PACKAGING CORP OF AMERICA
Form 10-Q
November 10, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2008

or

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

For the transition period from to

Commission file number 1-15399

PACKAGING CORPORATION OF AMERICA
(Exact Name of Registrant as Specified in its Charter)

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

(847) 482-3000
(Registrant s telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of November 6, 2008, the Registrant had outstanding 102,397,952 shares of common stock, par value $0.01 per share.

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PART I
FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

Packaging Corporation of America
Condensed Consolidated Balance Sheets
(Unaudited)

(In thousands, except share and per share amounts)	September 30, 2008	December 31, 2007 (Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 147,967	$ 228,143
Accounts receivable, net of allowance for doubtful accounts and customer deductions of $6,618 and $5,651 as of September 30, 2008 and December 31, 2007, respectively	305,894	275,921
Inventories	209,154	204,356
Prepaid expenses and other current assets	13,809	6,702
Deferred income taxes	23,714	17,915
Total current assets	700,538	733,037
Property, plant and equipment, net	1,200,445	1,215,298
Goodwill	37,163	37,163
Other intangible assets, net	12,937	13,753
Other long-term assets	38,347	36,606
Total assets	$ 1,989,430	$ 2,035,857
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 109,055	$ 278,747
Accounts payable	138,315	132,197
Dividends payable	31,097	31,534
Accrued interest	4,378	12,828
Accrued federal and state income taxes	13,630	6,062
Accrued liabilities	110,043	101,209
Total current liabilities	406,518	562,577
Long-term liabilities:		
Long-term debt	548,313	398,501
Deferred income taxes	237,834	240,707
Pension and postretirement benefit plans	36,671	48,284
Other long-term liabilities	27,124	24,927
Total long-term liabilities	849,942	712,419
Stockholders equity:		

Common stock, par value $.01 per share, 300,000,000 shares authorized, 103,519,652 shares and 105,018,679 shares issued as of September 30, 2008 and December 31, 2007, respectively	1,035	1,050
Additional paid in capital	398,047	432,916
Retained earnings	345,921	334,060
Accumulated other comprehensive income (loss):		
Unrealized gain on treasury lock, net	6,820	13,151
Unfunded employee benefit obligations, net	(18,841)	(20,313)
Cumulative foreign currency translation adjustment		(3)
Total accumulated other comprehensive income (loss)	(12,021)	(7,165)
Common stock held in treasury, at cost (500 shares as of September 30, 2008)	(12)	
Total stockholders equity	732,970	760,861
Total liabilities and stockholders equity	$ 1,989,430	$ 2,035,857

See notes to condensed consolidated financial statements.

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

(In thousands, except per share amounts)	Three Months Ended September 30, 2008	2007
Net sales	$ 620,785	$ 591,041
Cost of sales	(488,890)	(451,483)
Gross profit	131,895	139,558
Selling and administrative expenses	(44,792)	(42,027)
Corporate overhead	(15,728)	(13,964)
Other expense, net	(2,670)	(2,077)
Income from operations	68,705	81,490
Interest expense, net	(8,071)	(5,747)
Income before taxes	60,634	75,743
Provision for income taxes	(22,532)	(27,087)
Net income	$ 38,102	$ 48,656
Weighted average common shares outstanding:		
Basic	102,562	104,648
Diluted	103,590	105,604
Net income per common share:		
Basic	$ 0.37	$ 0.46
Diluted	$ 0.37	$ 0.46
Dividends declared per common share	$ 0.30	$ 0.25

See notes to condensed consolidated financial statements.

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

(In thousands, except per share amounts)	**Nine Months Ended September 30, 2008**	**2007**
Net sales	$ 1,814,442	$ 1,735,828
Cost of sales	(1,437,245)	(1,343,173)
Gross profit	377,197	392,655
Selling and administrative expenses	(131,913)	(126,804)
Corporate overhead	(43,386)	(41,603)
Other expense, net	(11,874)	(5,838)
Income from operations	190,024	218,410
Interest expense, net	(22,571)	(19,807)
Income before taxes	167,453	198,603
Provision for income taxes	(62,086)	(72,529)
Net income	$ 105,367	$ 126,074
Weighted average common shares outstanding:		
Basic	103,147	104,462
Diluted	104,048	105,433
Net income per common share:		
Basic	$ 1.02	$ 1.21
Diluted	$ 1.01	$ 1.20
Dividends declared per common share	$ 0.90	$ 0.75

See notes to condensed consolidated financial statements.

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Packaging Corporation of America
Condensed Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30,	
(In thousands)	**2008**	**2007**
Cash Flows from Operating Activities:		
Net income	$ 105,367	$ 126,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	108,827	111,418
Amortization of financing costs	489	515
Amortization of net gain on treasury lock	(1,945)	(2,331)
Share-based compensation expense	7,441	6,514
Deferred income tax provision	(8,903)	(8,305)
Loss on disposals of property, plant and equipment	5,586	2,986
Excess tax benefits from share-based awards		386
Changes in operating assets and liabilities:		
Increase in assets		
Accounts receivable	(29,973)	(37,174)
Inventories	(4,798)	(6,806)
Prepaid expenses and other current assets	(7,133)	(4,374)
Increase (decrease) in liabilities		
Accounts payable	6,118	16,016
Accrued liabilities	1,773	(12,823)
Other, net	(864)	(9,284)
Net cash provided by operating activities	181,985	182,812
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(98,268)	(68,833)
Additions to other long term assets	(2,882)	(1,600)
Proceeds from disposals of property, plant and equipment	952	1,078
Net cash used for investing activities	(100,198)	(69,355)
Cash Flows from Financing Activities:		
Payments on long-term debt	(170,148)	(10,110)
Proceeds from long-term debt issued	149,939	
Financing costs paid	(1,075)	
Settlement of treasury lock	(4,386)	
Common stock dividends paid	(93,960)	(78,711)
Repurchases of common stock	(45,334)	(7,788)
Proceeds from exercise of stock options	2,391	12,863
Excess tax benefits from share-based awards	610	2,598
Net cash used for financing activities	(161,963)	(81,148)
Net increase (decrease) in cash and cash equivalents	(80,176)	32,309

Cash and cash equivalents, beginning of period	228,143	161,837
Cash and cash equivalents, end of period	$ 147,967	$ 194,146

See notes to condensed consolidated financial statements.

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Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

1. Basis of Presentation

The condensed consolidated financial statements as of September 30, 2008 and 2007 of Packaging Corporation of America (PCA or the Company) and for the three- and nine-month periods then ended are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete audited financial statements. Operating results for the period ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. These condensed consolidated financial statements should be read in conjunction with PCA s Annual Report on Form 10-K for the year ended December 31, 2007.

2. Summary of Accounting Policies

Basis of Consolidation

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

Use of Estimates

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

Revenue Recognition

The Company recognizes revenue as title to the products is transferred to customers. Shipping and handling billings to a customer are included in net sales. Shipping and handling costs are included in cost of sales. In addition, the Company offers volume rebates to certain of its customers. The total cost of these programs is estimated and accrued as a reduction to net sales at the time of the respective sale.

Segment Information

PCA is engaged in one line of business: the integrated manufacture and sale of packaging materials, boxes and containers for industrial and consumer markets. No single customer accounts for more than 10% of total net sales.

Comprehensive Income

Comprehensive income is as follows:

	Three Months Ended September 30,	
(In thousands)	**2008**	**2007**
Net income	$ 38,102	$ 48,656
Other comprehensive income, net of tax:		
Amortization of unfunded employee benefit obligations	491	453
Amortization of net gain on treasury lock	(507)	(777)
Comprehensive income	$ 38,086	$ 48,332

Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

2. Summary of Accounting Policies (continued)

	Nine Months Ended September 30,	
(In thousands)	**2008**	**2007**
Net income	$ 105,367	$ 126,074
Other comprehensive income, net of tax:		
Amortization of unfunded employee benefit obligations	1,472	1,357
Amortization of net gain on treasury lock	(1,945)	(2,331)
Settlement of treasury lock	(4,386)	
Cumulative foreign currency translation adjustment	3	
Comprehensive income	$ 100,511	$ 125,100

On June 12, 2003, in connection with a contemplated issuance of five-year and ten-year debt securities, PCA entered into interest rate protection agreements with a counterparty to protect against increases in the five-year and ten-year U.S. Treasury Note rates. On January 17, 2008, in connection with a contemplated issuance of ten-year debt securities, PCA entered into an interest rate protection agreement with a counterparty to protect against increases in the ten-year U.S. Treasury Note rate. These treasury rates served as references in determining the interest rates applicable to the debt securities the Company issued in July 2003 and March 2008. As a result of changes in the interest rates on those treasury securities between the time PCA entered into the agreements and the time PCA priced and issued the debt securities, the Company: (1) received a payment of $27.0 million from the counterparty upon settlement of the 2003 interest rate protection agreements on July 21, 2003; and (2) made a payment of $4.4 million to the counterparty upon settlement of the 2008 interest rate protection agreement on March 25, 2008. The Company recorded the settlements in accumulated other comprehensive income (loss) and is amortizing the $27.0 million gain and the $4.4 million loss to interest expense over the lives of the respective notes.

Recent Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities will be required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities and its related interpretations, and how derivative instruments and related items affect an entity s financial position, operations and cash flows. SFAS No. 161 is effective as of the beginning of an entity s fiscal year that begins after November 15, 2008. Early adoption is permitted. The Company is assessing SFAS No. 161 and has not yet determined the impact that the adoption of SFAS No. 161 will have on its results of operations.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) significantly changes the accounting for and reporting of business combination transactions in consolidated financial statements. These significant changes include: (1) recognition of 100% of the fair value of assets acquired, liabilities assumed and noncontrolling interests of acquired businesses, even if 100% of the business has not been acquired; (2) recognition of contingent consideration arrangements and preacquisition gain and loss contingencies at their acquisition-date fair values; (3) capitalization of research and development assets acquired at acquisition-date fair value; (4) recognition of acquisition-related transaction costs as expense when incurred; and (5) recognition of acquisition-related restructuring cost accruals only if the criteria in SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, are met as of the acquisition date. SFAS No. 141(R) is effective for fiscal years beginning after December 15, 2008.

Early adoption is not permitted. To the extent the Company makes an acquisition after December 31, 2008, SFAS No. 141(R) will impact the Company s accounting for such acquisition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. Most of the provisions of SFAS No. 159 apply only to entities that elect the fair value option. However, the amendments to SFAS No. 115, Accounting for Certain Investments In Debt and Equity Securities, apply to all entities with available-for-sale and trading securities. SFAS No. 159 was effective as of the beginning of an entity s first fiscal year that began after November 15, 2007. On January 1, 2008, the Company decided not to adopt the fair value option for any of its financial instruments.

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Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

2. Summary of Accounting Policies (continued)

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year end statement of financial position, and provide additional disclosures. These requirements were effective for fiscal years ending after December 15, 2006, with the exception of the requirement to measure plan assets and benefit obligations as of the plan sponsor s fiscal year-end. This requirement is effective for fiscal years ending after December 15, 2008. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The Company will adopt the measurement provision of SFAS No. 158 by December 31, 2008, as required. The cumulative effect of adopting this provision will be recorded in retained earnings and other accounts as applicable. The Company expects that the adoption of the measurement provision of SFAS No. 158 will decrease retained earnings by $3.3 million, increase the obligation for pension and postretirement benefit plans by $5.5 million, and decrease deferred taxes by $2.2 million.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. Under the standard, fair value measurements would be separately disclosed by level within the fair value hierarchy. This Statement was effective for fiscal years beginning after November 15, 2007. The Company adopted SFAS No. 157 on January 1, 2008. For additional information regarding SFAS No. 157, see Note 9.

3. Earnings Per Share

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

	Three Months Ended September 30,	
(In thousands, except per share data)	**2008**	**2007**
Numerator:		
Net income	$ 38,102	$ 48,656
Denominator:		
Basic common shares outstanding	102,562	104,648
Effect of dilutive securities:		
Stock options	438	599
Unvested restricted stock	590	357
Dilutive common shares outstanding	103,590	105,604
Basic income per common share	$ 0.37	$ 0.46
Diluted income per common share	$ 0.37	$ 0.46

	Nine Months Ended September 30,	
(In thousands, except per share data)	**2008**	**2007**
Numerator:		

Net income	$ 105,367	$ 126,074
Denominator:		
Basic common shares outstanding	103,147	104,462
Effect of dilutive securities:		
Stock options	414	660
Unvested restricted stock	487	311
Dilutive common shares outstanding	104,048	105,433
Basic income per common share	$ 1.02	$ 1.21
Diluted income per common share	$ 1.01	$ 1.20

Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

4. Stock-Based Compensation

In October 1999, the Company adopted a long-term equity incentive plan, which provides for grants of stock options, stock appreciation rights, restricted stock and performance awards to directors, officers and employees of PCA, as well as others who engage in services for PCA. Option awards granted to directors, officers and employees have contractual lives of seven or ten years. Options granted to officers and employees vest ratably over a three- or four-year period, whereas options granted to directors vest immediately. The plan, which will terminate on October 19, 2009, provides for the issuance of up to 6,550,000 shares of common stock. As of September 30, 2008, options or restricted stock for 6,177,927 shares have been granted, net of forfeitures. Forfeitures are added back to the pool of shares of common stock available to be granted at a future date.

The Company measures and records stock-based compensation cost in accordance with SFAS No. 123(R), Share-Based Payment. Stock compensation cost includes: (a) compensation cost for all share-based payments granted prior to, but not vested, as of January 1, 2006, the effective date of SFAS 123(R), based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Compensation expense for both stock options and restricted stock recognized in the condensed consolidated statements of income for the three- and nine- month periods ended September 30, 2008 and 2007 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Stock options	$ 185	$ 529	$ 1,273	$ 1,937
Restricted stock	3,445	1,403	6,168	4,577
Impact on income before income taxes	3,630	1,932	7,441	6,514
Income tax benefit	(1,409)	(753)	(2,888)	(2,539)
Impact on net income	$ 2,221	$ 1,179	$ 4,553	$ 3,975

The Company uses the Black-Scholes-Merton option-pricing model to estimate the fair value of each option grant as of the date of grant. Expected volatilities are based on historical volatility of the Company s common stock. The expected life of the option is estimated using historical data pertaining to option exercises and employee terminations. Separate groups of employees that have similar historical exercise behavior are considered separately for estimating the expected life. The risk-free interest rate is based on U.S. Treasury yields in effect at the time of grant. There were no option grants during the first nine months of 2008.

A summary of the Company s stock option activity and related information follows:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (In thousands)

Outstanding at December 31, 2007	2,396,096	$	19.62			
Exercised	(150,913)		16.03			
Forfeited	(11,332)		22.03			
Outstanding at September 30, 2008	2,233,851	$	19.86	4.3	$	8,302
Outstanding vested or expected to vest at September 30, 2008	2,226,741	$	19.84	4.3	$	8,299
Exercisable at September 30, 2008	1,987,283	$	19.37	4.1	$	8,074

The total intrinsic value of options exercised during the three months ended September 30, 2008 and 2007 was $636,000 and $1,532,000, respectively, and during the nine months ended September 30, 2008 and 2007 was $1,388,000 and $8,022,000, respectively. As of September 30, 2008, there was $896,000 of total unrecognized compensation cost related to non-vested stock option awards granted under the Company s equity incentive plan. The Company expects to recognize the cost of these stock option awards over a weighted-average period of 1.4 years.

During 2003, the Company began granting shares of restricted stock to certain of its employees and directors. Restricted stock awards granted to employees vest at the end of a three- or four-year period, whereas restricted stock awards granted to directors vest at the end of a six-month period. The fair value of restricted stock is determined based on the closing price of the Company s common stock on the grant date. The Company generally recognizes compensation expense associated with restricted stock awards ratably over their vesting periods. As PCA s Board of Directors has the ability to accelerate vesting of restricted stock upon an employee s retirement, the Company accelerates the recognition of compensation expense for certain employees approaching normal retirement age. A summary of the Company s restricted stock activity follows:

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Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

4. Stock-Based Compensation (continued)

	2008		2007	
(Dollars in thousands)	Shares	Fair Market Value at Date of Grant	Shares	Fair Market Value at Date of Grant
Restricted stock at January 1	764,705	$ 17,490	610,380	$ 12,964
Granted	374,455	7,947	240,920	6,210
Vested	(91,995)	(2,209)	(74,205)	(1,407)
Cancellations	(4,895)	(110)	(4,740)	(103)
Restricted stock at September 30	1,042,270	$ 23,118	772,355	$ 17,664

As of September 30, 2008, there was $10,116,000 of total unrecognized compensation costs related to the above restricted stock awards. The Company expects to recognize the cost of these stock awards over a weighted-average period of 2.9 years.

5. Inventories

The components of inventories are as follows:

(In thousands)	September 30, 2008	December 31, 2007 (Audited)
Raw materials	$ 101,042	$ 89,576
Work in process	7,384	6,709
Finished goods	73,853	71,983
Supplies and materials	90,825	86,818
Inventories at FIFO or average cost	273,104	255,086
Excess of FIFO or average cost over LIFO cost	(63,950)	(50,730)
Inventories, net	$ 209,154	$ 204,356

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

6. Goodwill and Other Intangible Assets

Goodwill

There were no changes in the carrying amount of goodwill for the period ended September 30, 2008.

Other Intangible Assets

The components of other intangible assets are as follows:

(In thousands)	Weighted Average Remaining Life	As of September 30, 2008 Gross Carrying Amount	As of September 30, 2008 Accumulated Amortization	As of December 31, 2007 (Audited) Gross Carrying Amount	As of December 31, 2007 (Audited) Accumulated Amortization
Customer lists and relations	31.3 years	$ 17,441	$ 4,633	$ 17,441	$ 4,022
Covenants not to compete	0.6 years	2,292	2,163	2,292	1,958
Total other intangible assets		$ 19,733	$ 6,796	$ 19,733	$ 5,980

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Packaging Corporation of America
Notes to Condensed Consolidated Financial Statements
(Unaudited)
September 30, 2008

7. Employee Benefit Plans and Other Postretirement Benefits

For the three and nine months ended September 30, 2008 and 2007, net pension costs were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Components of Net Pension Costs				
Service cost for benefits earned during the year	$ 4,445	$ 4,493	$ 13,335	$ 13,479
Interest cost on accumulated benefit obligation	1,957	1,563	5,871	4,689
Expected return on assets	(2,145)	(1,190)	(6,435)	(3,570)
Net amortization of unrecognized amounts	868	808	2,604	2,424
Net pension costs	$ 5,125	$ 5,674	$ 15,375	$ 17,022

The Company makes pension plan contributions that are sufficient to fund its actuarially determined costs, generally equal to the minimum amounts required by the Employee Retirement Income Security Act (ERISA). However, from time to time the Company may make discretionary contributions in excess of the required minimum amounts. The Company expects to contribute $22.1 million to the pension plans in 2008, of which $19.0 million has been contributed through September 30, 2008.

For the three and nine months ended September 30, 2008 and 2007, net postretirement costs were comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	**2008**	**2007**	**2008**	**2007**
Components of Net Postretirement Costs				
Service cost for benefits earned during the year	$ 267	$ 248	$ 801	$ 744
Interest cost on accumulated benefit obligation	197	160	591	480
Net amortization of unrecognized amounts	(60)	(63)	(180)	(189)
Net postretirement costs	$ 404	$ 345	$ 1,212	$ 1,035

8. Debt

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

(In thousands)	**September 30, 2008**	**December 31, 2007 (Audited)**
Senior credit facility		
Term loan, effective interest rate of 6.13% as of December 31, 2007	$	$ 20,000
Receivables credit facility, effective interest rate of 3.67% and 5.39% as of September 30, 2008 and December 31, 2007, respectively, due September 18, 2009	109,000	109,000

Senior notes, net of discount of $68 as of December 31, 2007, interest at 4.38% payable semi-annually, repaid August 1, 2008				149,932
Senior notes, net of discount of $1,628 and $1,886 as of September 30, 2008 and December 31, 2007, respectively, interest at 5.75% payable semi-annually, due August 1, 2013		398,372		398,114
Senior notes, net of discount of $59 as of September 30, 2008, interest at 6.50% payable semi-annually, due March 15, 2018		149,941		
Other		55		202
Total		657,368		677,248
Less current portion		109,055		278,747
Total long-term debt	$	548,313	$	398,501

On March 25, 2008, PCA issued $150.0 million of 6.50% senior notes due March 15, 2018 through a registered public offering. PCA used the proceeds of this offering, together with cash on hand, to repay all of the $150.0 million of outstanding 4 3/8% senior notes on August 1, 2008.

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Packaging Corporation of America
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(Unaudited)
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8. Debt (continued)

On April 15, 2008, PCA replaced its existing senior credit facility that was scheduled to expire later in 2008, with a new five-year $150.0 million senior revolving credit facility. The Company had $19.4 million of outstanding letters of credit under this facility, resulting in $130.6 million in unused borrowing capacity as of September 30, 2008.

On September 19, 2008, the Company extended its receivables credit facility through September 18, 2009. The Company had $41.0 million in additional borrowing capacity available under this facility as of September 30, 2008.

The instruments governing PCA s indebtedness contain covenants that limit the ability of PCA and its subsidiaries to enter into sale and leaseback transactions, incur liens, incur indebtedness at the subsidiary level, enter into certain transactions with affiliates, merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of its assets. The senior credit facility also requires PCA to comply with certain financial covenants, including maintaining a minimum interest coverage ratio, a maximum ratio of debt to total capitalization, and a minimum net worth level. A failure to comply with these restrictions could lead to an event of default, which could result in an acceleration of any outstanding indebtedness and/or prohibit us from drawing on the revolving credit facility. Such a default may also constitute an event of default under the notes indenture and the receivables credit facility. At September 30, 2008, the Company was in compliance with these covenants.

9. Fair Value Measurements

PCA adopted SFAS No. 157 on January 1, 2008. SFAS No. 157 defines fair value, establishes a consistent framework for measuring fair value and expands disclosure for each major asset and liability category measured at fair value on either a recurring or nonrecurring basis. SFAS No. 157 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 observable inputs such as quoted prices in active markets

Level 2 inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3 unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in SFAS No. 157. The valuation techniques are as follows:

(a) Market approach prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

(b) Cost approach amount that would be required to replace the service capacity of an asset (replacement cost)

(c) Income approach techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing and excess earnings models)

Assets and liabilities measured at fair value on a recurring basis are as follows:

(In thousands)	**September 30, 2008**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Valuation Technique**
Money Market Funds	$ 147,513	$ 147,513	(a)

The money market funds PCA invests in include funds comprised of U.S. Treasury obligations or backed by U.S. Treasury obligations.

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Packaging Corporation of America
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9. Fair Value Measurements (continued)

There were no changes in the Company s valuation techniques used to measure fair values on a recurring basis as a result of adopting SFAS No. 157. PCA had no assets or liabilities that were measured on a nonrecurring basis.

10. Stock Repurchase Program

On October 17, 2007, the Company announced that its Board of Directors authorized a $150.0 million common stock repurchase program. There is no expiration date for the common stock repurchase program. Through September 30, 2008, the Company repurchased 2,696,129 shares of common stock, with 150,100 shares repurchased during the third quarter of 2008. All but 500 shares were retired by September 30, 2008. As of September 30, 2008, $85.3 million of the $150.0 million authorization remained available for repurchase of the Company s common stock.

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

Overview

Packaging Corporation of America, or PCA, is the fifth largest producer of containerboard and corrugated products in the United States, based on production capacity. During the third quarter of 2008, we produced approximately 621,000 tons of containerboard at our mills, of which about 80% was consumed in our corrugated products manufacturing plants, 13% was sold to domestic customers and 7% was sold in the export market. Our corrugated products manufacturing plants sold about 7.8 billion square feet (bsf) of corrugated products during the third quarter of 2008. Our net sales to third parties totaled $620.8 million in the third quarter, and were $1,814.4 million for the nine months ended September 30, 2008.

Besides containerboard, we produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging, such as wax-coated boxes for the agriculture industry. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer our customers more attractive packaging. Our operating facilities and customers are located primarily in the United States.

In analyzing our operating performance, we focus on the following factors that affect our business and are important to consider when reviewing our financial and operating results:

- corrugated products demand;
- corrugated products and containerboard pricing;
- containerboard inventories; and
- cost trends and volatility for our major costs, including wood and recycled fiber, purchased energy, labor and fringe benefits, and transportation costs.

The market for containerboard is generally subject to changes in the U.S. economy. Historically, supply and demand, as well as industry-wide inventory levels, have influenced prices of containerboard. In addition to U.S. shipments, approximately 10% of all domestically produced containerboard has been exported annually for use in other countries.

Reported industry-wide shipments of corrugated products decreased 1.9% for the three months ended September 30, 2008 compared to the same period in 2007. During this same period, industry containerboard inventory levels at the end of September 2008 increased approximately 74,100 tons, or 3.1%, compared to September 2007. Industry publications reported that linerboard prices increased $55 per ton in July 2008 and the average price for the third quarter 2008 was $68 per ton higher than the third quarter of 2007.

The cost to manufacture containerboard is dependent, in large part, on the costs of wood fiber, recycled fiber, purchased fuels, electricity and labor and fringe benefits. Excluding the cost of containerboard, labor and benefits costs make up the largest component of corrugated products manufactured costs.

For the quarter ended September 30, 2008, containerboard and corrugated products prices were higher than last year s third quarter. This improvement, however, was more than offset by higher costs for fiber, energy, chemicals, transportation, labor and benefits, interest and other costs, and the impact of lower sales volume.

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We expect higher average box prices in the fourth quarter of 2008 compared to the third quarter as a result of a full quarter s realization of the August 2008 corrugated products price increase. However, the improvement in pricing is expected to be more than offset by higher wood fiber costs, higher energy usage with colder weather, lower sales volume with fewer corrugated products shipment days and the impact of a weaker economy, the effect of which is very difficult to predict.

Results of Operations

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

The historical results of operations of PCA for the three months ended September 30, 2008 and 2007 are set forth below:

	Three Months Ended September 30,		
(In thousands)	**2008**	**2007**	**Change**
Net sales	$ 620,785	$ 591,041	$ 29,744
Income from operations	$ 68,705	$ 81,490	$ (12,785)
Interest expense, net	(8,071)	(5,747)	(2,324)
Income before taxes	60,634	75,743	(15,109)
Provision for income taxes	(22,532)	(27,087)	4,555
Net income	$ 38,102	$ 48,656	$ (10,554)

Net Sales

Net sales increased by $29.7 million, or 5.0%, for the three months ended September 30, 2008 from the comparable period in 2007, primarily as a result of increased sales prices of corrugated products and containerboard to third parties ($34.7 million), partially offset by the impact of lower sales volume ($5.0 million). Sales prices increased as a result of the August 2007 and July 2008 containerboard price increases described above and the realization of those increases in our sales prices of corrugated products and containerboard.

Total corrugated products volume sold for the three months ended September 30, 2008 decreased 0.5% to 7.8 billion square feet (bsf) compared to 7.9 bsf in the third quarter of 2007. On a comparable shipments-per-workday basis, corrugated products sales volume decreased 2.1% for the three months ended September 30, 2008 compared to the same period in 2007. The percentage decrease, on a shipments-per-workday basis, was higher due to one additional workday in the third quarter of 2008 (64 days), those days not falling on a weekend or holiday, than the third quarter of 2007 (63 days). Containerboard volume sold to domestic and export customers was 9.1% lower for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. Containerboard mill production for the three months ended September 30, 2008 was 621,000 tons compared to 632,000 tons in the same period in 2007.

Income From Operations

Income from operations decreased by $12.8 million, or 15.7%, for the three months ended September 30, 2008 compared to the three months ended September 30, 2007, primarily attributable to increased energy and energy related costs including transportation ($13.2 million), wood costs ($11.8 million), chemical costs ($6.2 million), labor costs ($4.8 million), medical and worker s compensation costs ($4.7 million), annual mill maintenance outage and repair costs ($2.3 million), and the impact of lower sales volume ($5.0 million). The impact of higher costs was partially offset by increased sales prices for corrugated products and containerboard ($34.7 million).

Gross profit decreased $7.7 million, or 5.5%, for the three months ended September 30, 2008 from the comparable period in 2007. Gross profit as a percentage of net sales decreased from 23.6% of net sales in the three months ended September 30, 2007 to 21.2% of net sales in the current quarter due primarily to the cost increases described above.

Selling and administrative expenses increased $2.8 million, or 6.6%, for the three months ended September 30, 2008 compared to the same period in 2007, primarily as a result of higher expenses related to salaries including merit increases, incentive compensation and share-based compensation expense ($2.0 million), warehousing costs due to customer requirements ($0.4 million) and travel and entertainment expenses ($0.2 million).

Corporate overhead increased $1.8 million, or 12.6%, for the three months ended September 30, 2008 compared to the same period in 2007, primarily due to higher salary and fringe benefit costs including merit increases and the timing of incentive compensation and share-based compensation expenses ($1.7 million).

Other expense for the three months ended September 30, 2008 increased $0.6 million, or 28.6%, compared to the three months ended September 30, 2007, primarily due to increased expenses for fixed asset transfers ($0.4 million) and other costs which were individually insignificant.

Interest Expense, Net and Income Taxes

Net interest expense increased $2.3 million, or 40.4%, for the three months ended September 30, 2008 from the three months ended September 30, 2007, primarily as a result of lower interest income ($2.0 million) earned on PCA s cash equivalents and higher interest expense ($0.1 million) related to PCA s outstanding debt balances. The $2.0 million decrease in interest income was due to both lower interest income rates and lower cash balances during the three months ended September 30, 2008 compared to the same period in 2007. The $0.1 million increase in interest expense was due to a $1.3 million increase in interest expense related to PCA s senior notes as a result of the issuance in March 2008 of the 6 1/2 % notes due 2018, the proceeds of which were used to repay the 4 3/8% notes due August 2008. This was partially offset by a $0.7 million decrease in interest expense related to the Company s receivables credit facility due to lower interest rates and a $0.4 million decrease in term loan interest expense as a result of the repayment of the term loan in March 2008.

PCA s effective tax rate was 37.2% for the three months ended September 30, 2008 and 35.8% for the comparable period in 2007. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes offset by the domestic manufacturers deduction. The Company had no material changes impacting FIN No. 48 during the third quarter of 2008.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

The historical results of operations of PCA for the nine months ended September 30, 2008 and 2007 are set forth below:

	For the Nine Months Ended September 30,		
(In thousands)	**2008**	**2007**	**Change**
Net sales	$ 1,814,442	$ 1,735,828	$ 78,614
Income from operations	$ 190,024	$ 218,410	$ (28,386)
Interest expense, net	(22,571)	(19,807)	(2,764)
Income before taxes	167,453	198,603	(31,150)
Provision for income taxes	(62,086)	(72,529)	10,443
Net income	$ 105,367	$ 126,074	$ (20,707)

Net Sales

Net sales increased by $78.6 million, or 4.5%, for the nine months ended September 30, 2008 from the comparable period in 2007, primarily due to increased sales prices of corrugated products and containerboard to third parties ($83.8 million), partially offset by the impact of lower sales volume ($5.2 million).

Corrugated products volume sold for the nine months ended September 30, 2008 decreased 0.6% compared to the same period in 2007 on a total basis and was 1.1% lower based on a shipments-per-workday basis due to the fact that the first nine months of 2008 contained one more workday than the same period in 2007. Total corrugated products shipments decreased from 23.6 bsf in the first nine months of 2007 to 23.4 bsf in the first nine months of 2008. Containerboard volume sold to domestic and export customers was 6.8% lower for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. Containerboard mill production for the first nine months of 2008 was 1,820,000 tons compared to 1,832,000 tons produced during the same period in 2007.

Income From Operations

Income from operations decreased by $28.4 million, or 13.0%, for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007, primarily attributable to increased energy and energy related costs including transportation costs ($46.9 million), wood fiber costs ($20.3 million), labor costs ($10.0 million), mill maintenance outage costs ($5.9 million), medical costs ($6.7 million), fixed asset write-offs, primarily related to mill capital projects ($3.7 million), bad debt expense ($3.3 million), start-up costs of two major mill projects ($3.2 million) and the impact of lower sales volume ($5.2 million) and other items which were individually insignificant. The impact of higher costs was partially offset by increased sales prices for corrugated products and containerboard ($83.8 million).

Gross profit decreased $15.5 million, or 3.9%, for the nine months ended September 30, 2008 from the comparable period in 2007. Gross profit as a percentage of net sales decreased from 22.6% of net sales in the nine months ended September 30, 2007 to 20.8% of net sales in the first nine months of 2008 due primarily to the cost increases described above.

Selling and administrative expenses increased $5.1 million, or 4.0%, for the nine months ended September 30, 2008 compared to the same period in 2007, primarily as a result of higher expenses related to labor and fringe benefit costs ($2.8 million), warehousing costs ($0.9 million), travel, meeting and entertainment expenses ($0.8 million), and information technology costs ($0.2 million).

Corporate overhead for the nine months ended September 30, 2008 increased $1.8 million, or 4.3% compared to the same period in 2007, primarily due to higher salary and fringe benefit costs including merit increases, incentive compensation and share-based compensation expense ($1.8 million).

Other expense for the nine months ended September 30, 2008 increased $6.0 million, or 103.4%, compared to the nine months ended September 30, 2007, due to higher fixed asset write-offs primarily related to mill capital projects ($3.7 million), an increase in legal expenses ($0.9 million) and storm damage to facilities ($1.0 million).

Interest Expense, Net and Income Taxes

Net interest expense increased $2.8 million, or 14.0%, for the nine months ended September 30, 2008 from the nine months ended September 30, 2007, primarily as a result of lower interest income ($3.6 million) earned on PCA s cash equivalents, partially offset by lower interest expense ($0.5 million) related to PCA s outstanding debt balances. The $3.6 million decrease in interest income was due to both lower interest income rates and cash balances during the nine months ended September 30, 2008 compared to the same period in 2007. The $0.5 million decrease in interest expense was due to a $1.9 million decrease in interest expense related to the Company s receivables credit facility due to lower interest rates and a $1.1 million decrease in term loan interest expense as a result of the repayment of the term loan in March 2008. This was partially offset by a $2.4 million increase in interest expense related to PCA s senior notes as a result of the issuance in March 2008 of the 6 1/2 % notes due 2018, the proceeds of which were used to repay the 4 3/8% notes due August 2008.

PCA s effective tax rate was 37.1% for the nine months ended September 30, 2008 compared with 36.5% for the same period in 2007. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes offset by the domestic manufacturers deduction. The Company had no material changes impacting FIN No. 48 during the first nine months of 2008.

Liquidity and Capital Resources

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

	Nine Months Ended September 30,		
(In thousands)	**2008**	**2007**	**Change**
Net cash provided by (used for):			
Operating activities	$ 181,985	$ 182,812	$ (827)
Investing activities	(100,198)	(69,355)	(30,843)
Financing activities	(161,963)	(81,148)	(80,815)
Net increase in cash and cash equivalents	$ (80,176)	$ 32,309	$ (112,485)

Operating Activities

Net cash provided by operating activities for the nine months ended September 30, 2008 was $182.0 million, a decrease of $0.8 million, or 0.5%, from the comparable period in 2007. The decrease in net cash provided by operating activities was primarily the result of lower net income in 2008 of $20.7 million as previously described, partially offset by lower requirements for operating assets and liabilities of $19.6 million. The lower requirements for operating assets and liabilities were driven by favorable year over year changes in accrued liabilities ($14.6 million) and accounts receivable ($7.2 million) and lower 2008 pension contributions ($9.9 million), partially offset by unfavorable year over year changes in accounts payable ($9.9 million). The higher pension contributions in 2007 were driven in part by expected additional funding requirements beginning in 2008. Changes in balances of operating assets and liabilities reflected the normal operation of PCA s business during the first nine months of 2008. Requirements for operating assets and liabilities are subject to PCA s operating needs, the timing of collection of receivables and the payments of payables and expenses, and to seasonal fluctuations in the Company s operations. The Company did not experience any significant unusual factors affecting these requirements during the first nine months of 2008.

Investing Activities

Net cash used for investing activities for the nine months ended September 30, 2008 increased $30.8 million, or 44.5%, to $100.2 million, compared to the nine months ended September 30, 2007. The increase was primarily related to higher additions to property, plant and equipment of $29.4 million during the nine months ended September 30, 2008 compared to the same period in 2007.

Financing Activities

Net cash used for financing activities totaled $162.0 million for the nine months ended September 30, 2008, an increase of $80.8 million, or 99.6%. The increase was primarily attributable to additional debt payments of $160.0 million, additional repurchases of PCA s common stock of $37.5 million, $15.2 million in additional dividends paid on PCA s common stock and lower proceeds from the issuance of common stock upon exercise of stock options of $10.5 million during the first nine months of 2008, partially offset by $145.2 million in net proceeds received from PCA s notes offering described below.

In connection with the notes offering in March of 2008, PCA received proceeds, net of discount, of $149.9 million and paid $4.4 million for settlement of a treasury lock that it entered into to protect it against increases in the ten-year U.S. Treasury rate, which served as a reference in determining the interest rate applicable to the notes. PCA also incurred financing costs in the amount of $0.3 million in connection with the notes offering. PCA used the proceeds of this offering, together with cash on hand, to repay all of the $150.0 million of outstanding 4 3/8% senior notes that were due on August 1, 2008.

PCA s primary sources of liquidity are net cash provided by operating activities, borrowings under PCA s revolving credit facility, and additional borrowings under PCA s receivables credit facility. As of September 30, 2008, PCA had $171.6 million in unused borrowing capacity under its existing credit agreements, net of the impact on this borrowing capacity of $19.4 million of outstanding letters of credit. Currently, PCA s primary uses of cash are for capital expenditures, debt service, declared common stock dividends and common stock repurchases, which it expects to be able to fund from these sources.

The following table provides the outstanding balances and the weighted average interest rates as of September 30, 2008 for PCA s revolving credit facility, the receivables credit facility, and the ten-year senior notes:

Borrowing Arrangement	**Principal Balance at September 30, 2008**	**Weighted Average Interest Rate**	**Projected Annual Cash Interest Payments**
(In thousands)			
Revolving Credit Facility	$	N/A	N/A
Receivables Credit Facility	109,000	3.67%	$ 4,000
5 3/4% Ten-Year Notes (due August 1, 2013)	400,000	5.75	23,000
6 1/2% Ten-Year Notes (due March 15, 2018)	150,000	6.50	9,750
Total	$ 659,000	5.58%	$ 36,750

The above table excludes unamortized debt discount of $1.7 million at September 30, 2008. It also excludes from the projected annual cash interest payments, the non-cash income from the annual amortization of the $22.8 million received in July 2003 and the non-cash expense from the annual amortization of the $4.4 million paid in March 2008 to settle the treasury locks related to the ten-year notes. The amortization is being recognized over the terms of the ten-year notes and is included in interest expense, net.

On March 25, 2008, PCA issued $150.0 million of 6.50% senior notes due March 15, 2018 through a registered public offering. PCA used the proceeds of this offering, together with cash on hand, to repay all of the $150.0 million of outstanding 4 3/8% senior notes on August 1, 2008.

On March 31, 2008, PCA repaid all borrowings under its old senior credit facility. This facility was replaced with a senior credit facility that provides a new $150.0 million revolving credit facility, including a $35.0 million subfacility for letters of credit. The new senior credit facility closed on April 15, 2008. The new revolving credit facility is available to fund PCA s working capital requirements, capital expenditures and other general corporate purposes. The new revolving credit facility will terminate in April 2013.

On September 19, 2008, PCA extended its receivables credit facility through September 18, 2009.

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

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

These limitations could limit our corporate and operating activities.

In addition, we must maintain minimum net worth and maximum debt to total capitalization and minimum interest coverage ratios under the senior credit facility. A failure to comply with the restrictions contained in our senior credit facility could lead to an event of default, which could result in an acceleration of any outstanding indebtedness and/or prohibit us from drawing on the revolving credit facility. Such an acceleration may also constitute an event of default under the notes indenture and the receivables credit facility. As of September 30, 2008, PCA was in compliance with these covenants.

PCA currently expects to incur capital expenditures of about $120.0 million in 2008. These expenditures will be used primarily for maintenance capital, cost reduction, business growth and environmental compliance. As of September 30, 2008, PCA spent $98.3 million for capital expenditures and had committed to spend an additional $61.0 million in the remainder of 2008 and beyond.

PCA believes that its net cash generated from operating activities, available cash reserves and available borrowings under its committed credit facilities and available capital through access to capital markets will be adequate to meet its current and future liquidity and capital requirements, including payments of any declared common stock dividends. As its debt or credit facilities become due, PCA will need to repay, extend or replace such facilities, which will be subject to future economic conditions and financial, business and other factors, many of which are beyond PCA s control.

Market Risk and Risk Management Policies

PCA is exposed to the impact of interest rate changes and changes in the market value of its financial instruments. PCA periodically enters into derivatives in order to minimize these risks, but not for trading purposes. On January 17, 2008, in connection with the issuance of ten-year debt securities in March 2008, PCA entered into an interest rate protection agreement with a counterparty to lock in the then current interest rate on ten-year U.S. Treasury notes to protect against increases in the ten-year U.S. Treasury note rate. This rate served as a reference in determining the interest rate applicable to the ten-year notes due 2018 issued in March 2008. As a result of a decrease in the interest rate on the ten-year U.S. Treasury notes between the date of the agreement and the time PCA priced its offering of those notes, PCA paid $4.4 million to the counterparty on March 25, 2008, the date of settlement. As of September 30, 2008, PCA was not a party to any derivative instruments.

The interest rates on approximately 83% of PCA s debt are fixed. A one percent increase in interest rates related to variable rate debt would have resulted in an increase in interest expense and a corresponding decrease in income before taxes of $1.1 million annually. In the event of a change in interest rates, management could take actions to mitigate its exposure to the change. However,

due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in PCA s financial structure.

Environmental Matters

We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. The most significant of these laws affecting us are:

Resource Conservation and Recovery Act (RCRA);

Clean Water Act (CWA);

Clean Air Act (CAA);

The Emergency Planning and Community Right-to-Know-Act (EPCRA);

Toxic Substance Control Act (TSCA); and

Safe Drinking Water Act (SDWA).

We believe that we are currently in material compliance with these and all applicable environmental rules and regulations. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with these and other environmental laws. 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.

Impact of Inflation

PCA does not believe that inflation has had a material impact on its financial position or results of operations during the three- and nine-month periods ending September 30, 2008 and 2007.

Off-Balance Sheet Arrangements

PCA does not have any off-balance sheet arrangements as of September 30, 2008 that would require disclosure under SEC FR-67, Disclosure in Management s Discussion and Analysis About Off-Balance Sheet Arrangement and Aggregate Contractual Obligations.

Critical Accounting Policies and Estimates

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

PCA has included in its Annual Report on Form 10-K for the year ended December 31, 2007, a discussion of its critical accounting policies which we believe affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. PCA has not made any changes in any of these critical accounting policies during the first nine months of 2008.

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Forward-Looking Statements

Some of the statements in this Quarterly Report on Form 10-Q, and in particular, statements found in Management s Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words will, should, anticipate, believe, expect, intend, estimate, similar expressions. These statements reflect management s current views with respect to future events and are subject to risks and uncertainties. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. These factors, risks and uncertainties include the following:

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

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do occur, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors, risks and uncertainties that may affect our business, see Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk.*

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

Item 4. *Controls and Procedures.*

PCA maintains disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed in PCA s filings under the Securities Exchange Act is recorded, processed, summarized and reported within the periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to PCA s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Prior to filing this report, PCA completed an evaluation under the supervision and with the participation of PCA s management, including PCA s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of PCA s disclosure controls and procedures as of September 30, 2008. The evaluation of PCA s disclosure controls and procedures included a review of the controls objectives and design, PCA s implementation of the controls and the effect of the controls on the information generated for use in this report. Based on this evaluation, PCA s Chief Executive Officer and Chief Financial Officer concluded that PCA s disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2008.

During the quarter ended September 30, 2008, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, PCA s internal control over financial reporting.

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PART II
OTHER INFORMATION

Item 1. ***Legal Proceedings.***

PCA is a party to various legal actions arising in the ordinary course of our business. These legal actions cover a broad variety of claims spanning our entire business. As of the date of this filing, we believe it is not reasonably possible that the resolution of these legal actions will, individually or in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. ***Risk Factors***

There have been no material changes to the risk factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007.

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

The following table summarizes the Company s stock repurchases in the third quarter of 2008 under the 2007 plan:

Period	Total Number of Shares Purchased		Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs		Approximate Dollar Value of Shares that may yet be Purchased Under the Plan or Program(1) (In thousands)
July 1, 2008 to July 31, 2008	11,600	$	21.05	11,600	$	88,396
August 1, 2008 to August 31, 2008						88,396
September 1, 2008 to September 30, 2008	138,500		22.31	138,500		85,306
Total	150,100	$	22.21	150,100	$	85,306

(1) On October 17, 2007, the Company announced a $150.0 million common stock repurchase program. All but 500 repurchased shares were retired by September 30, 2008. There is no expiration date for this common stock repurchase

program.

Item 3. ***Defaults Upon Senior Securities.***

None.

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

None.

Item 5. ***Other Information.***

None.

Item 6. ***Exhibits.***

10.1	Amended and Restated Credit and Security Agreement, dated as of September 19, 2008, by and among PCA and the lenders and agents named therein (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed by the registrant on September 25, 2008).
31.1	Certification of Chief Executive Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. §1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

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

Packaging Corporation of America
(Registrant)

By: /s/ Paul T. Stecko
Chairman and Chief Executive Officer

By: /s/ Richard B. West
Senior Vice President and Chief Financial Officer

Date: November 10, 2008