SECTION 7.3. NEGATIVE COVENANTS OF THE BORROWER. From the date hereof until the Final Payout Date, without the prior written consent of the Agent:

(a) SALES, LIENS, ETC. (i) The Borrower will not, except as otherwise provided herein and in the other Transaction Documents, sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Lien upon or with respect to, any Collateral, or any account to which any Collections are sent, or any right to receive income or proceeds from or in respect of any of the foregoing (except, prior to the execution of Lock-Box Agreements, set-off rights of any bank at which any such account is maintained), and (ii) the Servicer will not assert any interest in the Receivables, except as the Servicer.

(b) EXTENSION OR AMENDMENT OF RECEIVABLES. The Borrower will not, except as otherwise permitted in Section 8.2(c), extend, amend or otherwise modify the terms of any Receivable, or amend, modify or waive any material term or condition of any Contract related thereto in any way that materially adversely affects the collectibility of any Receivable or any Lender's rights therein.

(c) CHANGE IN BUSINESS OR CREDIT AND COLLECTION POLICY. The Borrower will not make or permit to be made any change in the character of its business or in the Credit and Collection Policy, which change would, in either case, impair the collectibility of any significant portion of the Receivables or otherwise materially and adversely affect the interests or remedies of each Lender under this Agreement or any other Transaction Document.

(d) CHANGE IN PAYMENT INSTRUCTIONS TO OBLIGORS. The Borrower will not add or terminate any bank as a Lock-Box Bank from those listed in Schedule 6.1(o) or, after the

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Collection Account has been established pursuant to Section 7.1(i), make any material change in its instructions to Obligor regarding payments to be made to the Borrower or the Servicer or payments to be made to any Lock-Box Bank (which shall not include a change in instructions solely for the purpose of directing Obligor to make such payments to another existing Lock-Box Bank), unless (i) the Agent shall have received prior written

notice of such addition, termination or change and (ii) the Agent shall have received duly executed copies of Lock-Box Agreements in a form reasonably acceptable to the Agent with each new Lock-Box Bank.

(e) DEPOSITS TO LOCK-BOX ACCOUNTS AND COLLECTION ACCOUNT. The Borrower will not deposit or otherwise credit, or cause or permit to be so deposited or credited, to any Lock-Box Account or the Collection Account, any cash or cash proceeds other than Collections of Receivables.

(f) CHANGES TO OTHER DOCUMENTS. The Borrower will not, without the consent of the Agent, enter into any amendment or modification of, or supplement to, the Purchase and Sale Agreement, the Seller Note or the Borrower's Certificate of Formation or such other equivalent certificate.

(g) RESTRICTED PAYMENTS BY THE BORROWER. The Borrower will not:

(i) declare or pay any distributions in respect of any membership or other equity interest in the Borrower or set aside any funds for any such purpose, unless, in each of the foregoing cases: (A) such distribution is made on, or immediately following, a Settlement Date after payment of all Obligations due and owing on such Settlement Date, and (B) after giving effect to such distribution, the Borrower's net worth (determined in accordance with GAAP) will be at least \$20,000,000; or

(ii) Make any payment of principal or interest on the Seller Note if any Event of Default exists or would result therefrom or if such payment would result in the Borrower's having insufficient cash on hand to pay all Obligations that will be due and owing on the next succeeding Settlement Date.

(h) BORROWER INDEBTEDNESS. The Borrower will not incur or permit to exist any Indebtedness or liability on account of deposits except: (A) current accounts payable arising in the ordinary course of business and not overdue in an aggregate amount at any time outstanding not to exceed \$50,000 (B) Indebtedness incurred in accordance with the Purchase and Sale Agreement and evidenced by the Seller Note and (C) current payables not mentioned in Clause (A) of this subsection (h) and expense reimbursement obligations arising under the Transaction Documents and not overdue.

(i) PROHIBITION ON ADDITIONAL NEGATIVE PLEDGES. The Borrower will not enter into or assume any agreement (other than this Agreement and the other Transaction Documents) prohibiting the creation or assumption of any Lien upon any Receivables or Related Assets, whether now owned or hereafter acquired, except as contemplated by the Transaction Documents, or otherwise prohibiting or restricting any transaction contemplated hereby or by the other Transaction Documents, and the Borrower will not enter into or assume any

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agreement creating any Lien upon the Seller Note, except as required by the Senior Credit Agreement.

(j) NAME CHANGE, OFFICES. The Borrower will not change its name, identity or corporate structure (within the meaning of Section 9-402(7) of any applicable enactment of the UCC) or relocate its chief executive office unless it shall have: (i) given the Agent at least 15 Business Days' prior written notice thereof and (ii) prior to effectiveness of such change, delivered to the Agent all financing statements, instruments and other documents requested by the Agent in connection with such change or relocation.

(k) MERGERS, CONSOLIDATIONS AND ACQUISITIONS. The Borrower will not merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person (whether directly by purchase, lease or other acquisition of all or substantially all of the assets of such Person or indirectly by purchase or other acquisition of all or substantially all of the capital stock of such other Person) other than the acquisition of the Receivables and Related Assets pursuant to the Purchase and Sale Agreement.

(l) DISPOSITION OF RECEIVABLES AND RELATED ASSETS. Except pursuant to this Agreement, the Borrower will not sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions) any Receivables and Related Assets.

(m) BORROWING BASE. The Borrower will not request any Advance if,

after giving effect thereto, the aggregate outstanding principal balance of the Loans would exceed the Borrowing Base.

SECTION 7.4. SEPARATE CORPORATE EXISTENCE OF THE BORROWER. The Borrower hereby acknowledges that the Lenders and the Agent are entering into the transactions contemplated hereby in reliance upon the Borrower's identity as a legal entity separate from the Servicer and its other Affiliates. Therefore, the Borrower shall take all steps specifically required by this Agreement or reasonably required by the Agent to continue the Borrower's identity as a separate legal entity and to make it apparent to third Persons that the Borrower is an entity with assets and liabilities distinct from those of its Affiliates, and is not a division of Performance Guarantor or any other Person. Without limiting the foregoing, the Borrower will take such actions as shall be required in order that:

(a) The Borrower will be a limited purpose company whose primary activities are restricted in its Certificate of Formation or other equivalent certificate to purchasing or otherwise acquiring from Seller, owning, holding, granting security interests in the Collateral, entering into agreements for the financing and servicing of the Receivables, and conducting such other activities as it deems necessary or appropriate to carry out its primary activities;

(b) Not less than one member of the Borrower's Board of Managers (the "INDEPENDENT MANAGER") shall be an individual who is not, and never has been, a direct, indirect or beneficial stockholder (other than through a mutual fund the investment decisions of which are not controlled by such person), officer, director, employee, affiliate, associate, material supplier or material customer of Performance Guarantor or any of its Affiliates

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(other than an Affiliate organized with a limited purpose charter for the purpose of acquiring receivables or other financial assets or intangible property). The certificate of formation or other equivalent certificate of the Borrower shall provide that (a) at least one member of the Borrower's Board of Managers or other similar governing body shall be an Independent Manager, (b) the Borrower's Board of Managers or other similar governing body shall not approve, or take any other action to cause the filing of, a voluntary bankruptcy petition with respect to the Borrower unless the Independent Manager shall approve the taking of such action in writing prior to the taking of such action and (c) the provisions requiring an independent director and the provision described in clauses (a) and (b) of this paragraph (ii) cannot be amended without the prior written consent of the Independent Manager;

(c) The Independent Manager shall not at any time serve as a trustee in bankruptcy for the Borrower or any Affiliate thereof;

(d) Any director, employee, consultant or agent of the Borrower will be compensated from the Borrower's funds for services provided to the Borrower. The Borrower will not engage any agents other than its attorneys, auditors and other professionals and a servicer (which servicer will be fully compensated for its services by payment of the Servicer's Fee) and any other agent contemplated by the Transaction Documents for the Collateral;

(e) The Borrower will contract with the Servicer to perform for the Borrower all operations required on a daily basis to service the Collateral. The Borrower will pay the Servicer the Servicer's Fee pursuant hereto. The Borrower will not incur any material indirect or overhead expenses for items shared with Performance Guarantor (or any other Affiliate thereof) which are not reflected in the Servicer's Fee. To the extent, if any, that the Borrower (or any other Affiliate thereof) shares items of expenses not reflected in the Servicer's Fee, for legal, auditing and other professional services and directors' fees, such expenses will be allocated to the extent practical on the basis of actual use or the value of services rendered, and otherwise on a basis reasonably related to the actual use or the value of services rendered, it being understood that Performance Guarantor shall pay all expenses relating to the preparation, negotiation, execution and delivery of the Transaction Documents, including, without limitation, legal, rating agency and other fees;

(f) The Borrower's operating expenses will not be paid by any other Loan Party or other Affiliate of the Borrower;

(g) The Borrower will have its own stationery;

(h) The books of account, financial reports and corporate records of

the Borrower will be maintained separately from those of Performance Guarantor and each other Affiliate of the Borrower;

(i) Any financial statements of any Loan Party or Affiliate thereof which are consolidated to include the Borrower will contain detailed notes clearly stating that (A) all of the Borrower's assets are owned by the Borrower, and (B) the Borrower is a separate corporate entity with its own separate creditors that will be entitled to be satisfied out of the

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Borrower's assets prior to any value in the Borrower becoming available to the Borrower's equity holders; and the accounting records and the published financial statements of the Seller will clearly show that, for accounting purposes, the Receivables and Related Assets have been sold by the Seller to the Borrower;

(j) The Borrower's assets will be maintained in a manner that facilitates their identification and segregation from those of the Servicer and the other Affiliates;

(k) Each Affiliate of the Borrower will strictly observe corporate formalities in its dealings with the Borrower, and, except as permitted pursuant to this Agreement with respect to Collections, funds or other assets of the Borrower will not be commingled with those of any of its Affiliates;

(l) No Affiliate of the Borrower will maintain joint bank accounts with the Borrower or other depository accounts with the Borrower to which any such Affiliate (other than in the Borrower's or such Affiliate's existing or future capacity as the Servicer hereunder or under the Purchase and Sale Agreement) has independent access, provided that prior to demand by the Agent pursuant to Section 7.1(i) to establish a segregated Collection Account, Collections may be deposited into general accounts of Performance Guarantor, subject to the obligations of the Servicer hereunder;

(m) No Affiliate of the Borrower shall, directly or indirectly, name the Borrower or enter into any agreement to name the Borrower as a direct or contingent beneficiary or loss payee on any insurance policy covering the property of any Affiliate of the Borrower;

(n) Each Affiliate of the Borrower will maintain arm's length relationships with the Borrower, and each Affiliate of the Borrower that renders or otherwise furnishes services or merchandise to the Borrower will be compensated by the Borrower at market rates for such services or merchandise;

(o) No Affiliate of the Borrower will be, nor will it hold itself out to be, responsible for the debts of the Borrower or the decisions or actions in respect of the daily business and affairs of the Borrower. Packaging Corporation of America and the Borrower will immediately correct any known misrepresentation with respect to the foregoing and they will not operate or purport to operate as an integrated single economic unit with respect to each other or in their dealing with any other entity;

(p) The Borrower will keep correct and complete books and records of account and minutes of the meetings and other proceedings of its stockholder and board of directors, as applicable, and the resolutions, agreements and other instruments of the Borrower will be continuously maintained as official records by the Borrower; and

(q) Each of the Borrower, on the one hand, and the Seller and the Originator, on the other hand, will conduct its business solely in its own corporate name and in such a separate manner so as not to mislead others with whom they are dealing.

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#### ARTICLE VIII ADMINISTRATION AND COLLECTION

SECTION 8.1. DESIGNATION OF SERVICER. (a) SELLER AS INITIAL SERVICER. The servicing, administering and collection of the Receivables shall be conducted by the Person designated as Servicer hereunder from time to time in accordance with this Section 8.1. Until the Agent gives to Seller a Successor Notice (as defined in Section 8.1(b)), Seller is hereby designated as, and hereby agrees to perform the duties and obligations of, Servicer pursuant to the terms hereof.



(b) SUCCESSOR NOTICE; SERVICER TRANSFER EVENTS. Upon Seller's receipt of a notice from the Agent following a Servicer Transfer Event of the designation of a new Servicer (a "SUCCESSOR NOTICE"), Seller agrees that it will terminate its activities as Servicer hereunder in a manner that will facilitate the transition of the performance of such activities to the new Servicer, and the Agent (or the designee of the Agent) shall assume each and all of Seller's obligations to service and administer such Receivables, on the terms and subject to the conditions herein set forth, and Seller shall use its reasonable best efforts to assist the Agent (or the Agent's designee) in assuming such obligations. Without limiting the foregoing, Seller agrees, at its expense, to take all actions necessary to provide the new Servicer with access to all computer software necessary to generate reports useful in collecting or billing Receivables, solely for use in collecting and billing Receivables. If Seller disputes the occurrence of a Servicer Transfer Event, Seller may take appropriate action to resolve such dispute; provided that Seller must terminate its activities hereunder as Servicer and allow the newly designated Servicer to perform such activities on the date specified by the Agent as described above, notwithstanding the commencement or continuation of any proceeding to resolve the aforementioned dispute, if the Agent reasonably determine, in good faith, that such termination is necessary or advisable to protect the Secured Parties' interests hereunder.

(c) SUBCONTRACTS. So long as Seller is acting as the Servicer, it may subcontract with the Originator for servicing, administering or collecting all or any portion of the Receivables, PROVIDED, HOWEVER, that no such subcontract shall relieve Seller of its primary liability for performance of its duties as Servicer pursuant to the terms hereof and any such subservicing arrangement may be terminated at the request of the Agent at any time after a Successor Notice has been given. In addition to the foregoing, with the prior written consent of the Agent (which consent shall not be unreasonably withheld or delayed), any Servicer may subcontract with other Persons for servicing, administering or collecting all or any portion of the Receivables, provided, however, that no such subcontract shall relieve such Servicer of its primary liability for performance of its duties as Servicer pursuant to the terms hereof and any such subservicing arrangement may be terminated at the request of the Agent at any time that such Agent reasonably determines that such subservicer is not performing adequately.

(d) EXPENSE INDEMNITY AFTER A SERVICER TRANSFER EVENT. In addition to, and not in lieu of the Servicer's Fee, if Seller or one of its Affiliates is replaced as Servicer following a Servicer Transfer Event, the Borrower shall reimburse the Servicer within 10 Business Days after receipt of a written invoice, any and all reasonable costs and expenses (based on then current market prices) of the Servicer incurred in connection with its servicing of the Receivables for the benefit of the Secured Parties.

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## SECTION 8.2. DUTIES OF SERVICER.

(a) APPOINTMENT; DUTIES IN GENERAL. Each of the Borrower, the Lenders and the Agent hereby appoints as its agent, the Servicer, as from time to time designated pursuant to Section 8.1, to enforce its rights and interests in and under the Receivables, the Related Security and the related Contracts. The Servicer shall take or cause to be taken all such actions as may be necessary or advisable to collect each Receivable from time to time, all in accordance with applicable laws, rules and regulations, with reasonable care and diligence, and in accordance with the Credit and Collection Policy.

(b) SEGREGATION OF COLLECTIONS. The Servicer shall not be required (unless otherwise requested by the Agent) to segregate the funds constituting the Collections prior to the remittance thereof in accordance with Article III. If the Agent determines in its reasonable judgment that it is necessary or desirable and so instructs the Servicer, the Servicer shall segregate and deposit into the Collection Account Collections not later than the second Business Day following receipt by the Servicer of such Collections in immediately available funds.

(c) MODIFICATION OF RECEIVABLES. Seller, while it is the Servicer, may, in accordance with the Credit and Collection Policy, so long as no Event of Default and no Unmatured Default shall have occurred and be continuing, extend the maturity as Seller may reasonably determine to be appropriate to maximize Collections thereof or adjust the Unpaid Balance of any Receivable in a manner consistent with the Credit and Collection Policy (although no such extension or adjustment shall alter the status of such Receivable as a Defaulted Receivable or a Delinquent Receivable or, in the case of an adjustment, limit the rights of the Agent or the Lenders under Section 3.4).

(d) DOCUMENTS AND RECORDS. The Borrower shall deliver to the Servicer, and the Servicer shall hold in trust for the Borrower and the Secured Parties, all

documents, instruments and records (including, without limitation, computer tapes or disks) that evidence or relate to Receivables.

(e) CERTAIN DUTIES TO THE BORROWER. The Servicer shall, as soon as practicable following receipt, turn over to the Borrower (i) that portion of the Collections which are not required to be turned over to the Agent, less the Servicer's Fee, and, in the event that neither Seller nor any other Loan Party or Affiliate thereof is the Servicer, all reasonable and appropriate out-of-pocket costs and expenses of the Servicer of servicing, collecting and administering the Receivables to the extent not covered by the Servicer's Fee received by it, and (ii) the Collections of any receivable which is not a Receivable. The Servicer, if other than Seller or any other Loan Party or Affiliate thereof, shall, as soon as practicable upon demand, deliver to the Borrower all documents, instruments and records in its possession that evidence or relate to Receivables of the Borrower, and copies of documents, instruments and records in its possession that evidence or relate to Receivables.

(f) TERMINATION. The Servicer's authorization under this Agreement shall terminate upon the Final Payout Date.

(g) POWER OF ATTORNEY. The Borrower hereby grants to the Servicer an irrevocable power of attorney, with full power of substitution, coupled with an interest, to take in the name of the Borrower all steps which are necessary or advisable to endorse, negotiate or otherwise realize on any

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writing or other right of any kind held or transmitted by the Borrower or transmitted or received by Lender (whether or not from the Borrower) in connection with any Receivable.

### SECTION 8.3. RIGHTS OF THE AGENT.

(a) NOTICE TO OBLIGORS. At any time when an Unmatured Default or Event of Default has occurred and is continuing, the Agent may notify the Obligors of Receivables, or any of them, of its security interest, for the benefit of the Secured Parties, in the Collateral.

(b) NOTICE TO LOCK-BOX BANKS. At any time after the occurrence of an Unmatured Default or an Event of Default, the Agent is hereby authorized to direct the Servicer, and the Servicer is hereby authorized and directed to comply with such direction, to give notice to the Lock-Box Banks, as provided in the Lock-Box Agreements, of the transfer to the Agent of dominion and control over the Lock-Boxes and related Lock-Box Accounts to which the Obligors of Receivables make payments. The Borrower and the Servicer hereby transfer to the Agent, effective when the Agent shall give notice to the Lock-Box Banks as provided in the Lock-Box Agreements, the exclusive dominion and control over such Lock-Boxes and Lock-Box Accounts, and shall take any further action that the Agent may reasonably request to effect such transfer.

(c) RIGHTS ON SERVICER TRANSFER EVENT. At any time following the designation of a Servicer other than Initial Servicer pursuant to Section 8.1:

(i) The Agent may direct the Obligors of Receivables, or any of them, to pay all amounts payable under any Receivable directly to the Agent or its designee.

(ii) The Borrower shall, at the Agent's request and at the Borrower's expense, give notice of the Agent's security interest in the Collateral to each Obligor of Receivables and direct that payments be made directly to the Agent or its designee.

(iii) The Borrower shall, at the Agent's request: (A) assemble all of the documents, instruments and other records (including, without limitation, computer programs, tapes and disks) which evidence the Collateral, or which are otherwise necessary or desirable to collect the Collateral, and make the same available to the successor Servicer at a place selected by the Agent, and (B) segregate all cash, checks and other instruments received by it from time to time constituting Collections in a manner acceptable to the Agent and promptly upon receipt, remit all such cash, checks and instruments, duly endorsed or with duly executed instruments of transfer, to the successor Servicer.

(iv) The Borrower and the Lenders hereby authorize the Agent and grant to the Agent an irrevocable power of attorney (which shall terminate on the Final Payout Date), to take any and all steps in such Person's name and on behalf of such Person which are necessary or desirable, in the determination of the Agent, to collect all amounts due under any and all Receivables, including, without limitation, endorsing the Borrower's name on checks and other instruments representing Collections and enforcing such

SECTION 8.4. RESPONSIBILITIES OF THE BORROWER. Anything herein to the contrary notwithstanding:

(a) CONTRACTS. The Borrower shall remain responsible for performing all of its obligations (if any) under the Contracts related to the Receivables and under the related agreements to the same extent as if the security interest in the Collateral had not been granted hereunder, and the exercise by the Agent or its designee of its rights hereunder shall not relieve the Borrower from such obligations.

(b) LIMITATION OF LIABILITY. The Agent and the Lenders shall not have any obligation or liability with respect to any Receivables, Contracts related thereto or any other related agreements, nor shall any of them be obligated to perform any of the obligations of the Borrower or the Seller thereunder.

SECTION 8.5. FURTHER ACTION EVIDENCING THE SECURITY INTEREST.

(a) FURTHER ASSURANCES. The Borrower agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action that the Agent or its designee may reasonably request in order to perfect, protect or more fully evidence the Agent's security interest, on behalf of the Secured Parties, in the Collateral, or to enable the Agent or its designee to exercise or enforce any of the Secured Parties' respective rights hereunder or under any Transaction Document in respect thereof. Without limiting the generality of the foregoing, the Borrower will:

(i) upon the request of the Agent, execute and file such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate, in accordance with the terms of this Agreement;

(ii) upon the request of the Agent after the occurrence and during the continuance of an Event of Default, mark conspicuously each Contract evidencing each Receivable constituting chattel paper with a legend, acceptable to the Agent, evidencing its security interest therein pursuant to this Agreement; and

(iii) mark its master data processing records evidencing the Collateral with a legend, acceptable to the Agent, evidencing that a security interest in the Collateral has been granted pursuant to this Agreement.

(b) ADDITIONAL FINANCING STATEMENTS; CONTINUATION STATEMENTS; PERFORMANCE BY AGENT. The Borrower hereby authorizes the Agent or its designee to file one or more financing or continuation statements, and amendments thereto and assignments thereof, relative to all or any of the Collateral now existing or hereafter arising in the name of the Borrower. If the Borrower fails to promptly execute and deliver to the Agent any financing statement or continuation statement or amendment thereto or assignment thereof requested by the Agent, the Borrower hereby authorizes the Agent to execute such statement on behalf of the Borrower. If the Borrower fails to perform any of its agreements or obligations under this Agreement, the Agent or its designee may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the reasonable expenses of the Agent or its designee incurred in connection therewith shall be payable by the Borrower as provided in Section 14.5.

SECTION 8.6. APPLICATION OF COLLECTIONS. Any payment by an Obligor in respect of any indebtedness owed by it to the Originator, the Seller or the Borrower shall, except as otherwise specified by such Obligor or required by the underlying Contract or law, be applied, first, as a Collection of any Receivable or Receivables then outstanding of such Obligor in the order of the age of such Receivables, starting with the oldest of such Receivables and, second, to any other indebtedness of such Obligor.

ARTICLE IX  
SECURITY INTEREST

SECTION 9.1. GRANT OF SECURITY INTEREST. To secure the due and punctual payment of the Obligations, whether now or hereafter existing, due or to become due, direct or indirect, or absolute or contingent, including, without limitation, all Indemnified Amounts, in each case pro rata according to the respective amounts thereof, the Borrower hereby pledges to the Agent, for the

benefit of the Secured Parties, and hereby grants to the Agent, for the benefit of the Secured Parties, a security interest in, all of the Borrower's right, title and interest now or hereafter existing in, to and under (a) all the Receivables and Related Assets, (b) the Purchase and Sale Agreement and the other Transaction Documents (other than the Initial PCA Note and the Seller Note), and (c) all proceeds of any of the foregoing (collectively, the "COLLATERAL").

SECTION 9.2. REMEDIES. Upon the occurrence of an Event of Default, the Agent, on behalf of the Secured Parties, shall have, with respect to the Collateral granted pursuant to Section 9.1, and in addition to all other rights and remedies available to the Secured Parties or the Agent under this Agreement and the other Transaction Documents or other applicable law, all the rights and remedies of a secured party upon default under the UCC.

SECTION 9.3. TERMINATION AFTER FINAL PAYOUT DATE. Each of the Secured Parties hereby authorizes the Agent, and the Agent hereby agrees, promptly after the Final Payout Date to execute and deliver to the Borrower such UCC-3 termination statements as may be necessary to terminate the Agent's security interest in and Lien upon the Collateral, all at the Borrower's expense. Upon the Final Payout Date, all right, title and interest of the Agent and the Secured Parties in and to the Collateral shall terminate.

SECTION 9.4. LIMITATION ON RIGHTS TO COLLATERAL PROCEEDS. Nothing in this Agreement shall entitle the Secured Parties to receive or retain proceeds of the Collateral in excess of the aggregate amount of the Obligations owing to such Secured Party (or to any Indemnified Party claiming through such Secured Party).

#### ARTICLE X EVENTS OF DEFAULT

SECTION 10.1. EVENTS OF DEFAULT. The occurrence of any of the following events shall constitute an "EVENT OF DEFAULT" hereunder:

(a) The Servicer or the Borrower shall fail to make (i) when and as required to be made by it herein, payments of or deposits of any amount of principal of any Loan, or (ii) within two Business Days after the same becomes due, payment of any amount of

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interest, fees or any other Obligations payable hereunder or under any other Transaction Document; PROVIDED THAT any interest, fees or other amounts which are not paid on the due date shall bear interest at the Default Rate after such due date; or

(b) Any representation or warranty made or deemed to be made by any Loan Party (or any of its officers) under this Agreement or any other Transaction Document or any Information Package or other information, recomputation of the Borrowing Base or other report delivered pursuant hereto shall prove to have been false or incorrect in any material adverse respect when made or deemed to have been made; or

(c)(i) Any Loan Party fails to perform or observe any term, covenant or agreement contained in any of SECTIONS 3.1(a), 7.1(i), 7.2(e), 7.2(f), 7.2(g), 7.2(h), 7.3(a), 7.3(b), 7.3(c), 7.3(d), 7.3(f) or 8.2(b); or

(ii) Any Loan Party fails to perform or observe any other term or covenant contained in this Agreement or any other Transaction Document, and such default shall continue unremedied for a period of 30 days after the date upon which written notice thereof is given to such Loan Party by the Agent; or

(d)(i) The Borrower or the Seller shall (A) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness of which the aggregate unpaid principal amount is in excess of \$10,000, when and as the same shall become due and payable (after expiration of any applicable grace period) or (B) fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such Indebtedness if the effect of any failure referred to in this CLAUSE (B) is to cause, or permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause, such Indebtedness to become due prior to its stated maturity; or

(ii) Performance Guarantor or any of its Subsidiaries (other than the Borrower) (A) shall fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness (other than Indebtedness arising under the Senior Credit Agreement) of which the aggregate unpaid principal

amount is in excess of \$10,000,000, when and as the same shall become due and payable (after expiration of any applicable grace period) or (B) shall fail to observe or perform any other term, covenant, condition or agreement (after expiration of any applicable grace period) contained in any agreement or instrument evidencing or governing any such (other than Indebtedness arising under the Senior Credit Agreement) Indebtedness if the effect of any failure referred to in this CLAUSE (B) is to cause, or permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice, the lapse of time or both) to cause such Indebtedness to become due prior to its stated maturity;

(iii) An "EVENT OF DEFAULT" under and as defined in the Senior Credit Agreement; shall occur and (i) be continuing for more than 20 consecutive days or (ii) result in the acceleration of any amount payable thereunder; or

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(e) An Event of Bankruptcy shall have occurred and remain continuing with respect to any Loan Party or, if the Servicer is not Performance Guarantor or an Affiliate thereof, with respect to the Servicer; or

(f) At any Cut-off Date, the average of the Dilution Ratio for the period of three calendar months then ended exceeds 1.25%; or

(g) At any Cut-off Date, the average of the Default Ratio for the period of three calendar months then ended exceeds 1.25%; or

(h) At any Cut-off Date, the average of the Delinquency Ratio for the period of three calendar months then ended exceeds 2.00%; or

(i) On any Settlement Date, after giving effect to the payments made under Article II or Article III, the aggregate outstanding principal balance of the Advances exceeds the least of the Borrowing Base, the Aggregate Commitment or the Allocation Limit; or

(j) There shall have occurred any event which materially adversely impairs the ability of the Originator to originate Receivables of a credit quality not materially different than the credit quality of the Receivables acquired by the Seller and sold to the Borrower on the Closing Date or any other event occurs that is reasonably likely to have a Material Adverse Effect; or

(k) A Change in Control shall occur; or

(l) The Internal Revenue Service shall file notice of a lien pursuant to Section 6323 of the Internal Revenue Code with regard to any of the Receivables or Related Assets and such lien has had or would reasonably be expected to have a Material Adverse Effect and shall not have been released within seven (7) days, or the Pension Benefit Guaranty Corporation shall, or shall indicate its intention to, file notice of a lien pursuant to Section 4068 of the Employee Retirement Income Security Act of 1974 with regard to any of the Receivables or Related Assets and such lien would reasonably be expected to have a Material Adverse Effect; or

(m) The Agent, on behalf of the Secured Parties, for any reason, does not have a valid, perfected first priority security interest in the Receivables or the Related Assets described in clauses (b), (d) or (e) of the definition thereof; or

(n)(i) One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Borrower or the Seller involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or conditions, of \$10,000 or more, with respect to the Borrower, or \$100,000 or more, with respect to the Seller, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 60 days after the entry thereof, or any non-monetary judgment, order or decree is entered against the Borrower or the Seller, as applicable, which has had or would reasonably be expected to have a Material Adverse Effect; or

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(ii) One or more non-interlocutory judgments, non-interlocutory orders, decrees or arbitration awards is entered against the Originator involving in the aggregate a liability (to the extent not covered by independent third-party insurance as to which the insurer does not dispute coverage) as to any single or related series of transactions, incidents or

conditions, of \$10,000,000 or more, and the same shall remain unsatisfied, unvacated and unstayed pending appeal for a period of 60 days after the entry thereof, or any non-monetary judgment, order or decree is entered against the Originator which has had or would reasonably be expected to have a Material Adverse Effect; or

(o)(i) An ERISA Event shall occur with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Originator under Title IV of ERISA to such Pension Plan, such Multiemployer Plan or the PBGC in an aggregate amount in excess of \$10,000,000; (ii) the aggregate amount of Unfunded-Pension Liability among all Pension Plans at any time exceeds \$10,000,000; or (iii) the Originator or any ERISA Affiliate shall fail to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$10,000,000.

#### SECTION 10.2. REMEDIES.

(a) OPTIONAL AMORTIZATION. Upon the occurrence of an Event of Default (other than an Event of Default described in Section 10.1(e) with respect to the Borrower), the Agent may by notice to the Borrower, declare the Termination Date to have occurred, whereupon the Aggregate Commitment shall terminate and all Collections shall be allocated and distributed pursuant to Section 3.2(b) hereof.

(b) AUTOMATIC AMORTIZATION. Upon the occurrence of an Event of Default described in Section 10.1(e) with respect to the Borrower, the Termination Date shall automatically occur and Collections shall be allocated and distributed pursuant to Section 3.2(b) hereof.

(c) ADDITIONAL REMEDIES. Upon the Termination Date pursuant to this Section 10.2, the Aggregate Commitment will terminate, no Loans or Advances thereafter will be made, and the Agent, on behalf of the Secured Parties, shall have, in addition to all other rights and remedies under this Agreement or otherwise, all other rights and remedies provided under the UCC of each applicable jurisdiction and other applicable laws, which rights shall be cumulative.

#### ARTICLE XI THE AGENT

SECTION 11.1. APPOINTMENT. (a) Each Lender hereby irrevocably designates and appoints Wachovia Bank, N.A. as its Agent hereunder, and authorizes the Agent to take such action on its behalf under the provisions of the Transaction Documents and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of the Transaction Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender or Liquidity

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Bank, and no implied covenants, functions, responsibilities, duties, obligations or liabilities on the part of the Agent shall be read into this Agreement or otherwise exist against the Agent.

(b) The provisions of this Article XI are solely for the benefit of the Agent and the Lenders, and the Borrower shall have any rights as a third-party beneficiary or otherwise under any of the provisions of this Article XI, except that this Article XI shall not affect any obligations which the Agent or any Lender may have to the Borrower under the other provisions of this Agreement.

(c) In performing its functions and duties hereunder, the Agent shall act solely as the agent of the Secured Parties and does not assume nor shall be deemed to have assumed any obligation or relationship of trust or agency with or for the Borrower or any of their respective successors and assigns.

SECTION 11.2. DELEGATION OF DUTIES. The Agent may execute any of its duties under this Agreement by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys-in-fact selected by it with reasonable care.

SECTION 11.3. EXCULPATORY PROVISIONS. Neither the Agent nor any of its directors, officers, agents or employees shall be (i) liable for any action lawfully taken or omitted to be taken by it or them or any Person described in Section 11.2 under or in connection with this Agreement (except for its, their or such Person's own bad faith, gross negligence or willful misconduct), or (ii) responsible in any manner to any of the Lenders for any recitals, statements,

representations or warranties made by the Borrower contained in this Agreement or in any certificate, report, statement or other document referred to or provided for in, or received under or in connection with, this Agreement or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement or any other document furnished in connection herewith, or for any failure of the Borrower to perform its respective obligations hereunder, or for the satisfaction of any condition specified in Article V, except receipt of items required to be delivered to the Agent. The Agent shall not be under any obligation to any Lender or Liquidity Bank to ascertain or to inquire as to the observance or performance of any of the agreements or covenants contained in, or conditions of, this Agreement, or to inspect the properties, books or records of the Borrower. This Section 11.3 is intended solely to govern the relationship between each Agent, on the one hand, and the Lenders and their respective Liquidity Banks, on the other.

#### SECTION 11.4 RELIANCE BY AGENT.

(a) The Agent shall in all cases be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, teletype, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent shall in all cases be fully justified in failing or refusing to take any action under this Agreement or any other document furnished in connection herewith unless it shall first receive such advice or concurrence of such of the Lenders and Liquidity Banks as it shall determine to be appropriate under the relevant

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circumstances, or it shall first be indemnified to its satisfaction by the Liquidity Banks against any and all liability, cost and expense which may be incurred by it by reason of taking or continuing to take any such action.

(b) Any action taken by the Agent in accordance with Section 11.4(a) shall be binding upon all Lenders.

SECTION 11.5. NOTICE OF EVENTS OF DEFAULT. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Event of Default or Unmatured Default unless the Agent has received notice from a Lender, a Liquidity Bank or a Loan Party referring to this Agreement, stating that an Event of Default or Unmatured Default has occurred hereunder and describing such Event of Default or Unmatured Default. In the event that the Agent receives such a notice, it shall promptly give notice thereof to the Lenders and Liquidity Banks. The Agent shall take such action with respect to such Event of Default or Unmatured Default as shall be directed by the Majority Lenders.

SECTION 11.6. NON-RELIANCE ON AGENT AND OTHER LENDERS. Each of the Lenders expressly acknowledges that neither the Agent, nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates has made any representations or warranties to it and that no act by the Agent hereafter taken, including, without limitation, any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent. Each of the Lenders also represents and warrants to the Agent and the other Lenders that it has, independently and without reliance upon any such Person (or any of their Affiliates) and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, prospects, financial and other conditions and creditworthiness of the Borrower and made its own decision to enter into this Agreement. Each of the Lenders also represents that it will, independently and without reliance upon the Agent or any other Liquidity Bank or Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, prospects, financial and other condition and creditworthiness of the Borrower. Neither of the Agent nor any of the Lenders, nor any of their respective Affiliates, shall have any duty or responsibility to provide any party to this Agreement with any credit or other information concerning the business, operations, property, prospects, financial and other condition or creditworthiness of the Borrower which may come into the possession of such Person or any of its respective officers, directors, employees, agents, attorneys-in-fact or affiliates, except that the Agent shall promptly distribute to the Lenders and the Liquidity Banks, copies of financial and other information expressly provided to the Agent by the Borrower pursuant to this Agreement for distribution to the Lenders.

SECTION 11.7. INDEMNIFICATION OF AGENT. Each Liquidity Bank agrees to indemnify the Agent and its officers, directors, employees, representatives and agents (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably in accordance with their respective Ratable Shares, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for the Agent or such Person in connection with any investigative, administrative or judicial proceeding commenced or threatened, whether or not the Agent in its capacity as such or such Person shall be

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designated a party thereto) that may at any time be imposed on, incurred by or asserted against the Agent or such Person as a result of, or arising out of, or in any way related to or by reason of, any of the transactions contemplated hereunder or the execution, delivery or performance of this Agreement or any other document furnished in connection herewith (but excluding any such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the bad faith, gross negligence or willful misconduct of the Agent or such Person as finally determined by a court of competent jurisdiction).

SECTION 11.8. AGENT IN ITS INDIVIDUAL CAPACITY. The Agent in its individual capacity and its affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower and their Affiliates as though it were not the Agent hereunder. With respect to its Loans, if any, pursuant to this Agreement, the Agent shall have the same rights and powers under this Agreement as any Lender and may exercise the same as though it were not an Agent, and the terms "Lender" and "Lenders" shall include the Agent in its individual capacity.

SECTION 11.9. SUCCESSOR AGENT. The Agent, upon five (5) days' notice to the Borrower and the Lenders, may voluntarily resign at any time; PROVIDED, HOWEVER, that Wachovia Bank, N.A. shall not voluntarily resign as the Agent so long as any of the Liquidity Banks' respective Commitments remain in effect or Blue Ridge has any outstanding Loans hereunder. If the Agent (other than Wachovia Bank, N.A.) shall voluntarily resign, then the Majority Lenders during such five-day period shall appoint, from amongst the remaining Lenders, a successor agent, whereupon such successor agent shall succeed to the rights, powers and duties of the Agent and the term "Agent" shall mean such successor agent, effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement. Upon replacement of any Agent in accordance with this Section 11.9, the retiring Agent shall execute such UCC-3 assignments and amendments, and assignments and amendments of the Transaction Documents, as may be necessary to give effect to its replacement by a successor Agent. After any retiring Agent's resignation hereunder as Agent, the provisions of this Article XI and Article XIII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

SECTION 11.10. AGENT'S CONFLICT WAIVERS. Wachovia acts, or may in the future act, (i) as administrative agent for Blue Ridge, (ii) as issuing and paying agent for Blue Ridge's Commercial Paper Notes, (iii) to provide credit or liquidity enhancement for the timely payment for Blue Ridge's Commercial Paper Notes and (iv) to provide other services from time to time for Blue Ridge (collectively, the "WACHOVIA ROLES"). Without limiting the generality of Sections 11.1 and 11.8, each Agent, Lender and Liquidity Bank hereby acknowledges and consents to any and all Wachovia Roles and agrees that in connection with any Wachovia Role, Wachovia may take, or refrain from taking, any action which it, in its discretion, deems appropriate, including, without limitation, in its role as administrative agent for Blue Ridge, the giving of notice to the Liquidity Banks of a mandatory purchase pursuant to the Liquidity Agreement, and hereby acknowledges that neither Wachovia nor any of its Affiliates has any fiduciary duties hereunder to any Lender (other than Blue Ridge) or to any of the Liquidity Banks arising out of any Wachovia Roles.

SECTION 11.11. UCC FILINGS. Each of the Secured Parties hereby expressly recognizes and agrees that the Agent may be listed as the assignee or secured party of record on the various UCC filings required to be made under the Transaction Documents in order to perfect their respective

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interests in the Collateral, that such listing shall be for administrative convenience only in creating a record or nominee holder to take certain actions



hereunder on behalf of the Secured Parties and that such listing will not affect in any way the status of the Secured Parties as the true parties in interest with respect to the Collateral. In addition, such listing shall impose no duties on the Agent other than those expressly and specifically undertaken in accordance with this Article XI.

## ARTICLE XII ASSIGNMENTS AND PARTICIPATIONS

SECTION 12.1. RESTRICTIONS ON ASSIGNMENTS, ETC. (a) Neither the Borrower nor the Servicer may assign its rights, or delegate its duties hereunder or any interest herein without the prior written consent of the Agent; PROVIDED, HOWEVER, that the foregoing shall not be deemed to restrict Seller's right, prior to delivery of a Successor Notice, to delegate its duties as Servicer to the Originator, provided that Seller shall remain primarily liable for the performance or non-performance of such duties.

(b) Blue Ridge may, at any time, assign all or any portion of a Loan, or sell participations therein, to the Liquidity Banks (or to the Agent for the ratable benefit of the Liquidity Banks).

(c) In addition to, and not in limitation of, assignments and participations described in Section 12.1(b):

(i) in the event that any Liquidity Bank becomes a Downgraded Liquidity Bank, such Downgraded Liquidity Bank shall give prompt written notice of its Downgrading Event to the Agent and to the Borrower, whereupon the Agent may identify an Eligible Assignee and the Downgraded Liquidity Bank shall promptly assign its rights and obligations to the Eligible Assignee designated by the Agent against payment in full of its Obligations;

(ii) each of the Lenders may assign all or any portion of its Loans and, if applicable, its Commitment under this Agreement to any Eligible Assignee; and

(iii) each of the Lenders may sell participations in all or any portion of their respective rights and obligations in, to and under the Transaction Documents and the Obligations in accordance with Sections 12.2 and 14.7.

SECTION 12.2. RIGHTS OF ASSIGNEES AND PARTICIPANTS. (a) Upon the assignment by a Lender in accordance with Section 12.1(b) or (c), the Eligible Assignee(s) receiving such assignment shall have all of the rights of such Lender with respect to the Transaction Documents and the Obligations (or such portion thereof as has been assigned).

(b) In no event will the sale of any participation interest in any Lender's or any Eligible Assignee's rights under the Transaction Documents or in the Obligations relieve the seller of such participation of its obligations, if any, hereunder or, if applicable, under the applicable Liquidity Agreement.

SECTION 12.3. TERMS AND EVIDENCE OF ASSIGNMENT. Any assignment to any Eligible Assignee(s) pursuant to SECTION 1.8, 12.1(b) or 12.1(c) shall be upon such terms and conditions as the

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assigning Lender and the Agent, on the one hand, and the Eligible Assignee, on the other, may mutually agree, and shall be evidenced by such instrument(s) or document(s) as may be satisfactory to such Lender, the Agent and the Eligible Assignee(s). Any assignment made in accordance with the terms of the Article XII shall relieve the assigning Lender of its obligations, if any, under this Agreement (and, if applicable, the Liquidity Agreement) to the extent assigned.

## ARTICLE XIII INDEMNIFICATION

### SECTION 13.1. INDEMNITIES BY THE BORROWER.

(a) GENERAL INDEMNITY. Without limiting any other rights which any such Person may have hereunder or under applicable law, the Borrower hereby agrees to indemnify each of the Agent, the Lenders, each of their respective Affiliates, and all successors, transferees, participants and assigns and all officers, directors, shareholders, controlling persons, employees and agents of any of the foregoing (each, an "INDEMNIFIED PARTY"), forthwith on demand, from and against any and all damages, losses, claims, liabilities and related costs and expenses, including attorneys' fees and disbursements (all of the foregoing being collectively referred to as "INDEMNIFIED AMOUNTS") awarded against or incurred by any of them arising out of or relating to the Transaction Documents, the

Obligations or the Collateral, EXCLUDING, HOWEVER, (i) Indemnified Amounts to the extent determined by a court of competent jurisdiction to have resulted from bad faith, gross negligence or willful misconduct on the part of such Indemnified Party, (ii) recourse (except as otherwise specifically provided in this Agreement) for Indemnified Amounts to the extent the same includes losses in respect of Receivables which are uncollectible on account of the insolvency, bankruptcy or lack of creditworthiness of the related Obligor, (iii) Indemnified Amounts that represent taxes based upon, or measured by, net income, or changes in the rate of tax or as determined by reference to the overall net income, of such Indemnified Party, (iv) Indemnified Amounts that represent franchise taxes, taxes on, or in the nature of, doing business taxes or capital taxes or (v) Indemnified Amounts that represent withholding taxes required for payments made to any foreign entity which, at the time such foreign entity issues its Commitment or Liquidity Commitment or becomes an assignee of a Lender hereunder, fails to deliver to the Agent and the Borrower an accurate IRS Form W-8 BEN or W-8 ECI, as applicable. Without limiting the foregoing, the Borrower shall indemnify each Indemnified Party for Indemnified Amounts arising out of or relating to:

(A) the creation of any Lien on, or transfer by any Loan Party of any interest in, the Collateral other than the sale of Receivables and related property by the Originator to the Seller pursuant to the Sale Agreement and by the Seller to the Borrower pursuant to the Purchase and Sale Agreement and the grant by the Borrower of a security interest in the Collateral to the Agent pursuant to Section 9.1;

(B) any representation or warranty made by any Loan Party (or any of its officers) under or in connection with any Transaction Document, any Information Package or any other information or report delivered by or on behalf of any Loan Party pursuant hereto, which shall have been false, incorrect or misleading in any respect when made or deemed made or delivered, as the case may be;

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(C) the failure by any Loan Party to comply with any applicable law, rule or regulation with respect to any Receivable or the related Contract, or the nonconformity of any Receivable or the related Contract with any such applicable law, rule or regulation;

(D) the failure to vest and maintain vested in the Agent, for the benefit of the Secured Parties, a valid and perfected first priority security interest in the Collateral, free and clear of any other Lien, other than a Lien arising solely as a result of an act of one of the Secured Parties, now or at any time thereafter;

(E) the failure to file, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Collateral;

(F) any dispute, claim, offset or defense (other than discharge in bankruptcy) of the Obligor to the payment of any Receivable (including, without limitation, a defense based on such Receivables or the related Contract not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the sale of the services related to such Receivable or the furnishing or failure to furnish such services;

(G) any matter described in SECTION 3.4;

(H) any failure of any Loan Party, as the Borrower, the Servicer or otherwise, to perform its duties or obligations in accordance with the provisions of this Agreement or the other Transaction Documents to which it is a party;

(I) any products liability claim or any claim of breach by any Loan Party of any related Contract with respect to any Receivable;

(J) any tax or governmental fee or charge, all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the Agent's security interest in the Collateral;

(K) the commingling of Collections of Receivables at any time with other funds;

(L) any investigation, litigation or proceeding related to or arising from this Agreement or any other Transaction Document, the transactions contemplated hereby or thereby, the use of the proceeds of any Loan, the

security interest in the Receivables and Related Assets or any other investigation, litigation or proceeding relating to the Borrower, the Seller or the Originator in which any Indemnified Party becomes involved as a result of any of the transactions contemplated hereby or thereby (other than an investigation, litigation or proceeding (1) relating to a dispute solely amongst the Lenders (or certain Lenders) and the Agent or (2) excluded by SECTION 13.1(a));

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(M) any inability to litigate any claim against any Obligor in respect of any Receivable as a result of such Obligor being immune from civil and commercial law and suit on the grounds of sovereignty or otherwise from any legal action, suit or proceeding;

(N) the occurrence of any Event of Default of the type described in SECTION 10.1(e); or

(O) any loss incurred by any of the Secured Parties as a result of the inclusion in the Borrowing Base of Receivables owing from any single Obligor and its Affiliated Obligors which causes the aggregate Unpaid Balance of all such Receivables to exceed the applicable Obligor Concentration Limit.

(b) CONTEST OF TAX CLAIM; AFTER-TAX BASIS. If any Indemnified Party shall have notice of any attempt to impose or collect any tax or governmental fee or charge for which indemnification will be sought from any Loan Party under Section 13.1(a)(xi), such Indemnified Party shall give prompt and timely notice of such attempt to the Borrower and the Borrower shall have the right, at its expense, to participate in any proceedings resisting or objecting to the imposition or collection of any such tax, governmental fee or charge. Indemnification hereunder shall be in an amount necessary to make the Indemnified Party whole after taking into account any tax consequences to the Indemnified Party of the payment of any of the aforesaid taxes (including any deduction) and the receipt of the indemnity provided hereunder or of any refund of any such tax previously indemnified hereunder, including the effect of such tax, deduction or refund on the amount of tax measured by net income or profits which is or was payable by the Indemnified Party.

(c) CONTRIBUTION. If for any reason the indemnification provided above in this Section 13.1 (and subject to the exceptions set forth therein) is unavailable to an Indemnified Party or is insufficient to hold an Indemnified Party harmless, then the Borrower shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by such Indemnified Party on the one hand and the Borrower on the other hand but also the relative fault of such Indemnified Party as well as any other relevant equitable considerations.

SECTION 13.2. INDEMNITIES BY SERVICER. Without limiting any other rights which any Indemnified Party may have hereunder or under applicable law, the Servicer hereby agrees to indemnify each of the Indemnified Parties forthwith on demand, from and against any and all Indemnified Amounts awarded against or incurred by any of them arising out of or relating to the Servicer's performance of, or failure to perform, any of its obligations under or in connection with any Transaction Document, or any representation or warranty made by the Servicer (or any of its officers) under or in connection with any Transaction Document, any Information Package or any other information or report delivered by or on behalf of the Servicer, which shall have been false, incorrect or misleading in any material respect when made or deemed made or delivered, as the case may be, or the failure of the Servicer to comply with any applicable law, rule or regulation with respect to any Receivable or the related Contract. Notwithstanding the foregoing, in no event shall any Indemnified Party be awarded any Indemnified Amounts (a) to the extent determined by a court of competent jurisdiction to have resulted from gross negligence or willful misconduct on the part of such Indemnified Party, (b) as recourse for Indemnified Amounts to the extent the same includes losses in respect of Receivables which are uncollectible on account of the insolvency, bankruptcy or

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lack of creditworthiness of the related Obligor, (c) that represent taxes based upon, or measured by, net income, of changes in the rate of tax or as determined by reference to the overall net income, of such Indemnified Party, (d) that represent franchise taxes, taxes on, or in the nature of, doing business taxes or capital taxes or (e) that represent withholding taxes required for payments made to any foreign entity which, at the time such foreign entity issues its Commitment or Liquidity Commitment or becomes an assignee of a Lender hereunder, fails to deliver to the Agent and the Borrower an accurate IRS Form W-8 BEN or

If for any reason the indemnification provided above in this Section 13.2 (and subject to the exceptions set forth therein) is unavailable to an Indemnified Party or is insufficient to hold an Indemnified Party harmless, then the Servicer shall contribute to the amount paid or payable by such Indemnified Party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect not only the relative benefits received by such Indemnified Party on the one hand and the Servicer on the other hand but also the relative fault of such Indemnified Party as well as any other relevant equitable considerations.

ARTICLE XIV  
MISCELLANEOUS

SECTION 14.1. AMENDMENTS, ETC. No amendment or waiver of any provision of this Agreement nor consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be in writing and signed by the Borrower and the Agent, and any such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. The Borrower acknowledges that, before entering into such an amendment or granting such a waiver or consent, the Agent will be required to obtain the approval of the Lenders and the Liquidity Banks.

SECTION 14.2. NOTICES, ETC. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile communication) and shall be personally delivered or sent by express mail or courier or by certified mail, postage prepaid, or by facsimile, to the intended party at the address or facsimile number of such party set forth on Schedule 14.2 or at such other address or facsimile number as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective, (a) if personally delivered or sent by express mail or courier or if sent by certified mail, when received, and (b) if transmitted by facsimile, when sent, receipt confirmed by telephone or electronic means.

SECTION 14.3. NO WAIVER; REMEDIES. No failure on the part of any Agent or any of the Secured Parties to exercise, and no delay in exercising, any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. Without limiting the foregoing, each of the Agent, the Lenders and the Liquidity Banks is hereby authorized by the Borrower at any time and from time to time, to the fullest extent permitted by law, to set off and apply to payment of any Obligations that are then due and owing any and all deposits (general or special, time or demand provisional or final) at any time held and other indebtedness at any time owing by such Person to or for the credit or the account of the Borrower.

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SECTION 14.4. BINDING EFFECT; SURVIVAL. This Agreement shall be binding upon and inure to the benefit of the Borrower, the Agent, the Lenders and their respective successors and assigns, and the provisions of Section 4.2 and Article XIII shall inure to the benefit of the Affected Parties and the Indemnified Parties, respectively, and their respective successors and assigns; PROVIDED, HOWEVER, nothing in the foregoing shall be deemed to authorize any assignment not permitted by Section 12.1. This Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until the Final Payout Date. The rights and remedies with respect to any breach of any representation and warranty made by the Borrower pursuant to Article VI and the indemnification and payment provisions of Article XIII and Sections 4.2, 14.5, 14.6, 14.7, 14.8 and 14.15 shall be continuing and shall survive any termination of this Agreement.

SECTION 14.5. COSTS, EXPENSES AND TAXES. In addition to its obligations under the other provisions of this Agreement, the Borrower agrees to pay:

(a) within 15 Business Days after receipt of a written invoice therefor: all reasonable out-of-pocket costs and expenses incurred by the Agent, in connection with (i) the negotiation, preparation, execution and delivery of this Agreement, the other Transaction Documents or the Liquidity Agreement (subject to the limitations set forth in the Fee Letter), or (ii) the administration of the Transaction Documents prior to an Event of Default including, without limitation, (A) the reasonable fees and expenses of a single law firm acting as counsel to the Agent and the Lenders incurred in connection with any of the foregoing, and (B) subject to the limitations set forth in the Fee Letter and in Section 7.1(c), the reasonable fees and expenses of independent accountants incurred in connection with any review of any Loan Party's books and records either

prior to or after the execution and delivery hereof;

(b) within 15 Business Days after receipt of a written invoice therefor: all reasonable out-of-pocket costs and expenses (including, without limitation, the reasonable fees and expenses of counsel and independent accountants) incurred by each of the Lenders, the Agent and the Liquidity Banks in connection with the negotiation, preparation, execution and delivery of any amendment or consent to, or waiver of, any provision of the Transaction Documents which is requested or proposed by any Loan Party (whether or not consummated), the administration of the Transaction Documents following an Event of Default (or following a waiver of or consent to any Event of Default), or the enforcement by any of the foregoing Persons of, or any actual or claimed breach of, this Agreement or any of the other Transaction Documents, including, without limitation, (i) the reasonable fees and expenses of counsel to any of such Persons incurred in connection with any of the foregoing or in advising such Persons as to their respective rights and remedies under any of the Transaction Documents in connection with any of the foregoing, and (ii) the reasonable fees and expenses of independent accountants incurred in connection with any review of any Loan Party's books and records or valuation of the Receivables and Related Assets; and

(c) upon demand: all stamp and other taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Agreement or the other Transaction Documents (and The Borrower, jointly and severally agree to

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indemnify each Indemnified Party against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees).

SECTION 14.6. NO PROCEEDINGS. Each of the parties hereto hereby agrees that it will not institute against the Borrower or Blue Ridge, or join any Person in instituting against the Borrower or Blue Ridge, any insolvency proceeding (namely, any proceeding of the type referred to in the definition of Event of Bankruptcy) so long as any Commercial Paper Notes or other senior Indebtedness issued by Blue Ridge shall be outstanding or there shall not have elapsed one year plus one day since the last day on which any such Commercial Paper Notes or other senior Indebtedness shall have been outstanding.

#### SECTION 14.7. CONFIDENTIALITY OF BORROWER INFORMATION.

(a) CONFIDENTIAL BORROWER INFORMATION. Each party hereto (other than the Borrower) acknowledges that certain of the information provided to such party by or on behalf of the Borrower in connection with this Agreement and the transactions contemplated hereby is or may be confidential, and each such party severally agrees that, unless Performance Guarantor shall otherwise agree in writing, and except as provided in subsection (b), such party will not disclose to any other person or entity any information which is designated by any Loan Party in writing as confidential, whether furnished by any Loan Party or any attorney for or other representative thereof (each, a "BORROWER INFORMATION PROVIDER"), is collectively referred to as the "BORROWER INFORMATION"); PROVIDED, HOWEVER, "BORROWER INFORMATION" shall not include any information which is or becomes generally available to the general public or to such party on a nonconfidential basis from a source other than any Borrower Information Provider, or which was known to such party on a nonconfidential basis prior to its disclosure by any Borrower Information Provider.

(b) DISCLOSURE. Notwithstanding subsection (a), each party may disclose any Borrower Information:

(i) to any of such party's attorneys and auditors,

(ii) to any dealer or placement agent for such party's Commercial Paper Notes, who (A) in the good faith belief of such party, has a need to know the Borrower Information, (B) is informed by such party of the confidential nature of the Borrower Information and the terms of this Section 14.7 and (C) has agreed in writing to be bound by the provisions of this Section 14.7,

(iii) to any Liquidity Bank (whether or not on the date of disclosure, such Liquidity Bank continues to be an Eligible Assignee), to any other actual or potential permitted assignee or participant permitted under Section 12.1 who has agreed to be bound by the provisions of this Section 14.7,

(iv) to any rating agency that maintains a rating for such party's Commercial Paper Notes or is considering the issuance of such a rating, for the purposes of reviewing the credit of any Lender in connection with such

(v) to any other party to this Agreement (and any independent attorneys and auditors of such party), for the purposes contemplated hereby,

(vi) as may be required by any municipal, state, federal or other regulatory body having or claiming to have jurisdiction over such party, in order to comply with any law, order, regulation, regulatory request or ruling applicable to such party,

(vii) subject to subsection (c), in the event such party is legally compelled (by interrogatories, requests for information or copies, subpoena, civil investigative demand or similar process) to disclose such Borrower Information,

(viii) to any entity that provides a surety bond or other credit enhancement to Blue Ridge, or

(ix) in connection with the enforcement of this Agreement or any other Transaction Document.

In addition, each of the Lenders and the Agent may disclose on a "no name" basis to any actual or potential investor in Commercial Paper Notes information regarding the nature of this Agreement, the basic terms hereof (including without limitation the amount and nature of the Aggregate Commitment and the Advances), the nature, amount and status of the Receivables, and the current and/or historical ratios of losses to liquidations and/or outstandings with respect to the Receivables.

(c) LEGAL COMPULSION. In the event that any party hereto (other than any Loan Party) or any of its representatives is requested or becomes legally compelled (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any of the Borrower Information, such party will (or will cause its representative to):

(i) provide Performance Guarantor with prompt written notice so that (A) Performance Guarantor may seek a protective order or other appropriate remedy, or (B) Performance Guarantor may, if it so chooses, agree that such party (or its representatives) may disclose such Borrower Information pursuant to such request or legal compulsion; and

(ii) unless Performance Guarantor agrees that such Borrower Information may be disclosed, make a timely objection to the request or compulsion to provide such Borrower Information on the basis that such Borrower Information is confidential and subject to the agreements contained in this SECTION 14.7.

In the event such protective order or remedy is not obtained, or Performance Guarantor agrees that such Borrower Information may be disclosed, such party will furnish only that portion of the Borrower Information which (in such party's good faith judgment) is legally required to be furnished and will exercise reasonable efforts to obtain reliable assurance that confidential treatment will be afforded the Borrower Information.

(d) SURVIVAL. This SECTION 14.7 shall survive termination of this Agreement.

#### SECTION 14.8. CONFIDENTIALITY OF PROGRAM INFORMATION.

(a) CONFIDENTIAL INFORMATION. Each party hereto acknowledges that Blue Ridge and the Agent regard the structure of the transactions contemplated by this Agreement to be proprietary, and each such party agrees that:

(i) it will not disclose without the prior consent of Blue Ridge or the Agent (other than to the directors, employees, auditors, counsel or affiliates (collectively, "REPRESENTATIVES") of such party, each of whom shall be informed by such party of the confidential nature of the Program Information (as defined below) and of the terms of this SECTION 14.8): (A) any information regarding the pricing in, or copies of, this Agreement, the Liquidity Agreement or the Fee Letter or any transaction contemplated hereby or thereby, (B) any information regarding the organization, business or operations of Blue Ridge generally or the services performed by the Agent for Blue Ridge, or (C) any information which is furnished by Blue Ridge or the Agent to such party and which is designated by Blue Ridge or

the Agent to such party in writing or otherwise as confidential or not otherwise available to the general public (the information referred to in CLAUSES (A), (B) and (C) is collectively referred to as the "PROGRAM INFORMATION"); PROVIDED, HOWEVER, that such party may disclose any such Program Information (I) as may be required by any municipal, state, federal or other regulatory body having or claiming to have jurisdiction over such party, including, without limitation, the SEC, (II) in order to comply with any law, order, regulation, regulatory request or ruling applicable to such party, (III) subject to SUBSECTION (c) below, in the event such party is legally compelled (by interrogatories, requests for information or copies, subpoena, civil investigative demand or similar process) to disclose any such Program Information, or (IV) in financial statements as required by GAAP;

(ii) it will use the Program Information solely for the purposes of evaluating, administering and enforcing the transactions contemplated by the Transaction Documents and making any necessary business judgments with respect thereto; and

(iii) it will, upon demand, return (and cause each of its representatives to return) to the Agent, all documents or other written material received from Blue Ridge or the Agent in connection with (a)(i) (B) or (C) above and all copies thereof made by such party which contain the Program Information.

(b) AVAILABILITY OF CONFIDENTIAL INFORMATION. This Section 14.8 shall be inoperative as to such portions of the Program Information which are or become generally available to the public or such party on a nonconfidential basis from a source other than the Agent or were known to such party on a nonconfidential basis prior to its disclosure by the Agent.

(c) LEGAL COMPULSION TO DISCLOSE. In the event that any party or anyone to whom such party or its representatives transmits the Program Information is requested or becomes legally compelled (by interrogatories, requests for information or documents, subpoena, civil investigative demand or similar process) to disclose any of the Program Information, such party will:

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(i) provide the Agent with prompt written notice so that the Agent may seek a protective order or other appropriate remedy and/or, if it so chooses, agree that such party may disclose such Program Information pursuant to such request or legal compulsion; and

(ii) unless the Agent agrees that such Program Information may be disclosed, make a timely objection to the request or confirmation to provide such Program Information on the basis that such Program Information is confidential and subject to the agreements contained in this SECTION 14.8.

In the event that such protective order or other remedy is not obtained, or the Agent agrees that such Program Information may be disclosed, such party will furnish only that portion of the Program Information which (in such party's good faith judgment) is legally required to be furnished and will exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Program Information. In the event any Loan Party is required to file a copy of this Agreement with the SEC or any other governmental authority, it will (A) provide the Agent with prompt written notice of such requirement and (B) exercise reasonable efforts to obtain reliable assurance that such governmental authority will give confidential treatment to this Agreement.

(d) SURVIVAL. This SECTION 14.8 shall survive termination of this Agreement.

SECTION 14.9. CAPTIONS AND CROSS REFERENCES. The various captions (including, without limitation, the table of contents) in this Agreement are provided solely for convenience of reference and shall not affect the meaning or interpretation of any provision of this Agreement. Unless otherwise indicated, references in this Agreement to any Section, Appendix, Schedule or Exhibit are to such Section of or Appendix, Schedule or Exhibit to this Agreement, as the case may be, and references in any Section, subsection, or clause to any subsection, clause or subclause are to such subsection, clause or subclause of such Section, subsection or clause.

SECTION 14.10. INTEGRATION. This Agreement and the other Transaction Documents contain a final and complete integration of all prior expressions by the parties hereto with respect to the subject matter hereof and shall constitute the entire understanding among the parties hereto with respect to the subject matter hereof, superseding all prior oral or written understandings.

SECTION 14.11. GOVERNING LAW. THIS AGREEMENT, INCLUDING THE RIGHTS AND WAIVES OF THE PARTIES HERETO, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT THAT THE PERFECTION OF THE SECURITY INTEREST OF THE AGENT, ON BEHALF OF THE SECURED PARTIES, IN THE COLLATERAL IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SECTION 14.12. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY BANKING OR OTHER RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL NOT BE TRIED BEFORE A JURY.

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SECTION 14.13. CONSENT TO JURISDICTION; WAIVER OF IMMUNITIES. EACH SELLER PARTY HEREBY ACKNOWLEDGES AND AGREES THAT:

(a) IT IRREVOCABLY (i) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION, FIRST, OF ANY UNITED STATES FEDERAL COURT, AND SECOND, IF FEDERAL JURISDICTION IS NOT AVAILABLE, OF ANY NEW YORK STATE COURT, IN EITHER CASE SITTING IN NEW YORK COUNTY, NEW YORK, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND (ii) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF AN ACTION OR PROCEEDING IN SUCH COURTS.

(b) TO THE EXTENT THAT IT HAS OR HEREAFTER MAY ACQUIRE ANY IMMUNITY FROM THE JURISDICTION OF ANY COURT OR FROM ANY LEGAL PROCESS (WHETHER THROUGH SERVICE OR NOTICE, ATTACHMENT PRIOR TO JUDGMENT, ATTACHMENT IN AID TO EXECUTION, EXECUTION OR OTHERWISE) WITH RESPECT TO ITSELF OR ITS PROPERTY, IT HEREBY IRREVOCABLY WAIVES SUCH IMMUNITY IN RESPECT OF ITS OBLIGATIONS UNDER OR IN CONNECTION WITH THIS AGREEMENT.

SECTION 14.14. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same Agreement.

SECTION 14.15. NO RECOURSE AGAINST OTHER PARTIES. The several obligations of the Lenders under this Agreement are solely the corporate obligations of such Lender. No recourse shall be had for the payment of any amount owing by such Lender under this Agreement or for the payment by such Lender of any fee in respect hereof or any other obligation or claim of or against such Lender arising out of or based upon this Agreement, against any employee, officer, director, incorporator or stockholder of such Lender. Each of the Borrower, the Servicer and the Agent agrees that Blue Ridge shall be liable for any claims that such party may have against Blue Ridge only to the extent Blue Ridge has excess funds and to the extent such assets are insufficient to satisfy the obligations of Blue Ridge hereunder, Blue Ridge shall have no liability with respect to any amount of such obligations remaining unpaid and such unpaid amount shall not constitute a claim against Blue Ridge. Any and all claims against Blue Ridge or the Agent shall be subordinate to the claims against such Persons of the holders of Commercial Paper Notes and the Liquidity Banks.

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

BORROWER:

PACKAGING RECEIVABLES COMPANY, LLC

By: /s/ Darla J. Vanas

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Name: Darla J. Vanas

-----  
Title: Assistant Secretary  
& Tax Director  
-----

SERVICER:

PACKAGING CREDIT COMPANY, LLC

By: /s/ Darla J. Vanas

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Name: Darla J. Vanas



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Title: Assistant Secretary  
& Tax Director  
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Borrower/Service Signature Page

AGENT:

WACHOVIA BANK, N.A., as Agent

By: /s/ W. Adrian Jordan

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Name: W. Adrian Jordan

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Title: Vice President  
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LENDERS:

BLUE RIDGE ASSET FUNDING CORPORATION

By: Wachovia Bank, N.A., its  
attorney-in-fact

By: /s/ Kenny Karpowicz

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Name: Kenny Karpowicz

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Title: Vice President  
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Initial Commitment: not applicable

WACHOVIA BANK, N.A.

By: /s/ W. Adrian Jordan

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Name: W. Adrian Jordan

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Title: Vice President  
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Initial Commitment: \$150,000,000

Agent/Blue Ridge/Wachovia CSA Signature Page

ANNEX A

DEFINITIONS

A. Certain Defined Terms. As used in this Agreement:

"ACCOUNT" shall have the meaning specified in Section 9-106 of the UCC.

"ADJUSTED DILUTION RATIO" at any time means the 12-month rolling average of the Dilution Ratio for the 12 Settlement Periods then most recently ended.

"ADVANCE" means a borrowing hereunder consisting of the aggregate amount of the several Loans made on the same Borrowing Date.

"AFFECTED PARTY" means each of the Lenders and the Agent.

"AFFILIATE" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. A Person shall be deemed to control another Person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities, membership interests, by contract, or otherwise.

"AFFILIATED OBLIGOR" in relation to any Obligor means an Obligor that is an Affiliate of such Obligor.

"AGENT" has the meaning provided in the preamble of this Agreement.

"AGGREGATE COMMITMENT" means the aggregate of the Commitments of the Liquidity Banks, as reduced or increased from time to time pursuant to the terms hereof.

"AGREEMENT" means this Credit and Security Agreement, as it may be amended or modified and in effect from time to time.

"ALLOCATION LIMIT" has the meaning set forth in SECTION 1.1.

"ALTERNATE BASE RATE" means for any day, the rate per annum equal to the higher as of such day of (i) the Base Rate, or (ii) one-half of one percent (0.50%) above the Federal Funds Rate. For purposes of determining the Alternate Base Rate for any day, changes in the Base Rate or the Federal Funds Rate shall be effective on the date of each such change. The Alternate Base Rate is not necessarily intended to be the lowest rate of interest determined by Wachovia in connection with extensions of credit.

"ALTERNATE BASE RATE LOAN" means a Loan which bears interest at the Alternate Base Rate or the Default Rate.

"ARTICLE" means an article of this Agreement unless another document is specifically referenced.

"BASE RATE" means the rate of interest per annum publicly announced from time to time by Wachovia as its "prime rate." (The "prime rate" is a rate set by Wachovia based upon various factors including Wachovia's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate.) Any change in the prime rate announced by Wachovia shall take effect at the opening of business on the day specified in the public announcement of such change.

"BANK RATE SPREAD" has the meaning provided in the Fee Letter.

"BLUE RIDGE" has the meaning provided in the preamble of this Agreement.

"BORROWER" has the meaning provided in the preamble of this Agreement.

"BORROWER INFORMATION" has the meaning set forth in SECTION 14.7(a).

"BORROWER INFORMATION PROVIDER" has the meaning set forth in SECTION 14.7(a).

"BORROWING BASE" means, on any date of determination, the amount determined by reference to the following formula:

$$(NPB - RR) - EDC$$

where:

NPB = the Net Pool Balance as of the most recent Cut-Off Date occurring at least seven Business Days prior to the date of determination;

RR = the Required Reserve as of the most recent Cut-Off Date occurring at least seven Business Days prior to the date of determination; and

EDC = Deemed Collections that have occurred since the most recent Cut-Off Date occurring at least seven Business Days prior to the date of determination to the extent such Deemed Collections exceed the Dilution Reserve.

"BORROWING DATE" means a date on which an Advance is made hereunder.

"BORROWING REQUEST" is defined in Section 2.1.

"BUSINESS DAY" means (i) any day on which banks are not authorized or required to close in New York, New York, Chicago, Illinois or Atlanta, Georgia, and The Depository Trust Company of New York is open for business, and (ii) if the applicable Business Day relates to any computation or payment to be made with respect to the Eurodollar Rate (Reserve Adjusted), any day on which dealings in dollar deposits are carried on in the London interbank market.

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"CHANGE IN CONTROL" means:

(a) the failure of Performance Guarantor to own (directly or through one or more wholly-owned Subsidiaries of Performance Guarantor) 100% of the

membership interests of the Borrower; or

(b)(i) the acquisition by any Person, or two or more Persons acting in concert, other than the Principal and its Related Parties, of beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Exchange Act) of 20% or more of the outstanding shares of voting stock of Performance Guarantor or (ii) during any period of up to 12 consecutive months, commencing on the date of this Agreement, individuals who at the beginning of such 12-month period were directors of Performance Guarantor shall cease for any reason (other than the death, disability or retirement of an officer of Performance Guarantor that is serving as a director at such time so long as another officer of Performance Guarantor replaces such Person as a director) to constitute a majority of the Board of Directors of Performance Guarantor.

"CODE" means the Internal Revenue Code of 1986, as the same may be amended from time to time.

"COLLATERAL" has the meaning set forth in Section 9.1.

"COLLECTION ACCOUNT" has the meaning set forth in Section 7.1(i).

"COLLECTIONS" means all funds which either (i) are received by the Borrower, the Seller, the Originator or the Servicer from or on behalf of the related Obligor in payment of any amounts owed (including, without limitation, purchase prices, finance charges, interest and all other charges) in respect of such Receivable, or applied to such amounts owed by such Obligor (including, without limitation, insurance payments that the Borrower, the Seller, the Originator or the Servicer applies in the ordinary course of its business to amounts owed in respect of such Receivable and net proceeds of sale or other disposition of repossessed goods or other collateral or property of the Obligor or any other party directly or indirectly liable for payment of such Receivable and available to be applied thereon), or (ii) are Deemed Collections.

"COMMERCIAL PAPER NOTES" shall mean the commercial paper promissory notes, if any, issued by or on behalf of Blue Ridge that fund any CP Rate Loan.

"COMMITMENT" means, for each Liquidity Bank, its obligation to make Loans not exceeding the amount set forth opposite its signature to the Agreement, as such amount may be modified from time to time pursuant to the terms hereof.

"COMMITMENT INCREASE REQUEST" has the meaning set forth in SECTION 1.7.

"COMMITMENT REDUCTION NOTICE" has the meaning set forth in SECTION 1.6.

"CONTRACT" means with respect to any Receivable, any agreement, contract or other writing with respect to the provision of services by the Originator to an Obligor, any paper or electronic bill,

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statement or invoice for services rendered by the Originator to an Obligor, and any instrument or chattel paper now or hereafter evidencing all or any portion of the same.

"CONTRACTUAL OBLIGATION" means, as to any Person, any provision of any security issued by such Person or of any agreement, undertaking, contract, indenture, mortgage, deed of or other instrument, document or agreement to which such Person is a party or by which it or any of its property is bound.

"CP RATE" means, for any CP Tranche Period, the rate equivalent to the rate (or if more than one rate, the weighted average of the rates) at which Commercial Paper Notes of Blue Ridge having a term equal to such CP Tranche Period are sold plus (to the extent not already deducted from the Principal Amount of such Commercial Paper Notes) the amount of any placement agent or commercial paper dealer fees incurred in connection with such sale and other costs associated with funding small or odd-lot amounts; PROVIDED, HOWEVER, that if the rate (or rates) as agreed between any such agent or dealer and Blue Ridge is a discount rate (or rates), the "CP Rate" for such Tranche Period shall be the rate (or if more than one rate, the weighted average of the rates) resulting from Blue Ridge's converting such discount rate (or rates) to an interest-bearing equivalent rate per annum.

"CP RATE LOAN" means a Loan made by Blue Ridge which bears interest at a CP Rate.

"CP TRANCHE PERIOD" shall mean a period of 7 to 90 days commencing on a Business Day selected by the Borrower (or by the Servicer on the Borrower's behalf) and agreed to by the Agent pursuant to Section 2.2. If such CP Tranche

Period would end on a day which is not a Business Day, such CP Tranche Period shall end on the preceding Business Day.

"CREDIT AND COLLECTION POLICY" means those credit and collection policies and practices of the Originator relating to Contracts and Receivables as in effect on the date of this Agreement, as modified without violating Section 7.3(c); PROVIDED that if an Event of Default or an Unmatured Default has occurred, at the request of the Agent, Packaging Corporation of America shall provide a copy of its existing Credit and Collection Policy.

"CREDIT EVENT" means, with respect to the Performance Guarantor, the lowering of the Performance Guarantor's issuer rating or bank debt rating to below BB- by S&P or the withdrawal or suspension of either such rating.

"CUT-OFF DATE" means October 31, 2000 and the last day of each month thereafter.

"DAYS SALES OUTSTANDING" or "DSO", means, as of any day, an amount equal to the product of (x) 91, multiplied by (y) the amount obtained by dividing (i) the aggregate outstanding balance of Receivables as of the most recent Cut-Off Date, by (ii) the aggregate amount of Receivables created during the three Settlement Periods including and immediately preceding such Cut-Off Date.

"DEEMED COLLECTIONS" means Collections deemed received by the Borrower under Section 3.4.

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"DEFAULT HORIZON RATIO" at any time means the ratio (expressed as a percentage) computed as of the Cut-Off Date for the next preceding Settlement Period by dividing the aggregate sales generated during the most recent five Settlement Periods by the Net Pool Balance as of the most recent Cut-off Date.

"DEFAULT RATE" means a rate per annum equal to the sum of (i) the Alternate Base Rate plus (ii) 2.00%, changing when and as the Alternate Base Rate changes.

"DEFAULT RATIO" means, as of any Cut-Off Date, the ratio (expressed as a percentage) computed by dividing (x) the total amount of Receivables which became Defaulted Receivables during the Settlement Period that includes such Cut-Off Date, by (y) the aggregate sales generated by the Originator during the Settlement Period occurring five months prior to the Settlement Period ending on such Cut-Off Date.

"DEFAULTED RECEIVABLE" means a Receivable: (a) as to which any payment, or part thereof, remains unpaid for more than 90 days from the original due date for such payment; or (b) as to which an Event of Bankruptcy has occurred and remains continuing with respect to the Obligor thereof.

"DELINQUENCY RATIO" at any time means the ratio (expressed as a percentage) computed as of the Cut-Off Date for the next preceding Settlement Period by dividing (x) the aggregate Unpaid Balance of all Receivables that are Delinquent Receivables on such Cut-Off Date by (y) the aggregate Unpaid Balance of Receivables on such Cut-Off Date.

"DELINQUENT RECEIVABLE" means a Receivable as to which any payment, or part thereof, remains unpaid for 61-90 days from the original due date for such payment.

"DILUTION" means the reduction or cancellation of the Unpaid Balance of a Receivable as described in SECTION 3.4(a).

"DILUTION HORIZON RATIO" means, on any Settlement Date, an amount calculated by dividing (a) cumulative sales generated during the two most recent Settlement Periods by (b) the Net Pool Balance as of the most recent Cut-off Date.

"DILUTION RATIO" means, as of any Settlement Date, a percentage equal to a fraction, the numerator of which is the total amount of decreases in Unpaid Balances due to Dilutions during the most recent Settlement Period, and the denominator of which is the amount of sales generated during the Settlement Period one month prior to the most recent Settlement Period.

"DILUTION RESERVE" means, as of any Settlement Date, a percentage equal to the product of (x) the sum of (i) 2.0 times the Adjusted Dilution Ratio, plus (ii) the Dilution Volatility Component, multiplied by (y) the Dilution Horizon Ratio.

"DILUTION VOLATILITY COMPONENT" means, as of any Settlement Date, an amount (expressed as a percentage) equal to the product of (i) the difference between

(a) the highest three-month rolling average Dilution Ratio over the preceding 12 Settlement Periods and (b) the Adjusted Dilution Ratio,

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and (ii) a fraction, the numerator of which is equal to the amount calculated in (i)(a) of this definition and the denominator of which is equal to the amount calculated in (i)(b) of this definition.

"DOLLARS" means dollars in lawful money of the United States of America.

"DOWNGRADED LIQUIDITY BANK" means a Liquidity Bank which has been the subject of a Downgrading Event.

"DOWNGRADING EVENT" with respect to any Liquidity Bank means the lowering of a rating with regard to the short-term securities of such Liquidity Bank to below (i) A-1 by S&P, or (ii) P-1 by Moody's.

"ELIGIBLE ASSIGNEE" means (a) any "bankruptcy remote" special purpose entity which is administered by Wachovia (or any Affiliate of Wachovia) that is in the business of acquiring or financing receivables, securities and/or other financial assets and which issues commercial paper notes that are rated at least A-1 by S&P and P-1 by Moody's, (b) any Qualifying Liquidity Bank having a combined capital and surplus of at least \$250,000,000, or (c) any Downgraded Liquidity Bank whose liquidity commitment has been fully drawn by Blue Ridge or the Agent and funded into a collateral account.

"ELIGIBLE RECEIVABLE" means, at any time, a Receivable:

(a) which is a Receivable arising out of the sale of goods or services by the Originator in the ordinary course of its business that has been sold or contributed to the Seller pursuant to the Sale Agreement in a "true sale" or "true contribution" transaction and which has been subsequently sold or contributed by the Seller to the Borrower in a "TRUE SALE" or "TRUE CONTRIBUTION" transaction;

(b) as to which the perfection of the Agent's security interest, on behalf of the Secured Parties, is governed by the laws of a jurisdiction where the Uniform Commercial Code-Secured Transactions is in force, and which constitutes an "account" as defined in the UCC as in effect in such jurisdiction;

(c) the Obligor of which is a resident of the United States or any of its possessions or territories, and is not (i) an Affiliate of any Loan Party, or (ii) a Governmental Authority as to which the assignment of receivables owing therefrom requires compliance with the Federal Assignment of Claims Act or other similar legislation (unless the Borrower has complied therewith);

(d) which is not a Defaulted Receivable at such time;

(e) with regard to which the representations and warranties of the Borrower in SECTIONS 6.1(j) and (l) are true and correct;

(f) the granting of a security interest therein does not contravene or conflict with any law;

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(g) which is denominated and payable only in Dollars in the United States;

(h) which arises under a Contract and is evidenced by a Contract, in each case that has been duly authorized and that, together with such Receivable, is in full force and effect and constitutes the legal, valid and binding obligation of the Obligor of such Receivable enforceable against such Obligor in accordance with its terms and is not subject to any dispute, offset (except as provided below), counterclaim or defense whatsoever; PROVIDED, HOWEVER, that if such dispute, offset, counterclaim or defense affects only a portion of the Unpaid Balance of such Receivable, then such Receivable may be deemed an Eligible Receivable to the extent of the portion of such Unpaid Balance which is not so affected, and PROVIDED FURTHER, that Receivables owing from any Obligor to whom the Originator owes accounts payable (thereby giving rise to a potential offset) may be treated as Eligible Receivables to the extent the Obligor of such receivables has agreed pursuant to a written agreement in form and substance satisfactory to the Agent, that such Receivables shall not be

subject to such offset;

(i) which, together with the Contract related thereto, does not contravene in any material respect any laws, rules or regulations applicable thereto (including, without limitation, laws, rules and regulations relating to usury, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy) and with respect to which no party to the Contract related thereto is in violation of any such law, rule or regulation in any material respect if such violation would impair the collectibility of such Receivable;

(j) which satisfies in all material respects all applicable requirements of the Originator's Credit and Collection Policy;

(k) which, according to the Contract related thereto, is due and payable within 61 days from the invoice date of such Receivable;

(l) the original term of which has not been extended (except as permitted in SECTION 8.2(c)); and

(m) when aggregated with all other Receivables owing from the same Obligor, not more than 35% of the aggregate Unpaid Balance of all Receivables owing from such Obligor are Defaulted Receivables.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and any rule or regulation issued thereunder.

"ERISA AFFILIATE" means any trade or business (whether or not incorporated) under common control with Performance Guarantor within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"ERISA EVENT" means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by Performance Guarantor or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in

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Section 4001 (a) (2) of ERISA) or a cessation of operations which is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by Performance Guarantor or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which might reasonably be expected to constitute grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than PBGC premiums due but not delinquent under Section 4007 of ERISA, upon Performance Guarantor or any ERISA Affiliate.

"EURODOLLAR BUSINESS DAY" means a day of the year as defined in CLAUSE (i) of the definition of Business Day.

"EURODOLLAR LOAN" means a Loan which bears interest at the applicable Eurodollar Rate.

"EURODOLLAR RATE" means, for any Interest Period, the rate per annum determined on the basis of the offered rate for deposits in Dollars of amounts equal or comparable to the principal amount of the related Liquidity Funding offered for a term comparable to such Interest Period, which rates appear on a Bloomberg L.P. terminal, displayed under the address "US0001M [Index] Q [Go]" effective as of 11:00 A.M., London time, two Eurodollar Business Days prior to the first day of such Interest Period, PROVIDED that if no such offered rates appear on such page, the Eurodollar Rate for such Interest Period will be the arithmetic average (rounded upwards, if necessary, to the next higher 1/100th of 1%) of rates quoted by not less than two major banks in New York City, selected by the Agent, at approximately 10:00 A.M., New York City time, two Eurodollar Business Days prior to the first day of such Interest Period, for deposits in Dollars offered by leading European banks for a period comparable to such Interest Period in an amount comparable to the principal amount of such Liquidity Funding.

"EURODOLLAR RATE (RESERVE ADJUSTED)" applicable to any Interest Period means a rate PER ANNUM equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100th of 1%) by DIVIDING (i) the applicable

Eurodollar Rate for such Interest Period by (ii) 1.00 minus the Eurodollar Reserve Percentage.

"EURODOLLAR RESERVE PERCENTAGE" shall mean, with respect to any Interest Period, the maximum reserve percentage, if any, applicable to a Liquidity Bank under Regulation D during such Interest Period (or if more than one percentage shall be applicable, the daily average of such percentages for those days in such Interest Period during which any such percentage shall be applicable) for determining such Liquidity Bank's reserve requirement (including any marginal, supplemental or emergency reserves) with respect to liabilities or assets having a term comparable to such Interest Period consisting or included in the computation of "Eurocurrency Liabilities" pursuant to Regulation D. Without limiting the effect of the foregoing, the Eurodollar Reserve Percentage shall reflect any other reserves required to be maintained by such Liquidity Bank by reason of any Regulatory Change against (a) any category of liabilities which includes deposits by reference to which the "London Interbank Offered Rate" or "LIBOR" is to be determined or (b) any category of extensions of credit or other assets which include LIBOR-based credits or assets.

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"EVENT OF DEFAULT" means an event described in SECTION 10.1.

"EVENT OF BANKRUPTCY" shall be deemed to have occurred with respect to a Person if either:

(a) a case or other proceeding shall be commenced, without the application or consent of such Person, in any court, seeking the liquidation, reorganization, debt arrangement, dissolution, winding up, or composition or readjustment of debts of such Person, the appointment of a trustee, receiver, custodian, liquidator, assignee, sequestrator or the like for such Person or all or substantially all of its assets, or any similar action with respect to such Person under any law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, and such case or proceeding shall continue undismissed, or unstayed and in effect, for a period of 60 consecutive days; or an order for relief in respect of such Person shall be entered in an involuntary case under the federal bankruptcy laws or other similar laws now or hereafter in effect; or

(b) such Person shall commence a voluntary case or other proceeding under any applicable bankruptcy, insolvency, reorganization, debt arrangement, dissolution or other similar law now or hereafter in effect, or shall consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) for, such Person or for any substantial part of its property, or shall make any general assignment for the benefit of creditors, or shall be adjudicated insolvent, or admit in writing its inability to, pay its debts generally as they become due, or, if a corporation or similar entity, its board of directors shall vote to implement any of the foregoing.

"EXCESS CONCENTRATION AMOUNT" means, as of any date, the sum of the amounts by which the aggregate Unpaid Balance of Receivables of each Obligor exceeds the Obligor Concentration Limit for such Obligor.

"EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended.

"EXHIBIT" refers to an exhibit to this Agreement, unless another document is specifically referenced.

"EXTENSION REQUEST" has the meaning set forth in SECTION 1.8.

"FACILITY FEE" has the meaning set forth in the Fee Letter.

"FEDERAL FUNDS RATE" means, for any day, the rate PER ANNUM (rounded upwards, if necessary, to the next higher 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day, PROVIDED that (i) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (ii) if such rate is not so published for any day, the Federal Funds Rate for such day shall be the average rate charged to the Agent on such day on such transactions, as reasonably determined by the Agent.

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"FEDERAL RESERVE BOARD" means the Board of Governors of the Federal Reserve System, or any successor thereto or to the functions thereof.

"FEE LETTER" means that certain Fee Letter dated as of November 29, 2000 by and among Performance Guarantor, the Borrower, Blue Ridge and the Agent.

"FINAL PAYOUT DATE" means the earlier to occur of (i) the date following the Termination Date on which all Receivables in existence on the Termination Date have been paid in full or have been charged-off pursuant to the provisions of the Credit and Collection Policy and (ii) date following the Termination Date on which the Obligations have been paid in full.

"GAAP" shall mean generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such accounting profession, which are applicable to the circumstances as of the date of determination.

"GOVERNMENTAL AUTHORITY" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"GUARANTEE" of or by any Person means any obligation, contingent or otherwise, of such Person guaranteeing or having the economic effect of guaranteeing any Indebtedness of any other Person (the "PRIMARY OBLIGOR") in any manner, whether directly or indirectly, and including any obligation of such Person, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or to purchase (or to advance or supply funds for the purchase of) any security for the payment of such Indebtedness, (b) to purchase property, securities or services for the purpose of assuring the owner of such Indebtedness of the payment of such Indebtedness or (c) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness; PROVIDED HOWEVER that the term Guarantee shall not include endorsements for collection or deposit, in either case, in the ordinary course of business.

"INDEBTEDNESS" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (e) all obligations of such Person issued or assumed as the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed, but limited, if such obligations are without recourse to such Person, to the lesser of the principal amount of such Indebtedness or the fair market value of such property, (g) all Guarantees by such Person of

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Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations of such Person in respect of interest rate protection agreements, foreign currency exchange agreements or other interest or exchange rate hedging arrangements (the amount of any such obligation to be the amount that would be payable upon the acceleration, termination or liquidation thereof) and (j) all obligations of such Person as an account party in respect of letters of credit and bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any partnership in which such Person is a general partner.

"INDEMNIFIED AMOUNTS" has the meaning set forth in SECTION 13.1(a).

"INDEMNIFIED PARTY" has the meaning set forth in SECTION 13.1(a).

"INDEPENDENT DIRECTOR" has the meaning set forth in SECTION 7.4(ii).

"INFORMATION PACKAGE" has the meaning set forth in SECTION 3.1.

"INITIAL DUE DILIGENCE AUDITOR" means Arthur Andersen, LLP.



"INITIAL PCA NOTE" means the Initial PCA Note as defined in the Receivables Sale Agreement.

"INTEREST PAYMENT DATE" means:

(a) with respect to any CP Rate Loan, the last day of its CP Tranche Period, the date on which any such Loan is prepaid, in whole or in part, and the Termination Date;

(b) with respect to any Eurodollar Loan, the last day of its Interest Period, the date on which any such Loan is prepaid, in whole or in part, and the Termination Date;

(c) with respect to any Alternate Base Rate Loan, each Settlement Date while such Loan remains outstanding, the date on which any such Loan is prepaid, in whole or in part, and the Termination Date; and

(d) with respect to any Loan while the Default Rate is applicable thereto, upon demand or, in the absence of any such demand, each Settlement Date while such Loan remains outstanding, the date on which any such Loan is prepaid, in whole or in part, and the Termination Date.

"INTEREST PERIOD" means, with respect to a Eurodollar Loan, a period of one, two or three months commencing on a Business Day selected by the Borrower (or the Servicer on the Borrower's behalf) pursuant to this Agreement and agreed to by the Agent. Such Interest Period shall end on the day which corresponds numerically to such date one, two, or three months thereafter, PROVIDED, HOWEVER, that (i) if there is no such numerically corresponding day in such next, second or third succeeding month, such Interest Period shall end on the last Business Day of such next, second or third succeeding month, and (ii) if an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day unless said next

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succeeding Business Day falls in a new calendar month, then such Interest Period shall end on the immediately preceding Business Day.

"INTEREST RATE" means a Eurodollar Rate (Reserve Adjusted), a CP Rate, an Alternate Base Rate or the Default Rate.

"INTEREST RESERVE" shall mean, on any date of determination, 1.5 times the Alternate Base Rate multiplied by a fraction the numerator of which is the 12-month high Days Sales Outstanding for the preceding period of 12 months and the denominator of which is 360.

"LENDERS" means Blue Ridge, each Liquidity Bank and their respective successors and permitted assigns.

"LIEN" means any security interest, lien, encumbrance, pledge, assignment, title retention, similar claim, right or interest.

"LIQUIDITY AGREEMENT" means the Liquidity Asset Purchase Agreement dated as of the date hereof among Blue Ridge, the Agent, and the Liquidity Banks from time to time party thereto, as the same may be amended, restated, supplemented, replaced or otherwise modified from time to time.

"LIQUIDITY BANK" means (a) Wachovia, (b) any other Liquidity Bank which becomes a party hereto and (c) any Eligible Assignee of such Liquidity Bank's Commitment hereunder and under the Liquidity Agreement. A Liquidity Bank will become a "Lender" hereunder at such time as it makes any Liquidity Funding.

"LIQUIDITY COMMITMENT" means, with respect to each Liquidity Bank, its commitment to make Liquidity Fundings pursuant to the Liquidity Agreement to which it is a party.

"LIQUIDITY FUNDING" means (a) a purchase made by any Liquidity Bank pursuant to its Liquidity Commitment of all or any portion of one of Blue Ridge's Loans, or (b) any Loan made by the Liquidity Banks in lieu of Blue Ridge pursuant to SECTION 1.1.

"LIQUIDITY TERMINATION DATE" means the earlier to occur of the following:

(a) the date on which the Liquidity Banks' commitments pursuant to the Liquidity Agreement expire, cease to be available to Blue Ridge or otherwise cease to be in full force and effect; or

(b) the date on which a Downgrading Event with respect to a Liquidity Bank shall have occurred and been continuing for not less than 30 days, and

either (i) the Downgraded Liquidity Bank shall not have been replaced by a Qualifying Liquidity Bank pursuant to the Applicable Liquidity Agreement, or (ii) the commitment of such Downgraded Liquidity Bank under a Liquidity Agreement shall not have been funded or collateralized in such a manner that will avoid a reduction in or withdrawal of the credit rating applied to the Commercial Paper Notes to which such Liquidity Agreement applies by any of the rating agencies then rating such Commercial Paper Notes.

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"LOAN" means any loan made by a Lender to the Borrower pursuant to this Agreement. Each Loan shall either be a CP Rate Loan, an Alternate Base Rate Loan or a Eurodollar Rate Loan, selected in accordance with the terms of this Agreement.

"LOAN PARTIES" means, collectively, the Borrower, the Seller and the Performance Guarantor.

"LOCK-BOX" has the meaning set forth in the Lock-Box Agreements.

"LOCK-BOX ACCOUNT" means any bank account of the Borrower or the Agent into which Collections are deposited or transferred and which is subject to a Lock-Box Agreement.

"LOCK-BOX AGREEMENT" means a letter agreement, in substantially the form of Exhibit A (or as otherwise approved by the Agent), among the Originator, the Borrower, the Agent and a Lock-Box Bank.

"LOCK-BOX BANK" means any of the banks holding one or more lock-boxes, blocked accounts or Lock-Box Accounts receiving Collections from Receivables.

"LOSS RESERVE" as of any Cut-Off Date means a percentage equal the product of (i) 2.0 times the highest three-month rolling average Default Ratio during the most recent 12 Settlement Periods and (ii) the Default Horizon Ratio.

"MATERIAL ADVERSE EFFECT" means:

(i) a Credit Event shall have occurred;

(ii) a material impairment of the ability of any Loan Party to perform under any Transaction Document or to avoid or cure, as applicable, any Unmatured Default or Event of Default;

(iii) a material adverse effect upon the legality, validity, binding effect or enforceability against any Loan Party of any Transaction Document;

(iv) a material adverse effect upon the validity, enforceability or collectibility of a material portion of the Receivables; or

(v) a material adverse effect upon the validity, perfection, priority or enforceability of the Borrower's title to -- or the Agent's security interest, on behalf of the Secured Parties, in -- the Collateral.

"MDP GROUP" shall have the meaning assigned such term in the Senior Credit Agreement.

"MOODY'S" means Moody's Investors Service, Inc.

"MULTIEMPLOYER PLAN" means a "multiemployer plan", within the meaning of Section 4001 (a) (3) of ERISA, to which Packaging Corporation of America or any ERISA Affiliate makes, is

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making, or is obligated to make contributions or, during the preceding three calendar years, has made, or been obligated to make, contributions.

"NET POOL BALANCE" means, at any time, an amount equal to (i) the aggregate Unpaid Balance of all Eligible Receivables at such time, MINUS (ii) the Excess Concentration Amount at such time.

"OBLIGATIONS" means all unpaid principal of and accrued and unpaid interest on the Loans, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Borrower to the Lenders (or any Lender), the Agent or any Indemnified Party arising under the Transaction Documents.

"OBLIGOR" means a Person obligated to make payments with respect to a

Receivable, including any guarantor thereof.

"OBLIGOR CONCENTRATION LIMIT" means, at any time, in relation to the aggregate Unpaid Balance of Receivables owed by any single Obligor and its Affiliated Obligors (if any), the applicable concentration limit (unless the Agent from time to time upon the Borrower's request agrees to a higher percentage of Eligible Receivables for a particular Obligor and its Affiliates) be determined for Obligors who have short term unsecured debt ratings (or, in the absence of such a rating, the equivalent long term unsecured senior debt rating as specified below) currently assigned to them by S&P or Moody's; PROVIDED, HOWEVER, that (a) if such Obligor has a split rating, the applicable rating will be the lower of the two, (b) if such Obligor is rated by only S&P, the applicable rating will be deemed to be one ratings tier below the actual rating by S&P, and (c) if such Obligor is rated by only Moody's, the applicable rating will be deemed to be one ratings tier below the actual rating by Moody's, it being understood that if Moody's has assigned a P-1 rating to such Obligor and S&P has not rated it, the applicable rating will be P-2:

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corporation.

"PERSON" means any natural Person, corporation, firm, joint venture, partnership, limited liability company, association, enterprise, trust or other entity or organization, or any government or political subdivision or any agency, department or instrumentality thereof.

"PLAN" means an employee benefit plan (as defined in Section 3(3) of ERISA) which a Loan Party sponsors or maintains or to which a Loan Party makes, is making, or is obligated to make contributions and includes any Pension Plan, other than a Plan maintained outside the United States primarily for the benefit of Persons who are not U.S. residents.

"PREPAYMENT NOTICE" has the meaning set forth in SECTION 1.5(a)

"PRINCIPAL" means MDP Group and its Affiliates.

"PRINCIPAL AMOUNT" means the actual net cash proceeds received by Blue Ridge upon issuance of a Commercial Paper Note.

"PROGRAM FEE" has the meaning set forth Fee Letter.

"PROGRAM INFORMATION" has the meaning set forth in SECTION 14.8.

"PROPERTY" of a Person means any and all property, whether real, personal, tangible, intangible, or mixed, of such Person, or other assets owned, leased or operated by such Person.

"PURCHASE AND SALE AGREEMENT" means the Purchase and Sale Agreement dated as of the date hereof between the Seller and the Borrower.

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"QUALIFYING LIQUIDITY BANK" means a Liquidity Bank with ratings of its short-term securities equal to or higher than (i) A-1 by S&P and (ii) P-1 by Moody's.

"RATABLE SHARE" means (i) with respect to any Lender, the ratio which its Loans bear to the sum of the Loans of all Lenders and (ii) with respect to any Liquidity Bank, the ratio which its Commitment bears to the sum of the Commitments of all Liquidity Banks.

"RECEIVABLE" means any right to payment arising from the sale of products by the Originator, including, without limitation, the right to payment of any interest or finance charges and other amounts with respect thereto, which is sold to the Seller under the Sale Agreement and to the Borrower under the Purchase and Sale Agreement. Rights to payment arising from any one transaction, including, without limitation, rights to payment represented by an individual invoice, shall constitute a Receivable separate from a Receivable consisting of the rights to payment arising from any other transaction or evidenced by any other invoice; PROVIDED, HOWEVER, any right to payment referred to in this sentence shall be a Receivable regardless of whether the account debtor or the Borrower treats such right to payment as a separate payment obligation.

"REGULATION D" means Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor thereto or other regulation or official interpretation of said Board of Governors relating to reserve requirements applicable to member banks of the Federal Reserve System.

"REGULATION U" means Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor or other regulation or official interpretation of said Board of Governors relating to the extension of credit by banks for the purpose of purchasing or carrying margin stocks applicable to member banks of the Federal Reserve System.

"REGULATORY CHANGE" shall mean any change after the date of this Agreement in United States (federal, state or municipal) or foreign laws or regulations (including Regulation D) or the adoption or making after such date of any interpretations, directives or requests applying to a class of banks (including the Liquidity Banks) of or under any United States (federal, state or municipal) or foreign, laws, or regulations (whether or not having the force of law) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"RELATED ASSETS" means (a) all rights to, but not any obligations under, all related Contracts and all Related Security related to any Receivables, (b) all rights and interests of the Borrower under the Purchase and Sale Agreement in relation to any Receivables, (c) all books and records evidencing or otherwise relating to any Receivables, (d) the Collection Account (if any) and all Lock-Box Accounts and all cash and instruments therein, to the extent

constituting or representing the items in the following clause and (e) all Collections in respect of, and other proceeds of, any Receivables or any other Related Assets.

"RELATED PARTIES" shall have the meaning assigned such term in the Senior Credit Agreement.

"RELATED SECURITY" means, with respect to any Receivable, all of the Borrower's right, title and interest in and to: (a) all Contracts that relate to such Receivable; (b) all security deposits and

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other security interests or liens and property subject thereto from time to time purporting to secure payment of such Receivable, whether pursuant to the Contract related to such Receivable or otherwise; (c) all UCC financing statements covering any collateral securing payment of such Receivable; (d) all guarantees and other agreements or arrangements of whatever character from time to time supporting or securing payment of such Receivable whether pursuant to the Contract related to such Receivable or otherwise; and (e) all insurance policies, and all claims thereunder, related to such Receivable, in each case to the extent directly related to rights to payment, collection and enforcement, and other rights with respect to such Receivable.

"REPORTABLE EVENT" means any of the events set forth in Section 4043(c) of ERISA or the regulations thereunder, other than any such event for which the 30-day notice requirement under ERISA has been waived in regulations issued by the PBGC.

"REPORTING DATE" has the meaning set forth in SECTION 3.1(a).

"REQUIRED AMOUNTS" has the meaning set forth in SECTION 3.2.

"REQUIRED RESERVE" means, on any day during a Settlement Period, an amount equal to the product of (A) the greater of (i) 12% and (ii) the sum of (w) the Loss Reserve, (x) the Dilution Reserve, (y) the Interest Reserve and (z) the Servicing Reserve (in each case, as of the immediately preceding Settlement Date) times (B) the Net Pool Balance on such day.

"REQUIREMENT OF LAW" means, as to any Person, any law (statutory or common), treaty, rule or regulation or final, nonappealable determination of an arbitrator or of a Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"RESPONSE DATE" has the meaning set forth in SECTION 1.8.

"RESPONSIBLE OFFICER" of any Person means any of its Chairman, Chief Executive Officer, Chief Operating Officer, President, Chief Financial Officer or Treasurer.

"REVIEW" has the meaning set forth in SECTION 7.1(c).

"REVOLVING PERIOD" means the period from and after the date of the initial Advance under this Agreement to but excluding the Termination Date.

"S&P" means Standard and Poor's Ratings Services, a division of The McGraw Hill Companies, Inc.

"SALE AGREEMENT" means the Receivables Sale Agreement dated as of that date hereof between the Originator, as seller, and the Seller, as purchaser, as it may be amended, supplemented or otherwise modified in accordance with SECTION 7.3(f).

"SCHEDULE" refers to a specific schedule to this Agreement, unless another document is specifically referenced.

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"SCHEDULED TERMINATION DATE" means November 29, 2003, unless extended by unanimous agreement of the Agent, the Lenders and the Liquidity Banks.

"SEC" means the Securities and Exchange Commission.

"SECTION" means a numbered section of this Agreement, unless another document is specifically referenced.

"SECURED PARTIES" means the Agent, the Indemnified Parties and the Affected Parties.

"SELLER" means Packaging Credit Company, LLC, a Delaware limited liability company.

"SELLER NOTE" means the Seller Note as defined in the Purchase and Sale Agreement.

"SENIOR CREDIT AGREEMENT" means that certain Amended and Restated Credit Agreement dated as of June 29, 2000 among, the Performance Guarantor, various Lenders (as defined therein), J.P. Morgan Securities, Inc., Deutsche Bank Securities, Inc., Goldman Sachs Credit Partners L.P., and Morgan Guaranty Trust Company of New York, with giving effect to any amendment or modifications made after the date hereof without the prior written consent of the Agent.

"SERVICER" has the meaning set forth in the preamble of this Agreement.

"SERVICER TRANSFER EVENT" means the occurrence of any Unmatured Default or Event of Default.

"SERVICER'S FEE" accrued for any day in a Settlement Period means:

(a) an amount equal to (x) 1.0% PER ANNUM (or, at any time while Seller is the Servicer, such lesser percentage as may be agreed between the Borrower and the Servicer on an arms' length basis based on then prevailing market terms for similar services), TIMES (y) the aggregate Unpaid Balance of the Receivables at the close of business on the first day of such Settlement Period, TIMES (z) 1/360; or

(b) on and after the Servicer's reasonable request made at any time when Seller shall no longer be the Servicer, an alternative amount specified by the Servicer not exceeding (x) 110% of the Servicer's reasonable costs and expenses of performing its obligations under the Agreement during the Settlement Period when such day occurs, divided by (y) the number of days in such Settlement Period.

"SERVICING RESERVE" shall mean the product of 1.0% and a fraction, the numerator of which is the highest Days Sales Outstanding calculated for each of the most recent 12 Settlement Periods and the denominator of which is 360.

"SETTLEMENT DATE" means (a) the second Business Day after each Reporting Date, or such later Business Day as the Agent may specify in a written notice to the Borrower, and (b) the Termination Date.

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"SETTLEMENT PERIOD" means: (a) the period from and including the date of the initial Advance to and including the next Cut-Off Date; and (b) thereafter, each period from but excluding a Cut-Off Date to and including the earlier to occur of the next Cut-Off Date or the Final Payout Date.

"SUBSIDIARY" of any Person means (i) a corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned or controlled by such Person, directly or indirectly through Subsidiaries, and (ii) any partnership, association, joint venture or other entity in which such Person, directly or indirectly through Subsidiaries, has more than a 50% equity interest at the time.

"SUCCESSOR NOTICE" has the meaning set forth in SECTION 8.1(b).

"TERMINATION DATE" means the earliest to occur of:

(a) the Scheduled Termination Date;

(b) the Liquidity Termination Date;

(c) the date designated by the Borrower as the "Termination Date" on not less than five (5) Business Days' notice to the Agent, PROVIDED that on such date the Obligations have been paid in full;

(d) the date specified in SECTION 10.2(a) or (b); or

(e) the date on which the Seller ceases selling Receivables to the Borrower under the Purchase and Sale Agreement.

"TRANSACTION DOCUMENTS" means this Agreement, the Lock-Box Agreements, the Sale Agreement, the Purchase and Sale Agreement the Fee Letter, the Seller Note, the Initial PCA Note and the other documents to be executed and delivered in

connection herewith.

"TRANSFEREE" is defined in SECTION 12.4.

"UCC" means the Uniform Commercial Code as from time to time in effect in the applicable jurisdiction or jurisdictions.

"UNMATURED DEFAULT" means an event which but for the lapse of time or the giving of notice, or both, would constitute an Event of Default.

"UNPAID BALANCE" of any Receivable means at any time the unpaid amount thereof, but excluding all late payment charges, delinquency charges and extension or collection fees.

"UNUSED FEE" has the meaning set forth in the Fee Letter.

"WACHOVIA" has the meaning set forth in the preamble of this Agreement.

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"WACHOVIA ROLES" has the meaning set forth in SECTION 11.10(a).

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms.

B. OTHER TERMS. All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All terms used in Article 9 of the UCC in the State of New York, and not specifically defined herein, are used herein as defined in such Article 9.

C. COMPUTATION OF TIME PERIODS. Unless otherwise stated in this Agreement, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

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EXHIBIT A

FORM OF LOCK-BOX AGREEMENT

[SEE PURCHASE AND SALE AGREEMENT]

EXHIBIT 2.1

FORM OF BORROWING REQUEST

Packaging Receivables Company, LLC

BORROWING REQUEST

For Borrowing On \_\_\_\_\_

Wachovia Bank, N.A., as Agent  
191 Peachtree Street, N.E., GA-423  
Atlanta, Georgia 30303

Attention: Elizabeth R. Wagner, Fax No. (404) 332-5152

Ladies and Gentlemen:

Reference is made to the Credit and Security Agreement dated as of November 29, 2000 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT") among Packaging Receivables Company, LLC (the "BORROWER"), Packaging Credit Company, LLC, as initial Servicer, Blue Ridge Asset Funding Corporation, and Wachovia Bank N.A., individually and as Agent. Capitalized terms defined in the Credit Agreement are used herein with the same meanings.

I. The [SERVICER, ON BEHALF OF THE] Borrower hereby certifies, represents and warrants to the Agent and the Lenders that on and as of the Borrowing Date (as hereinafter defined):

(a) all applicable conditions precedent set forth in Article V of the Credit Agreement have been satisfied;

(b) each of its representations and warranties contained in Section 6.1 of the Credit Agreement will be true and correct, in all material



respects, as if made on and as of the Borrowing Date;

(c) no event will have occurred and is continuing, or would result from the requested Purchase, that constitutes an Event of Default or Unmatured Default;

(d) the Termination Date has not occurred; and

(e) after giving effect to the Loans comprising the Advance requested below, Blue Ridge's and the Liquidity Banks' Loans at any one time outstanding will not exceed the Allocation Limit.

III. The [SERVICER, ON BEHALF OF THE] Borrower hereby requests that Blue Ridge (or the Liquidity Banks) make an Advance on \_\_\_\_\_, \_\_\_\_\_ (the "BORROWING DATE") as follows:

(a) AGGREGATE AMOUNT OF ADVANCE: \$ \_\_\_\_\_

(b) INTEREST RATE REQUESTED: CP Rate (unless you advise the Borrower that a Liquidity Funding will be made, in which case the [SERVICER ON BEHALF OF THE] Borrower requests that the Liquidity Banks make an Alternate Base Rate Loan that converts into Eurodollar Loan with an Interest Period approximately equal to the CP Tranche Period specified below on the third Business Day after the Borrowing Date).

(c) CP TRANCHE PERIOD REQUESTED: \_\_\_\_\_ days

IV. Please disburse the proceeds of the Loans as follows:

[APPLY \$ \_\_\_\_\_ TO PAYMENT OF PRINCIPAL AND INTEREST OF EXISTING LOANS DUE ON THE BORROWING DATE]. [APPLY \$ \_\_\_\_\_ TO PAYMENT OF FEES DUE ON THE BORROWING DATE]. [WIRE TRANSFER \$ \_\_\_\_\_ TO ACCOUNT NO. \_\_\_\_\_ AT \_\_\_\_\_ BANK, IN [CITY, STATE], ABA NO. \_\_\_\_\_, REFERENCE: \_\_\_\_\_].

IN WITNESS WHEREOF, the [SERVICER, ON BEHALF OF THE] Borrower has caused this Borrowing Request to be executed and delivered as of this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

[\_\_\_\_\_, AS SERVICER, ON BEHALF OF:] Packaging Receivables Company, LLC, as Borrower

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

EXHIBIT 3.1(a)

FORM OF INFORMATION PACKAGE

EXHIBIT 5.1(h)

SUBSTANCE OF CORPORATE/UCC OPINIONS

- - All opinions should be addressed to the Agent and the Lenders and should permit reliance thereon by (A) the Liquidity Banks and (B) S&P and Moody's.
- - The opinion giver must be licensed to practice in the state whose law governs the Purchase and Sale Agreement and the Credit and Security Agreement (i.e., New York)
- - Corporate/UCC opinions should address the following matters as to the Borrower and Originators (collectively, the "COMPANIES"):

1. Each of the Companies has been duly organized and is validly existing under the laws of Delaware, with power and authority to conduct its business as now conducted (or, in the case of the Borrower, proposed to be conducted), to own, or hold under lease, its assets and to enter into the Transaction Documents to which it is a party and perform its obligations thereunder. Based solely on certificates from public officials, we confirm that each of the Companies is

qualified to do business in the following States: Delaware, Illinois.

2. The execution, delivery and performance of the Transaction Documents to which any of the Companies is a party and the execution and delivery of the Financing Statements naming any of the Companies as debtor or seller have been duly authorized by all necessary action of such Company, and such Transaction Documents and Financing Statements have been duly executed and delivered by such Company.

3. Each of the Transaction Documents constitutes a legally valid and binding obligation of each of the Companies signatory thereto, enforceable against such Company in accordance with its terms.

4. The execution and delivery of the Transaction Documents and the Financing Statements by each of the Companies signatory thereto, and the performance of their respective obligations do not: (a) violate any federal or the State of Delaware or State of Illinois statute, rule or regulation applicable to the Companies (including, without limitation, Regulations T, U or X of the Board of Governors of the Federal Reserve System), (b) violate the provisions of the Companies' respective Governing Documents, (c) result in the breach of or a default under, the creation of a lien under or the acceleration of indebtedness pursuant to any indenture, credit agreement, lease, note or other agreement, instrument or contract or any judgment, writ or other court order, in any of the foregoing cases, which has been identified to you as being material to any of the Companies, or (d) require any consents, approvals, authorizations, registrations, declarations or filings by any of the Companies under any federal or the State of Delaware or State of Illinois statute, rule or regulation applicable to any of the Companies of the State of Delaware or State of Illinois except the filing of the Financing Statements in the Office of the \_\_\_\_\_ (the "Filing Office(s)").

5. The provisions of the Purchase and Sale Agreement are effective to create a valid security interest (as defined in Section 1-201(37) of the New York UCC) in favor of the Borrower

and its assigns in that portion of the Receivables and Related Rights which constitute accounts or general intangibles. The provisions of the Credit and Security Agreement are effective to create a valid security interest (as defined above) in favor of the Agent for the benefit of the Secured Parties in that portion of the Collateral which constitutes accounts or general intangibles as security for the payment of the Obligations.

6. Each of the Financing Statements is in appropriate form for filing in the Filing Office specified on the face thereof. Upon the proper filing of each of the Financing Statements in such Filing Office, the security interest in favor of the Agent for the benefit of the Secured Parties in the Collateral described therein will be perfected.

7. Based solely on our review of the Search Reports, and assuming (a) the proper filing of the Financing Statements in the appropriate Filing Offices, and (b) the absence of any intervening filings between the date and time of the Search Reports and the date and time of the filing of the Financing Statements in the Filing Offices, the security interests of the Agent for the benefit of Secured Parties in the Collateral described in #6 above will be prior to any other security interest granted by any of the Companies in such collateral, the priority of which is determined solely by the filing of a financing statement in the applicable Filing Office.

8. None of the Companies is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

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EXHIBIT 7.2  
FORM OF CERTIFICATE OF FINANCIAL OFFICER

[NAME OF LOAN PARTY]  
CERTIFICATE OF FINANCIAL OFFICER

This Certificate is made pursuant to the provisions of the Credit and Security Agreement dated as of November 29, 2000 (as amended or otherwise modified from time to time in accordance with the terms thereof, the "Agreement") among Packaging Receivables Company, LLC, as Borrower, Packaging Credit Company, LLC, as initial Servicer, Blue Ridge Asset Funding Corporation, and Wachovia Bank, N.A., individually and as Agent. The capitalized terms used, but not defined, herein have the meanings assigned to them in the Agreement.

The undersigned [FINANCIAL OFFICER] of the [BORROWER/INITIAL SERVICER]

hereby certifies that the financial statements being delivered concurrently herewith fairly present the financial condition and results of operations of the [BORROWER/INITIAL SERVICER] in accordance with generally accepted accounting principles[, SUBJECT TO NORMAL YEAR-END AUDIT ADJUSTMENTS], and that no Default or Event of Default exists as of the date hereof and is continuing.

[NAME OF LOAN PARTY]

By: \_\_\_\_\_

Name: \_\_\_\_\_

Dated: \_\_\_\_\_

SCHEDULE 6.1(m)

BORROWER'S FEDERAL TAXPAYER ID NUMBER, CHIEF EXECUTIVE OFFICE, PRINCIPAL PLACE OF BUSINESS AND OTHER RECORDS LOCATION(S)

Federal Taxpayer I.D. No.: Borrower: 36-4391046  
Servicer: 36-4277050

Chief Executive Office (Servicer and Borrower): 1900 West Field Court  
Lake Forest, Illinois 60045

Principal Place of Business:(Servicer and Borrower): 1900 West Field Court  
Lake Forest, Illinois 60045

Other Records Locations:

1001 113th Street  
Arlington, TX 76011

1610 Winbourne Ct.  
North Little Rock, AR 72116

21 Leigh Fisher Blvd.  
El Paso, TX 79906

2510 West Miller Road  
Garland, TX 75041

4240 Bandini Blvd.  
Vernon, CA 90023

9200 Old McGregor Road  
Waco, TX 76712

2325 C Statham Blvd.  
Oxnard, CA 93033

441 S. 53rd Avenue  
Phoenix, AZ 85043

1800 E. Plano Parkway  
Plano, TX 75074

4654 W. 1525 South  
Salt Lake City, UT 84104

460 W. 500 South  
Salt Lake City, UT 84101

9700 Frontage Road  
Southgate, CA 90280

2246 Udell Street  
Filer City, MI 49634

1824 Baltimore Street  
Middletown, OH 45055

555 Metro Place North  
Suite 500

Dublin, OH 43017

6247 Pine Street  
Burlington, WI 53105

5600 West Good Hope Rd.  
Milwaukee, WI 53223

901 Grimes Blvd.  
Lexington, NC 27292

114 Dixie Blvd.  
Morganton, NC 28655

6245 Woodlore Drive  
Acworth, GA 30101

1302 N. Salisbury Ave.  
Salisbury, NC 28144

3200 Lakewood Ave. S.W.  
East Point, GA 30344

305 Van Buren Road  
Bolivar, TN 38008

2313 N. William St.  
Goldsboro, NC 27530

212 Roelee St.  
Trinity, NC 27370

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12105 Belton Honea Path Hwy.  
Honea Path, SC 29654

Highway 178  
Donalds, SC 29654

112 Edwards Drive  
Jackson, TN 38301

3936 Fountain Valley Lane  
Knoxville, TN 37918

3240 Brittain Drive  
Newberry, SC 29108

3200 Hipack Drive  
Opelika, AL 36801

4300 Cheyene Drive  
Archdale, NC 27263

321 Industrial Park Rd.  
Rutherfordton, NC 28139

Highway 57  
P.O. Box 33  
Counce, TN 38326

N9090 County Road E  
Tomahawk, WI 54487

5495 Lake Park  
Clyarrville Road  
Clyarrville, GA 31601

32745 J Avenue  
Beaman, IA 50609

1201 Cornerstone Drive  
Windsor, CO 80550

3200 N. Lake Shore Drive  
#2702  
Chicago, IL 60657

1110 Military Road

Buffalo, NY 14217

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705 South Division Street  
Colby, WI 54421

502 W. Center Street  
Conrad, IA 50621

5501 Brighton Blvd.  
Commerce City, CO 80022

7953 N.E. Beech Street  
Fridley, MN 55432

4300 Highway 55  
Golden Valley, MN 55422

1402 South 17th Ave.  
Marshalltown, IA 50158

1821 NE Marshall St.  
Minneapolis, MN 55418

400 S. 45th Street East  
Muskogee, OK 74403

10854 Leroy Drive  
Northglenn, CO 80233

1002 Missouri Ave.  
Omaha, NE 68107

6363 John J. Pershing Drive  
Omaha, NE 68110

789 Elmgrove Rd.  
Bldg. #10  
Rochester, NY 14624

2262 B Bluestone Hills Dr.  
Harrisonburg, VA 22801

659 Eastport Road  
Jacksonville, FL 32218

1200 W. Pike St.  
Grafton, WV 26354

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400 Pleasant Valley Road  
Harrisonburg, VA 22801

2000 Jefferson Davis Hwy.  
Richmond, VA 23224

1005 Industry Circle S.E.  
Roanoke, VA 24013

2155 42nd Street NW  
Winter Haven, FL 33881

109 Arrowhead Drive  
Bldg. 2  
Manheim, PA 17545

3785 Bryn Mawr Street  
Orlando, FL 32808

54 Shutterlee Mill Lane  
Staunton, VA 24401

1805 Colonial Drive  
Thomasville, GA 31792

217 Peach Street  
Vineland, NJ 08360

24 Park Side Ave.  
West Springfield, MA 01089

208 Lenoir Drive  
Winchester, VA 22603

708 Killian Road  
Akron, OH 44319

929 Faultless Drive  
Ashland, OH 44805

520 South First Street  
Gas City, IN 46933

P.O. Box 127  
Middletown, OH 45042

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P.O. Box 4610  
Newark, OH 43058

One 28th Street  
Pittsburgh, PA 15222

408 East St. Clair  
Vincennes, IN 47591

533 Mt. Tom Road  
Northampton, MA 01060

5405 Glenway Drive  
Brighton, MI 48116

925 North Godfrey Street  
Allentown, PA 18103

8301 Sherwick Court  
Jessup, MD 20794

33 Glenn Avenue  
Chelmsford, MA 01824

1106 Industrial Park Drive  
Edmore, MI 48829

3251 Chicago Drive S.W.  
Grandville, MI 49418

435 Gitts Run Road  
Hanover, PA 17331

1530 Fruitville Pike  
Lancaster, PA 17601

525 Mt. Tom Road  
Northampton, MA 01060

936 Sheldon Road  
Plymouth, MI 48170

4471 Steelway Blvd. South  
Liverpool, NY 13088

2207 Traversfield Drive  
Traverse City, MI 49686

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7451 Cetronia Road  
Allentown, PA 18106

20400 Old Rome State Rd.  
Watertown, NY 13601

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SCHEDULE 6.1(n)

LOCK-BOXES AND ASSOCIATED ACCOUNTS

Bank One, N.A.  
One Bank One Plaza  
Chicago, Illinois 60603  
Account No.: 10-14950

Lockboxes:

Chicago Lockbox  
Lockbox Number 21594  
Packaging Corporation of America  
21594 Network Place  
Chicago, IL 60673-1215

Charlotte Lockbox  
Lockbox Number 905197  
Packaging Corporation of America  
P.O. Box 905197  
Charlotte, NC 28290-5197

Pasadena Lockbox  
Lockbox Number 100720  
Packaging Corporation of America  
P.O. Box 100720  
Pasadena, CA 91189-0720

Dallas Lockbox  
Lockbox Number 730758  
Packaging Corporation of America  
P.O. Box 730758  
Dallas, TX 75373-0758

SCHEDULE 14.2

NOTICE ADDRESSES AND WIRE TRANSFER INFORMATION

A. BORROWER AND INITIAL SERVICER

ADDRESS FOR NOTICES:

Packaging Receivables Company, LLC  
1900 West Field Court  
Lake Forest, Illinois 60045

Attention: Fran Hori  
Phone: 847-482-3719  
Fax: 847-482-4516

Wire Transfer Instructions:

Account No. 10-48230 at Bank One, N.A.  
in Chicago, Illinois  
ABA No.071000013  
Reference: Blue Ridge Securitization

with a copy to:

Packaging Credit Company, LLC  
1900 West Field Court  
Lake Forest, Illinois 60045

Attention: Fran Hori  
Phone: 847-482-3719  
Fax: 847-482-4516

B. BLUE RIDGE

ADDRESS FOR NOTICES (OTHER THAN BORROWING REQUESTS):

Blue Ridge Asset Funding Corporation  
100 North Main Street  
Winston-Salem, NC 27150  
Attention: John Dillon

Phone: (336) 732-2690  
Fax: (336) 732-5021

With a copy to:

Blue Ridge Asset Funding Corporation  
c/o AMACAR Group, L.L.C.  
6525 Morrison Blvd., Suite 318  
Charlotte, North Carolina 28211  
Attention: Douglas K. Johnson

Phone: (704) 365-0569  
Fax: (704) 365-1362

WIRE TRANSFER INSTRUCTIONS (UNLESS OTHERWISE NOTIFIED):

Account #8735-098787 at Wachovia Bank, N.A.,  
ABA #053100494,  
Reference: Blue Ridge/Packaging Receivables Company, LLC,  
Attention: John Dillon, tel. (336) 732-2690

C. WACHOVIA BANK, N.A., individually or as Agent

ADDRESS FOR NOTICES (OTHER THAN BORROWING REQUESTS):

Wachovia Bank, N.A.  
191 Peachtree Street, 26th Floor  
GA-423  
Atlanta, Georgia 30303  
Attention: Elizabeth Wagner

Phone: (404) 332-1398  
Fax: (404) 332-5152

WIRE TRANSFER INSTRUCTIONS (UNLESS OTHERWISE NOTIFIED):

Account #8735-098787 at Wachovia Bank, N.A.,

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ABA #053100494,  
Reference: Blue Ridge/Packaging Receivables Company, LLC,  
Attention: John Dillon, tel. (336) 732-2690

BORROWING REQUESTS SHOULD BE SENT TO THE  
ADDRESS AND FAX NO. SPECIFIED ON EXHIBIT 2.1

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RECEIVABLES SALE AGREEMENT

DATED AS OF NOVEMBER 29, 2000

BETWEEN

PACKAGING CREDIT COMPANY, LLC

AND

PACKAGING CORPORATION OF AMERICA

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- EXHIBIT B FORM OF THE INITIAL PCA NOTE
- EXHIBIT C OFFICE LOCATIONS

SCHEDULES

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- SCHEDULE 5.1(0) TRADE NAMES
- SCHEDULE 9.2 NOTICE ADDRESS

RECEIVABLES SALE AGREEMENT

THIS RECEIVABLES SALE AGREEMENT (as amended, supplemented or modified from time to time, this "AGREEMENT"), dated as of November 29, 2000, is between Packaging Corporation of America, a Delaware corporation ("SELLER"), as seller, and Packaging Credit Company, LLC, a Delaware limited liability company (the "COMPANY"), as purchaser.

DEFINITIONS

Unless otherwise indicated, certain terms that are capitalized and used throughout this Agreement are defined in Appendix A to the Credit and Security Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, (the "CREDIT AND SECURITY AGREEMENT"), among Packaging Receivables Company, LLC (the "2ND STEP PURCHASER"), Company, as initial Servicer, Blue Ridge Asset Funding Corporation, as a Lender, Wachovia Bank, N.A., individually as a Lender and as the agent for the Lenders (the "AGENT"). The following terms have the respective meanings indicated below:

AVAILABLE FUNDS: As defined in Section 3.2 hereof.

DEEMED COLLECTION: Amounts payable by Seller pursuant to Section 3.3 or 3.4.

EXCESS FUNDS NOTE: A note evidencing the indebtedness of Seller to the Company pursuant to the Loan Agreement.

INELIGIBLE RECEIVABLE: As defined in Section 3.3 hereof.

INITIAL CLOSING DATE: As defined in Section 1.2 hereof.

INITIAL CUT-OFF DATE: The Business Day immediately preceding the Initial Closing Date.

INITIAL PCA NOTE: As defined in Section 3.1 hereof.

LOAN AGREEMENT: A Loan Agreement dated as of the date hereof between Seller and the Company pursuant to which the Company shall loan funds to the Seller from the proceeds of the sale of the Receivables to the 2nd Step Purchaser.

LOCKBOX ACCOUNTS: One or more lockbox accounts held in Lockbox Banks for receiving Collections from Receivables.

MAXIMUM SELLER NOTE BALANCE: As of any date means an amount equal to the excess of (i) the Net Pool Balance over (ii) the sum of (a) the outstanding principal balance of all Loans made to the 2nd Step Purchaser under the Credit and Security Agreement and (b) the Triple-B Loss Reserve Amount, each as of such date.

PURCHASE PRICE: As defined in Section 2.1 hereof.

PURCHASE REPORT: As defined in Section 2.1 hereof.

RELATED RIGHTS: As defined in Section 1.1(a) hereof.

SALE INDEMNIFIED AMOUNTS: As defined in Section 8.1 hereof.

SALE INDEMNIFIED PARTY: As defined in Section 8.1 hereof.

SALE TERMINATION DATE: As defined in Section 1.4 hereof.

SELLER MATERIAL ADVERSE EFFECT: With respect to any event or circumstance:

(i) a Credit Event shall have occurred;

(ii) a material adverse effect on the ability of Seller to perform its obligations under this Agreement or any other Transaction Document to which Seller is a party;

(iii) a material adverse effect on the validity or enforceability as against Seller of this Agreement or any other Transaction Document to which Seller is a party;

(iv) a material adverse effect on the status, existence, perfection, priority or enforceability of the Company's interest in the Receivables and the Related Rights; or

(v) a material adverse effect on the validity, enforceability or collectability of a material portion of the Receivables.

TRIPLE-B LOSS RESERVE AMOUNT: As of any date means an amount equal to the product of (i) the Net Pool Balance and (ii) the Loss Reserve as of the immediately preceding Cut-Off Date (except that such Loss Reserve shall be calculated with a multiple of 1.5 rather than 2.0).

#### BACKGROUND

1. The Company is a limited liability company, all of the membership interests of which are wholly-owned by Seller.

2. Seller wishes to sell Receivables and Related Rights to the Company, and the Company is willing, on the terms and subject to the conditions set forth herein, to purchase Receivables and Related Rights from Seller.

3. The Company intends to sell the Receivables and Related Rights it purchases from Seller hereunder to the 2nd Step Purchaser and the 2nd Step Purchaser is willing, on the terms and subject to the conditions set forth in the Purchase and Sale Agreement, to purchase such Receivables and Related Rights from the Company.

4. The 2nd Step Purchaser intends to pledge its interests in the Receivables and Related Rights purchased from the Company as collateral for loans under the Credit and Security Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

ARTICLE I  
AGREEMENT TO SELL

SECTION 1.1. SALES.

(a) AGREEMENT TO SELL. On the terms and subject to the conditions set forth in this Agreement (including Article V), and in consideration of the Purchase Price, from the Initial Closing Date until the Sale Termination Date, Seller agrees to sell, assign and transfer, and does hereby sell, assign and transfer to the Company, and the Company agrees to purchase, and does hereby purchase from Seller, all of Seller's right, title and interest in and to:

(i) each Receivable of Seller that existed and was owing to Seller as of the close of Seller's business on the Initial Cut-Off Date;

(ii) each Receivable created or originated by the Seller from the close of the Seller's business on the Initial Cut Off Date, to and including the Sale Termination Date;

(iii) all rights to, but not the obligations under, all related Contracts and all Related Security;

(iv) all monies due or to become due with respect to the foregoing;

(v) all books and records related to any of the foregoing;

(vi) all Lockbox Accounts, all amounts on deposit therein and all related agreements between Seller and the Lockbox Banks, in each case to the extent constituting or representing items described in paragraph (vii) below; and

(vii) all Collections in respect of, and other proceeds of, Receivables or any other of the foregoing (as defined in the UCC) received on or after the Initial Cut-Off Date including, without limitation, all funds which either are received by Seller, the Company, the Borrower or the Servicer from or on behalf of the Obligors in payment of any amounts owed (including, without limitation, finance charges, interest and all other charges) in respect of Receivables, or are applied to such amounts owed by the Obligors (including without limitation, insurance payments, if any, that Seller, the Company, the Borrower or the Servicer (if other than Seller) applies in the ordinary course of its business to amounts owed in respect of any Receivable and net proceeds of sale or other disposition of repossessed goods or other collateral or property of the Obligors or any other party directly or indirectly liable for payment of such Receivable and available to be applied thereon).

All purchases hereunder shall be made without recourse, but shall be made pursuant to and in reliance upon the representations, warranties and covenants of Seller, in its capacity as seller, set forth in each Transaction Document. The proceeds and rights described in subsections (iii) through (vii) of this Section 1.1(a) are herein collectively called the "RELATED RIGHTS."

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(b) ABSOLUTE TRANSFER. It is the intention of the parties hereto that the conveyance of the Receivables and Related Rights by the Seller to the Company as provided in this Section 1.1 be, and be construed as, an absolute sale, without recourse, of such Receivables and Related Rights by the Seller to the Company. Furthermore, it is not intended that such conveyance be deemed a pledge of such Receivables and Related Rights by the Seller to the Company to secure a debt or other obligation of the Seller. If, however, notwithstanding the intention of the parties, the conveyance provided for in this Section 1.1 is determined to be a transfer for security, then this Agreement shall also be deemed to be a "security agreement" within the meaning of Article 9 of the UCC and the Seller hereby grants to the Company a "security interest" within the meaning of Article 9 of the UCC in all of the Seller's right, title and interest in and to such Receivables and Related Rights, now existing and hereafter created, to secure a loan in an amount equal to the aggregate Purchase Price therefor and the Seller's other payment obligations under this Agreement.

SECTION 1.2. TIMING OF PURCHASES.

(a) INITIAL CLOSING DATE PURCHASES. On the date of the first Loan under the Credit and Security Agreement (the "INITIAL CLOSING DATE") Seller shall sell to the Company, and the Company shall purchase, pursuant to Section 1.1, Seller's entire right, title and interest in (i) each Receivable that existed and was owing to Seller as of the close of Seller's business on the Initial Cut-Off Date, and (ii) all Related Rights with respect thereto.

(b) REGULAR PURCHASES. After the Initial Closing Date, and continuing until

the Sale Termination Date, each Receivable described in Section 1.1(a)(ii) hereof, and all the Related Rights with respect thereto, created or originated by Seller shall be sold by Seller to the Company (without any further action) upon the creation or origination of such Receivable. All such Receivables shall be sold to the Company on such date.

SECTION 1.3. CONSIDERATION FOR PURCHASES. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to make all Purchase Price payments to Seller in accordance with Article III.

SECTION 1.4. SALE TERMINATION DATE. The "SALE TERMINATION DATE" shall be the Termination Date under the Credit and Security Agreement.

## ARTICLE II CALCULATION OF PURCHASE PRICE

SECTION 2.1. CALCULATION OF PURCHASE PRICE. On each Reporting Date (commencing with the first Reporting Date following the Initial Closing Date), the Servicer shall deliver to the Agent, Seller and the Company (if the Servicer is other than the Company) a report in substantially the form of Exhibit A (each such report being herein called a "PURCHASE REPORT") with respect to the Company's purchases of Receivables from Seller:

(a) that arose on or prior to the Initial Cut-Off Date (in the case of the first Purchase Report to be delivered hereunder) and

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(b) that arose during the Settlement Period immediately preceding such Reporting Date (in the case of each successive Purchase Report).

Each Purchase Report shall designate the amount of such Receivables that were Eligible Receivables on the date of origination (or, in the case of Receivables transferred on the Initial Closing Date, on the Initial Closing Date).

The "PURCHASE PRICE" (to be paid in accordance with the terms of Article III) for the Receivables and the Related Rights shall be determined in accordance with the following formula:

$$PP = AUB - (AUB \times FD)$$

where:

PP = Purchase Price (to be paid to Seller in accordance with the terms of Article III) as calculated on the relevant Reporting Date.

AUB = (i) for purposes of calculating the Purchase Price on the Initial Closing Date, the aggregate Unpaid Balance of all Receivables that existed and were owing to Seller as measured as at the Initial Cut-Off Date, and

(ii) for purposes of calculating the Purchase Price for Receivables on each Reporting Date thereafter, the aggregate Unpaid Balance of the Receivables described in Section 1.1(a)(ii) hereof that were generated by Seller during the immediately preceding Settlement Period.

FD = the Factoring Discount.

"FACTORING DISCOUNT" as measured on the Initial Closing Date or any Reporting Date means 1.40%; PROVIDED that the Factoring Discount may be revised with the mutual written consent of the Seller and the Company based upon a third party valuation report.

## ARTICLE III PAYMENT OF PURCHASE PRICE

SECTION 3.1. INITIAL PURCHASE PRICE PAYMENT. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to pay to Seller on the Initial Closing Date the Purchase Price for the purchase to be made from Seller with respect to Receivables existing on or prior to the Initial Cut-Off Date (a) in cash in an amount equal to the amount received by the Company in connection with the initial sale of the Receivables and Related Rights made pursuant to the Purchase and Sale Agreement and (b) by the issuance of a promissory note in the form of Exhibit B to Seller (such promissory note, as it may be amended, supplemented, endorsed or otherwise modified from time to time in substitution therefor or renewal thereof in accordance with the Transaction Documents, being herein called the "INITIAL PCA NOTE") in the initial principal amount equal to the remainder of the Purchase Price owing on the Initial Closing

Date after subtracting the amount paid in cash.

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SECTION 3.2. SUBSEQUENT PURCHASE PRICE PAYMENTS. After the Initial Closing Date and until the termination of this Agreement pursuant to Section 9.4 hereof, the Purchase Price due pursuant to Section 2.1 for each Settlement Period shall be due on the related Settlement Date. As an advance payment of such Purchase Price, on each Business Day during a Settlement Period, the Company shall pay to Seller a portion of the Purchase Price due pursuant to Section 2.1 by depositing into such account, as Seller shall specify, immediately available funds from monies then held by or on behalf of the Company solely to the extent that such monies are not necessary to pay current expenses of the Company (in its reasonable discretion) (such available monies, the "AVAILABLE FUNDS") and provided that Seller has paid all amounts then owing by it hereunder. On each Reporting Date, the Servicer shall calculate the amount of the Purchase Price remaining to be paid by deducting from the Purchase Price the Available Funds that have been paid during the corresponding Settlement Period, and such amount due shall be identified in the Purchase Report. To the extent that the Available Funds were insufficient to pay the Purchase Price then due in full, the remaining portion of such Purchase Price shall be paid, first, by decreasing the principal amount of the Excess Funds Note, effective as of the last day of the related Settlement Period and second, if the balance of the Excess Funds Note has been reduced to zero, by increasing the balance of the Initial PCA Note, effective as of the last day of the related Settlement Period; PROVIDED, HOWEVER, that the aggregate of the principal amounts outstanding at any time under the Initial PCA Note may not exceed the Maximum Seller Note Balance; and PROVIDED FURTHER, that the amount of such decrease in the principal amount of the Excess Funds Note or increase in the principal amount of the Initial PCA Note on any Settlement Date may not account for more than 25% of the aggregate Purchase Price due with respect to the related Settlement Period (the "NON-CASH MONTHLY MAXIMUM"). To the extent that the amount due with respect to the related Settlement Period pursuant to Section 2.1 exceeds (x) the Available Funds plus (y) the Non-Cash Monthly Maximum (such excess amount, the "SHORTFALL"), the Seller shall contribute to the Company cash in an amount equal to such Shortfall, and the Company shall use such funds to repay the Shortfall.

Seller shall make all appropriate record keeping entries with respect to the Excess Funds Note and the Initial PCA Note to reflect payments by the Company thereon and Seller's books and records shall constitute rebuttable presumptive evidence of the principal amount of and accrued interest on the Excess Funds Note and the Initial PCA Note. Seller shall return the Excess Funds Note and the Initial PCA Note to the Company upon the final payment thereof after the termination of this Agreement pursuant to Section 9.4 hereof.

SECTION 3.3. SETTLEMENT AS TO SPECIFIC RECEIVABLES. If an officer of Seller obtains knowledge or receives notice from the Company or the Agent that (a) on the day that any Receivable purchased hereunder was created or originated by Seller, (or, in the case of Receivables transferred on the Initial Closing Date, on the Initial Closing Date) any of the representations or warranties set forth in Section 5.1(1) were not true with respect to such Receivable, or such Receivable was designated as an Eligible Receivable on the related Purchase Report and was not an Eligible Receivable or, (b) on any day any of the representations or warranties set forth in Section 5.1(1) with respect to any Receivable is no longer true with respect to a Receivable (each such Receivable, an "INELIGIBLE RECEIVABLE"), then the Purchase Price with respect to Receivables that arose during the same Settlement Period in which such knowledge is obtained or notification is received shall be decreased by an amount equal to the Unpaid Balance of such Ineligible Receivable as of the related Settlement Date; PROVIDED, HOWEVER, that if there have been no purchases of Receivables (or insufficiently large purchases of Receivables to create a Purchase Price large enough to so reduce by the amount of such Unpaid Balances) from Seller during such Settlement Period, any amount owed by which the

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Purchase Price payable to Seller would have been reduced pursuant to the immediately preceding clause of this sentence shall be paid by either (at the option of Seller, unless the Company will, absent such payment in cash, be unable to meet its obligations under the Purchase and Sale Agreement on the next occurring Settlement Date, in which case Seller shall make a cash payment on or before such Settlement Date) an increase in the principal amount of the Excess Funds Note or by payment within two Business Days after the related Reporting Date in cash by Seller to the Company by payment of same day funds; PROVIDED, FURTHER, that if the Company receives payment on account of Collections due with respect to such Ineligible Receivable after such Settlement Date, the Company promptly shall deliver such funds to Seller. The enforcement of the obligations of Seller set forth in this Section 3.3 shall be the sole remedy of the Company with respect to Ineligible Receivables.

SECTION 3.4. SETTLEMENT AS TO DILUTION. Each Purchase Report shall include, in respect of the Receivables previously sold by Seller, a calculation of the aggregate net reduction in the aggregate Unpaid Balance of such Receivables owed by particular Obligor(s) on account of any defective, rejected or returned merchandise or services, any cash discount, any incorrect billings or other adjustments, or setoffs in respect of any claims by the Obligor(s) thereof (whether such claims arise out of the same or a related or unrelated transaction), or any rebate or refund during the most recent Settlement Period. The Purchase Price to be paid to Seller for the Receivables generated during the Settlement Period for which such Purchase Report is delivered shall be decreased by the amount of such net reduction; PROVIDED, HOWEVER, that if there have been no purchases of Receivables (or insufficiently large purchases of Receivables to create a Purchase Price large enough to so reduce by the amount of such net reduction) from Seller during such Settlement Period, any amount owed by which the Purchase Price payable to Seller would have been reduced pursuant to the immediately preceding clause of this sentence shall be paid by either (at the option of Seller, unless the Company will, absent such payment in cash, be unable to meet its obligations under the Purchase and Sale Agreement on the next occurring Settlement Date, in which case Seller shall make a cash payment on or before such Settlement Date) an increase in the principal amount of the Excess Funds Note or by payment within two Business Days after the related Reporting Date in cash by Seller to the Company by payment of same day funds.

SECTION 3.5. RECONVEYANCE OF RECEIVABLES. In the event that Seller has paid (by effecting a Purchase Price reduction or otherwise) to the Company the full Unpaid Balance of any Receivable pursuant to Section 3.3 or 3.4, the Company shall reconvey such Receivable and all Related Rights with respect thereto, to Seller, without recourse, representation or warranty, but free and clear of all liens created by the Company; such reconveyed Receivables and all Related Rights shall no longer be subject to the terms of this Agreement (including any obligation to turn over Collections with respect thereto).

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#### ARTICLE IV CONDITIONS OF PURCHASES

SECTION 4.1. CONDITIONS PRECEDENT TO INITIAL PURCHASE. The initial purchase hereunder is subject to the condition precedent that the Company shall have received, on or before the Initial Closing Date, the following, each (unless otherwise indicated) dated the Initial Closing Date, and each in form, substance and date reasonably satisfactory to the Company and the Agent:

(a) A copy of the resolutions of the Board of Directors of Seller approving the Transaction Documents to be delivered by it and the transactions contemplated hereby and thereby, certified by the Secretary or Assistant Secretary of Seller;

(b) Good standing certificate for Seller issued as of a recent date by the Secretary of State of Delaware;

(c) A certificate of the Secretary or Assistant Secretary of Seller certifying the names and true signatures of the officers authorized on Seller's behalf to sign the Transaction Documents to be delivered by it (on which certificate the Company and Servicer (if other than Seller) may conclusively rely until such time as the Company and the Servicer shall receive from Seller a revised certificate meeting the requirements of this subsection (c));

(d) The articles of incorporation of Seller, duly certified by the Secretary of State of Delaware as of a recent date, together with a copy of the by-laws of Seller, duly certified by the Secretary or Assistant Secretary of Seller;

(e) Copies of the proper financing statements (Form UCC-1) that have been duly executed and name Seller as the assignor and the Company as the assignee (and the 2nd Step Purchaser, as assignee of the Company) of the Receivables and the Related Rights or other, similar instruments or documents, as may be necessary or, in Servicer's or the Agent's opinion, desirable under the UCC of all appropriate jurisdictions or any comparable law of all appropriate jurisdictions to perfect the Company's ownership interest in all Receivables and Related Rights in which the ownership interest may be assigned to it hereunder;

(f) A written search report from a Person satisfactory to Servicer and the Agent listing all effective financing statements that name Seller as debtor or assignor and that are filed in the jurisdictions in which filings were made pursuant to the foregoing subsection (e), together with copies of such financing statements (none of which, except for those

described in the foregoing subsection (e) and those in favor of the agent pursuant to the Senior Credit Agreement shall cover any Receivable or any Related Right related to any Receivable) which is to be sold to the Company hereunder, and tax and judgment lien search reports from a Person satisfactory to Servicer and the Agent showing no evidence of such liens filed against Seller;

(g) Evidence (i) of the execution and delivery by each of the parties thereto of each of the other Transaction Documents to be executed and delivered in connection herewith and (ii) that each of the conditions precedent to the execution, delivery and effectiveness of such other Transaction Documents has been satisfied to the Company's satisfaction;

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(h) The Initial PCA Note in favor of Seller, duly executed by the Company; and

(i) A certificate from an officer of Seller to the effect that Servicer and Seller have placed on the most recent, and have taken all steps reasonably necessary to ensure that there shall be placed on subsequent, summary master control data processing reports the following legend (or the substantive equivalent thereof): THE RECEIVABLES DESCRIBED HEREIN HAVE BEEN SOLD BY PACKAGING CORPORATION OF AMERICA TO PACKAGING CREDIT COMPANY, LLC AND THEN SOLD BY PACKAGING CREDIT COMPANY, LLC TO PACKAGING RECEIVABLES COMPANY, LLC; AND A SECURITY INTEREST IN THE RECEIVABLES DESCRIBED HEREIN HAS BEEN GRANTED AND ASSIGNED BY PACKAGING RECEIVABLES COMPANY, LLC TO WACHOVIA BANK, N.A., AS AGENT.

SECTION 4.2. CERTIFICATION AS TO REPRESENTATIONS AND WARRANTIES. Seller, by accepting the Purchase Price related to each purchase of Receivables (and Related Rights), shall be deemed to have certified that the representations and warranties contained in Article V are true and correct on and as of the day of such purchase, with the same effect as though made on and as of such day.

#### ARTICLE V REPRESENTATIONS AND WARRANTIES

SECTION 5.1. REPRESENTATIONS OF SELLER. In order to induce the Company to enter into this Agreement and to make purchases hereunder, Seller, in its capacity as seller under this Agreement, hereby makes the representations and warranties set forth in this Section 5.1.

(a) ORGANIZATION AND GOOD STANDING. Seller has been duly organized and is validly existing as a corporation in good standing under the laws of the state of its organization, with power and authority to own its properties and to conduct its business as such properties are presently owned and such business is presently conducted.

(b) DUE QUALIFICATION. Seller is duly licensed or qualified to do business in good standing, and has obtained all necessary approvals, in all jurisdictions in which the ownership or lease of its property or the conduct of its business requires such licensing, qualification or approvals, except where the failure to be so qualified or have such licenses or approvals would not have a Seller Material Adverse Effect.

(c) POWER AND AUTHORITY; DUE AUTHORIZATION. Seller has (a) all necessary power, authority and legal right (i) to execute and deliver, and perform its obligations under, each Transaction Document to which it is a party and (ii) to own, sell, and assign Receivables on the terms and subject to the conditions herein and therein provided; and (b) duly authorized such execution and delivery and such sale and assignment and the performance of such obligations by all necessary action.

(d) VALID SALE; BINDING OBLIGATIONS. Each sale of Receivables and Related Rights made by Seller pursuant to this Agreement shall constitute a valid sale, transfer, and assignment thereof to the Company, enforceable against creditors of, and purchasers from, Seller; and this Agreement constitutes, and each other Transaction Document to be signed by Seller, when duly executed and delivered, will constitute, a legal, valid, and binding obligation of Seller, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or

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other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or in law.



(e) NO VIOLATION. The consummation of the transactions contemplated by this Agreement and the other Transaction Documents to which Seller is a party and the fulfillment of the terms hereof or thereof will not (a) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under (i) Seller's organizational documents, or (ii) any material indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument to which it is a party or by which it is bound, (b) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such material indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument, other than the Transaction Documents, or (c) violate any law or any order, rule, or regulation applicable to it of any court or of any federal, state or foreign regulatory body, administrative agency, or other governmental instrumentality having jurisdiction over it or any of its properties.

(f) PROCEEDINGS. There is no litigation, investigation or proceeding pending, or to the best of Seller's knowledge, threatened, before any court, regulatory body, arbitrator, administrative agency, or other tribunal or governmental instrumentality (a) asserting the invalidity of any Transaction Document to which Seller is a party, (b) seeking to prevent the sale of Receivables and the Related Rights to the Company or the consummation of any of the other transactions contemplated by any Transaction Document to which Seller is a party, or (c) that would have a Seller Material Adverse Effect. No injunction, writ, temporary restraining order or order of any nature has been issued by any court or other regulatory body, arbitrator, administrative agency or other tribunal or governmental instrumentality purporting to enjoin or restrain the execution, delivery or performance of this Agreement or any other Transaction Document, or directing that the transaction provided for herein or therein not be consummated as herein or therein provided. The Seller is generally subject to suit and it does not nor does any of its properties or revenues enjoy any right of immunity from judicial proceedings.

(g) BULK SALES ACT. No transaction contemplated hereby requires compliance with any bulk sales act or similar law.

(h) GOVERNMENT APPROVALS. Except for the filing of the UCC financing statements referred to in Article IV, all of which, at the time required in Article IV, shall have been duly made and shall be in full force and effect, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for Seller's due execution, delivery and performance of any Transaction Document to which it is a party.

(i) FINANCIAL CONDITION. On the date hereof Seller is, and on the date of each transfer of a new Receivable hereunder (both before and after giving effect to such transfer), Seller shall be solvent.

(j) FINANCIAL STATEMENTS AND ABSENCE OF CERTAIN MATERIAL ADVERSE CHANGES.

(x) Each of the financial statements of Seller and its consolidated Subsidiaries previously or hereafter furnished to the Agent, fairly presents in all material respects the consolidated financial condition of Seller and its consolidated Subsidiaries, taken as a whole, as at the dates thereof and the results of their consolidated operations for the periods covered

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thereby and each of such financial statements has been prepared in accordance with GAAP consistently applied (subject, in the case of interim financial statements, to customary year-end audit adjustments).

(y) From December 31, 1999 through and including the date of the Initial Closing Date, there has been no material adverse change in Seller's consolidated financial condition, business or operations. Since the date of the Initial Closing Date, there has been no material adverse change in Seller's consolidated financial condition, business or operations that has had, or would reasonably be expected to have, a material adverse effect upon its ability to perform its obligations as an Originator, under the Transaction Documents when and as required, and no material adverse effect on the collectibility of any material portion of the Receivables.

(z) Since the Initial Closing Date, no event has occurred which would have a Seller Material Adverse Effect.

(k) MARGIN REGULATIONS. No use of any funds acquired by Seller under this Agreement will conflict with or contravene any of Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System from time to time.

(l) QUALITY OF TITLE.

(i) Each Receivable (together with the Related Rights with respect to such Receivable) which is to be sold to the Company hereunder is or shall be, at the time of such sale, owned by Seller, free and clear of any Lien and except Liens in favor of the agent pursuant to the Senior Credit Agreement. Whenever the Company makes a purchase of a Receivable hereunder, it shall have acquired a valid and perfected ownership interest (free and clear of any Lien, other than a Lien created by or arising through the Company, the Lenders or the Agent and except Liens in favor of the agent pursuant to the Senior Credit Agreement) in such Receivable and all Collections related thereto, and in Seller's entire right, title and interest in and to the Related Rights with respect thereto.

(ii) No effective financing statement or other instrument similar in effect covering any Receivable or any Related Right is on file in any recording office except such as may be filed (1) in favor of Seller in accordance with the Contracts, (2) in favor of the Company in accordance with this Agreement, (3) in favor of the 2nd Step Purchaser in accordance with the Purchase and Sale Agreement (4) in favor of the Lenders or the Agent in accordance with the Credit and Security Agreement or in connection with any Lien arising solely as the result of any action taken by the Lender (or any assignee thereof) or by the Agent and (5) in favor of the agent pursuant to the Senior Credit Agreement.

(m) ACCURACY OF INFORMATION. No information heretofore or contemporaneously furnished in writing (and prepared) by Seller, as seller, to the Company, the Lenders or the Agent for purposes of or in connection with any Transaction Document or any transaction contemplated hereby or thereby is, and no other written information hereafter furnished (and prepared) by Seller, as seller, to the Company, the Lenders, or the Agent pursuant to or in connection with any Transaction Document will be, inaccurate in any material respect as of the date it was furnished or (except as otherwise disclosed to the company at or prior to such time) as of the date as of which such information is

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dated or certified, or contained or will contain any material misstatement of fact or omitted or will omit to state any material fact necessary to make such information not materially misleading.

(n) OFFICES. Seller's principal place of business and chief executive office is located at the address set forth in Exhibit C, and the offices where Seller keeps all its books, records and documents evidencing the Receivables, the related Contracts and all other agreements related to such Receivables are located at the address specified in Exhibit C (or at such other locations, notified to Servicer (if other than Seller), the Company and the Agent in accordance with Section 6.1(f), in jurisdictions where all action required by Section 7.3 has been taken and completed).

(o) TRADE NAMES. Except as disclosed on Schedule 5.1(o), Seller does not use any trade name other than its actual legal name. From and after the date that fell five (5) years before the date hereof, Seller has not been known by any legal name other than Packaging Corporation of America as of the date hereof, nor has Seller been the subject of any merger or similar change in structure, except as disclosed on Schedule 5.1(o).

(p) TAXES. Seller has filed all material tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing, except any such taxes which are not yet delinquent or are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with generally accepted accounting principles shall have been set aside on its books.

(q) COMPLIANCE WITH APPLICABLE LAWS. Seller is in compliance, in all material respects, with the requirements of all applicable laws, rules, regulations, and orders of all governmental authorities (including, without limitation, Regulation Z, laws, rules and regulations relating to usury, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt collection practices and privacy and all other consumer laws applicable to the Receivables and related Contracts), except where such noncompliance, individually or in the aggregate, would not have a Seller Material Adverse Effect.

(r) RELIANCE ON SEPARATE LEGAL IDENTITY. Seller is aware that the Lenders and the Agent are entering into the Transaction Documents to which they are parties in reliance upon the Company's identity as a legal entity separate from Seller and any of its other Affiliates.

(s) ELIGIBLE RECEIVABLES. Each Receivable included as an Eligible

Receivable in the Net Pool Balance in connection with any computation or recomputation of the Borrowing Base is an Eligible Receivable on such date.

(t) CREDIT AND COLLECTION POLICY. With respect to each Receivable, the Seller has complied in all material respects with its Credit and Collection Policy, and no change has been made to such Credit and Collection Policy since the date of this Agreement which would be reasonably likely to materially and adversely affect the collectibility of the Receivables or decrease the credit quality of any newly created Receivables except for such changes as to which each of the Agent has received the notice required under Section 7.2(j) of the Credit and Security Agreement and has given its prior written consent thereto (which consent shall not be unreasonably withheld or delayed).

(u) PAYMENTS TO SELLER. With respect to each Receivable sold to the Company by the Seller, the Company has given reasonably equivalent value to the Seller in consideration for such

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Receivable and the Related Assets with respect thereto pursuant hereto and such transfer was not made for or on account of an antecedent debt. No transfer by the Seller of any Receivable is or may be voidable under any Section of the Bankruptcy Reform Act of 1978 (11 U.S.C. Sections 101 et seq.), as amended.

(v) BORROWING BASE. As of each Borrowing Date made pursuant to the Credit and Security Agreement, after giving effect to the Loans to be made on such date made pursuant to the Credit and Security Agreement, the Borrowing Base is at least equal to the aggregate outstanding principal balance of the Advances made.

#### ARTICLE VI COVENANTS OF SELLER

SECTION 6.1. AFFIRMATIVE COVENANTS. From the date hereof until the Final Payout Date, Seller will, unless the Company and the Agent shall otherwise consent in writing:

(a) COMPLIANCE WITH LAWS, ETC. Comply in all material respects with all applicable laws, rules, regulations and orders, including those with respect to the Receivables generated by it and the Contracts and other agreements related thereto, except where such noncompliance, individually or in the aggregate, would not have a Seller Material Adverse Effect.

(b) PRESERVATION OF CORPORATE EXISTENCE. Preserve and maintain its legal existence, rights, franchises and privileges in the jurisdiction of its organization, and qualify and remain qualified in good standing in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification would have a Seller Material Adverse Effect.

(c) RECEIVABLES REVIEW. (i) At any time and from time to time, upon not less than ten (10) Business Days' notice (unless an Event of Default has occurred and is continuing (or the Agent believes in good faith that an Event of Default has occurred and is continuing), in which case no such notice shall be required) permit the Company and the Agent or their respective agents or representatives, (A) to examine, to audit and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of Seller relating to the Receivables, including, without limitation, the Contracts, and purchase orders and other agreements related thereto, and (B) to visit Seller's offices and properties for the purpose of examining such materials described in the foregoing clause (A) and discussing matters relating to the Receivables generated by Seller or Seller's performance hereunder with any of the officers or employees of Seller having knowledge of such matters; (ii) to meet with the independent auditors of Seller, to review such auditor's work papers and otherwise to review with such auditors the books and records of Seller with respect to the Receivables and the Related Rights; and (iii) without limiting the provisions of clause (i) next above, from time to time, at Seller's expense, permit certified public accountants or other auditors acceptable to the Agent to conduct a review of its books and records with respect to the Receivables and the Related Rights; provided that, so long as no Event of Default has occurred and is continuing, (x) such reviews described in clauses (i), (ii) and (iii) in this subsection (c) shall not be done more than two (2) times in any one calendar year and (y) Seller shall only be responsible for the costs and expenses of one such review described in clauses (i), (ii) and (iii) in this subsection (c) in any one calendar year.

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(d) KEEPING OF RECORDS AND BOOKS OF ACCOUNT. Maintain an ability to

recreate in all material respects records evidencing the Receivables generated by it in the event of the destruction of the originals thereof.

(e) PERFORMANCE AND COMPLIANCE WITH RECEIVABLES AND CONTRACTS. At its expense timely and fully perform and comply in all material respects with all provisions, covenants and other promises required to be observed by it under the Contracts and all purchase orders and other agreements related to the Receivables.

(f) LOCATION OF RECORDS. Keep its principal place of business and chief executive office, and the offices where it keeps its records concerning or related to Receivables, at the address(es) referred to in Exhibit C or, upon 30 days' prior written notice to the Company and the Agent, at such other locations in jurisdictions where all action required by Section 7.3 shall have been taken and completed.

(g) CREDIT AND COLLECTION POLICIES. Comply in all material respects with its Credit and Collection Policy in connection with the Receivables and all Contracts related thereto.

(h) SEPARATE CORPORATE EXISTENCE OF THE COMPANY. Take such actions as shall be required in order to maintain the separate identity of the Company separate and apart from Seller and its other Affiliates, including those actions set forth in Section 7.4 of the Credit and Security Agreement.

SECTION 6.2. REPORTING REQUIREMENTS. From the date hereof until the Final Payout Date, Seller will, unless the Company and the Agent shall otherwise consent in writing, furnish to the Company and the Agent:

(a) QUARTERLY FINANCIAL STATEMENTS. As soon as available and in any event within 50 days after the end of each of the first three quarters of each fiscal year of the Seller, copies of its consolidated balance sheets and related statements of income and statements of cash flow, showing the financial condition of the Seller and its consolidated Subsidiaries as of the close of such fiscal quarter and the results of its operations and the operations of such Subsidiaries during such fiscal quarter and the then elapsed portion of the fiscal year, together with a Certificate of Financial Officer in the form attached as Exhibit 7.2 to the Credit and Security Agreement executed by the chief financial officer or treasurer of the Seller;

(b) ANNUAL FINANCIAL STATEMENTS. As soon as available and in any event within 90 days after the end of each fiscal year of the Seller, copies of its consolidated balance sheets and related statements of income and statements of cash flow, showing the financial condition of the Seller and its consolidated Subsidiaries as of the close of such fiscal year and the results of its operations and the operations of such Subsidiaries during such year, all audited by independent public accountants of recognized national standing acceptable to the Agent and accompanied by an opinion of such accountants (which shall not be qualified in any material respect) to the effect that such consolidated financial statements fairly present the financial condition and results of operations of the Seller on a consolidated basis (except as noted therein) in accordance with GAAP consistently applied;

(c) REPORTS TO SEC AND EXCHANGES. In addition to the reports required by subsections (a) and (b) next above, promptly upon the Agent's reasonable request, copies of

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any reports or registration statements that the Seller files with the Securities and Exchange Commission or any national securities exchange other than registration statements relating to employee benefit plans and to registrations of securities for selling securities;

(d) ERISA. Promptly after the filing or receiving thereof, copies of all reports and notices with respect to any Reportable Event defined in Article IV of ERISA which the Seller files under ERISA with the Internal Revenue Service, the Pension Benefit Guaranty Corporation or the U.S. Department of Labor or which the Seller receives from the Pension Benefit Guaranty Corporation;

(e) EVENTS OF DEFAULT, ETC. As soon as possible and in any event within five (5) Business Days after any Responsible Officer of the Seller obtains knowledge of the occurrence of any Event of Default or any Unmatured Default, a written statement of a Responsible Officer of the Seller setting forth details of such event and the action that such Loan Party will take with respect thereto;

(f) PROCEEDINGS. As soon as possible and in any event within ten Business Days after any Responsible Officer of Seller has knowledge thereof, written notice to the Company and the Agent of (i) all pending proceedings and investigations of the type described in Section 5.1(f) not previously disclosed to the Company and/or the Agent which would reasonably be expected to have a Seller Material Adverse Effect and (ii) all material adverse developments that have occurred with respect to any previously disclosed proceedings and investigations which would reasonably be expected to have a Seller Material Adverse Effect;

(g) CREDIT AND COLLECTION POLICY. Prompt notice of any material change in the character of Seller's business or, with not less than 15 Business Days' prior written notice, in the Credit and Collection Policy (together with a copy of such change); and

(h) OTHER. Promptly, from time to time, such other information, documents, records or reports respecting the Receivables of Seller's performance as seller hereunder that the Company or the Agent may from time to time reasonably request in order to protect the interests of the Company, the Lenders, the Agent, or any other Affected Party under or as contemplated by the Transaction Documents.

SECTION 6.3. NEGATIVE COVENANTS. From the date hereof until the Final Payout Date, Seller agrees that, unless the Agent shall otherwise consent in writing, it shall not:

(a) SALES, LIENS, ETC. Except as otherwise provided herein or in any other Transaction Document, sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Lien upon or with respect to, any Receivable or related Contract or other Related Right, or any interest therein, or any Collections thereon, or assign any right to receive income in respect thereof.

(b) EXTENSION OR AMENDMENT OF RECEIVABLES. Except as otherwise permitted in Section 8.2(c) of the Credit and Security Agreement, extend, amend or otherwise modify the terms of any Receivable, or amend, modify or waive any material term or condition of any Contract related thereto in any way that adversely affects the collectibility of any Receivable or any Lender's rights therein.

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(c) RECEIVABLES NOT TO BE EVIDENCED BY PROMISSORY NOTES. Take any action to cause or permit any Receivable generated by it to become evidenced by any "instrument" (as defined in the applicable UCC), except in connection with the collection of overdue Receivables, provided that the original of such instrument is delivered to the Agent, duly endorsed.

(d) CHANGE IN PAYMENT INSTRUCTIONS TO OBLIGORS. Add or terminate any bank as a Lock-Box Bank from those listed in Schedule 6.1(o) of the Credit and Security Agreement or, after the Collection Account has been established pursuant to Section 7.1(i) of the Credit and Security Agreement, make any change in its instructions to Obligors regarding payments to be made to the Servicer or payments to be made to any Lock-Box Bank (except for a change in instructions solely for the purpose of directing Obligors to make such payments to another existing Lock-Box Bank), unless (i) the Agent shall have received prior written notice of such addition, termination or change and (ii) the Agent shall have received duly executed copies of Lock-Box Agreements in a form reasonably acceptable to the Agent with each new Lock-Box Bank.

(e) DEPOSITS TO LOCK-BOX ACCOUNTS AND COLLECTION ACCOUNT. Deposit or otherwise credit, or cause or permit to be so deposited or credited, to any Lock-Box Account or the Collection Account, any cash or cash proceeds other than Collections of Receivables.

(f) NAME CHANGE, OFFICES, RECORDS AND BOOKS OF ACCOUNTS. Change its name, identity or corporate structure (within the meaning of Section 9-402(7) of any applicable enactment of the UCC) or relocate its chief executive office or any office where Records are kept unless it shall have: (i) given the Agent at least 15 Business Days' prior written notice thereof and (ii) prior to effectiveness of such change, delivered to the Agent all financing statements, instruments and other documents requested by the Agent in connection with such change or relocation.

(g) DISPOSITION OF RECEIVABLES AND RELATED ASSETS. Except pursuant to this Agreement, sell, lease, transfer, assign or otherwise dispose of (in one transaction or in a series of transactions) any Receivables and Related Assets.

(h) CHANGE IN CREDIT AND COLLECTION POLICY. Make any material change in the Credit and Collection Policy that would impair the collectibility of any significant portion of the Receivables or otherwise adversely affect the interests or remedies of the Company hereunder or the Agent or the Lenders under any Transaction Document.

ARTICLE VII  
ADDITIONAL RIGHTS AND OBLIGATIONS IN RESPECT OF THE RECEIVABLES

SECTION 7.1. RIGHTS OF THE SERVICER. Seller hereby authorizes the Servicer (if other than Seller) or its respective designees to take any and all steps in Seller's name necessary or desirable, in its respective determination, to collect all amounts due under any and all Receivables, including, without limitation, endorsing Seller's name on checks and other instruments representing Collections and enforcing such Receivables and the provisions of the related Contracts that concern payment and/or enforcement of rights to payment.

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SECTION 7.2. RESPONSIBILITIES OF SELLER. Anything herein to the contrary notwithstanding:

(a) COLLECTION PROCEDURES. Seller agrees to direct the Obligors, as promptly as practicable after an Event of Default, to make payments of Receivables directly to a Lock-Box Account that is the subject of a Lock-Box Agreement at a Lock-Box Bank. Seller further agrees to transfer any Collections (including any security deposits applied to the Unpaid Balance of any Receivable) that it receives directly to the Servicer (if other than Seller) within two Business Days of receipt thereof, and agrees that all such Collections shall be deemed to be received in trust for the Company; provided that, to the extent permitted pursuant to Section 3.2, Seller may retain such Collections as a portion of the Purchase Price then payable or apply such Collections to the reduction of the outstanding balance of the Initial PCA Note.

(b) PERFORMANCE UNDER CONTRACT. Seller shall remain responsible for performing its obligations hereunder and under the Contracts, and the exercise by the Company or its designee of its rights hereunder shall not relieve Seller from such obligations.

(c) POWER OF ATTORNEY. Seller hereby grants to the Servicer (if other than Seller) an irrevocable power of attorney, with full power of substitution, coupled with an interest, to take in the name of Seller all steps necessary or advisable to indorse, negotiate or otherwise realize on any writing or other right of any kind held or transmitted by Seller or transmitted or received by the Company (whether or not from Seller) in connection with any Receivable.

SECTION 7.3. FURTHER ACTION EVIDENCING PURCHASES. Seller agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action that the Company may reasonably request in order to perfect, protect or more fully evidence the Company's ownership of the Receivables (and the Related Rights) purchased by the Company hereunder, or to enable the Company to exercise or enforce any of its rights hereunder or under any other Transaction Document. Without limiting the generality of the foregoing, upon the request of the Company, Seller will:

(a) execute and file such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate; and

(b) mark the summary master control data processing records with the legend set forth in Section 4.1(i).

Seller hereby authorizes the Company or its designee to file one or more financing or continuation statements, and amendments thereto and assignment thereof, relative to all or any of the Receivables (and the Related Rights) now existing or hereafter sold by Seller. If Seller fails to perform any of its agreements or obligations under this Agreement, the Company or its designee may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of the Company or its designee incurred in connection therewith shall be payable by Seller as provided in Section 9.6.

SECTION 7.4. APPLICATION OF COLLECTIONS. Any payment by an Obligor in respect of any indebtedness owed by it to Seller in respect of any Contract shall, except as otherwise specified by

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such Obligor or otherwise required by contract or law, be applied first, as a Collection of the Receivables of such Obligor, in the order of the age of such Receivables, starting with the oldest of such Receivables, and second, to any other indebtedness of such Obligor.

ARTICLE VIII  
INDEMNIFICATION

SECTION 8.1. INDEMNITIES OF SELLER. Without limiting any other rights which the Company may have hereunder or under applicable law, Seller hereby agrees to indemnify the Company and each of its permitted assigns, officers, directors, employees and agents (each of the foregoing Persons being individually called a "SALE INDEMNIFIED PARTY"), on demand, from and against any and all damages, losses, claims, judgments, liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively called "SALE INDEMNIFIED AMOUNTS") awarded against or incurred by any of them arising out of or as a result of arising out of or relating to this Agreement, the Receivables or the Related Rights, EXCLUDING, HOWEVER, (i) Sale Indemnified Amounts to the extent determined by a court of competent jurisdiction to have resulted from bad faith, gross negligence or willful misconduct on the part of such Sale Indemnified Party, (ii) recourse for Sale Indemnified Amounts to the extent the same includes losses in respect of Receivables which are uncollectible on account of the insolvency, bankruptcy or lack of creditworthiness of the related Obligor, (iii) Sale Indemnified Amounts that represent taxes based upon, or measured by, net income, or changes in the rate of tax or as determined by reference to the overall net income, of such Sale Indemnified Party, or (iv) Sale Indemnified Amounts that represent franchise taxes, taxes on, or in the nature of, doing business taxes or capital taxes. Without limiting the foregoing, the Seller shall indemnify each Sale Indemnified Party for Sale Indemnified Amounts arising out of or related to the following:

(a) the transfer by Seller of an interest in any Receivable or Related Right to any Person other than the Company;

(b) the breach of any representation or warranty made by Seller under or in connection with this Agreement or any other Transaction Document, or any information or report delivered by Seller pursuant hereto or thereto which shall have been false or incorrect in any material respect when made or deemed made;

(c) the failure by Seller to comply with any applicable law, rule or regulation with respect to any Receivable or the related Contract, or the nonconformity of any Receivable or the related Contract with any such applicable law, rule or regulation;

(d) (i) the failure to vest and maintain vested in the Company an ownership interest in the Receivables and the Related Rights free and clear of any Lien (other than Liens imposed by the Credit Agreement), or (ii) the failure of the Company to vest in the Borrower an ownership interest in the Receivables and the Related Rights free and clear of any Lien, in either case other than a Lien arising solely as a result of an act of the Company, the Lenders or the Agent, whether existing at the time of the purchase of such Receivables or at any time thereafter;

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(e) the failure of Seller to file with respect to itself, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Receivables or purported Receivables generated by Seller, whether at the time of any purchase or at any subsequent time;

(f) any dispute, claim, offset or defense (other than discharge in bankruptcy) of the Obligor to the payment of any Receivable or purported Receivable generated by Seller (including, without limitation, a defense based on such Receivables or the related Contracts not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the services or merchandise related to any such Receivable or the furnishing of or failure to furnish such services or merchandise;

(g) any failure of the Seller to perform its duties or obligations in accordance with the terms of this Agreement;

(h) any product liability claim arising out of or in connection with services or merchandise with respect to any Receivable;

(i) any tax or governmental fee or charge, all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the purchase or ownership of the Receivables generated by Seller or any Related Right connected with any such Receivables;

(j) the commingling of Collections of Receivables at any time with other funds of the Seller;

(k) any investigation, litigation or proceeding related to or arising from this Agreement or the transactions contemplated hereby or any other investigation, litigation or proceeding relating to the Seller or any of the Originators in which any Indemnified Party becomes involved as a result of any of the transactions contemplated hereby (other than an investigation, litigation or proceeding relating to a dispute solely amongst the Lenders (or certain Lenders) and the Agent); or

(l) any inability to litigate any claim against any Obligor in respect of any Receivable as a result of such Obligor being immune from civil and commercial law and suit on the grounds of sovereignty or otherwise from any legal action, suit or proceeding;

excluding, however, (i) Sale Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of such Sale Indemnified Party, (ii) any indemnification which has the effect of recourse to Seller for non-payment of the Receivables due to credit problems of the Obligors, (iii) Sale Indemnified Amounts that represent taxes based upon, or measured by, net income or changes in the rate of tax or as determined by reference to the overall net income of such Sale Indemnified Party and (iv) Sale Indemnified Amounts that represent franchise taxes, taxes of, or in the nature of, doing business taxes or capital taxes.

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If for any reason the indemnification provided above in this Section 8.1 is unavailable to a Sale Indemnified Party or is insufficient to hold such Sale Indemnified Party harmless, then Seller shall contribute to the amount paid or payable by such Sale Indemnified Party to the maximum extent permitted under applicable law.

#### ARTICLE IX MISCELLANEOUS

##### SECTION 9.1. AMENDMENTS, ETC.

(a) The provisions of this Agreement may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by Seller, the Company, the Agent and the Servicer (if other than Seller).

(b) No failure or delay on the part of the Company, the Servicer, Seller or any third party beneficiary in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Company, the Servicer, or Seller in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Company or the Servicer under this Agreement shall, except as may otherwise be stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval under this Agreement shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

SECTION 9.2. NOTICES, ETC. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile communication) and shall be personally delivered or sent by express mail or courier or by certified mail, postage-prepaid, or by facsimile, to the intended party at the address or facsimile number of such party set forth on Schedule 9.2 or at such other address or facsimile number as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective, (i) if personally delivered or sent by express mail or courier or if sent by certified mail, when received, and (ii) if transmitted by facsimile, when sent, receipt confirmed by telephone or electronic means.

SECTION 9.3. NO WAIVER; CUMULATIVE REMEDIES. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.4. BINDING EFFECT; ASSIGNABILITY. This Agreement shall be binding upon and inure to the benefit of the Company, Seller and their respective



successors and permitted assigns. Seller may not assign its rights hereunder or any interest herein without the prior written consent of the Company and the Agent; subject to Section 9.11, the Company may not assign its rights hereunder or any interest herein without the prior written consent of Seller and the Agent. The Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until the date after the Sale Termination Date on which Seller has received payment in full for all Receivables and Related Rights conveyed pursuant to Section 1.1 hereof and has paid and performed all of its obligations hereunder in full. The rights and remedies with respect to any breach of any representation and warranty made by Seller pursuant to Article V

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and the indemnification and payment provisions of Article VIII and Section 9.6 shall be continuing and shall survive any termination of this Agreement.

SECTION 9.5. GOVERNING LAW. THIS AGREEMENT, INCLUDING THE RIGHTS AND DUTIES OF THE PARTIES HERETO, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT THAT THE PERFECTION OF THE INTERESTS OF THE COMPANY IN THE RECEIVABLES OR RELATED RIGHTS IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SECTION 9.6. COSTS, EXPENSES AND TAXES. In addition to the obligations of Seller under Article VIII, Seller agrees to pay on demand:

(a) all reasonable costs and expenses, including attorneys' fees, in connection with the enforcement against Seller of this Agreement and the other Transaction Documents executed by Seller; and

(b) all stamp and other similar taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Agreement or the other Transaction Documents, and agrees to indemnify each Sale Indemnified Party against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

SECTION 9.7. SUBMISSION TO JURISDICTION. EACH PARTY HERETO HEREBY IRREVOCABLY (A) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN THE STATE OF NEW YORK, OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT; (B) AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH STATE OR UNITED STATES FEDERAL COURT; (C) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING; (D) CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO SUCH PERSON AT ITS ADDRESS SPECIFIED IN SECTION 9.2; AND (E) TO THE EXTENT ALLOWED BY LAW, AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS SECTION 9.7 SHALL AFFECT THE COMPANY'S RIGHT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING ANY ACTION OR PROCEEDING AGAINST SELLER OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTIONS.

SECTION 9.8. WAIVER OF JURY TRIAL. EACH PARTY HERETO EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT, OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

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SECTION 9.9. CAPTIONS AND CROSS REFERENCES; INCORPORATION BY REFERENCE. The various captions (including, without limitation, the table of contents) in this Agreement are included for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. References in this Agreement to any underscored Section or Exhibit are to such Section or Exhibit of this Agreement, as the case may be. The Exhibits hereto are hereby incorporated by reference into and made a part of this Agreement.

SECTION 9.10. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be as effective as delivery of a manually executed counterpart of a signature page to this Agreement.

SECTION 9.11. ACKNOWLEDGMENT AND AGREEMENT. By execution below, Seller expressly acknowledges and agrees that on the date hereof the Company has assigned all of its rights, title, and interests in, to, and under this Agreement to the 2nd Step Purchaser pursuant to the Purchase and Sale Agreement (and the 2nd Step Purchaser may further assign such rights in accordance with the Purchase and Sale Agreement), and Seller consents to such assignment. Each of the parties hereto acknowledges and agrees that the 2nd Step Purchaser is a third party beneficiary of the rights of the Company arising hereunder and under the other Transaction Documents to which Seller is a party as seller. The Seller hereby further acknowledges that all provisions of this Agreement shall inure to the benefit of the 2nd Step Purchaser, including in the enforcement of any provision hereof to the extent set forth in the Purchase and Sale Agreement, but that the 2nd Step Purchaser shall not have any obligations or duties under this Agreement. The Seller hereby further acknowledges that the execution and performance of this Agreement are conditions precedent for the Agent and the Lenders to enter into the Credit and Security Agreement and that the agreement of the Agent and the Lenders to enter into the Credit and Security Agreement will directly or indirectly benefit the Seller and constitutes good and valuable consideration for the rights and remedies of the Agent and each Lender with respect hereto.

SECTION 9.12. NO PROCEEDINGS. Seller agrees that it shall not institute against the Company, or join any other Person in instituting against the Company, any insolvency proceeding (namely, any proceeding of the type referred to in the definition of Event of Bankruptcy) as long as there shall not have elapsed one year plus one day since the Final Payout Date. The foregoing shall not limit Seller's right to file any claim in or otherwise take any action with respect to any insolvency proceeding that was instituted by any Person other than Seller.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duty authorized, as of the date first above written.

PACKAGING CREDIT COMPANY, LLC

By \_\_\_\_\_ /s/ Darla J. Vanas  
Name Printed: Darla J. Vanas  
Title: Assistant Secretary  
\_\_\_\_\_

PACKAGING CORPORATION OF AMERICA

By \_\_\_\_\_ /s/ Pamela A. Larson  
Name Printed: Pamela A. Larson  
Title: Treasurer  
\_\_\_\_\_

EXHIBIT A  
RECEIVABLES SALE AGREEMENT  
PURCHASE REPORT

PACKAGING CREDIT COMPANY, LLC  
PACKAGING CORPORATION OF AMERICA  
as of (Date)

		CUT-OFF DATE
Total Receivables	\$	Input
Aggregate Unpaid Balance of Receivables	AUB \$	Calculated
Purchaser's Total Investment	PTI	Fixed
Factoring Discount	FD	Calculated
Purchase Price (AUB - (AUB*FD))	PP	Calculated

Eligible Receivables	\$	Input
Ineligible Receivables	\$	Input

EXHIBIT B  
PROMISSORY NOTE  
(NON-NEGOTIABLE INITIAL PCA NOTE)

[Effective Date]

FOR VALUE RECEIVED, the undersigned, Packaging Credit Company, LLC, a Delaware limited liability company (the "COMPANY"), promises to pay to Packaging Corporation of America, a Delaware corporation ("SELLER"), on the terms and subject to the conditions set forth herein and in the Purchase Agreement referred to below, the principal sum of the aggregate unpaid Purchase Price of all Receivables purchased from time to time by the Company from Seller pursuant to such Purchase Agreement, as such unpaid Purchase Price is shown in the records of Seller.

1. PURCHASE AGREEMENT. This promissory note (this "INITIAL PCA NOTE") is the Initial PCA Note described in, and is subject to the terms and conditions set forth in, that certain Receivables Sale Agreement of even date herewith (as the same may be amended or otherwise modified from time to time, the "PURCHASE AGREEMENT"), between Seller and the Company. Reference is hereby made to the Purchase Agreement for a statement of certain other rights and obligations of Seller and the Company.

2. DEFINITIONS. Capitalized terms used (but not defined) herein have the meanings assigned thereto in the Purchase Agreement and in Appendix A to the Credit and Security Agreement dated as of even date herewith among Packaging Receivables Company, LLC, the Company, as initial Servicer, Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A., as Agent (as it may be amended or otherwise modified from time to time, the "CREDIT AND SECURITY AGREEMENT"). In addition, as used herein, the following terms have the following meanings:

BANKRUPTCY PROCEEDINGS: As defined in clause (b) of paragraph 9 hereof.

FINAL MATURITY DATE: The date that is one year and one day following the Final Payout Date.

INTEREST PERIOD: The period from and including a Reporting Date (or, in the case of the first Interest Period, the date hereof) to but excluding the next Reporting Date.

SENIOR INTEREST: Collectively, (i) the obligation of the Company and the Servicer to set aside, and to turn over, Collections and other proceeds of the Loans funded by the Agent and Lenders pursuant to the Credit and Security Agreement, (ii) any Indemnified Amounts and (iii) all other obligations of the Company that are due and payable to any Affected Party, together with all interest accruing on any such amounts after the commencement of any Bankruptcy Proceedings, notwithstanding any provision or rule of law that might restrict the rights of any Senior Interest Holder, as against the Company of anyone else, to collect such interest.

SENIOR INTEREST HOLDERS: Collectively, the Lenders, the Agent, the other Affected Parties and the Indemnified Parties.

3. INTEREST. Subject to the provisions set forth below, the Company promises to pay interest on this Initial PCA Note as follows:

(a) Prior to the Final Payout Date, the aggregate unpaid Purchase Price from time to time outstanding during any Interest Period shall bear interest at a rate per annum equal to the LIBO Rate as in effect from time to time on the first Business Day of each Settlement Period, as determined by Seller, plus 1.00%; and

(b) From (and including) the Final Payout Date to (but excluding) the date on which the entire aggregate unpaid Purchase Price is fully paid, the aggregate unpaid Purchase Price from time to time outstanding shall bear interest at a rate per annum equal to the LIBO Rate as in effect from time to time on the first Business Day of each Settlement Period, as determined by Seller, plus 1.00%,

but in no event in excess of the maximum rate permitted by law. In the event that, contrary to the intent of Seller and Company, Company pays interest hereunder and it is determined that such interest rate was in excess of the then legal maximum rate, then that portion of the interest payment representing an

amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal then due hereunder.

4. INTEREST PAYMENT DATES. Subject to the provisions set forth below, the Company shall pay accrued interest on this Initial PCA Note on each Settlement Date, and shall pay accrued interest on the amount of each principal payment made in cash on a date other than a Settlement Date at the time of such principal payment.

5. BASIS OF COMPUTATION. Interest accrued hereunder shall be computed for the actual number of days elapsed on the basis of a 360-day year.

6. PRINCIPAL PAYMENT DATES. Subject to the provisions set forth below, payments of the principal amount of this Initial PCA Note shall be made as follows:

(a) The principal amount of this Initial PCA Note shall be reduced from time to time pursuant to Sections 3.2, 3.3, 3.4 and 7.2 of the Purchase Agreement;

(b) The entire remaining unpaid balance of this Initial PCA Note shall be paid on the Final Maturity Date.

Subject to the provisions set forth below, the principal amount of and accrued interest on this Initial PCA Note may be prepaid on any Business Day without premium or penalty.

7. PAYMENTS. All payments of principal and interest hereunder are to be made in lawful money of the United States of America.

8. ENFORCEMENT EXPENSES. In addition to and not in limitation of the foregoing, but subject to the provisions set forth below and to any limitation imposed by applicable law, the Company agrees to pay all expenses, including reasonable attorneys' fees and legal expenses, incurred by Seller in seeking to collect any amounts payable hereunder which are not paid when due.

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9. PROVISIONS REGARDING RESTRICTIONS ON PAYMENT. The Company covenants and agrees, and Seller, by its acceptance of this Initial PCA Note, likewise covenants and agrees on behalf of itself and any holder of this Initial PCA Note, that the payment of the principal amount of, and interest on, this Initial PCA Note is hereby expressly subject to certain restrictions set forth in the following clauses of this paragraph 9:

(a) No payment or other distribution of the Company's assets of any kind or character, whether in cash, securities, or other rights or property, shall be made on account of this Initial PCA Note except to the extent such payment or other distribution is permitted under the Purchase Agreement and the Credit and Security Agreement;

(b) In the event of any dissolution, winding up, liquidation, readjustment, reorganization or other similar event relating to the Company, whether voluntary or involuntary, partial or complete, and whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors, or any other marshaling of the assets and liabilities of the Company or any sale of all or substantially all of the assets of the Company (such proceedings being herein collectively called "BANKRUPTCY PROCEEDINGS"), the Senior Interest shall first be paid and performed in full and in cash before Seller shall be entitled to receive and to retain any payment or distribution in respect to this Initial PCA Note. In order to implement the foregoing, Seller hereby irrevocably agrees that the Agent, in the name of Seller or otherwise, may demand, sue for, collect, receive and receipt for any and all such payments or distributions, and the file, prove and vote or consent in any such Bankruptcy Proceedings with respect to any and all claims of Seller relating to this Initial PCA Note, in each case until the Senior Interest shall have been paid and performed in full and in cash;

(c) In the event that the Seller receives any payment or other distribution of any kind or character from the Company or from other source whatsoever, in respect of this Initial PCA Note, other than as expressly permitted by the terms of this Initial PCA Note, such payment or other distribution shall be received for the sole benefit of the Senior Interest Holders and shall be turned over by Seller to the Agent (for the benefit of the Senior Interest Holders) forthwith;

(d) Notwithstanding any payments or distributions received by the Senior Interest Holders in respect of this Initial PCA Note, Seller shall not be subrogated to the rights of the Senior Interest Holders in respect

of the Senior Interest;

(e) The provisions set forth in this Section 9 are intended solely for the purpose of defining the relative rights of Seller, on the one hand, and the Senior Interest Holders on the other hand;

(f) Seller shall not, until Final Payout Date, transfer, pledge or assign, or commence legal proceedings to enforce or collect this Initial PCA Note or any rights in respect hereof except as required by the Senior Credit Agreement;

(g) Seller shall not, without the advance written consent of the Agent, commence, take any action to cause any other Person to commence, or join with any other Person in

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commencing, any Bankruptcy Proceedings with respect to the Company until the Final Payout Date shall have occurred;

(h) If, at any time, any payment (in whole or in part) of any Senior Interest is rescinded or must be restored or returned by a Senior Interest Holder (whether in connection with Bankruptcy Proceedings or otherwise), these provisions shall continue to be effective or shall be reinstated, as the case may be, as though such payment had not been made;

(i) Seller hereby waives; (i) notice of acceptance of these provisions by any of the Senior Interest Holders; (ii) notice of the existence, creation, non-payment or non-performance of all or any of the Senior Interest; and (iii) all diligence in enforcement, collection or protection of, or realization upon, the Senior Interest, or any thereof, or any security therefor;

(j) These provisions constitute a continuing offer from the holder of this Initial PCA Note to all Persons who become the holders of, or who continue to hold, the Senior Interest; and these provisions are made for the benefit of the Senior Interest Holders, and the Agent or the Lenders may proceed to enforce such provisions on behalf of each of such Persons.

10. GENERAL. No failure or delay on the part of Seller in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power of right preclude any other or further exercise thereof or the exercise of any other power or right. No amendment, modification or waiver of, or consent with respect to, any provision of this Initial PCA Note shall in any event be effective unless (i) the same shall be in writing and signed and delivered by the Company and Seller and (ii) all consent required for such actions under the Transaction Documents shall have been received by the appropriate Persons.

11. NO NEGOTIATION. This Initial PCA Note is not negotiable.

12. GOVERNING LAW. THIS PROMISSORY NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

13. CAPTIONS. Paragraph captions used in this Initial PCA Note are for convenience only and shall not affect the meaning or interpretation of any provision of this Initial PCA Note.

PACKAGING CREDIT COMPANY, LLC

By

-----  
Name Printed:

-----  
Title:  
-----

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EXHIBIT C  
OFFICE LOCATION WHERE RECORDS ARE KEPT

1900 West Field Court  
Lake Forest, Illinois 60045

[LIST OTHER LOCATIONS]

1001 113th Street  
Arlington, TX 76011

1610 Winbourne Ct.  
North Little Rock, AR 72116

21 Leigh Fisher Blvd.  
El Paso, TX 79906

2510 West Miller Road  
Garland, TX 75041

4240 Bandini Blvd.  
Vernon, CA 90023

9200 Old McGregor Road  
Waco, TX 76712

2325 C Statham Blvd.  
Oxnard, CA 93033

441 S. 53rd Avenue  
Phoenix, AZ 85043

1800 E. Plano Parkway  
Plano, TX 75074

4654 W. 1525 South  
Salt Lake City, UT 84104

460 W. 500 South  
Salt Lake City, UT 84101

9700 Frontage Road  
Southgate, CA 90280

2246 Udell Street  
Filer City, MI 49634

1824 Baltimore Street  
Middletown, OH 45055

555 Metro Place North  
Suite 500  
Dublin, OH 43017

6247 Pine Street  
Burlington, WI 53105

5600 West Good Hope Rd.  
Milwaukee, WI 53223

901 Grimes Blvd.  
Lexington, NC 27292

114 Dixie Blvd.  
Morganton, NC 28655

6245 Woodlore Drive  
Acworth, GA 30101

1302 N. Salisbury Ave.  
Salisbury, NC 28144

3200 Lakewood Ave. S.W.  
East Point, GA 30344

305 Van Buren Road  
Bolivar, TN 38008

2313 N. William St.  
Goldsboro, NC 27530

212 Roelee St.  
Trinity, NC 27370

12105 Belton Honea Path Hwy.  
Honea Path, SC 29654

Highway 178  
Donalds, SC 29654

112 Edwards Drive  
Jackson, TN 38301

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3936 Fountain Valley Lane  
Knoxville, TN 37918

3240 Brittain Drive  
Newberry, SC 29108

3200 Hipack Drive  
Opelika, AL 36801

4300 Cheyene Drive  
Archdale, NC 27263

321 Industrial Park Rd.  
Rutherfordton, NC 28139

Highway 57  
P.O. Box 33  
Counce, TN 38326

N9090 County Road E  
Tomahawk, WI 54487

5495 Lake Park  
Clyarrville Road  
Clyarrville, GA 31601

32745 J Avenue  
Beaman, IA 50609

1201 Cornerstone Drive  
Windsor, CO 80550

3200 N. Lake Shore Drive  
#2702  
Chicago, IL 60657

1110 Military Road  
Buffalo, NY 14217

705 South Division Street  
Colby, WI 54421

502 W. Center Street  
Conrad, IA 50621

5501 Brighton Blvd.  
Commerce City, CO 80022

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7953 N.E. Beech Street  
Fridley, MN 55432

4300 Highway 55  
Golden Valley, MN 55422

1402 South 17th Ave.  
Marshalltown, IA 50158

1821 NE Marshall St.  
Minneapolis, MN 55418

400 S. 45th Street East  
Muskogee, OK 74403

10854 Leroy Drive  
Northglenn, CO 80233

1002 Missouri Ave.  
Omaha, NE 68107

6363 John J. Pershing Drive  
Omaha, NE 68110

789 Elmgrove Rd.  
Bldg. #10  
Rochester, NY 14624

2262 B Bluestone Hills Dr.  
Harrisonburg, VA 22801

659 Eastport Road  
Jacksonville, FL 32218

1200 W. Pike St.  
Grafton, WV 26354

400 Pleasant Valley Road  
Harrisonburg, VA 22801

2000 Jefferson Davis Hwy.  
Richmond, VA 23224

1005 Industry Circle S.E.  
Roanoke, VA 24013

2155 42nd Street NW  
Winter Haven, FL 33881

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109 Arrowhead Drive  
Bldg. 2  
Manheim, PA 17545

3785 Bryn Mawr Street  
Orlando, FL 32808

54 Shutterlee Mill Lane  
Staunton, VA 24401

1805 Colonial Drive  
Thomasville, GA 31792

217 Peach Street  
Vineland, NJ 08360

24 Park Side Ave.  
West Springfield, MA 01089

208 Lenoir Drive  
Winchester, VA 22603

708 Killian Road  
Akron, OH 44319

929 Faultless Drive  
Ashland, OH 44805

520 South First Street  
Gas City, IN 46933

P.O. Box 127  
Middletown, OH 45042

P.O. Box 4610  
Newark, OH 43058

One 28th Street  
Pittsburgh, PA 15222

408 East St. Clair  
Vincennes, IN 47591

533 Mt. Tom Road  
Northampton, MA 01060

5405 Glenway Drive  
Brighton, MI 48116

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925 North Godfrey Street  
Allentown, PA 18103

8301 Sherwick Court  
Jessup, MD 20794

33 Glenn Avenue  
Chelmsford, MA 01824

1106 Industrial Park Drive  
Edmore, MI 48829

3251 Chicago Drive S.W.  
Grandville, MI 49418

435 Gitts Run Road  
Hanover, PA 17331

1530 Fruitville Pike  
Lancaster, PA 17601

525 Mt. Tom Road  
Northampton, MA 01060

936 Sheldon Road  
Plymouth, MI 48170

4471 Steelway Blvd. South  
Liverpool, NY 13088

2207 Traversfield Drive  
Traverse City, MI 49686

7451 Cetronia Road  
Allentown, PA 18106

20400 Old Rome State Rd.  
Watertown, NY 13601

C-6

SCHEDULE 5.1 (o)  
TRADE NAMES

None

SCHEDULE 9.2  
NOTICE ADDRESSES

Seller: 1900 West Field Court  
Lake Forest, Illinois 60045  
Attn: Fran Hori  
Telephone: 847-482-3719  
Telecopy: 847-482-4516

Company: 1900 West Field Court  
Lake Forest, Illinois 60045  
Attn: Fran Hori  
Telephone: 847-482-3719  
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PURCHASE AND SALE AGREEMENT

DATED AS OF NOVEMBER 29, 2000

BETWEEN

PACKAGING CREDIT COMPANY, LLC

AND

PACKAGING RECEIVABLES COMPANY, LLC

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- SCHEDULE 5.1(n) TRADE NAMES
- SCHEDULE 9.2 NOTICE ADDRESS

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (as amended, supplemented or modified from time to time, this "AGREEMENT"), dated as of November 29, 2000, is between Packaging Credit Company, LLC, a Delaware limited liability company ("SELLER"), as seller, and Packaging Receivables Company, LLC, a Delaware limited liability company (the "COMPANY"), as purchaser.

DEFINITIONS

Unless otherwise indicated, certain terms that are capitalized and used throughout this Agreement are defined in Appendix A to the Credit and Security Agreement dated as of the date hereof (as amended, supplemented or otherwise modified from time to time, (the "CREDIT AND SECURITY AGREEMENT")), among the Company, Seller, as initial Servicer, Blue Ridge Asset Funding Corporation, as a Lender, Wachovia Bank, N.A., individually as a Lender and as the agent for the Lenders (the "AGENT"). The following terms have the respective meanings indicated below:

AVAILABLE FUNDS: As defined in Section 3.2 hereof.

CONTRIBUTED RECEIVABLES: As defined in Section 1.2(b) hereof.

DEEMED COLLECTION: Amounts payable by Seller pursuant to Section 3.3 or 3.4.

INELIGIBLE RECEIVABLE: As defined in Section 3.3 hereof.

INITIAL CLOSING DATE: As defined in Section 1.2 hereof.

INITIAL CONTRIBUTED RECEIVABLES: As defined in Section 1.1(b).

INITIAL CUT-OFF DATE: The Business Day immediately preceding the Initial Closing Date.

LOCKBOX ACCOUNTS: One or more lockbox accounts held in Lockbox Banks for receiving Collections from Receivables.

MAXIMUM SELLER NOTE BALANCE: Means:

(a) zero as of the date of this Agreement and shall mean zero until such time as Seller and the Company mutually agree that the meaning in clause (b) below shall apply; and

(b) at such time as the Seller and the Company mutually agree, an amount equal to the excess of (i) the Net Pool Balance over (ii) the sum of (a) the outstanding principal balance of all Loans made to the Company under the Credit and Security Agreement and (b) the Triple-B Loss Reserve Amount, each as of such date.

PURCHASE PRICE: As defined in Section 2.1 hereof.

PURCHASE REPORT: As defined in Section 2.1 hereof.

RELATED RIGHTS: As defined in Section 1.1(a) hereof.

SALE INDEMNIFIED AMOUNTS: As defined in Section 8.1 hereof.

SALE INDEMNIFIED PARTY: As defined in Section 8.1 hereof.

SALE TERMINATION DATE: As defined in Section 1.4 hereof.

SELLER MATERIAL ADVERSE EFFECT: With respect to any event or circumstance:

(i) a Credit Event shall have occurred;

(ii) a material adverse effect on the ability of Seller to perform its obligations under this Agreement or any other Transaction Document to which Seller is a party;

(iii) a material adverse effect on the validity or enforceability as against Seller of this Agreement or any other Transaction Document to which Seller is a party;

(iv) a material adverse effect on the status, existence, perfection, priority or enforceability of the Company's interest in the Receivables and the Related Rights; or

(v) a material adverse effect on the validity, enforceability or collectability of a material portion of the Receivables.

SELLER NOTE: As defined in Section 3.2 hereof.

TRIPLE-B LOSS RESERVE AMOUNT: As of any date means an amount equal to the product of (i) the Net Pool Balance and (ii) the Loss Reserve as of the immediately preceding Cut-Off Date (except that such Loss Reserve shall be calculated with a multiple of 1.5 rather than 2.0).

#### BACKGROUND

1. The Company is a limited liability company, all of the membership interests of which are wholly-owned by Seller.

2. Seller is concurrently with the initial sale hereunder transferring certain Receivables and Related Rights to the Company as part of the capitalization of the Company.

3. Seller wishes to sell Receivables and Related Rights to the Company, and the Company is willing, on the terms and subject to the conditions set forth herein, to purchase Receivables and Related Rights from Seller.

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4. The Company intends to pledge its interests in the Receivables and Related Rights as collateral for loans under the Credit and Security Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

#### ARTICLE I AGREEMENT TO SELL

##### SECTION 1.1. SALES AND CONTRIBUTIONS.

(a) AGREEMENT TO SELL. On the terms and subject to the conditions set forth

in this Agreement (including Article V), and in consideration of the Purchase Price, from the Initial Closing Date until the Sale Termination Date, Seller agrees to sell, assign and transfer, and does hereby sell, assign and transfer to the Company, and the Company agrees to purchase, and does hereby purchase from Seller, all of Seller's right, title and interest in and to:

(i) each Receivable (other than Initial Contributed Receivables) of Seller that existed and was owing to Seller as of the close of Seller's business on the Initial Cut-Off Date;

(ii) each Receivable (other than Contributed Receivables) transferred to the Seller pursuant to the Sale Agreement from the close of Seller's business on the Initial Cut-Off Date, to and including the Sale Termination Date;

(iii) all rights to, but not the obligations under, all related Contracts and all Related Security;

(iv) all monies due or to become due with respect to the foregoing;

(v) all books and records related to any of the foregoing;

(vi) all Lockbox Accounts, all amounts on deposit therein and all related agreements between Seller and the Lockbox Banks, in each case to the extent constituting or representing items described in paragraph (vii) below; and

(vii) all Collections in respect of, and other proceeds of, Receivables or any other of the foregoing (as defined in the UCC) received on or after the Initial Cut-Off Date including, without limitation, all funds which either are received by Seller, the Company, the Originator or the Servicer from or on behalf of the Obligors in payment of any amounts owed (including, without limitation, finance charges, interest and all other charges) in respect of Receivables, or are applied to such amounts owed by the Obligors (including without limitation, insurance payments, if any, that the Seller, the Originator, the Company or the Servicer (if other than Seller) applies in the ordinary course of its business to amounts owed in respect of any Receivable and net proceeds of sale or other disposition of repossessed goods or other collateral or property of the Obligors or any

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other party directly or indirectly liable for payment of such Receivable and available to be applied thereon).

All purchases and capital contributions hereunder shall be made without recourse, but shall be made pursuant to and in reliance upon the representations, warranties and covenants of Seller, in its capacity as seller, set forth in each Transaction Document. The proceeds and rights described in subsections (iii) through (vii) of this Section 1.1(a) are herein collectively called the "RELATED RIGHTS."

(b) AGREEMENT TO CONTRIBUTE. In consideration of the membership interests of the Company issued to Seller, Seller agrees to contribute, and does hereby contribute to the Company, and the Company agrees to accept, and does hereby accept, from Seller, in each case, on the Initial Closing Date, all of Seller's right, title and interest in and to (i) Receivables, and the Related Rights with respect thereto, existing on the Initial Cut-Off Date, starting with the oldest such Receivables such that the aggregate Unpaid Balance of all such Receivables shall be as close as possible to, but not less than, \$67,000,000 (the "INITIAL CONTRIBUTED RECEIVABLES") and (ii) all other Contributed Receivables.

(c) ABSOLUTE TRANSFER. It is the intention of the parties hereto that the conveyance of the Receivables and Related Rights by the Seller to the Company as provided in this Section 1.1 be, and be construed as, an absolute sale or contribution, without recourse, of such Receivables and Related Rights by the Seller to the Company. Furthermore, it is not intended that such conveyance be deemed a pledge of such Receivables and Related Rights by the Seller to the Company to secure a debt or other obligation of the Seller. If, however, notwithstanding the intention of the parties, the conveyance provided for in this Section 1.1 is determined to be a transfer for security, then this Agreement shall also be deemed to be a "security agreement" within the meaning of Article 9 of the UCC and the Seller hereby grants to the Company a "security interest" within the meaning of Article 9 of the UCC in all of the Seller's right, title and interest in and to such Receivables and Related Rights, now existing and hereafter created, to secure a loan in an amount equal to the aggregate Purchase Price therefor and the Seller's other payment obligations under this Agreement.

SECTION 1.2. TIMING OF PURCHASES.

(a) INITIAL CLOSING DATE PURCHASES. On the date of the first Loan under the Credit and Security Agreement (the "INITIAL CLOSING DATE") Seller shall sell to the Company, and the Company shall purchase, pursuant to Section 1.1, Seller's entire right, title and interest in (i) each Receivable (other than the Initial Contributed Receivables) that existed and was owing to Seller as of the close of Seller's business on the Initial Cut-Off Date, and (ii) all Related Rights with respect thereto.

(b) REGULAR PURCHASES AND CONTRIBUTIONS. After the Initial Closing Date, and continuing until the Sale Termination Date, each Receivable described in Section 1.1(a)(ii) hereof, and all the Related Rights with respect thereto, transferred to the Seller pursuant to the Sale Agreement shall be sold or contributed by Seller to the Company (without any further action) upon the transfer of such Receivable. All such Receivables, other than those Receivables

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indicated on a Purchase Report as having been contributed by Seller to the Company (such other Receivables, together with the Initial Contributed Receivables, the "CONTRIBUTED RECEIVABLES"), shall be sold to the Company on such date; all Contributed Receivables shall be contributed by the Seller to the Company on such date.

SECTION 1.3. CONSIDERATION FOR PURCHASES. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to make all Purchase Price payments to Seller in accordance with Article III.

SECTION 1.4. SALE TERMINATION DATE. The "SALE TERMINATION DATE" shall be the Termination Date under the Credit and Security Agreement.

## ARTICLE II CALCULATION OF PURCHASE PRICE

SECTION 2.1. CALCULATION OF PURCHASE PRICE. On each Reporting Date (commencing with the first Reporting Date following the Initial Closing Date), the Servicer shall deliver to the Company, the Agent and Seller (if the Servicer is other than Seller) a report in substantially the form of Exhibit A (each such report being herein called a "PURCHASE REPORT") with respect to the Company's purchases of Receivables from Seller:

(a) that arose on or prior to the Initial Cut-Off Date (in the case of the first Purchase Report to be delivered hereunder) and

(b) that arose during the Settlement Period immediately preceding such Reporting Date (in the case of each successive Purchase Report).

Each Purchase Report shall designate the amount of such Receivables that were Eligible Receivables on the date of origination (or, in the case of Receivables transferred or contributed on the Initial Closing Date, on the Initial Closing Date).

The "PURCHASE PRICE" (to be paid in accordance with the terms of Article III) for the Receivables and the Related Rights shall be determined in accordance with the following formula:

$$PP = AUB - (AUB \times FMVD)$$

where:

PP = Purchase Price (to be paid to Seller in accordance with the terms of Article III) as calculated on the relevant Reporting Date.

AUB = (i) for purposes of calculating the Purchase Price on the Initial Closing Date, the aggregate Unpaid Balance of all Receivables that existed and were owing to Seller as measured as at the Initial Cut-

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Off Date, less an amount equal to the sum of the aggregate Unpaid Balance of all Initial Contributed Receivables, and

(ii) for purposes of calculating the Purchase Price for Receivables on each Reporting Date thereafter, the aggregate Unpaid Balance of the Receivables described in Section 1.1(a)(ii) hereof that were generated by Seller during the immediately preceding Settlement Period, less an

amount equal to the sum of the aggregate Unpaid Balance of all Contributed Receivables, if any, indicated on the related Purchase Report.

FMVD = Fair Market Value Discount Factor on the determination date, which is the sum of the Loss Discount and the Cost Discount, in each case as calculated on the most recent Reporting Date as set forth in the definitions below.

"LOSS DISCOUNT" as measured on the Initial Closing Date or any Reporting Date means the ratio, expressed as a percentage, of (i) the losses (i.e. write-offs to the bad debt reserve or other write-offs consistent with the Credit and Collection Policy, in each case, net of recoveries) recognized for all Receivables during the period equal to twelve (12) successive months ending on the Cut-Off Date immediately preceding the Initial Closing Date or such Reporting Date, as the case may be, divided by (ii) the Collections on all Receivables received during such period.

"COST DISCOUNT" as measured on the Initial Closing Date or any Reporting Date means a percentage determined in accordance with the following formula:

$$CD = (DSO/360) \times CR$$

where:

CD = the Cost Discount as measured on such Monthly Reporting Date;

DSO = the Days Sales Outstanding, as set forth in the most recent Purchase Report; and

CR = the Cost Rate as measured on such Reporting Date.

"COST RATE" as measured on the Initial Closing Date or any Reporting Date means a per annum percentage rate equal to the sum of (i) the LIBO Rate for the Initial Closing Date or the related Settlement Period, as the case may be, plus (ii) 1.00%.

"LIBO RATE" for the Initial Closing Date or any Settlement Period means the offered rate per annum (rounded upwards, if necessary, to the nearest 1/16th of one percent) appearing in The Wall Street Journal for three month LIBOR loans on the Initial Closing Date or the first Business Day of such Settlement Period, as the case may be.

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### ARTICLE III PAYMENT OF PURCHASE PRICE

SECTION 3.1. INITIAL PURCHASE PRICE PAYMENT. On the terms and subject to the conditions set forth in this Agreement, the Company agrees to pay to Seller on the Initial Closing Date the Purchase Price for the purchase to be made from Seller with respect to Receivables existing on or prior to the Initial Cut-Off Date (other than the Initial Contributed Receivables) in cash in an amount equal to the amount received by the Company in connection with the first Loan made pursuant to the Credit and Security Agreement.

SECTION 3.2. SUBSEQUENT PURCHASE PRICE PAYMENTS. After the Initial Closing Date and until the termination of this Agreement pursuant to Section 9.4 hereof, the Purchase Price due pursuant to Section 2.1 for each Settlement Period shall be due on the related Settlement Date. As an advance payment of such Purchase Price, on each Business Day during a Settlement Period, the Company shall pay to Seller a portion of the Purchase Price due pursuant to Section 2.1 by depositing into such account, as Seller shall specify, immediately available funds from monies then held by or on behalf of the Company solely to the extent that such monies do not constitute Collections that are required to be set aside or segregated and held by the Servicer pursuant to the Credit and Security Agreement or to be distributed to the Agent or the Lenders pursuant to the Credit and Security Agreement or required to be paid to the Servicer as the Servicer's Fee on the next Settlement Date, or otherwise necessary to pay current expenses of the Company (in its reasonable discretion) (such available monies, the "AVAILABLE FUNDS") and provided that Seller has paid all amounts then owing by it hereunder. On each Reporting Date, the Servicer shall calculate the amount of the Purchase Price remaining to be paid by deducting from the Purchase Price the Available Funds that have been paid during the corresponding Settlement Period, and such amount due shall be identified in the Purchase Report.

To the extent that the Available Funds were insufficient to pay the Purchase Price then due in full (an "AVAILABLE FUNDS SHORTFALL"), the remaining

portion of such Purchase Price shall be paid by:

(i) if the Maximum Seller Note Balance is then zero, by a contribution to the Company of an amount equal to the Available Funds Shortfall;

(ii) upon the first occurrence of an Available Funds Shortfall when the Maximum Seller Note Balance is greater than zero, by issuing a promissory note in the form of Exhibit B to Seller in the amount of such Available Funds Shortfall (such promissory note, as it may be amended, supplemented, endorsed or otherwise modified from time to time in substitution therefor or renewal thereof in accordance with the Transaction Documents, being herein called the "SELLER NOTE"); or

(iii) otherwise, by increasing the principal amount of the Seller Note, effective as of the last day of the related Settlement Period in the amount of such Available Funds Shortfall;

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PROVIDED, HOWEVER, that the aggregate of the principal amounts outstanding at any time under the Seller Note may not exceed the Maximum Seller Note Balance (which is zero as of the date hereof); and PROVIDED FURTHER, that the amount of such increase in the principal amount of the Seller Note on any Settlement Date may not account for more than 25% of the aggregate Purchase Price due with respect to the related Settlement Period (the "SELLER NOTE MONTHLY MAXIMUM").

To the extent that the amount due with respect to the related Settlement Period pursuant to Section 2.1 exceeds (x) the Available Funds plus (y) the Seller Note Monthly Maximum (such excess amount, the "SHORTFALL"), the Seller shall contribute to the Company cash in an amount equal to such Shortfall, and the Company shall use such funds to repay the Shortfall. To the extent that (x) the amount due pursuant to Section 2.1 with respect to all Receivables sold by Seller that arose during the corresponding Settlement Period is exceeded by (y) the amount paid for such Receivables to Seller during such Settlement Period pursuant to the second sentence of this Section 3.2, such excess shall be treated as a reduction in the principal amount of the Seller Note, effective as of the last day of the related Settlement Period, and, if the principal amount of the Seller Note is zero, such excess shall be refunded to the Company.

Seller shall make all appropriate record keeping entries with respect to the Seller Note to reflect payments by the Company thereon and Seller's books and records shall constitute rebuttable presumptive evidence of the principal amount of and accrued interest on the Seller Note. Seller shall return the Seller Note to the Company upon the final payment thereof after the termination of this Agreement pursuant to Section 9.4 hereof.

SECTION 3.3. SETTLEMENT AS TO SPECIFIC RECEIVABLES. If an officer of Seller obtains knowledge or receives notice from the Company or the Agent that (a) on the day that any Receivable purchased or contributed hereunder was transferred to the Seller pursuant to the Sale Agreement, (or, in the case of Receivables transferred or contributed on the Initial Closing Date, on the Initial Closing Date) any of the representations or warranties set forth in Section 5.1(k) were not true with respect to such Receivable, or such Receivable was designated as an Eligible Receivable on the related Purchase Report and was not an Eligible Receivable or, (b) on any day any of the representations or warranties set forth in Section 5.1(k) with respect to any Receivable is no longer true with respect to a Receivable (each such Receivable, an "INELIGIBLE RECEIVABLE"), then the Purchase Price with respect to Receivables that arose during the same Settlement Period in which such knowledge is obtained or notification is received shall be decreased by an amount equal to the Unpaid Balance of such Ineligible Receivable as of the related Settlement Date; PROVIDED, HOWEVER, that if there have been no purchases of Receivables (or insufficiently large purchases of Receivables to create a Purchase Price large enough to so reduce by the amount of such Unpaid Balances) from Seller during such Settlement Period, any amount owed by which the Purchase Price payable to Seller would have been reduced pursuant to the immediately preceding clause of this sentence shall be paid by either (at the option of Seller, unless the Company will, absent such payment in cash, be unable to meet its obligations under the Credit and Security Agreement on the next occurring Settlement Date, in which case Seller shall make a cash payment on or before such Settlement Date) a reduction in the principal amount of the Seller Note (but not below zero) or by payment within two Business Days after the related Reporting Date in cash by Seller to the Company by payment of same day funds;

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PROVIDED, FURTHER, that if the Company receives payment on account of Collections due with respect to such Ineligible Receivable after such Settlement Date, the Company promptly shall deliver such funds to Seller. The enforcement



of the obligations of Seller set forth in this Section 3.3 shall be the sole remedy of the Company with respect to Ineligible Receivables.

SECTION 3.4. SETTLEMENT AS TO DILUTION. Each Purchase Report shall include, in respect of the Receivables previously contributed or sold by Seller (including the Initial Contributed Receivables), a calculation of the aggregate net reduction in the aggregate Unpaid Balance of such Receivables owed by particular Obligor on account of any defective, rejected or returned merchandise or services, any cash discount, any incorrect billings or other adjustments, or setoffs in respect of any claims by the Obligor(s) thereof (whether such claims arise out of the same or a related or unrelated transaction), or any rebate or refund during the most recent Settlement Period. The Purchase Price to be paid to Seller for the Receivables generated during the Settlement Period for which such Purchase Report is delivered shall be decreased by the amount of such net reduction; PROVIDED, HOWEVER, that if there have been no purchases of Receivables (or insufficiently large purchases of Receivables to create a Purchase Price large enough to so reduce by the amount of such net reduction) from Seller during such Settlement Period, any amount owed by which the Purchase Price payable to Seller would have been reduced pursuant to the immediately preceding clause of this sentence shall be paid by either (at the option of Seller, unless the Company will, absent such payment in cash, be unable to meet its obligations under the Credit and Security Agreement on the next occurring Settlement Date, in which case Seller shall make a cash payment on or before such Settlement Date) a reduction in the principal amount of the Seller Note (but not below zero) or by payment within two Business Days after the related Reporting Date in cash by Seller to the Company by payment of same day funds.

SECTION 3.5. RECONVEYANCE OF RECEIVABLES. In the event that Seller has paid (by effecting a Purchase Price reduction or otherwise) to the Company the full Unpaid Balance of any Receivable pursuant to Section 3.3 or 3.4, the Company shall reconvey such Receivable and all Related Rights with respect thereto, to Seller, without recourse, representation or warranty, but free and clear of all liens created by the Company; such reconveyed Receivables and all Related Rights shall no longer be subject to the terms of this Agreement (including any obligation to turn over Collections with respect thereto).

#### ARTICLE IV CONDITIONS OF PURCHASES

SECTION 4.1. CONDITIONS PRECEDENT TO INITIAL PURCHASE. The initial purchase and contribution hereunder is subject to the condition precedent that the Company shall have received, on or before the Initial Closing Date, the following, each (unless otherwise indicated) dated the Initial Closing Date, and each in form, substance and date reasonably satisfactory to the Company and the Agent:

(a) A copy of the resolutions of the Board of Managers of Seller approving the Transaction Documents to be delivered by it and the transactions contemplated hereby and thereby, certified by the Secretary or Assistant Secretary of Seller;

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(b) Certificate of Existence for Seller issued as of a recent date by the Secretary of State of Delaware;

(c) A certificate of the Secretary or Assistant Secretary of Seller certifying the names and true signatures of the officers authorized on Seller's behalf to sign the Transaction Documents to be delivered by it (on which certificate the Company and Servicer (if other than Seller) may conclusively rely until such time as the Company and the Servicer shall receive from Seller a revised certificate meeting the requirements of this subsection (c));

(d) The Certificate of Limited Liability Company of Seller, duly certified by the Secretary of State of Delaware as of a recent date, together with a copy of the Operating Agreement of Seller, duly certified by the Secretary or Assistant Secretary of Seller;

(e) Copies of the proper financing statements (Form UCC-1) that have been duly executed and name Seller as the assignor and the Company as the assignee (and Agent, on behalf of the Lenders, as assignee of the Company) of the Receivables and the Related Rights or other, similar instruments or documents, as may be necessary or, in Servicer's or the Agent's opinion, desirable under the UCC of all appropriate jurisdictions or any comparable law of all appropriate jurisdictions to perfect the Company's ownership interest in all Receivables and Related Rights in which the ownership interest may be assigned to it hereunder;

(f) A written search report from a Person satisfactory to Servicer and the Agent listing all effective financing statements that name Seller as debtor or assignor and that are filed in the jurisdictions in which filings were made pursuant to the foregoing subsection (e), together with copies of such financing statements (none of which, except for those described in the foregoing subsection (e) shall cover any Receivable or any Related Right related to any Receivable) which is to be sold to the Company hereunder, and tax and judgment lien search reports from a Person satisfactory to Servicer and the Agent showing no evidence of such liens filed against Seller;

(g) Evidence (i) of the execution and delivery by each of the parties thereto of each of the other Transaction Documents to be executed and delivered in connection herewith and (ii) that each of the conditions precedent to the execution, delivery and effectiveness of such other Transaction Documents has been satisfied to the Company's satisfaction; and

(h) A certificate from an officer or other appropriate manager of Seller to the effect that Servicer and Seller have placed on the most recent, and have taken all steps reasonably necessary to ensure that there shall be placed on subsequent, summary master control data processing reports the following legend (or the substantive equivalent thereof): THE RECEIVABLES DESCRIBED HEREIN HAVE BEEN SOLD BY PACKAGING CORPORATION OF AMERICA TO PACKAGING CREDIT COMPANY, LLC AND THEN SOLD BY PACKAGING CREDIT COMPANY, LLC TO PACKAGING RECEIVABLES COMPANY,

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LLC; AND A SECURITY INTEREST IN THE RECEIVABLES DESCRIBED HEREIN HAS BEEN GRANTED AND ASSIGNED BY PACKAGING RECEIVABLES COMPANY, LLC TO WACHOVIA BANK, N.A., AS AGENT.

SECTION 4.2. CERTIFICATION AS TO REPRESENTATIONS AND WARRANTIES. Seller, by accepting the Purchase Price related to each purchase of Receivables (and Related Rights), shall be deemed to have certified that the representations and warranties contained in Article V are true and correct on and as of the day of such purchase, with the same effect as though made on and as of such day.

#### ARTICLE V REPRESENTATIONS AND WARRANTIES

SECTION 5.1. REPRESENTATIONS OF SELLER. In order to induce the Company to enter into this Agreement and to make purchases hereunder, Seller, in its capacity as seller under this Agreement, hereby makes the representations and warranties set forth in this Section 5.1.

(a) ORGANIZATION AND GOOD STANDING. Seller has been duly organized and is validly existing as a limited liability company in good standing under the laws of the state of its organization, with power and authority to own its properties and to conduct its business as such properties are presently owned and such business is presently conducted.

(b) DUE QUALIFICATION. Seller is duly licensed or qualified to do business in good standing, and has obtained all necessary approvals, in all jurisdictions in which the ownership or lease of its property or the conduct of its business requires such licensing, qualification or approvals, except where the failure to be so qualified or have such licenses or approvals would not have a Seller Material Adverse Effect.

(c) POWER AND AUTHORITY; DUE AUTHORIZATION. Seller has (a) all necessary power, authority and legal right (i) to execute and deliver, and perform its obligations under, each Transaction Document to which it is a party and (ii) to own, sell, contribute and assign Receivables on the terms and subject to the conditions herein and therein provided; and (b) duly authorized such execution and delivery and such sale, contribution and assignment and the performance of such obligations by all necessary action.

(d) VALID SALE; BINDING OBLIGATIONS. Each sale or contribution of Receivables and Related Rights made by Seller pursuant to this Agreement shall constitute a valid sale (or contribution, as the case may be), transfer, and assignment thereof to the Company, enforceable against creditors of, and purchasers from, Seller; and this Agreement constitutes, and each other Transaction Document to be signed by Seller, when duly executed and delivered, will constitute, a legal, valid, and binding obligation of Seller, enforceable in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity, regardless of whether such enforceability is considered in a proceeding in equity or in law.

(e) NO VIOLATION. The consummation of the transactions contemplated by this Agreement and the other Transaction Documents to which Seller is a party and the fulfillment of the terms hereof or thereof will not (a) conflict with, result in any breach of any of the terms and provisions of, or constitute (with or without notice or lapse of time or both) a default under (i) Seller's organizational documents, or (ii) any material indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument to which it is a party or by which it is bound, (b) result in the creation or imposition of any Lien upon any of its properties pursuant to the terms of any such material indenture, loan agreement, mortgage, deed of trust, or other agreement or instrument, other than the Transaction Documents, or (c) violate any law or any order, rule, or regulation applicable to it of any court or of any federal, state or foreign regulatory body, administrative agency, or other governmental instrumentality having jurisdiction over it or any of its properties.

(f) PROCEEDINGS. There is no litigation, investigation or proceeding pending, or to the best of Seller's knowledge, threatened, before any court, regulatory body, arbitrator, administrative agency, or other tribunal or governmental instrumentality (a) asserting the invalidity of any Transaction Document to which Seller is a party, (b) seeking to prevent the sale or contribution of Receivables and the Related Rights to the Company or the consummation of any of the other transactions contemplated by any Transaction Document to which Seller is a party, or (c) that would have a Seller Material Adverse Effect.

(g) BULK SALES ACT. No transaction contemplated hereby requires compliance with any bulk sales act or similar law.

(h) GOVERNMENT APPROVALS. Except for the filing of the UCC financing statements referred to in Article IV, all of which, at the time required in Article IV, shall have been duly made and shall be in full force and effect, no authorization or approval or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for Seller's due execution, delivery and performance of any Transaction Document to which it is a party.

(i) FINANCIAL CONDITION. On the date hereof Seller is, and on the date of each transfer of a new Receivable hereunder (both before and after giving effect to such transfer), Seller shall be solvent.

(j) MARGIN REGULATIONS. No use of any funds acquired by Seller under this Agreement will conflict with or contravene any of Regulations T, U and X promulgated by the Board of Governors of the Federal Reserve System from time to time.

(k) QUALITY OF TITLE.

(i) Each Receivable (together with the Related Rights with respect to such Receivable) which is to be sold or contributed to the Company hereunder is or shall be, at the time of such sale or contribution, owned by Seller, free and clear of any Lien. Whenever the Company makes a purchase or accepts a contribution of a Receivable hereunder, it shall have acquired a valid and perfected ownership interest (free and clear of any Lien, other than a Lien created by or arising through the Company, the Lenders or

the Agent) in such Receivable and all Collections related thereto, and in Seller's entire right, title and interest in and to the Related Rights with respect thereto.

(ii) No effective financing statement or other instrument similar in effect covering any Receivable or any Related Right is on file in any recording office except such as may be filed (1) in favor of Seller in accordance with the Contracts, (2) in favor of the Company in accordance with this Agreement, (3) in favor of the Seller in accordance with the Sale Agreement, (4) in favor of the Lenders or the Agent in accordance with the Credit and Security Agreement or in connection with any Lien arising solely as the result of any action taken by the Lender (or any assignee thereof) or by the Agent and (5) in favor of the agent pursuant to the Senior Credit Agreement.

(l) ACCURACY OF INFORMATION. No information heretofore or contemporaneously furnished in writing (and prepared) by Seller, as seller, to the Company, the Lenders or the Agent for purposes of or in connection with any Transaction Document or any transaction contemplated hereby or thereby is, and no other

written information hereafter furnished (and prepared) by Seller, as seller, to the Company, the Lenders, or the Agent pursuant to or in connection with any Transaction Document will be, inaccurate in any material respect as of the date it was furnished or (except as otherwise disclosed to the company at or prior to such time) as of the date as of which such information is dated or certified, or contained or will contain any material misstatement of fact or omitted or will omit to state any material fact necessary to make such information not materially misleading.

(m) OFFICES. Seller's principal place of business and chief executive office is located at the address set forth in Exhibit C, and the offices where Seller keeps all its books, records and documents evidencing the Receivables, the related Contracts and all other agreements related to such Receivables are located at the address specified in Exhibit C (or at such other locations, notified to Servicer (if other than Seller), the Company and the Agent in accordance with Section 6.1(f), in jurisdictions where all action required by Section 7.3 has been taken and completed).

(n) TRADE NAMES. Except as disclosed on Schedule 5.1(n), Seller does not use any trade name other than its actual legal name. From and after the date of its organization, Seller has not been known by any legal name other than Packaging Credit Company, LLC as of the date hereof, nor has Seller been the subject of any merger or similar change in structure, except as disclosed on Schedule 5.1(n).

(o) TAXES. Seller has filed all material tax returns and reports required by law to have been filed by it and has paid all taxes and governmental charges thereby shown to be owing, except any such taxes which are not yet delinquent or are being diligently contested in good faith by appropriate proceedings and for which adequate reserves in accordance with generally accepted accounting principles shall have been set aside on its books.

(p) COMPLIANCE WITH APPLICABLE LAWS. Seller is in compliance, in all material respects, with the requirements of all applicable laws, rules, regulations, and orders of all governmental authorities (including, without limitation, Regulation Z, laws, rules and regulations relating to usury, truth in lending, fair credit billing, fair credit reporting, equal credit opportunity, fair debt

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collection practices and privacy and all other consumer laws applicable to the Receivables and related Contracts), except where such noncompliance, individually or in the aggregate, would not have a Seller Material Adverse Effect.

(q) RELIANCE ON SEPARATE LEGAL IDENTITY. Seller is aware that the Lenders and the Agent are entering into the Transaction Documents to which they are parties in reliance upon the Company's identity as a legal entity separate from Seller and any of its other Affiliates.

#### ARTICLE VI COVENANTS OF SELLER

SECTION 6.1. AFFIRMATIVE COVENANTS. From the date hereof until the Final Payout Date, Seller will, unless the Company and the Agent shall otherwise consent in writing:

(a) COMPLIANCE WITH LAWS, ETC. Comply in all material respects with all applicable laws, rules, regulations and orders, including those with respect to the Receivables generated by it and the Contracts and other agreements related thereto, except where such noncompliance, individually or in the aggregate, would not have a Seller Material Adverse Effect.

(b) PRESERVATION OF LEGAL EXISTENCE. Preserve and maintain its legal existence, rights, franchises and privileges in the jurisdiction of its organization, and qualify and remain qualified in good standing in each jurisdiction where the failure to preserve and maintain such existence, rights, franchises, privileges and qualification would have a Seller Material Adverse Effect.

(c) RECEIVABLES REVIEW. (i) At any time and from time to time, upon not less than ten (10) Business Days' notice (unless an Event of Default has occurred and is continuing (or the Agent believes in good faith that an Event of Default has occurred and is continuing), in which case no such notice shall be required) permit the Company and the Agent or their respective agents or representatives, (A) to examine, to audit and make copies of and abstracts from all books, records and documents (including, without limitation, computer tapes and disks) in the possession or under the control of Seller relating to the Receivables, including, without limitation, the Contracts, and purchase orders

and other agreements related thereto, and (B) to visit Seller's offices and properties for the purpose of examining such materials described in the foregoing clause (A) and discussing matters relating to the Receivables generated by Seller or Seller's performance hereunder with any of the officers or employees of Seller having knowledge of such matters; (ii) to meet with the independent auditors of Seller, to review such auditor's work papers and otherwise to review with such auditors the books and records of Seller with respect to the Receivables and the Related Rights; and (iii) without limiting the provisions of clause (i) next above, from time to time, at Seller's expense, permit certified public accountants or other auditors acceptable to the Agent to conduct a review of its books and records with respect to the Receivables and the Related Rights; provided that, so long as no Event of Default has occurred and is continuing, (x) such reviews mentioned in clauses (i), (ii) and (iii) in this Section 6.1(c) shall not be done more than two (2) times in any one calendar year and (y) Seller shall only be responsible for the costs and expenses of one such review mentioned in clauses (i), (ii) and (iii) in this Section 6.1(c) in any one calendar year.

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(d) KEEPING OF RECORDS AND BOOKS OF ACCOUNT. Maintain an ability to recreate in all material respects records evidencing the Receivables generated by it in the event of the destruction of the originals thereof.

(e) PERFORMANCE AND COMPLIANCE WITH RECEIVABLES AND CONTRACTS. At its expense timely and fully perform and comply in all material respects with all provisions, covenants and other promises required to be observed by it under the Contracts and all purchase orders and other agreements related to the Receivables.

(f) LOCATION OF RECORDS. Keep its principal place of business and chief executive office, and the offices where it keeps its records concerning or related to Receivables, at the address(es) referred to in Exhibit C or, upon 30 days' prior written notice to the Company and the Agent, at such other locations in jurisdictions where all action required by Section 7.3 shall have been taken and completed.

(g) CREDIT AND COLLECTION POLICIES. Comply in all material respects with its Credit and Collection Policy in connection with the Receivables and all Contracts related thereto.

(h) SEPARATE CORPORATE EXISTENCE OF THE COMPANY. Take such actions as shall be required in order to maintain the separate identity of the Company separate and apart from Seller and its other Affiliates, including those actions set forth in Section 7.4 of the Credit and Security Agreement.

SECTION 6.2. REPORTING REQUIREMENTS. From the date hereof until the Final Payout Date, Seller will, unless the Company and the Agent shall otherwise consent in writing, furnish to the Company and the Agent:

(a) PROCEEDINGS. As soon as possible and in any event within ten Business Days after any Responsible Officer of Seller has knowledge thereof, written notice to the Company and the Agent of (i) all pending proceedings and investigations of the type described in Section 5.1(f) not previously disclosed to the Company and/or the Agent and (ii) all material adverse developments that have occurred with respect to any previously disclosed proceedings and investigations;

(b) CREDIT AND COLLECTION POLICY. Prior to its effective date, notice of any material change in the character of Seller's business or in the Credit and Collection Policy; and

(c) OTHER. Promptly, from time to time, such other information, documents, records or reports respecting the Receivables of Seller's performance as seller hereunder that the Company or the Agent may from time to time reasonably request in order to protect the interests of the Company, the Lenders, the Agent, or any other Affected Party under or as contemplated by the Transaction Documents.

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SECTION 6.3. NEGATIVE COVENANTS. From the date hereof until the Final Payout Date, Seller agrees that, unless the Agent shall otherwise consent in writing, it shall not:

(a) SALES, LIENS, ETC. Except as otherwise provided herein or in any other Transaction Document, sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Lien upon or with respect to, any Receivable or related Contract or other

Related Right, or any interest therein, or any Collections thereon, or assign any right to receive income in respect thereof.

(b) CHANGE IN CREDIT AND COLLECTION POLICY. Make any material change in the Credit and Collection Policy that would impair the collectibility of any significant portion of the Receivables or otherwise adversely affect the interests or remedies of the Company hereunder or the Agent or the Lenders under any Transaction Document.

(c) RECEIVABLES NOT TO BE EVIDENCED BY PROMISSORY NOTES. Take any action to cause or permit any Receivable generated by it to become evidenced by any "instrument" (as defined in the applicable UCC), except in connection with the collection of overdue Receivables, provided that the original of such instrument is delivered to the Agent, duly endorsed.

#### ARTICLE VII

##### ADDITIONAL RIGHTS AND OBLIGATIONS IN RESPECT OF THE RECEIVABLES

SECTION 7.1. RIGHTS OF THE SERVICER. Seller hereby authorizes the Servicer (if other than Seller) or its respective designees to take any and all steps in Seller's name necessary or desirable, in its respective determination, to collect all amounts due under any and all Receivables, including, without limitation, endorsing Seller's name on checks and other instruments representing Collections and enforcing such Receivables and the provisions of the related Contracts that concern payment and/or enforcement of rights to payment.

SECTION 7.2. RESPONSIBILITIES OF SELLER. Anything herein to the contrary notwithstanding:

(a) COLLECTION PROCEDURES. Seller agrees to direct the Obligors, as promptly as practicable after an Event of Default, to make payments of Receivables directly to a Lock-Box Account that is the subject of a Lock-Box Agreement at a Lock-Box Bank. Seller further agrees to transfer any Collections (including any security deposits applied to the Unpaid Balance of any Receivable) that it receives directly to the Servicer (if other than Seller) within two Business Days of receipt thereof, and agrees that all such Collections shall be deemed to be received in trust for the Company; provided that, to the extent permitted pursuant to Section 3.2, Seller may retain such Collections as a portion of the Purchase Price then payable or apply such Collections to the reduction of the outstanding balance of the Seller Note.

(b) PERFORMANCE UNDER CONTRACT. Seller shall remain responsible for performing its obligations hereunder and under the Contracts, and the exercise by the

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Company or its designee of its rights hereunder shall not relieve Seller from such obligations.

(c) POWER OF ATTORNEY. Seller hereby grants to the Servicer (if other than Seller) an irrevocable power of attorney, with full power of substitution, coupled with an interest, to take in the name of Seller all steps necessary or advisable to indorse, negotiate or otherwise realize on any writing or other right of any kind held or transmitted by Seller or transmitted or received by the Company (whether or not from Seller) in connection with any Receivable.

SECTION 7.3. FURTHER ACTION EVIDENCING PURCHASES. Seller agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action that the Company may reasonably request in order to perfect, protect or more fully evidence the Company's ownership of the Receivables (and the Related Rights) purchased by the Company hereunder, or to enable the Company to exercise or enforce any of its rights hereunder or under any other Transaction Document. Without limiting the generality of the foregoing, upon the request of the Company, Seller will:

(a) execute and file such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate; and

(b) mark the summary master control data processing records with the legend set forth in Section 4.1(i).

Seller hereby authorizes the Company or its designee to file one or more financing or continuation statements, and amendments thereto and assignment thereof, relative to all or any of the Receivables (and the Related Rights) now existing or hereafter contributed or sold by Seller. If Seller fails to perform any of its agreements or obligations under this Agreement, the Company or its

designee may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of the Company or its designee incurred in connection therewith shall be payable by Seller as provided in Section 9.6.

SECTION 7.4. APPLICATION OF COLLECTIONS. Any payment by an Obligor in respect of any indebtedness owed by it to Seller in respect of any Contract shall, except as otherwise specified by such Obligor or otherwise required by contract or law, be applied first, as a Collection of the Receivables of such Obligor, in the order of the age of such Receivables, starting with the oldest of such Receivables, and second, to any other indebtedness of such Obligor.

#### ARTICLE VIII INDEMNIFICATION

SECTION 8.1. INDEMNITIES OF SELLER. Without limiting any other rights which the Company may have hereunder or under applicable law, Seller hereby agrees to indemnify the Company and each of its permitted assigns, officers, directors, employees and agents (each of the foregoing Persons being individually called a "SALE INDEMNIFIED PARTY"), on demand, from and against any

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and all damages, losses, claims, judgments, liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements (all of the foregoing being collectively called "SALE INDEMNIFIED AMOUNTS") awarded against or incurred by any of them arising out of or as a result of arising out of or relating to this Agreement, the Receivables or the Related Rights, EXCLUDING, HOWEVER, (i) Sale Indemnified Amounts to the extent determined by a court of competent jurisdiction to have resulted from bad faith, gross negligence or willful misconduct on the part of such Sale Indemnified Party, (ii) recourse for Sale Indemnified Amounts to the extent the same includes losses in respect of Receivables which are uncollectible on account of the insolvency, bankruptcy or lack of creditworthiness of the related Obligor, (iii) Sale Indemnified Amounts that represent taxes based upon, or measured by, net income, or changes in the rate of tax or as determined by reference to the overall net income, of such Sale Indemnified Party, or (iv) Sale Indemnified Amounts that represent franchise taxes, taxes on, or in the nature of, doing business taxes or capital taxes. Without limiting the foregoing, the Seller shall indemnify each Sale Indemnified Party for Sale Indemnified Amounts arising out of or related to the following:

(a) the transfer by Seller of an interest in any Receivable or Related Right to any Person other than the Company;

(b) the breach of any representation or warranty made by Seller under or in connection with this Agreement or any other Transaction Document, or any information or report delivered by Seller pursuant hereto or thereto which shall have been false or incorrect in any material respect when made or deemed made;

(c) the failure by Seller to comply with any applicable law, rule or regulation with respect to any Receivable or the related Contract, or the nonconformity of any Receivable or the related Contract with any such applicable law, rule or regulation;

(d) the failure to vest and maintain vested in the Company an ownership interest in the Receivables and the Related Rights free and clear of any Lien, other than a Lien arising solely as a result of an act of the Company, the Lenders or the Agent, whether existing at the time of the purchase of such Receivables or at any time thereafter;

(e) the failure of Seller to file with respect to itself, or any delay in filing, financing statements or other similar instruments or documents under the UCC of any applicable jurisdiction or other applicable laws with respect to any Receivables or purported Receivables generated by Seller, whether at the time of any purchase or at any subsequent time;

(f) any dispute, claim, offset or defense (other than discharge in bankruptcy) of the Obligor to the payment of any Receivable or purported Receivable generated by Seller (including, without limitation, a defense based on such Receivables or the related Contracts not being a legal, valid and binding obligation of such Obligor enforceable against it in accordance with its terms), or any other claim resulting from the services or merchandise related to any such Receivable or the furnishing of or failure to furnish such services or merchandise;

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(g) any failure of the Seller to perform its duties or obligations in accordance with the terms of this Agreement;

(h) any product liability claim arising out of or in connection with services or merchandise with respect to any Receivable;

(i) any tax or governmental fee or charge, all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the purchase or ownership of the Receivables generated by Seller or any Related Right connected with any such Receivables;

(j) the commingling of Collections of Receivables at any time with other funds of the Seller;

(k) any investigation, litigation or proceeding related to or arising from this Agreement or the transactions contemplated hereby or any other investigation, litigation or proceeding relating to the Seller or any of the Originators in which any Indemnified Party becomes involved as a result of any of the transactions contemplated hereby (other than an investigation, litigation or proceeding relating to a dispute solely amongst the Lenders (or certain Lenders) and the Agent); or

(l) any inability to litigate any claim against any Obligor in respect of any Receivable as a result of such Obligor being immune from civil and commercial law and suit on the grounds of sovereignty or otherwise from any legal action, suit or proceeding;

excluding, however, (i) Sale Indemnified Amounts to the extent resulting from gross negligence or willful misconduct on the part of such Sale Indemnified Party, (ii) any indemnification which has the effect of recourse to Seller for non-payment of the Receivables due to credit problems of the Obligors, (iii) Sale Indemnified Amounts that represent taxes based upon, or measured by, net income or changes in the rate of tax or as determined by reference to the overall net income of such Sale Indemnified Party and (iv) Sale Indemnified Amounts that represent franchise taxes, taxes of, or in the nature of, doing business taxes or capital taxes.

If for any reason the indemnification provided above in this Section 8.1 is unavailable to a Sale Indemnified Party or is insufficient to hold such Sale Indemnified Party harmless, then Seller shall contribute to the amount paid or payable by such Sale Indemnified Party to the maximum extent permitted under applicable law.

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## ARTICLE IX MISCELLANEOUS

### SECTION 9.1. AMENDMENTS, ETC.

(a) The provisions of this Agreement may from time to time be amended, modified or waived, if such amendment, modification or waiver is in writing and consented to by Seller, the Company, the Agent and the Servicer (if other than Seller).

(b) No failure or delay on the part of the Company, the Servicer, Seller or any third party beneficiary in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power or right preclude any other or further exercise thereof or the exercise of any other power or right. No notice to or demand on the Company, the Servicer, or Seller in any case shall entitle it to any notice or demand in similar or other circumstances. No waiver or approval by the Company or the Servicer under this Agreement shall, except as may otherwise be stated in such waiver or approval, be applicable to subsequent transactions. No waiver or approval under this Agreement shall require any similar or dissimilar waiver or approval thereafter to be granted hereunder.

SECTION 9.2. NOTICES, ETC. All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including facsimile communication) and shall be personally delivered or sent by express mail or courier or by certified mail, postage-prepaid, or by facsimile, to the intended party at the address or facsimile number of such party set forth on Schedule 9.2 or at such other address or facsimile number as shall be designated by such party in a written notice to the other parties hereto. All such notices and communications shall be effective, (i) if personally delivered or sent by express mail or courier or if sent by certified mail, when received, and (ii) if transmitted by facsimile, when sent, receipt confirmed by telephone or electronic means.



SECTION 9.3. NO WAIVER; CUMULATIVE REMEDIES. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 9.4. BINDING EFFECT; ASSIGNABILITY. This Agreement shall be binding upon and inure to the benefit of the Company, Seller and their respective successors and permitted assigns. Seller may not assign its rights hereunder or any interest herein without the prior written consent of the Company and the Agent; subject to Section 9.11, the Company may not assign its rights hereunder or any interest herein without the prior written consent of Seller and the Agent. The Agreement shall create and constitute the continuing obligations of the parties hereto in accordance with its terms, and shall remain in full force and effect until the date after the Sale Termination Date on which Seller has received payment in full for all Receivables and Related Rights conveyed pursuant to Section 1.1 hereof and has paid and performed all of its obligations hereunder in full. The rights and remedies with respect to any breach of any representation and warranty made by Seller pursuant to Article V and the indemnification and payment provisions of Article VIII and Section 9.6 shall be continuing and shall survive any termination of this Agreement.

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SECTION 9.5. GOVERNING LAW. THIS AGREEMENT, INCLUDING THE RIGHTS AND DUTIES OF THE PARTIES HERETO, SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK WITHOUT REFERENCE TO PRINCIPLES OF CONFLICTS OF LAW, EXCEPT TO THE EXTENT THAT THE PERFECTION OF THE INTERESTS OF THE COMPANY IN THE RECEIVABLES OR RELATED RIGHTS IS GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF NEW YORK.

SECTION 9.6. COSTS, EXPENSES AND TAXES. In addition to the obligations of Seller under Article VIII, Seller agrees to pay on demand:

(a) all reasonable costs and expenses, including attorneys' fees, in connection with the enforcement against Seller of this Agreement and the other Transaction Documents executed by Seller; and

(b) all stamp and other similar taxes and fees payable or determined to be payable in connection with the execution, delivery, filing and recording of this Agreement or the other Transaction Documents, and agrees to indemnify each Sale Indemnified Party against any liabilities with respect to or resulting from any delay in paying or omission to pay such taxes and fees.

SECTION 9.7. SUBMISSION TO JURISDICTION. EACH PARTY HERETO HEREBY IRREVOCABLY (A) SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE OR UNITED STATES FEDERAL COURT SITTING IN THE STATE OF NEW YORK, OVER ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY TRANSACTION DOCUMENT; (B) AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH STATE OR UNITED STATES FEDERAL COURT; (C) WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO UNDER APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING; (D) CONSENTS TO THE SERVICE OF ANY AND ALL PROCESS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES OF SUCH PROCESS TO SUCH PERSON AT ITS ADDRESS SPECIFIED IN SECTION 9.2; AND (E) TO THE EXTENT ALLOWED BY LAW, AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS SECTION 9.7 SHALL AFFECT THE COMPANY'S RIGHT TO SERVE LEGAL PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO BRING ANY ACTION OR PROCEEDING AGAINST SELLER OR ITS PROPERTY IN THE COURTS OF ANY OTHER JURISDICTIONS.

SECTION 9.8. WAIVER OF JURY TRIAL. EACH PARTY HERETO EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT, OR UNDER ANY AMENDMENT, INSTRUMENT OR DOCUMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR ARISING FROM ANY RELATIONSHIP EXISTING IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER TRANSACTION DOCUMENT, AND AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

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SECTION 9.9. CAPTIONS AND CROSS REFERENCES; INCORPORATION BY REFERENCE. The various captions (including, without limitation, the table of contents) in this Agreement are included for convenience only and shall not affect the meaning or interpretation of any provision of this Agreement. References in this Agreement to any underscored Section or Exhibit are to such Section or Exhibit of this Agreement, as the case may be. The Exhibits hereto are hereby incorporated by reference into and made a part of this Agreement.

SECTION 9.10. EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be as effective as delivery of a manually executed counterpart of a signature page to this Agreement.

SECTION 9.11. ACKNOWLEDGMENT AND AGREEMENT. By execution below, Seller expressly acknowledges and agrees that all of the Company's rights, title, and interests in, to, and under this Agreement shall be assigned by the Company to the Agent and the Lenders pursuant to the Credit and Security Agreement (and the Agent and the Lenders may further assign such rights in accordance with the Credit and Security Agreement), and Seller consents to such assignment. Each of the parties hereto acknowledges and agrees that the Agent and the Lenders are third party beneficiaries of the rights of the Company arising hereunder and under the other Transaction Documents to which Seller is a party as seller.

SECTION 9.12. NO PROCEEDINGS. Seller agrees that it shall not institute against the Company, or join any other Person in instituting against the Company, any insolvency proceeding (namely, any proceeding of the type referred to in the definition of Event of Bankruptcy) as long as there shall not have elapsed one year plus one day since the Final Payout Date. The foregoing shall not limit Seller's right to file any claim in or otherwise take any action with respect to any insolvency proceeding that was instituted by any Person other than Seller.

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IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PACKAGING CREDIT COMPANY, LLC

By \_\_\_\_\_ /s/ Darla J. Vanas  
 Name Printed: Darla J. Vanas  
 Title: Assistant Secretary  
 & Tax Director  
 \_\_\_\_\_

PACKAGING RECEIVABLES COMPANY, LLC

By \_\_\_\_\_ /s/ Darla J. Vanas  
 Name Printed: Darla J. Vanas  
 Title: Assistant Secretary  
 & Tax Director  
 \_\_\_\_\_

PSA Signature Page

EXHIBIT A  
 PURCHASE AND SALE AGREEMENT  
 PURCHASE REPORT

PACKAGING CREDIT COMPANY, LLC  
 PACKAGING RECEIVABLES COMPANY, LLC  
 as of (Date)

		CUT-OFF DATE
Total Receivables	\$	Input
Initial Contributed Receivables	\$	Fixed
Aggregate Unpaid Balance of Receivables	AUB \$	Calculated
LIBOR		Input
Turnover Days		Input
12 Month Losses	\$	Input
12 Month Collections	\$	Input
Purchaser's Total Investment	PTI	Fixed
Cost Rate (LIBOR + 1.00%)	CR	Calculated
Cost Discount (DSO/360)*CR	CD	Calculated

Loss Discount (12 Month Losses/12 Month Collections)	LD	Calculated
Fair Market Value Discount (CD + LD)	FMVD	Calculated
Purchase Price (AUB - (AUB*FMVD))	PP	Calculated
Eligible Receivables	\$	Input
Ineligible Receivables	\$	Input

EXHIBIT B  
PROMISSORY NOTE  
(NON-NEGOTIABLE SELLER NOTE)

[Effective Date]

FOR VALUE RECEIVED, the undersigned, Packaging Receivables Company, LLC, a Delaware limited liability company (the "COMPANY"), promises to pay to Packaging Credit Company, LLC, a Delaware limited liability company ("SELLER"), on the terms and subject to the conditions set forth herein and in the Purchase Agreement referred to below, the principal sum of the aggregate unpaid Purchase Price of all Receivables purchased from time to time by the Company from Seller pursuant to such Purchase Agreement, as such unpaid Purchase Price is shown in the records of Seller.

1. PURCHASE AGREEMENT. This promissory note (this "SELLER NOTE") is the Seller Note described in, and is subject to the terms and conditions set forth in, that certain Purchase and Sale Agreement of even date herewith (as the same may be amended or otherwise modified from time to time, the "PURCHASE AGREEMENT"), between Seller and the Company. Reference is hereby made to the Purchase Agreement for a statement of certain other rights and obligations of Seller and the Company.

2. DEFINITIONS. Capitalized terms used (but not defined) herein have the meanings assigned thereto in the Purchase Agreement and in Appendix A to the Credit and Security Agreement dated as of even date herewith among Seller, as initial Servicer, the Company, Blue Ridge Asset Funding Corporation and Wachovia Bank, N.A., as Agent (as it may be amended or otherwise modified from time to time, the "CREDIT AND SECURITY AGREEMENT"). In addition, as used herein, the following terms have the following meanings:

**BANKRUPTCY PROCEEDINGS:** As defined in clause (b) of paragraph 9 hereof.

**FINAL MATURITY DATE:** The date that is one year and one day following the Final Payout Date.

**INTEREST PERIOD:** The period from and including a Reporting Date (or, in the case of the first Interest Period, the date hereof) to but excluding the next Reporting Date.

**SENIOR INTEREST:** Collectively, (i) the obligation of the Company and the Servicer to set aside, and to turn over, Collections and other proceeds of the Receivables for the benefit of the Agent and Lenders pursuant to the Credit and Security Agreement, (ii) any Indemnified Amounts and (iii) all other obligations of the Company that are due and payable to any Affected Party, together with all interest accruing on any such amounts after the commencement of any Bankruptcy Proceedings, notwithstanding any provision or rule of law that might restrict the rights of any Senior Interest Holder, as against the Company of anyone else, to collect such interest.

**SENIOR INTEREST HOLDERS:** Collectively, the Lenders, the Agent, the other Affected Parties and the Indemnified Parties.

3. INTEREST. Subject to the provisions set forth below, the Company promises to pay interest on this Seller Note as follows:

(a) Prior to the Final Payout Date, the aggregate unpaid Purchase Price from time to time outstanding during any Interest Period shall bear interest at a rate per annum equal to the LIBO Rate as in effect from time to time on the first Business Day of each Settlement Period, as determined by Seller, plus 1.00%; and

(b) From (and including) the Final Payout Date to (but excluding) the

date on which the entire aggregate unpaid Purchase Price is fully paid, the aggregate unpaid Purchase Price from time to time outstanding shall bear interest at a rate per annum equal to the LIBO Rate as in effect from time to time on the first Business Day of each Settlement Period, as determined by Seller, plus 1.00%,

but in no event in excess of the maximum rate permitted by law. In the event that, contrary to the intent of Seller and Company, Company pays interest hereunder and it is determined that such interest rate was in excess of the then legal maximum rate, then that portion of the interest payment representing an amount in excess of the then legal maximum rate shall be deemed a payment of principal and applied against the principal then due hereunder.

4. INTEREST PAYMENT DATES. Subject to the provisions set forth below, the Company shall pay accrued interest on this Seller Note on each Settlement Date, and shall pay accrued interest on the amount of each principal payment made in cash on a date other than a Settlement Date at the time of such principal payment.

5. BASIS OF COMPUTATION. Interest accrued hereunder shall be computed for the actual number of days elapsed on the basis of a 360-day year.

6. PRINCIPAL PAYMENT DATES. Subject to the provisions set forth below, payments of the principal amount of this Seller Note shall be made as follows:

(a) The principal amount of this Seller Note shall be reduced from time to time pursuant to Sections 3.2, 3.3, 3.4 and 7.2 of the Purchase Agreement;

(b) The entire remaining unpaid balance of this Seller Note shall be paid on the Final Maturity Date.

Subject to the provisions set forth below, the principal amount of and accrued interest on this Seller Note may be prepaid on any Business Day without premium or penalty.

7. PAYMENTS. All payments of principal and interest hereunder are to be made in lawful money of the United States of America.

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8. ENFORCEMENT EXPENSES. In addition to and not in limitation of the foregoing, but subject to the provisions set forth below and to any limitation imposed by applicable law, the Company agrees to pay all expenses, including reasonable attorneys' fees and legal expenses, incurred by Seller in seeking to collect any amounts payable hereunder which are not paid when due.

9. PROVISIONS REGARDING RESTRICTIONS ON PAYMENT. The Company covenants and agrees, and Seller, by its acceptance of this Seller Note, likewise covenants and agrees on behalf of itself and any holder of this Seller Note, that the payment of the principal amount of, and interest on, this Seller Note is hereby expressly subject to certain restrictions set forth in the following clauses of this paragraph 9:

(a) No payment or other distribution of the Company's assets of any kind or character, whether in cash, securities, or other rights or property, shall be made on account of this Seller Note except to the extent such payment or other distribution is permitted under the Purchase Agreement and the Credit and Security Agreement;

(b) In the event of any dissolution, winding up, liquidation, readjustment, reorganization or other similar event relating to the Company, whether voluntary or involuntary, partial or complete, and whether in bankruptcy, insolvency or receivership proceedings, or upon an assignment for the benefit of creditors, or any other marshaling of the assets and liabilities of the Company or any sale of all or substantially all of the assets of the Company (such proceedings being herein collectively called "BANKRUPTCY PROCEEDINGS"), the Senior Interest shall first be paid and performed in full and in cash before Seller shall be entitled to receive and to retain any payment or distribution in respect to this Seller Note. In order to implement the foregoing, Seller hereby irrevocably agrees that the Agent, in the name of Seller or otherwise, may demand, sue for, collect, receive and receipt for any and all such payments or distributions, and the file, prove and vote or consent in any such Bankruptcy Proceedings with respect to any and all claims of Seller relating to this Seller Note, in each case until the Senior Interest shall have been paid and performed in full and in cash;

(c) In the event that the Seller receives any payment or other distribution of any kind or character from the Company or from other source

whatsoever, in respect of this Seller Note, other than as expressly permitted by the terms of this Seller Note, such payment or other distribution shall be received for the sole benefit of the Senior Interest Holders and shall be turned over by Seller to the Agent (for the benefit of the Senior Interest Holders) forthwith;

(d) Notwithstanding any payments or distributions received by the Senior Interest Holders in respect of this Seller Note, Seller shall not be subrogated to the rights of the Senior Interest Holders in respect of the Senior Interest;

(e) The provisions set forth in this Section 9 are intended solely for the purpose of defining the relative rights of Seller, on the one hand, and the Senior Interest Holders on the other hand;

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(f) Seller shall not, until Final Payout Date, transfer, pledge or assign, or commence legal proceedings to enforce or collect this Seller Note or any rights in respect hereof except as required by the Senior Credit Agreement;

(g) Seller shall not, without the advance written consent of the Agent, commence, take any action to cause any other Person to commence, or join with any other Person in commencing, any Bankruptcy Proceedings with respect to the Company until the Final Payout Date shall have occurred;

(h) If, at any time, any payment (in whole or in part) of any Senior Interest is rescinded or must be restored or returned by a Senior Interest Holder (whether in connection with Bankruptcy Proceedings or otherwise), these provisions shall continue to be effective or shall be reinstated, as the case may be, as though such payment had not been made;

(i) Seller hereby waives; (i) notice of acceptance of these provisions by any of the Senior Interest Holders; (ii) notice of the existence, creation, non-payment or non-performance of all or any of the Senior Interest; and (iii) all diligence in enforcement, collection or protection of, or realization upon, the Senior Interest, or any thereof, or any security therefor;

(j) These provisions constitute a continuing offer from the holder of this Seller Note to all Persons who become the holders of, or who continue to hold, the Senior Interest; and these provisions are made for the benefit of the Senior Interest Holders, and the Agent or the Lenders may proceed to enforce such provisions on behalf of each of such Persons.

10. GENERAL. No failure or delay on the part of Seller in exercising any power or right hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power of right preclude any other or further exercise thereof or the exercise of any other power or right. No amendment, modification or waiver of, or consent with respect to, any provision of this Seller Note shall in any event be effective unless (i) the same shall be in writing and signed and delivered by the Company and Seller and (ii) all consent required for such actions under the Transaction Documents shall have been received by the appropriate Persons.

11. NO NEGOTIATION. This Seller Note is not negotiable.

12. GOVERNING LAW. THIS PROMISSORY NOTE SHALL BE DEEMED TO BE A CONTRACT MADE UNDER AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

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13. CAPTIONS. Paragraph captions used in this Seller Note are for convenience only and shall not affect the meaning or interpretation of any provision of this Seller Note.

PACKAGING RECEIVABLES COMPANY, LLC

By \_\_\_\_\_  
Name Printed: \_\_\_\_\_  
Title: \_\_\_\_\_

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EXHIBIT C  
OFFICE LOCATION WHERE RECORDS ARE KEPT

1900 West Field Court  
Lake Forest, Illinois 60045

[LIST OTHER LOCATIONS]

1001 113th Street  
Arlington, TX 76011

1610 Winbourne Ct.  
North Little Rock, AR 72116

21 Leigh Fisher Blvd.  
El Paso, TX 79906

2510 West Miller Road  
Garland, TX 75041

4240 Bandini Blvd.  
Vernon, CA 90023

9200 Old McGregor Road  
Waco, TX 76712

2325 C Statham Blvd.  
Oxnard, CA 93033

441 S. 53rd Avenue  
Phoenix, AZ 85043

1800 E. Plano Parkway  
Plano, TX 75074

4654 W. 1525 South  
Salt Lake City, UT 84104

460 W. 500 South  
Salt Lake City, UT 84101

9700 Frontage Road  
Southgate, CA 90280

2246 Udell Street  
Filer City, MI 49634

1824 Baltimore Street  
Middletown, OH 45055

555 Metro Place North  
Suite 500  
Dublin, OH 43017

6247 Pine Street  
Burlington, WI 53105

5600 West Good Hope Rd.  
Milwaukee, WI 53223

901 Grimes Blvd.  
Lexington, NC 27292

114 Dixie Blvd.  
Morganton, NC 28655

6245 Woodlore Drive  
Acworth, GA 30101

1302 N. Salisbury Ave.  
Salisbury, NC 28144

3200 Lakewood Ave. S.W.  
East Point, GA 30344

305 Van Buren Road  
Bolivar, TN 38008

2313 N. William St.

Goldsboro, NC 27530

212 Roelee St.  
Trinity, NC 27370

12105 Belton Honea Path Hwy.  
Honea Path, SC 29654

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Highway 178  
Donalds, SC 29654

112 Edwards Drive  
Jackson, TN 38301

3936 Fountain Valley Lane  
Knoxville, TN 37918

3240 Brittain Drive  
Newberry, SC 29108

3200 Hipack Drive  
Opelika, AL 36801

4300 Cheyene Drive  
Archdale, NC 27263

321 Industrial Park Rd.  
Rutherfordton, NC 28139

Highway 57  
P.O. Box 33  
Counce, TN 38326

N9090 County Road E  
Tomahawk, WI 54487

5495 Lake Park  
Clyarrville Road  
Clyarrville, GA 31601

32745 J Avenue  
Beaman, IA 50609

1201 Cornerstone Drive  
Windsor, CO 80550

3200 N. Lake Shore Drive  
#2702  
Chicago, IL 60657

1110 Military Road  
Buffalo, NY 14217

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705 South Division Street  
Colby, WI 54421

502 W. Center Street  
Conrad, IA 50621

5501 Brighton Blvd.  
Commerce City, CO 80022

7953 N.E. Beech Street  
Fridley, MN 55432

4300 Highway 55  
Golden Valley, MN 55422

1402 South 17th Ave.  
Marshalltown, IA 50158

1821 NE Marshall St.  
Minneapolis, MN 55418

400 S. 45th Street East

Muskogee, OK 74403

10854 Leroy Drive  
Northglenn, CO 80233

1002 Missouri Ave.  
Omaha, NE 68107

6363 John J. Pershing Drive  
Omaha, NE 68110

789 Elmgrove Rd.  
Bldg. #10  
Rochester, NY 14624

2262 B Bluestone Hills Dr.  
Harrisonburg, VA 22801

659 Eastport Road  
Jacksonville, FL 32218

1200 W. Pike St.  
Grafton, WV 26354

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400 Pleasant Valley Road  
Harrisonburg, VA 22801

2000 Jefferson Davis Hwy.  
Richmond, VA 23224

1005 Industry Circle S.E.  
Roanoke, VA 24013

2155 42nd Street NW  
Winter Haven, FL 33881

109 Arrowhead Drive  
Bldg. 2  
Manheim, PA 17545

3785 Bryn Mawr Street  
Orlando, FL 32808

54 Shutterlee Mill Lane  
Staunton, VA 24401

1805 Colonial Drive  
Thomasville, GA 31792

217 Peach Street  
Vineland, NJ 08360

24 Park Side Ave.  
West Springfield, MA 01089

208 Lenoir Drive  
Winchester, VA 22603

708 Killian Road  
Akron, OH 44319

929 Faultless Drive  
Ashland, OH 44805

520 South First Street  
Gas City, IN 46933

P.O. Box 127  
Middletown, OH 45042

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P.O. Box 4610  
Newark, OH 43058

One 28th Street  
Pittsburgh, PA 15222



408 East St. Clair  
Vincennes, IN 47591

533 Mt. Tom Road  
Northampton, MA 01060

5405 Glenway Drive  
Brighton, MI 48116

925 North Godfrey Street  
Allentown, PA 18103

8301 Sherwick Court  
Jessup, MD 20794

33 Glenn Avenue  
Chelmsford, MA 01824

1106 Industrial Park Drive  
Edmore, MI 48829

3251 Chicago Drive S.W.  
Grandville, MI 49418

435 Gitts Run Road  
Hanover, PA 17331

1530 Fruitville Pike  
Lancaster, PA 17601

525 Mt. Tom Road  
Northampton, MA 01060

936 Sheldon Road  
Plymouth, MI 48170

4471 Steelway Blvd. South  
Liverpool, NY 13088

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2207 Traversfield Drive  
Traverse City, MI 49686

7451 Cetronia Road  
Allentown, PA 18106

20400 Old Rome State Rd.  
Watertown, NY 13601

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SCHEDULE 5.1 (n)  
TRADE NAMES

None

SCHEDULE 9.2  
NOTICE ADDRESSES

Seller: 1900 West Field Court  
Lake Forest, Illinois 60045  
Attn: Fran Horl  
Telephone: 847-482-3719  
Telecopy: 847-482-4516

Company: 1900 West Field Court  
Lake Forest, Illinois 60045  
Attn: Fran Horl  
Telephone: 847-482-3719  
Telecopy: 847-482-4516

[LOCK-BOX BANK]

Ladies and Gentlemen:

Reference is made to our lockbox account no. \_\_\_\_\_ maintained with you (the "ACCOUNT") pursuant to a lockbox agreement between the undersigned and you, the terms and conditions of which are incorporated herein by reference (the "LOCKBOX AGREEMENT"). Pursuant to a Receivables Sale Agreement, dated as of November 29, 2000, as amended, supplemented or otherwise modified from time to time (the "SALE AGREEMENT"), between Packaging Corporation of America ("PCA" or "WE") and Packaging Credit Company, LLC ("PCC"), as purchaser thereunder, PCC has purchased and/or may hereafter purchase certain of the accounts chattel paper, instruments or general intangibles (collectively "RECEIVABLES") with respect to which payments are or may hereafter be made to the Account. Further, pursuant to a Purchase and Sale Agreement, dated as of November 29, 2000, as amended, supplemented or otherwise modified from time to time, between PCC, as seller, and Packaging Receivables Company, LLC ("PURCHASER"), as purchaser, PCC has sold and/or may hereafter sell to Purchaser Receivables PCC purchased pursuant to the Sale Agreement with respect to which payments are or may hereafter be made to the Account. Pursuant to a Credit and Security Agreement, dated as of November 29, 2000 (as amended, supplemented or otherwise modified from time to time, the "CREDIT AGREEMENT"), among Purchaser, as borrower, PCC, as initial servicer (Purchaser and the undersigned being referred to hereinafter collectively as the "SELLER PARTIES"), Blue Ridge Asset Funding Corporation ("BLUE RIDGE"), as lender and Wachovia Bank, N.A., individually as a lender (collectively with Blue Ridge and any other entity that becomes a lender under the Credit Agreement, the "LENDERS") and as Agent (the "AGENT") for Blue Ridge and itself, Purchaser has assigned and/or may hereafter assign to Agent, for the benefit of lenders, interest in the Receivables as collateral for loans made by the Lenders thereunder.

For purposes of this letter agreement, Wachovia Bank, N.A. is acting as Agent for Lenders. We hereby transfer exclusive ownership and control of the Account to the Agent, for the benefit of Lenders, subject only to the condition subsequent that the Agent shall have given you notice of its election to assume such ownership and control, which notice shall be substantially in the form attached hereto as Annex A.

We hereby authorize and direct you to change the ownership of the Account to the Purchaser. We hereby irrevocably instruct you, at all times from and after the date of your

receipt of notice from the Agent of its assumption of control of the Account as described above, (i) to make all payments to be made by you out of or in connection with the Account directly to the Agent in accordance with the instructions of the Agent, (ii) to hold all moneys and instruments delivered to the Account or any lockbox administered by you for the order of the Agent (for the benefit of Lenders), (iii) to refrain from initiating any transfer from the Account to any Seller Party and (iv) to change the name of the Account to "Wachovia Bank, N.A., as Agent". The Agent agrees to execute you standard wire transfer documentation in effect from time to time, or other customary documentation related to wire transfers, prior to the initiation of any wire transfers.

We also hereby notify you that, at all times from and after the date of your receipt of notice from the Agent as described above, the Agent shall be irrevocably entitled to exercise in our place and stead any and all rights in respect of or in connection with the Account, including, without limitation, (a) the right to specify when payments are to be made out of or in connection with the Account and (b) the right to require preparation of duplicate monthly bank statements on the Account for the Agent's audit purposes and mailing of such statements directly to the Agent at an address specified by the Agent.

Notices from the Agent and other notices or communications under this letter agreement may be personally served or sent by facsimile or by certified mail, return receipt requested, or by express mail or courier, to the address or facsimile number set forth under the signature of the relevant party to this letter agreement (or to such other address or facsimile number as the relevant party shall have designated by written notice to the party giving the aforesaid notice or other communication). Notwithstanding the foregoing, any notice delivered by you may be delivered by regular mail. If notice is given by facsimile, it will be deemed to have been received when the notice is sent and receipt is confirmed by telephone or other electronic means. All other notices will be deemed to have been received when actually received or, in the case of personal delivery, delivered.

By executing this letter agreement, you acknowledge the existence of the Agent's right to ownership and control of the Account and its ownership (on behalf of Lenders and Purchaser as the parties having interests in such amounts) of the amounts from time to time on deposit therein, and agree that from the date hereof the Account shall be maintained by you for the benefit of, and amounts from time to time therein held by you for, the Agent (on behalf of Lenders and Purchaser) on the terms provided herein. Except as otherwise provided in this letter agreement, payments to the Account are to be processed in accordance with the standard procedures currently in effect. All service charges and fees with respect to the Account shall continue to be payable by us under the arrangements currently in effect.

By executing this letter agreement, you irrevocably waive and agree not to assert, claim or endeavor to exercise, irrevocably bar and estop yourself from asserting, claiming or exercising, and acknowledge that you have not heretofore received a notice, writ, order or any form of legal process from any other party asserting, claiming or exercising, any rights of set-off, banker's lien or other purported form of claim with respect to the Account or any funds from time to time therein. Except for your right to payment of your service charges and fees and your right to make deductions for returned items, you shall have no rights in the Account or funds

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therein. To the extent you may ever have such rights, you hereby expressly subordinate all such rights to all rights of the Agent.

You may terminate this letter agreement by canceling the Account maintained with you, which cancellation and termination shall become effective only upon 90 days' prior written notice thereof from you to the Agent. Incoming mail addressed to the Account received after such cancellation shall be forwarded in accordance with the Agent's instructions. This letter agreement may also be terminated upon written notice to you by the Agent stating that the Credit Agreement is no longer in effect. Except as otherwise provided in this paragraph, this letter agreement may not be terminated or amended without the prior written consent of the Agent.

Notwithstanding any other provision of this letter agreement, it is agreed by the parties hereto that you shall not be liable to Lenders or the Agent for the any action taken by you or any of your directors, officer, agents or employees in accordance with this letter agreement at the request of the Agent, except for your or such person's own gross negligence or willful misconduct.

This letter agreement may be executed by the signatories hereto in several counterparts, each of which shall be deemed to be an original and all of which shall together constitute but one and the same letter agreement. This letter agreement shall be governed by and interpreted under the laws of the State of [\_\_\_\_\_].

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Please acknowledge your agreement to the terms set forth in this letter agreement by signing the six copies of this letter agreement enclosed herewith in the space provided below and returning each of such signed copies to the Agent.

Very truly yours,

PACKAGING CORPORATION OF AMERICA

By:

-----  
Title:  
-----

Address for notice:  
-----  
-----  
-----

Attention:  
-----

Facsimile No.:  
-----

Accepted and confirmed as of

the date first written above:

WACHOVIA BANK, N.A.,  
as Agent

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for notice:  
- \_\_\_\_\_  
- \_\_\_\_\_  
- \_\_\_\_\_

Attention: \_\_\_\_\_  
Facsimile No.: \_\_\_\_\_

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Acknowledged and agreed to as of  
the date first written above:

PACKAGING RECEIVABLES COMPANY, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for notice:  
- \_\_\_\_\_  
- \_\_\_\_\_  
- \_\_\_\_\_

Attention: \_\_\_\_\_  
Facsimile No.: \_\_\_\_\_

PACKAGING CREDIT COMPANY, LLC

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for notice:  
- \_\_\_\_\_  
- \_\_\_\_\_  
- \_\_\_\_\_

Attention: \_\_\_\_\_  
Facsimile No.: \_\_\_\_\_

[LOCKBOX BANK]

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Address for notice:  
- \_\_\_\_\_  
- \_\_\_\_\_  
- \_\_\_\_\_

Attention:

-----  
Facsimile No.:  
-----

ANNEX A TO  
LOCKBOX AGREEMENT

[Form of Notice of Assumption of Control of Account]

[Letterhead of Wachovia Bank, N.A.]

\_\_\_\_\_, \_\_\_\_\_

-----  
-----  
-----  
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Re:                                      Seller  
    Lockbox Account No.  
    -----

Ladies and Gentlemen:

Reference is made to the letter agreement dated \_\_\_\_\_, \_\_\_\_\_  
(as amended, supplemented or otherwise modified from time to time, the "LETTER  
AGREEMENT") among Seller, Packaging Receivables Company, LLC, Packaging  
Corporation of America, Packaging Credit Company, LLC, Blue Ridge Asset Funding  
Corporation ("BLUE RIDGE"), Wachovia Bank, N.A., and you, concerning the above  
described lockbox account (the "ACCOUNT").

We hereby give you notice of our assumption of ownership and control of the  
Account as provided in the Letter Agreement.

We hereby instruct you to make all payments to be made by you out of or in  
connection with the Account [DIRECTLY TO THE UNDERSIGNED, AT [OUR ADDRESS SET  
FORTH ABOVE], for the account of the Lenders (account no. \_\_\_\_\_ ).

[OTHER INSTRUCTIONS]

Very truly yours,

WACHOVIA BANK, N.A., as Agent

By

-----  
Name:

-----  
Title:

-----

## SUBSIDIARIES OF THE REGISTRANT

- o Dixie Container Corporation
  - State of Incorporation: Virginia
  - Other trade names used: none
- o PCA Hydro, Inc.
  - State of Incorporation: Delaware
  - Other trade names used: none
- o PCA International, Inc.
  - State of Incorporation: Delaware
  - Other trade names used: none
- o Packaging Credit Company, LLC
  - State of Incorporation: Delaware
  - Other trade names used: none
- o Packaging Receivables Company, LLC
  - State of Incorporation: Delaware
  - Other trade names used: none

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-33176) pertaining to the Packaging Corporation of America Thrift Plan for Hourly Employees, Packaging Corporation of America Retirement Savings Plan for Salaried Employees and Packaging Corporation of America 1999 Long-Term Equity Incentive Plan of our report dated July 16, 1999 for the period ended April 11, 1999, included in Packaging Corporation of America's Form 10-K for the year ended December 31, 2001 and to all references to our Firm included in this registration statement.

ARTHUR ANDERSEN LLP

Chicago, Illinois  
March 19, 2002

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-33176) pertaining to the Packaging Corporation of America Thrift Plan for Hourly Employees, Packaging Corporation of America Retirement Savings Plan for Salaried Employees and Packaging Corporation of America 1999 Long-Term Equity Incentive Plan of our report dated January 18, 2002, with respect to the consolidated financial statements and schedule of Packaging Corporation of America included in its Annual Report (Form 10-K) for the year ended December 31, 2001, filed with the Securities and Exchange Commission.

ERNST & YOUNG LLP

Chicago, Illinois  
March 18, 2002



SPECIAL POWER OF ATTORNEY

The undersigned constitutes and appoints Paul T. Stecko, Richard B. West and Samuel M. Mencoﬀ, and each of them, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission by Packaging Corporation of America, a Delaware corporation, together with any and all amendments to such Form 10-K, and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or each of them, may lawfully do or cause to be done by virtue hereof.

DATED: March 19, 2002

/s/ PAUL T. STECKO  
-----  
Paul T. Stecko

SPECIAL POWER OF ATTORNEY

The undersigned constitutes and appoints Paul T. Stecko, Richard B. West and Samuel M. Mencoﬀ, and each of them, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission by Packaging Corporation of America, a Delaware corporation, together with any and all amendments to such Form 10-K, and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or each of them, may lawfully do or cause to be done by virtue hereof.

DATED: March 19, 2002

/s/ RICHARD B. WEST  
-----  
Richard B. West

SPECIAL POWER OF ATTORNEY

The undersigned constitutes and appoints Paul T. Stecko, Richard B. West and Samuel M. Mencoﬀ, and each of them, his true and lawful attorney-in-fact and agent with full power of substitution and resubstitution, for him and in his name, place, and stead, in any and all capacities, to sign the Annual Report on Form 10-K for the fiscal year ended December 31, 2001, for filing with the Securities and Exchange Commission by Packaging Corporation of America, a Delaware corporation, together with any and all amendments to such Form 10-K, and to file the same with all exhibits thereto, and all documents in connection therewith, with the Securities and Exchange Commission, granting to such attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in

and about the premises, as fully and to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that such attorneys-in-fact and agents, or each of them, may lawfully do or cause to be done by virtue hereof.

DATED: March 19, 2002

/s/ SAMUEL M. MENCOFF

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Samuel M. Mencoff

SPECIAL POWER OF ATTORNEY

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DATED: March 19, 2002

/s/ JUSTIN S. HUSCHER

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Justin S. Huscher

SPECIAL POWER OF ATTORNEY

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DATED: March 19, 2002

/s/ THOMAS S. SOULELES

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Thomas S. Souleles

SPECIAL POWER OF ATTORNEY

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DATED: March 19, 2002

/s/ HENRY F. FRIGON

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Henry F. Frigon

SPECIAL POWER OF ATTORNEY

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DATED: March 19, 2002

/s/ RAYFORD K. WILLIAMSON

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Rayford K. Williamson

SPECIAL POWER OF ATTORNEY

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DATED: March 19, 2002

/s/ LOUIS A. HOLLAND

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Louis A. Holland