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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended March 31, 2005

or

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

For the transition period from ______ to ______

Commission file number 1-15399

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

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

As of May 2, 2005, the Registrant had outstanding 107,430,757 shares of common stock, par value $0.01 per share.

PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

Packaging Corporation of America

Condensed Consolidated Balance Sheets

(In thousands, except share and per share amounts)	March 31, 2005 (unaudited)	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	$ 180,199	$ 213,321
Accounts and notes receivable, net of allowance for doubtful accounts/customer deductions of $5,032 and $4,639 as of March 31, 2005 and December 31, 2004, respectively	227,404	216,594
Inventories	184,487	179,348
Prepaid expenses and other current assets	15,383	8,685
Deferred income taxes	53,361	59,113
Total current assets	660,834	677,061
Property, plant and equipment, net	1,344,686	1,345,154
Intangible assets, net of accumulated amortization of $3,021 and $2,840 as of March 31, 2005 and December 31, 2004, respectively	21,927	22,108
Other long-term assets	39,270	38,451
Total assets	$ 2,066,717	$ 2,082,774
Liabilities and shareholders' equity		
Current liabilities:		
Short-term debt and current maturities of long-term debt	$ 109,100	$ 109,168
Accounts payable	147,368	128,953
Accrued interest	5,243	12,591
Accrued liabilities	66,670	84,392
Total current liabilities	328,381	335,104
Long-term liabilities:		
Long-term debt	585,836	585,724
Deferred income taxes	301,975	306,569
Other liabilities	41,639	37,807
Total long-term liabilities	929,450	930,100
Shareholders' equity:		
Common stock (par value $.01 per share, 300,000,000 shares authorized, 107,408,207 shares and 106,993,028 shares issued as of March 31, 2005 and December 31, 2004, respectively)	1,074	1,070
Additional paid in capital	499,233	492,661
Retained earnings	289,431	303,662
Accumulated other comprehensive income:		
Unrealized gain on derivatives, net	21,699	22,475
Cumulative foreign currency translation adjustment	(6)	(6)
Total accumulated other comprehensive income	21,693	22,469
Unearned compensation on restricted stock	(2,545)	(2,292)
Total shareholders' equity	808,886	817,570
Total liabilities and shareholders' equity	$ 2,066,717	$ 2,082,774

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Operations

(unaudited)

(In thousands, except per share amounts)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net sales	$ 489,437	$ 431,267
Cost of sales	(416,171)	(390,638)
Gross profit	73,266	40,629
Selling and administrative expenses	(35,256)	(32,258)
Corporate overhead	(11,567)	(10,283)
Joint venture dividend	2,506	—
Other expense, net	(1,417)	(1,286)
Income (loss) from operations	27,532	(3,198)
Interest expense, net	(6,994)	(7,403)
Income (loss) before taxes	20,538	(10,601)
(Provision) benefit for income taxes	(7,919)	4,016
Net income (loss)	$ 12,619	$ (6,585)
Weighted average common shares outstanding:		
Basic	107,019	105,845
Diluted	108,053	105,845
Net income (loss) per common share:		
Basic	$ 0.12	$ (0.06)
Diluted	$ 0.12	$ (0.06)
Dividends declared per common share	$ 0.25	$ 0.15

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Condensed Consolidated Statements of Cash Flow

(unaudited)

(In thousands)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Cash Flows from Operating Activities:		
Net income (loss)	$ 12,619	$ (6,585)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	38,476	38,775
Amortization of financing costs	172	171
Loss—early extinguishment of debt	—	174
Deferred income taxes	1,158	(7,016)
Loss on disposals of property, plant and equipment	369	1,022
Pension and postemployment benefits	3,897	2,387
Tax benefit associated with employee stock option exercises	2,248	2,978
Other, net	(210)	(341)
Changes in components of working capital (net of effects of acquisitions):		
(Increase) decrease in current assets—		
Accounts receivable	(10,810)	4,394
Inventories	(5,139)	5,846
Prepaid expenses and other	(6,698)	(10,474)
Increase (decrease) in current liabilities—		
Accounts payable	7,614	(3,120)
Accrued liabilities	(25,070)	(26,802)
Net cash provided by operating activities	18,626	1,409
Cash Flows from Investing Activities:		
Additions to property, plant and equipment	(36,918)	(29,161)
Acquisition of business	—	(37,917)
Additions to long term assets	(2,558)	(1,317)
Proceeds from disposals of property, plant and equipment	8	1,262
Net cash used for investing activities	(39,468)	(67,133)
Cash Flows from Financing Activities:		
Payments on long-term debt	(76)	(3,875)
Common stock dividends paid	(16,049)	(15,839)
Issuance of common stock upon exercise of stock options	3,845	3,723
Net cash used for financing activities	(12,280)	(15,991)
Net decrease in cash and cash equivalents	(33,122)	(81,715)
Cash and cash equivalents, beginning of period	213,321	172,022
Cash and cash equivalents, end of period	$180,199	$ 90,307

See notes to condensed consolidated financial statements.

Packaging Corporation of America

Notes to Condensed Consolidated Financial Statements

(unaudited)

March 31, 2005

1. Basis of Presentation

The consolidated financial statements as of March 31, 2005 and 2004 of Packaging Corporation of America ("PCA" or the "Company") are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Operating results during the period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the period ending December 31, 2005. These consolidated financial statements should be read in conjunction with PCA's annual report on Form 10-K for the year ended December 31, 2004. The consolidated financial statements as of March 31, 2004 have been adjusted due to an error that resulted in a misstatement of the intercompany profit reserve for products held in inventory. See Note 15 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 for additional information.

2. Summary of Accounting Policies

Basis of Consolidation

The accompanying condensed consolidated financial statements of PCA include all 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 generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts in the financial statements and the accompanying notes. Actual results could differ from those estimates.

Revenue Recognition

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

Segment Information

PCA is primarily engaged in one line of business: the 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 revenues.

2. Summary of Accounting Policies (Continued)

Comprehensive Income (Loss)

Comprehensive income (loss) is as follows:

(In thousands)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net income (loss)	$12,619	$(6,585)
Other comprehensive income (loss), net of tax		
Amortization of Treasury lock	(776)	(778)
Foreign currency translation adjustment	—	5
Comprehensive income (loss)	$11,843	$(7,358)

Reclassifications

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

Stock-Based Compensation

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

In October 1999, the Company adopted a long-term equity incentive plan, which provides for grants of stock options, stock appreciation rights (SARs), restricted stock and performance awards to directors, officers and employees of PCA, as well as others who engage in services for PCA. Option awards granted to officers and employees vest ratably over a four-year period, whereas option awards granted to directors vest immediately. The plan, which will terminate on October 19, 2009, provides for the issuance of up to 4,400,000 shares of common stock, of which 4,299,227 have been granted through March 31, 2005. Forfeitures are added back to the pool of shares of common stock to be granted again at a future date.

2. Summary of Accounting Policies (Continued)

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

(Dollars in thousands)	Shares	Fair Value at Date of Grant
Balance, December 31, 2002	—	$ —
Granted	73,500	1,353
Balance, December 31, 2003	73,500	1,353
Granted	76,000	1,806
Balance, December 31, 2004	149,500	3,159
Granted	19,500	482
Balance, March 31, 2005	169,000	$3,641

The number of shares of restricted stock that were vested at March 31, 2005 was 4,500 shares.

2. Summary of Accounting Policies (Continued)

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation" and amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure," the Company has elected to account for its stock option plan under Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and adopt the disclosure only provisions of SFAS No. 123 and SFAS No. 148. Under APB No. 25, no compensation costs are recognized because the number of options is fixed and the option exercise price is equal to the fair market price of the common stock on the date of the grant. Under SFAS No. 123, stock options are valued at the grant date using the Black-Scholes valuation model and compensation costs are recognized ratably over the vesting period. Had stock options been accounted for using the fair value method as recommended by SFAS No. 123, compensation expense would have had the following pro forma effect on our net income (loss) and earnings (loss) per share for the periods presented:

(In thousands, except per share amounts)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Net income (loss)—as reported	$12,619	$(6,585)
Add: amortization of unearned compensation on restricted stock, net of tax	141	55
Less: stock-based compensation expense determined using fair value method, net of tax	(918)	(884)
Net income (loss)—pro forma	$11,842	$(7,414)
Basic earnings (loss) per common share—as reported	$ 0.12	$ (0.06)
Diluted earnings (loss) per common share—as reported	$ 0.12	$ (0.06)
Basic earnings (loss) per common share—pro forma	$ 0.11	$ (0.07)
Diluted earnings (loss) per common share—pro forma	$ 0.11	$ (0.07)

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

New Accounting Pronouncements

In May 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position ("FSP") No. 106-2, "Accounting Disclosure Requirements Related to the Medicare Prescription Drug, Improvement, and Modernization Act of 2003," which supersedes FSP No. 106-1 of the same title issued in January 2004. The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Medicare Act") introduces a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare D. As the Company sponsors a number of postretirement benefit plans, the Company performed an anlysis and has determined that the adoption of

2. Summary of Accounting Policies (Continued)

FSP No. 106-2 would not have a material impact on net periodic postretirement benefit costs in future periods and would not have a material impact on its financial position, results of operations or cash flows.

In December, 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which requires that compensation cost related to share-based payment transactions be recognized in the financial statements based on fair value. Share-based payment transactions within the scope of SFAS No. 123(R) include stock options, restricted stock awards, performance-based awards, stock appreciation rights, and employee share purchase plans. The provisions of of SFAS No. 123(R) are effective as of the first interim period that begins after June 15, 2005. On April 14, 2005, the Securities and Exchange Commission announced that it would permit companies to delay implementation of SFAS No. 123(R) to the beginning of their next fiscal year. The Company currently plans to implement the revised standard on January 1, 2006. The Company currently accounts for its share-based payment transactions under the provisions of APB Opinion No. 25, which generally does not require the recognition of compensation cost for employee stock options in the financial statements. Management believes that the current required disclosures in Note 2 under Stock-Based Compensation materially reflect the impact this standard would have on reported net earnings if adopted in the periods presented.

3. Earnings Per Share

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

(In thousands, except per share data)	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Numerator:		
Net income (loss)	$ 12,619	$ (6,585)
Denominator:		
Basic common shares outstanding	107,019	105,845
Effect of dilutive securities:		
Unvested restricted stock	61	—
Stock options	973	—
Dilutive common shares outstanding	108,053	105,845
Basic income (loss) per common share	$ 0.12	$ (0.06)
Diluted income (loss) per common share	$ 0.12	$ (0.06)

During the first quarter of 2004, if the effect of unvested restricted stock and options had been dilutive, it would have increased dilutive common shares outstanding by 1.4 million shares.

4. Inventories

The components of inventories are as follows:

(In thousands)	March 31, 2005	December 31, 2004 (audited)
Raw materials	$ 87,357	$ 79,753
Work in progress	6,236	5,988
Finished goods	63,506	60,936
Supplies and materials	66,648	67,894
Inventories at FIFO cost	223,747	214,571
Excess of FIFO over LIFO cost	(39,260)	(35,223)
Inventories, net	$184,487	$179,348

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

5. Goodwill and Other Intangible Assets

Goodwill

There were no changes in the carrying amount of goodwill for the period ended March 31, 2005. Goodwill as of March 31, 2005 and December 31, 2004 was $3.7 million.

Other Intangible Assets

The components of other intangible assets are as follows:

		As of March 31, 2005		As of December 31, 2004 (audited)	
(In thousands)	Weighted average life	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:					
Covenants not to compete	8 years	$ 1,642	$1,213	$ 1,642	$1,150
Customer lists and relations	35 years	15,360	1,808	15,360	1,690
	32 years	17,002	3,021	17,002	2,840
Intangible pension asset		4,255	—	4,255	—
Total other intangible assets		$21,257	$3,021	$21,257	$2,840

6. Employee Benefit Plans and Other Postretirement Benefits

For the three months ended March 31, 2005 and 2004, net pension and postretirement costs were comprised of the following:

(In thousands)	Pension Plans		Postretirement Plans	
	Three Months Ended March 31,			
	2005	2004	2005	2004
Components of Net Periodic Benefit Cost				
Service cost for benefits earned during the year	$3,819	$1,565	$223	$209
Interest cost on accumulated benefit obligation	673	238	146	122
Expected return on plan assets	(258)	(1)	—	—
Net amortization of unrecognized amounts	547	145	(44)	(52)
Net periodic benefit cost	$4,781	$1,947	$325	$279

Net pension costs for the three months ended March 31, 2004 do not include any costs related to the Company's salaried pension plan as this plan was adopted on May 1, 2004

The Company makes pension plan contributions to the extent such contributions are mandatory, actuarially determined and tax deductible. The Company expects to contribute $20.4 million to the pension plans in 2005.

7. Related Party Transactions

PCA owns a 31 ⅓% interest in Southern Timber Venture, LLC ("STV"). At March 31, 2005, PCA had not guaranteed the debt of STV and has no future funding requirements. The Company's investment recorded on its balance sheet at March 31, 2005 is zero. On March 31, 2005, STV declared a dividend, and PCA recorded income of $2.5 dividend, its proportionate share of the million declared by STV in the first quarter of 2005.

8. Subsequent Events

On April 12, 2005, PCA received a special dividend payment of $12.5 million from STV related to the sale of some of its woodlands holdings.

On April 23, 2005, PCA acquired a full line corrugated plant in Jackson, Mississippi, a specialty sheet plant in St. Louis, Missouri, and a graphics packaging and display manufacturing facility in Olive Branch, Mississippi. Sales and total assets of the acquisition are not material to PCA's total consolidated financial results. Operating results of the acquisition subsequent to April 23, 2005 will be included in the Company's 2005 operating results.

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

Overview

Packaging Corporation of America, or PCA, is the sixth largest producer of containerboard and corrugated products in the United States, based on production capacity. Approximately 80% of the containerboard tons produced at our mills is consumed in our corrugated products manufacturing plants. The remaining 20% is sold to domestic customers or the export market. Besides containerboard, we produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging such as wax-coated boxes for the agriculture industry. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer our customers more attractive packaging. Our operating facilities and customers are located primarily in the United States.

Results of Operations

The historical results of operations of PCA are set forth below:

(In thousands)	For the Three Months Ended March 31, 2005	2004	Change
Net sales	$489,437	$431,267	$ 58,170
Income (loss) from operations	$ 27,532	$ (3,198)	$ 30,730
Interest expense, net	(6,994)	(7,403)	409
Income (loss) before taxes	20,538	(10,601)	31,139
(Provision) benefit for income taxes	(7,919)	4,016	(11,935)
Net income (loss)	$ 12,619	$ (6,585)	$ 19,204

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Net Sales

Net sales increased by $58.2 million, or 13.5%, for the three months ended March 31, 2005 from the comparable period in 2004. The increase was the result of increased sales prices and volumes of corrugated products and increased sales prices of containerboard to external third parties.

Total corrugated products volume sold increased 4.0% to 7.5 billion square feet for the three months ended March 31, 2005 from the same period in 2004. On a comparable shipments-per-workday basis, corrugated products volume was up 5.7% from the first quarter of 2004. The percentage increase in volume on a shipments-per-workday basis is higher than the percentage increase of total volume sold because the first quarter of 2005 contained one less workday than the first quarter of 2004. The first quarter of 2005 had 62 workdays while the comparable period in 2004 had 63 workdays. Shipments-per-workday is calculated by dividing our total corrugated products volume during the quarter by the number of workdays within the quarter. Containerboard volume to external domestic and export customers decreased 12.7% for the three months ended March 31, 2005 from the three months ended March 31, 2004. Containerboard mill production for the three months ended March 31, 2005 was 565,000 tons compared to 547,000 tons in the same period in 2004.

Income (Loss) from Operations

Income (loss) from operations increased by $30.7 million, or 960.9%, for the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The increase was primarily attributable to higher sales prices and sales volume ($42.7 million), partially offset by increases in costs of transportation ($4.1 million), wood fiber ($3.7 million), medical insurance ($2.5 million), energy ($2.4 million) and salaries related to merit increases and new hires ($2.3 million). In addition, the Company's operating income benefited from a dividend of $2.5 million, which was declared on March 31, 2005, by Southern Timber Venture, LLC, a joint venture in which PCA holds a 31⅓% ownership interest. The dividend payment was received by PCA on April 1, 2005.

Gross profit increased $32.6 million, or 80.3%, for the three months ended March 31, 2005 from the comparable period in 2004. Gross profit as a percentage of sales increased from 9.4% of sales in the first quarter of 2004 to 15.0% of sales in the current quarter due primarily to the increased sales prices and volumes previously discussed.

Selling and administrative expenses increased $3.0 million, or 9.3%, for the three months ended March 31, 2005 compared to the same period in 2004. The increase was primarily the result of higher salary and incentive expenses related to merit increases and new hires ($1.8 million), increased warehousing expenses due to increased customer requirements ($0.5 million), increased travel, entertainment and promotional expenses ($0.3 million) and higher broker commissions ($0.3 million).

Corporate overhead increased by $1.3 million, or 12.5%, for the three months ended March 31, 2005 from the comparable period in 2004. The largest portion of this increase was due to higher professional fees ($0.8 million) related to human resource, legal and tax matters and an increase in costs and scope of audits of internal controls. Salary and incentive expense increased $0.6 million compared to the first quarter of 2004.

Other expense, net, increased $0.1 million, or 10.2% for the three months ended March 31, 2005 compared to the three months ended March 31, 2004.

Interest Expense and Income Taxes

Interest expense decreased $0.4 million, or 5.5%, for the three months ended March 31, 2005 from the three months ended March 31, 2004, primarily due to an increase in interest income related to higher balances of cash throughout the first quarter of 2005 compared to the same period in 2004.

PCA's effective tax rate was 38.6% for the three months ended March 31, 2005 and 37.9% for the comparable period in 2004. The effective tax rate varies from the U.S. federal statutory tax rate of 35% principally due to the impact of state and local income taxes, the extraterritorial income exclusion and the domestic production activities deduction.

Liquidity and Capital Resources

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

(In thousands)	For the Three Months Ended March 31, 2005	2004	Change
Net cash provided by (used for):			
Operating activities	$ 18,626	$ 1,409	$17,217
Investing activities	(39,468)	(67,133)	27,665
Financing activities	(12,280)	(15,991)	3,711
Net decrease in cash and cash equivalents	$(33,122)	$(81,715)	$48,593

Operating Activities

Cash flow provided by operating activities for the three months ended March 31, 2005 was $18.6 million, an increase of $17.2 million, or 1,221.9%, from the comparable period in 2004. The increase was the result of higher net income as previously described and increased deferred income taxes as a result of the higher levels of temporary differences in 2005, partially offset by higher working capital requirements of $9.9 million. The higher working capital requirements were driven by increased levels of accounts receivable ($15.2 million) due to the higher sales volumes and pricing in 2005 previously described and higher inventory levels in 2005 ($11.0 million), partially offset by favorable changes in accounts payable ($10.7 million) in 2005 due to the $13.0 million payment to Pactiv in January 2004 for a fourth quarter 2003 negotiated settlement of pension benefits and workers' compensation liabilities dating back to April 12, 1999, the date Tenneco Packaging (now known as Pactiv) sold us to PCA Holdings, LLC. This payment was accrued in the fourth quarter of 2003.

Investing Activities

Net cash used for investing activities for the three months ended March 31, 2005 decreased $27.7 million, or 41.2%, to $39.5 million, compared to the three months ended March 31, 2004. The decrease was primarily related to the $37.9 million acquisition of Acorn Corrugated Box Co. in February 2004, partially offset by higher general additions to property, plant and equipment of $7.8 million during the first quarter of 2005 compared to the same period in 2004. See Note 13 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 for additional information regarding the acquisition of Acorn Corrugated Box Co.

Financing Activities

Net cash used for financing activities totaled $12.3 million for the three months ended March 31, 2005, a decrease of $3.7 million, or 23.2%, from the comparable period in 2004. The decrease was primarily attributable to the redemption of PCA's 9⅝% senior subordinated notes on March 31, 2004, for a total of $3.8 million.

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 March 31, 2005, PCA had $141.0 million in unused borrowing capacity under its existing credit agreements. PCA's primary uses of cash are for capital expenditures, debt service and common stock dividends, which it expects to be able to fund from these sources.

The following table provides the outstanding balances and the weighted average interest rates as of March 31, 2005 for each of PCA's outstanding term loan, the revolving credit facility, the receivables credit facility, and the five- and ten-year senior notes:

Borrowing Arrangement *(in thousands)*	Balance at March 31, 2005	Weighted Average Interest Rate	Projected Annual Cash Interest Payments
Senior Credit Facility:			
Term Loan	$ 39,000	4.375%	$ 1,706
Revolving Credit Facility	—	N/A	N/A
Receivables Credit Facility	109,000	3.187	3,474
4⅜% Five-Year Notes	150,000	4.375	6,563
5¾% Ten-Year Notes	400,000	5.750	23,000
Total	$698,000	4.977%	$34,743

The above table excludes unamortized debt discount of $3.3 million at March 31, 2005. It also excludes from the projected annual cash interest payments, the non-cash income from the annual amortization of the $27.0 million received in July 2003 from the settlement of the Treasury locks related to the five- and ten-year notes. The amortization is being recognized over the terms of the five- and ten-year notes.

The 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 must be repaid in quarterly installments from July 2006 through 2008. The senior revolving credit facility will terminate in July 2008. The receivables credit facility will terminate in October 2006.

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

- enter into sale and leaseback transactions,
- incur liens,

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

These limitations could limit our corporate and operating activities.

In addition, we must maintain minimum net worth, maximum leverage and minimum EBITDA to interest ratios under the senior credit facility. A failure to comply with the restrictions contained in 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 currently expects to incur capital expenditures of approximately $110.0 million in 2005. These capital expenditures will be used primarily for maintenance capital, cost reduction, business growth and environmental compliance. As of March 31, 2005, PCA had spent $36.9 million for capital expenditures and had committed to spend an additional $55.8 million in 2005 and beyond.

PCA believes that net cash generated from operating activities and available cash-on-hand will be adequate to meet its anticipated debt service requirements, capital expenditures, common stock dividend payments and working capital needs for the next 12 months, and that net cash generated from operating activities and amounts available under the revolving credit facility and additional borrowings under its receivables credit facility will be adequate to meet its anticipated debt service requirements, capital expenditures, common stock dividend payments and working capital needs for the foreseeable future. PCA's future operating performance and its ability to service or refinance the notes and to service, extend or refinance the credit facilities will be subject to future economic conditions and to financial, business and other factors, many of which are beyond PCA's control.

Market Risk and Risk Management Policies

PCA is exposed to the impact of interest rate changes and changes in the market value of its financial instruments. PCA periodically enters into derivatives in order to minimize these risks, but not for trading purposes. As of March 31, 2005, PCA was not a party to any derivatives instruments.

As the interest rates on approximately 79% of PCA's debt are fixed, a one percent increase in interest rates would result in a projected increase in interest expense and a corresponding projected decrease in income before taxes of $1.5 million annually. As of March 31, 2005, the weighted average LIBOR was 3.13%, and the weighted average commercial paper rate was 2.79%. 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)
- Safe Drinking Water Act (SDWA)

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

Impact of Inflation

PCA does not believe that inflation has had a material impact on its financial position or results of operations during the first quarters of 2005 and 2004.

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements as of March 31, 2005 that would require disclosure under SEC FR-67, "Disclosure in Management's Discussion and Analysis About Off-Balance Sheet Arrangements and Aggregate Contractual Obligations."

Critical Accounting Policies and Estimates

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

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

Forward-Looking Statements

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

- the impact of general economic conditions;
- containerboard and corrugated products general industry conditions, including competition, product demand and product pricing;
- fluctuations in wood fiber and recycled fiber costs;

- fluctuations in purchased energy costs; and
- legislative or regulatory requirements, particularly concerning environmental matters.

Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward-looking statements, and accordingly, we can give no assurances that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do so, what impact they will have on our results of operations or financial condition. In view of these uncertainties, investors are cautioned not to place undue reliance on these forward-looking statements. We expressly disclaim any obligation to publicly revise any forward-looking statements that have been made to reflect the occurrence of events after the date hereof. For a discussion of other factors that may affect our business, see the "Risk Factors" exhibit included in our 2004 Annual Report on Form 10-K.

Available Information

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

Certifications

On May 14, 2004, the Company filed with the New York Stock Exchange (the "NYSE") the Annual CEO Certification regarding the Company's compliance with the NYSE's Corporate Governance listing standards as required by Section 303A.12(a) of the New York Stock Exchange Listed Company Manual. In addition, the Company has filed as exhibits to its Quarterly Report on Form 10-Q for the period ended March 31, 2005, the applicable certifications of its Chief Executive Officer and its Chief Financial Officer required under Section 302 of the Sarbanes-Oxley Act of 2002, regarding the quality of the Company's public disclosures.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Item 4. Controls and Procedures.

PCA's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of PCA's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of March 31, 2005. The evaluation of PCA's disclosure controls and procedures included a review of the controls' objectives and design, PCA's implementation of the controls and the effect of the controls on the information generated for use in this Quarterly Report on Form 10-Q.

During the quarter ended March 31, 2005, there were no changes in internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, PCA's internal control over financial reporting.

Based upon their evaluation as of March 31, 2005, PCA's Chief Executive Officer and Chief Financial Officer have concluded that PCA's disclosure controls and procedures are effective to ensure that material information relating to PCA is made known to management, including the Chief Executive Officer and Chief Financial Officer, particularly during the periods when PCA's periodic reports are being prepared.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

On May 14, 1999, PCA was named as a defendant in two Consolidated Class Action Complaints which alleged a civil violation of Section 1 of the Sherman Act. The suits, then captioned *Winoff Industries, Inc. v. Stone Container Corporation*, MDL No. 1261 (E.D. Pa.) and *General Refractories Co. v. Gaylord Container Corporation*, MDL No. 1261 (E.D. Pa.), name PCA as a defendant based solely on the allegation that PCA is successor to the interests of Tenneco Packaging Inc. and Tenneco Inc., both of which were also named as defendants in the suits, along with nine other linerboard and corrugated sheet manufacturers. The complaints allege that the defendants, during the period October 1, 1993 through November 30, 1995, conspired to limit the supply of linerboard, and that the purpose and effect of the alleged conspiracy was to artificially increase prices of corrugated containers and corrugated sheets, respectively. On November 3, 2003, Pactiv (formerly known as Tenneco Packaging), Tenneco and PCA entered into an agreement to settle the class action lawsuits. The settlement agreement provides for a full release of all claims against PCA as a result of the class action lawsuits and was approved by the Court in an opinion issued on April 21, 2004. Approximately 160 plaintiffs opted out of the class and together filed about ten direct action complaints in various courts across the country. All of the opt-out complaints make allegations against the defendants, including PCA, substantially similar to those made in the class actions. The settlement agreement does not cover these direct action cases. These actions have all been consolidated as *In re Linerboard*, MDL 1261 (E.D. Pa.) for pretrial purposes. Fact discovery is proceeding and is currently set to close June 30, 2005. As of the date of this filing, we believe it is not reasonably possible that the outcome of this litigation will have a material adverse effect on our financial position, results of operations or cash flows.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

31.1 Certification of Chief Executive Officer, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer, As Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

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

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

SIGNATURES

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

PACKAGING CORPORATION OF AMERICA
(Registrant)

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

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

Date: May 4, 2005

Exhibit 31.1

CERTIFICATION

I, Paul T. Stecko, certify that:

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

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

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

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

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

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Dated: May 4, 2005

/s/ PAUL T. STECKO

Paul T. Stecko

Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Richard B. West, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Dated: May 4, 2005

/s/ RICHARD B. WEST

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

Exhibit 32.1

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

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

(1) The Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ PAUL T. STECKO
Paul T. Stecko
Chairman and Chief Executive Officer

May 4, 2005

Exhibit 32.2

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

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

(1) The Quarterly Report of the Company on Form 10-Q for the period ended March 31, 2005 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

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

/s/ RICHARD B. WEST
Richard B. West
Senior Vice President, Chief Financial Officer and Corporate Secretary

May 4, 2005