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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2001
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	36-4277050
(State or other Jurisdiction of Incorporation or Organization)	(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 /X/ No / /

As of August 9, 2001, the Registrant had outstanding 106,855,490 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

JUNE 30, DECEMBER 31, 2001 2000 ----------- ------------

(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED) ASSETS Current assets: Cash and cash
equivalents................................ $ 15,689 $
7,892 Accounts and notes receivable, net of allowance for
doubtful accounts of $6,102 and $6,394 as of June 30,
2001 and December 31, 2000, respectively................
208,605 215,994
Inventories..
152,188 159,712 Prepaid expenses and other current
assets................. 14,078 5,755 Deferred income
taxes.................................... 14,221 14,356
---------- ---------- TOTAL CURRENT
ASSETS................................... 404,781
403,709 Property, plant and equipment,
net......................... 1,450,026 1,455,990
Intangible assets, net of accumulated amortization of
$1,493 and $1,380 as of June 30, 2001 and December 31,
2000,
respectively..
3,748 1,758 Other long-term
assets..................................... 76,227
80,655 ---------- ---------- TOTAL
ASSETS..
$1,934,782 $1,942,112 ========== ========== LIABILITIES
AND SHAREHOLDERS' EQUITY Current liabilities: Current
portion of long-term debt........................ $ 70 $
239 Accounts
payable.. 101,719
113,701 Accrued
interest... 13,346
15,438 Accrued
liabilities...................................... 67,884
89,170 ---------- ---------- TOTAL CURRENT
LIABILITIES............................. 183,019
218,548 Long-term liabilities: Long-term
debt.. 816,196
869,175 Deferred income
taxes................................... 173,071
151,728 Other
liabilities...
18,517 15,237 ---------- ---------- TOTAL LONG-TERM
LIABILITIES........................... 1,007,784
1,036,140 Shareholders' equity: Common stock (par value
$.01 per share, 300,000,000 shares authorized,
106,551,944 shares and 106,248,138 shares issued as of
June 30, 2001 and December 31, 2000,
respectively)...
1,065 1,062 Additional paid in
capital............................. 511,138 512,208
Retained
earnings....................................... 233,346
174,468 Accumulated other comprehensive
loss...................... (1,256) -- Common stock held
in treasury, at cost (27,470 shares).... (314) (314) ----
------ ---------- TOTAL SHAREHOLDERS'
EQUITY............................ 743,979 687,424 ----
------ ---------- TOTAL LIABILITIES AND SHAREHOLDERS'
EQUITY............. $1,934,782 $1,942,112 ==========
==========

See notes to condensed consolidated financial statements.

PACKAGING CORPORATION OF AMERICA

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

THREE MONTHS ENDED JUNE 30, ---------------------- 2001
2000 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) --------- -
-------- Net
sales...
$ 466,964 $ 492,372 Cost of
sales..
(354,783) (363,708) --------- --------- Gross
profit..
112,181 128,664 Selling and administrative
expenses........................ (31,369) (29,552) Other

expense, net...
(492) (800) Corporate
overhead..
(10,766) (9,775) --------- --------- Income before
interest and taxes.......................... 69,554
88,537 Interest expense,
net...................................... (18,856)
(32,151) --------- --------- Income before
taxes....................................... 50,698
56,386 Provision for income
taxes................................. (19,439) (23,109)
--------- --------- Net income available to common
shareholders................. $ 31,259 $ 33,277 =========
========= Weighted average common shares outstanding:
Basic..
106,583 105,850
Diluted..
109,117 108,193 Basic earnings per common share: Net
income per common share.............................. $
0.29 $ 0.31 ========= ========= Diluted earnings per
common share: Net income per common
share.............................. $ 0.29 $ 0.31
========= =========

See notes to condensed consolidated financial statements.

PACKAGING CORPORATION OF AMERICA

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

SIX MONTHS ENDED JUNE 30, ------------------------- 2001
2000 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) ----------
---------- Net
sales..
$ 921,630 $ 968,262 Cost of
sales..
(702,271) (731,052) --------- --------- Gross
profit...
219,359 237,210 Selling and administrative
expenses......................... (62,011) (58,635) Other
income (expense), net................................
(711) 2,067 Corporate
overhead..
(21,123) (19,364) --------- --------- Income before
interest, taxes and cumulative effect of accounting
change..................................... 135,514
161,278 Interest expense,
net...................................... (38,418)
(62,393) --------- --------- Income before taxes and
cumulative effect of accounting
change..
97,096 98,885 Provision for income
taxes................................. (37,723) (40,362)
--------- --------- Income before cumulative effect of
accounting change...... 59,373 58,523 Cumulative effect
of accounting change, net of tax.......... (495) -- -----
---- --------- Net
income..
58,878 58,523 Preferred dividends and accretion of
preferred stock issuance
costs... --
(18,637) --------- --------- Net income available to
common shareholders................. $ 58,878 $ 39,886
========= ========= Weighted average common shares
outstanding:
Basic..
106,499 103,716
Diluted..
109,039 106,037 Basic earnings per common share: Income
before cumulative effect of accounting change...... $
0.55 $ 0.38 Cumulative effect of accounting
change.................. -- -- --------- --------- Net
income per common share.............................. $
0.55 $ 0.38 ========= ========= Diluted earnings per
common share: Income before cumulative effect of
accounting change...... $ 0.54 $ 0.38 Cumulative effect

of accounting change	--	--
Net income per common share	$ 0.54	$ 0.38

See notes to condensed consolidated financial statements.

PACKAGING CORPORATION OF AMERICA

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

SIX MONTHS ENDED JUNE 30, (IN THOUSANDS)	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 58,878	$ 58,523
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	69,651	70,886
Amortization of financing costs	2,442	3,479
Cumulative effect of accounting change	495	--
Increase in deferred income taxes	22,606	30,108
(Gain)/loss on disposal of property, plant and equipment	208	(419)
Other, net	589	(162)
Changes in components of working capital:		
(Increase) decrease in current assets--		
Accounts receivable	8,664	(20,940)
Inventories	8,164	8,614
Prepaid expenses and other	(8,323)	(6,576)
Decrease in current liabilities--		
Accounts payable	(14,065)	(17,324)
Accrued liabilities	(23,446)	(15,756)
NET CASH PROVIDED BY OPERATING ACTIVITIES	125,863	110,433
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, plant and equipment	(58,379)	(57,025)
Additions to other long term assets	(2,098)	(4,615)
Acquisition of business	(4,823)	--
Proceeds from disposals of property, plant and equipment	878	1,508
Other, net	591	233
NET CASH USED FOR INVESTING ACTIVITIES	(63,831)	(59,899)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Redemption of preferred stock	--	(124,432)
Payments on long-term debt	(53,169)	(58,825)
Proceeds from initial public offering	--	126,364
Proceeds from long-term debt issued	--	436
Repurchases and retirement of common stock	(3,465)	--
Issuance of common stock upon exercise of stock options	2,399	--
NET CASH USED FOR FINANCING ACTIVITIES	(54,235)	(56,457)
NET INCREASE (DECREASE) IN CASH	7,797	(5,923)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	7,892	10,300
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,689	$ 4,377

See notes to condensed consolidated financial statements.

PACKAGING CORPORATION OF AMERICA

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

JUNE 30, 2001

1. BASIS OF PRESENTATION

The consolidated financial statements as of June 30, 2001 and 2000 of Packaging Corporation of America ("PCA" or the "Company") are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Operating results during the period ended June 30, 2001 are not necessarily indicative of the results that may be expected for the period ending December 31, 2001.

2. SUMMARY OF ACCOUNTING POLICIES

BASIS OF CONSOLIDATION

The accompanying condensed consolidated financial statements of Packaging Corporation of America include all majority-owned subsidiaries. All significant intercompany transactions have been eliminated. The Company has two joint ventures that are carried under the equity method.

USE OF ESTIMATES

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

SEGMENT INFORMATION

PCA is primarily engaged in one line of business: the manufacture and sale of packaging materials, boxes and containers for industrial and consumer markets. No single customer accounts for more than 10% of total revenues. As a result of a recent acquisition, PCA now has a small warehouse and assembly operation in Nogales, Mexico.

NEW ACCOUNTING PRONOUNCEMENTS

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

The Company recorded a transition adjustment upon adoption of SFAS No. 133 to recognize its derivative instruments at fair value and to recognize the effective and ineffective portions of the cash flow hedges. The effect of this transition adjustment was to decrease reported net income in the first

quarter by approximately $0.5 million ($0.8 million pre-tax). The Company also recorded a minimal transition adjustment in OCI and an increase in noncurrent

liabilities of approximately $0.8 million.

The Company uses derivative instruments to manage exposures to interest rate risk. The Company's objectives for holding derivatives are to minimize the risks using the most effective methods to eliminate or reduce the impacts of these exposures. The Company has two interest rate collar agreements that protect against rising interest rates and simultaneously guarantee a minimum interest rate. Interest rate collar agreements are accounted for as cash flow hedges.

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

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

The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. Application of the nonamortization provisions of the Statements is not expected to have a material impact on the Company's consolidated financial position or results of operations. During 2002, the Company will perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 and has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

REVENUE RECOGNITION

The Company recognizes revenue as title to the products is transferred to customers.

In the fourth quarter of 2000, the Company adopted EITF 00-10, "Accounting for Shipping and Handling Fees and Costs." Shipping and handling costs are included in cost of sales. Shipping and handling billings to a customer in a sales transaction are included in revenue. Prior year amounts have been reclassed to conform to this treatment.

COMPREHENSIVE INCOME

For the six months ended June 30, 2001, total comprehensive income was $1.3 million less than net income due to derivative losses. There was no difference for the six months ended June 30, 2000.

RECLASSIFICATIONS

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

3. EARNINGS PER SHARE

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

	THREE MONTHS ENDED JUNE 30,	
	2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Numerator: Net income available to common shareholders..............	$ 31,259	$ 33,277
Denominator: Basic common shares outstanding..........................	106,583	105,850
Effect of dilutive securities: Stock options..	2,534	2,343
Dilutive common shares outstanding..........................	109,117	108,193
Basic income per common		

Basic income per common share	$ 0.29	$ 0.31
Diluted income per common share	$ 0.29	$ 0.31

	SIX MONTHS ENDED JUNE 30, 2001	2000
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Numerator: Net income available to common shareholders	$ 58,878	$ 39,886
Denominator: Basic common shares outstanding	106,499	103,716
Effect of dilutive securities: Stock options	2,540	1,856
Non-vested stock	--	465
Dilutive common shares outstanding	109,039	106,037
Basic income per common share	$ 0.55	$ 0.38
Diluted income per common share	$ 0.54	$ 0.38

4. INVENTORIES

The components of inventories are as follows:

	JUNE 30, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	(AUDITED)
Raw materials	$ 63,449	$ 71,256
Work in progress	7,061	5,908
Finished goods	52,892	56,157
Supplies and materials	51,770	51,222
Inventories at FIFO cost	175,172	184,543
Excess of FIFO over LIFO cost	(22,984)	(24,831)
Inventory, net	$152,188	$159,712

4. INVENTORIES (CONTINUED)

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

5. SHAREHOLDERS' EQUITY

On May 16, 2001, the Company announced a $100.0 million common stock repurchase program. PCA currently expects to repurchase the shares from time to time. During the quarter ended June 30, 2001, the Company repurchased 222,900 shares of common stock for approximately $3.5 million. These shares were retired on June 28, 2001.

6. ACQUISITIONS

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

7. SUMMARIZED COMBINED FINANCIAL INFORMATION ABOUT GUARANTOR SUBSIDIARIES

The following is summarized aggregated financial information for Packaging Credit Company, LLC, Dixie Container Corporation, PCA International, Inc. and PCA Hydro, Inc., each of which was a wholly-owned subsidiary of PCA and included in the Company's consolidated financial statements. Each of these subsidiaries fully, unconditionally, jointly and severally guaranteed $550.0 million in senior subordinated notes issued by PCA. Separate financial statements of the guarantor subsidiaries

7. SUMMARIZED COMBINED FINANCIAL INFORMATION ABOUT GUARANTOR SUBSIDIARIES (CONTINUED)

are not presented because, in the opinion of management, such financial statements are not material to investors.

(IN THOUSANDS)	PCA	GUARANTOR SUBS	NON-GUARANTOR SUBS	ELIMINATIONS	TOTAL
JUNE 30, 2001					
Current assets	$ 213,490	$ 83,693	$188,477	$ (80,879)	$ 404,781
Non-current assets	1,654,685	77,359	--	(202,043)	1,530,001
Total assets	1,868,175	161,052	188,477	(282,922)	1,934,782
Current liabilities	256,336	13,212	1,781	(88,310)	183,019
Non-current liabilities	881,622	162	126,000	--	1,007,784
Total liabilities	1,137,958	13,374	127,781	(88,310)	1,190,803
Net assets	$ 730,217	$147,678	$ 60,696	$(194,612)	$ 743,979
DECEMBER 31, 2000					
Current assets	$ 192,295	$ 63,501	$207,976	$ (60,063)	$ 403,709
Non-current assets	1,663,269	65,883	--	(190,749)	1,538,403
Total assets	1,855,564	129,384	207,976	(250,812)	1,942,112
Current liabilities	278,581	3,441	1,372	(64,846)	218,548
Non-current liabilities	893,978	162	142,000	--	1,036,140
Total liabilities	1,172,559	3,603	143,372	(64,846)	1,254,688
Net					

assets........................
$ 683,005 $125,781 $ 64,604
$(185,966) $ 687,424 ==========
======== ======== =========
========== SIX MONTHS ENDED
JUNE 30, 2001 Net
sales.........................
$ 920,979 $ 651 $ -- $ -- $
921,630 Pre-tax
profit....................
82,097 24,840 4,081 (13,922)
97,096 Net
income........................
49,534 15,472 2,558 (8,686)
58,878 SIX MONTHS ENDED JUNE
30, 2000 Net
sales.........................
$ 968,262 $ -- $ -- $ -- $
968,262 Pre-tax
profit....................
98,860 25 -- -- 98,885 Net
income........................
58,508 15 -- -- 58,523

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

OVERVIEW

On April 12, 1999, Pactiv Corporation, formerly known as Tenneco Packaging Inc., sold its containerboard and corrugated packaging products business to Packaging Corporation of America for $2.2 billion. We refer to that business in this report as the Group. The $2.2 billion purchase price paid to Pactiv consisted of $246.5 million in cash, the assumption of $1.8 billion of debt incurred by Pactiv immediately prior to the closing, and the issuance of a 45% common equity interest in PCA. PCA Holdings LLC, an entity organized and controlled by Madison Dearborn Partners, LLC, acquired the remaining 55% common equity interest in PCA for $236.5 million in cash. We refer to these events in this report as the Transactions.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

NET SALES

Net sales decreased by $25.4 million, or 5.2%, for the three months ended June 30, 2001 from the comparable period in 2000. The decrease was primarily the result of decreased sales prices of containerboard and corrugated products and lower sales volume of containerboard.

Total corrugated products volume increased 1.1% for the three months ended June 30, 2001 from the comparable period in 2000. Containerboard volume to external domestic and export customers decreased 7.3%.

According to Pulp & Paper Week, average linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $452 and $408, respectively, per ton for the three months ended June 30, 2001. This compares to $475 and $460, respectively, per ton for the three months ended June 30, 2000.

INCOME BEFORE INTEREST EXPENSE AND TAXES

Operating income decreased by $19.0 million, or 21.4%, for the three months ended June 30, 2001 compared to the three months ended June 30, 2000. The decrease in operating income was primarily attributable to the lower sales prices and volume described above.

Gross margins decreased $16.5 million, or 12.8%, for the three months ended June 30, 2001 from the comparable period in 2000 due to the lower sales prices and volume described above. Gross margins, as a percent of net sales, decreased to 24.0% in the second quarter of 2001 from 26.1% in the second quarter of 2000 due to decreased sales prices of corrugated products and containerboard to domestic and foreign third parties.

Selling and administrative expenses increased $1.8 million, or 6.1%, for the three months ended June 30, 2001 compared to the three months ended June 30, 2000. The increase was primarily the result of increased salary and other

general selling related expenses.

Corporate overhead for the three months ended June 30, 2001 increased by $1.0 million, or 10.1%, from the comparable period in 2000. The increase was primarily due to increased salary and information technology services expenses.

INTEREST EXPENSE AND INCOME TAXES

Interest expense decreased by $13.3 million, or 41.4%, for the three months ended June 30, 2001 from the three months ended June 30, 2000, primarily as a result of voluntary prepayments PCA made on the term loans under its senior credit facility.

PCA's effective tax rate was 38.3% for the three months ended June 30, 2001 and 41.0% for the comparable period in 2000. The tax rate is higher than the federal statutory rate of 35% due to state income taxes.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

NET SALES

Net sales decreased by $46.6 million, or 4.8%, for the six months ended June 30, 2001 from the comparable period in 2000. The decrease was primarily the result of decreases in sales prices of containerboard and shipments of containerboard to external third parties.

Containerboard volume to external domestic and export customers decreased 15.1% for the six months ended June 30, 2001 from the comparable period in 2000. Corrugated products volume decreased 1.3% for the first half of 2001 compared to the first half of 2000.

According to Pulp & Paper Week, average linerboard and semi-chemical medium prices for 42 lb. Liner-East and 26 lb. Medium-East, which are representative benchmark grades, were $456 and $417, respectively, per ton for the six months ended June 30, 2001. This compares to $461 and $443, respectively, per ton for the six months ended June 30, 2000.

INCOME BEFORE INTEREST EXPENSE AND TAXES

Operating income decreased by $25.8 million, or 16.0%, for the six months ended June 30, 2001 compared to the six months ended June 30, 2000. The decrease in operating income was primarily attributable to the price and volume decreases described above.

Gross margins decreased $17.9 million, or 7.5%, for the six months ended June 30, 2001 from the comparable period in 2000. Gross margins decreased to 23.8% of sales in the first half of 2001 from 24.5% of sales in the first half of 2000 due primarily to the price and volume decreases described above.

Selling and administrative expenses increased $3.4 million, or 5.8%, for the six months ended June 30, 2001 compared to the six months ended June 30, 2000. The increase was primarily the result of increased salary and other general selling related expenses.

Corporate overhead for the six months ended June 30, 2001 increased by $1.8 million, or 9.1%, from the comparable period in 2000. The increase was primarily due to increased salary and information technology services expenses.

INTEREST EXPENSE AND INCOME TAXES

Interest expense decreased by $24.0 million, or 38.4%, for the six months ended June 30, 2001 from the six months ended June 30, 2000, primarily as a result of voluntary prepayments PCA made on the term loans under its senior credit facility.

PCA's effective tax rate was 38.9% for the six months ended June 30, 2001 and 40.8% for the comparable period in 2000. The tax rate is higher than the federal statutory rate of 35.0% due to state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow provided by operating activities increased $15.4 million, or 14.0%, for the six months ended June 30, 2001 from the comparable period in 2000. The increase was primarily due to changes in working capital, partially offset by a decrease in deferred income taxes.

Net cash used for investing activities increased $3.9 million, or 6.6%, for

the six months ended June 30, 2001 compared to the six months ended June 30, 2000, primarily as a result of one business acquisition and additions to property, plant and equipment.

Net cash used for financing activities decreased $2.2 million, or 3.9%, for the six months ended June 30, 2001 from the comparable period in 2000. The decrease was primarily attributable to slightly lower debt prepayments, partially offset by expenditures in 2001 to repurchase common stock.

As of June 30, 2001, PCA had commitments for capital expenditures of $56.1 million. PCA's primary sources of liquidity are cash flow from operations and borrowings under PCA's senior revolving credit facility. PCA expects to be able to fund its debt service and capital expenditures, the primary uses of its cash, from these sources.

PCA incurred substantial indebtedness in connection with the Transactions. On April 12, 1999, PCA had approximately $1.8 billion of indebtedness as a result of the debt assumed in connection with completion of the Transactions. As of June 30, 2001, PCA's level of indebtedness had been reduced to approximately $816.0 million through prepayments of its bank debt.

Concurrently with the Transactions, PCA issued $550.0 million of 9 5/8% senior subordinated notes and $100.0 million of 12 3/8% senior exchangeable preferred stock and entered into a senior credit facility.

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

On June 29, 2000, PCA completed the refinancing of its $885.0 million senior credit facility. The refinanced senior credit facility provided for two term loans in an aggregate amount of $735.0 million and a revolving credit facility with up to $150.0 million in availability.

On November 29, 2000, PCA entered into a three-year, $150.0 million revolving credit facility in connection with the securitization of trade receivables. The securitization facility is secured by PCA's receivables and bears interest at a floating rate based upon commercial paper plus an allowed margin under the agreement. Proceeds received of $142.0 million were used to repay the term loans under the senior credit facility. As of June 30, 2001, PCA had paid $16.0 million on this facility.

The following table provides the weighted average interest rate as of June 30, 2001 for each of the term loans, the revolving credit facility and the securitization facility:

BORROWING ARRANGEMENT	WEIGHTED AVERAGE INTEREST RATE
Term Loan A	6.20%
Term Loan B	6.95%
Revolving Credit Facility:	
Revolver--Eurodollar	N/A
Revolver--Base Rate	N/A
Securitization Facility	4.97%

The borrowings under the revolving credit facility are available to fund PCA's working capital requirements, capital expenditures and other general corporate purposes. The Term Loan A must be

repaid in quarterly installments from June 2003 through June 2006. The Term Loan B must be repaid in quarterly installments from September 2003 through June 2007. The revolving credit facility will terminate in 2006. The securitization facility will terminate in 2003. As of June 30, 2001, PCA had $150.0 million in availability and no borrowings outstanding under the revolving credit facility, and $150.0 million in availability and $126.0 million outstanding under the securitization facility.

Since April 12, 1999, PCA has made debt prepayments totalling approximately $953.0 million, using free cash from operations of $442.0 million and proceeds from the sales of timberland of $511.0 million, to reduce its borrowings under the term loans and the securitization facility.

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

- incur additional indebtedness,

- pay dividends or make certain other restricted payments,

- consummate certain asset sales,

- incur liens,

- enter into certain transactions with affiliates, or

- merge or consolidate with any other person or sell or otherwise dispose of all or substantially all of the assets of PCA.

PCA believes that cash generated from operations will be adequate to meet its anticipated debt service requirements, capital expenditures and working capital needs for the next 12 months, and that cash generated from operations and amounts available under the revolving credit facility will be adequate to meet its anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. There can be no assurance, however, that PCA's business will generate sufficient cash flow from operations or that future borrowings will be available under the senior credit facility or otherwise to enable it to service its indebtedness, including the senior credit facility, and the notes, to retire the notes when required or to make anticipated capital expenditures. PCA's future operating performance and its ability to service or refinance the notes, to service, extend or refinance the senior credit facility and to pay cash dividends, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond PCA's control.

MARKET RISK AND RISK MANAGEMENT POLICIES

Historically, the Group has not had any material market risk due to the fact that its debt financing and risk management activities were conducted by Pactiv or Tenneco Inc. As a result of the Transactions, PCA is exposed to the impact of interest rate changes and changes in the market value of its financial instruments. PCA periodically enters into derivatives in order to minimize these risks, but not for trading purposes.

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

PCA currently has interest rate collar agreements that protect against rising interest rates and simultaneously guarantee a minimum interest rate. The original notional amount of these collar agreements was $720.0 million. As PCA has made debt prepayments, the need for these collar agreements has diminished. Accordingly, PCA has reduced the notional amount of its collars to

$220.0 million as of June 30, 2001. The weighted average floor of the interest rate collar agreements is 5.01% and the weighted average ceiling of the interest rate collar agreements is 6.84%. The interest rate on approximately 83% of PCA's variable-rate debt as of June 30, 2001 is capped. PCA receives payments under the collar agreements if the applicable interest rate (LIBOR or commercial paper) exceeds the ceiling. Correspondingly, PCA makes payments under the collar agreements if the applicable interest rate drops below the floor. In both cases, the amounts received or paid are based upon the notional amount and the difference between the actual interest rate and the ceiling or floor rate. The weighted average duration of the interest rate collar agreements is approximately two years.

PCA's earnings are affected by changes in short-term interest rates as a result of borrowings under its variable-rate debt instruments. If interest rates (LIBOR or commercial paper) for these borrowings increase one percent, PCA's interest expense would increase, and income before income taxes would decrease, by approximately $2.7 million annually, until the applicable interest rate exceeds the ceiling rate. At that point, only 17% of the variable-rate debt as of June 30, 2001, would result in additional interest expense. As of June 30, 2001, PCA's weighted average LIBOR rate was 4.95% and the weighted average commercial paper rate was 4.62%. The effect of an interest rate change to the fair market value of the outstanding debt is insignificant. This analysis does not consider any other impact on fair value that could exist in such an interest

rate environment. In the event of a change in interest rates, management could take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in PCA's financial structure.

ENVIRONMENTAL MATTERS

PCA is subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. Because environmental regulations are constantly evolving, PCA has incurred, and will continue to incur, costs to maintain compliance with those laws. In particular, the United States Environmental Protection Agency recently finalized the Cluster Rules, which govern pulp and paper mill operations, including those at the Counce, Filer City, Valdosta and Tomahawk mills. Over the next several years, the Cluster Rules will affect PCA's allowable discharges of air and water pollutants, and require PCA to spend money to ensure compliance with those new rules.

As is the case with any industrial operation, PCA has, in the past, incurred costs associated with the remediation of soil or groundwater contamination, as required by the federal Comprehensive Environmental Response, Compensation and Liability Act, commonly known as the federal "Superfund" law, and analogous state laws. Cleanup requirements arise with respect to properties PCA currently owns or operates, former facilities and off-site facilities where PCA has disposed of hazardous substances. Because liability under these laws is strict, meaning that liability is imposed without fault, joint and several, meaning that liability is imposed on each party without regard to contribution, and retroactive, PCA could receive notifications of cleanup liability in the future and this liability could be material. Under the terms of the contribution agreement entered into in connection with the Transactions, Pactiv agreed to retain all liability for all former facilities and all sites associated with pre-closing off-site waste disposal. Pactiv also retained environmentally impaired real property in Filer City, Michigan unrelated to current mill operations.

IMPACT OF INFLATION

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

FORWARD-LOOKING STATEMENTS

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

On May 14, 1999, PCA was named as a defendant in a Consolidated Class Action Complaint which alleged a civil violation of Section 1 of the Sherman Act. The suit, captioned WINOFF INDUSTRIES, INC. V. STONE CONTAINER CORPORATION, MDL No. 1261 (E.D. Pa.), names PCA as a defendant based solely on the allegation that PCA is a successor to the interests of Tenneco Packaging Inc. and Tenneco Inc., both of which were also named as defendants in the suit, along with nine other linerboard manufacturers. The complaint alleges that the

defendants, during the period from October 1, 1993 through November 30, 1995, conspired to limit the supply of linerboard, and that the purpose and effect of the alleged conspiracy was artificially to increase prices of corrugated containers. The plaintiffs have moved to certify a class of all persons in the United States who purchased corrugated containers directly from any defendant during the above period, and seek treble damages and attorneys' fees on behalf of the purported class. The Court has yet to rule on the plaintiffs' motion for class certification, and the case is currently set for trial in January, 2003. PCA believes that the plaintiffs' allegations have no merit and intends to defend against the suit vigorously. PCA does not believe that the outcome of this litigation should have a material adverse effect on its financial position, results of operations, or cash flow.

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

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

PCA's 2001 Annual Meeting of Shareholders was held on May 15, 2001. At the meeting, the Shareholders voted on two matters: (1) electing directors, and (2) ratifying the appointment of Ernst & Young LLP as independent accountants for the year 2001. The following persons were elected to PCA's Board of Directors, each for a term to expire at PCA's 2002 Annual Meeting of Shareholders:

NOMINEE	NUMBER OF VOTES	
	FOR	WITHHELD
Paul T. Stecko	98,096,700	3,672,606
Henry F. Frigon	101,156,339	612,967
Louis A. Holland	101,158,224	611,082
Justin S. Huscher	100,901,124	868,182
Samuel M. Mencoff	100,901,624	867,682
Thomas S. Souleles	100,901,183	868,123
Rayford K. Williamson	101,156,166	613,140

The Shareholders also ratified the appointment of Ernst & Young LLP as PCA's independent accountants for the year 2001 by a vote of 99,514,044 votes cast for ratification, 2,235,606 votes cast against ratification, and 19,656 abstentions.

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) The following exhibits are included in this Quarterly Report on Form 10-Q:

None.

(b) Reports on Form 8-K:

None.

SIGNATURE

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

PACKAGING CORPORATION OF AMERICA
(Registrant)

By: /s/ RICHARD B. WEST

Richard B. West
CHIEF FINANCIAL OFFICER, VICE PRESIDENT AND
CORPORATE SECRETARY (PRINCIPAL FINANCIAL
OFFICER AND AUTHORIZED OFFICER)

Date: August 10, 2001