

PACKAGING CORP OF AMERICA  
Form 10-Q  
November 04, 2009

**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 September 30, 2009**
- 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

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90 days. Yes  No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for shorter period that the Registrant was required to submit and post such files). Yes  No

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

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

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

As of November 2, 2009, the Registrant had outstanding 102,983,542 shares of common stock, par value \$0.01 per share.

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**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements.****Packaging Corporation of America****Condensed Consolidated Balance Sheets  
(Unaudited)**

<b>(In thousands, except share and per share amounts)</b>	<b>September 30, 2009</b>	<b>December 31, 2008 (Audited)</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 224,287	\$ 149,397
Accounts receivable, net of allowance for doubtful accounts and customer deductions of \$6,575 and \$6,862 as of September 30, 2009 and December 31, 2008, respectively	274,026	254,898
Inventories	208,736	206,954
Alternative fuel mixture tax credits receivable	106,381	
Prepaid expenses and other current assets	13,965	6,684
Deferred income taxes	20,108	15,240
<b>Total current assets</b>	<b>847,503</b>	<b>633,173</b>
Property, plant and equipment, net	1,177,593	1,221,019
Goodwill	38,854	37,163
Other intangible assets, net	11,994	12,669
Other long-term assets	35,557	35,717
<b>Total assets</b>	<b>\$ 2,111,501</b>	<b>\$ 1,939,741</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term debt and current maturities of long-term debt	\$ 109,000	\$ 109,000
Capital lease obligations	615	606
Accounts payable	116,734	101,064
Dividends payable	15,442	30,719
Accrued interest	4,457	12,723
Accrued federal and state income taxes	9,884	1,282
Accrued liabilities	112,175	106,588
<b>Total current liabilities</b>	<b>368,307</b>	<b>361,982</b>

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Long-term liabilities:		
Long-term debt	548,662	548,400
Capital lease obligations	22,663	23,129
Deferred income taxes	210,707	208,879
Pension and postretirement benefit plans	79,489	85,964
Other long-term liabilities	29,357	27,438
<b>Total long-term liabilities</b>	<b>890,878</b>	<b>893,810</b>
Stockholders' equity:		
Common stock, par value \$.01 per share, 300,000,000 shares authorized, 102,972,727 shares and 102,397,952 shares issued as of September 30, 2009 and December 31, 2008, respectively	1,030	1,024
Additional paid in capital	385,353	379,104
Retained earnings	503,118	342,072
Accumulated other comprehensive income (loss):		
Unrealized gain on treasury lock, net	4,973	6,358
Unfunded employee benefit obligations, net	(42,158)	(44,609)
Total accumulated other comprehensive loss	(37,185)	(38,251)
<b>Total stockholders' equity</b>	<b>852,316</b>	<b>683,949</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,111,501</b>	<b>\$ 1,939,741</b>

See notes to condensed consolidated financial statements.

## Packaging Corporation of America

Condensed Consolidated Statements of Income  
(Unaudited)

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>(In thousands, except per share amounts)</b>		
Net sales	\$ 553,573	\$ 620,785
Cost of sales	(443,041)	(488,734)
Gross profit	110,532	132,051
Selling and administrative expenses	(44,258)	(44,792)
Corporate overhead	(13,188)	(16,085)
Alternative fuel mixture tax credits	47,137	
Other expense, net	(3,892)	(2,469)
Income from operations	96,331	68,705
Interest expense, net	(8,961)	(8,071)
Income before taxes	87,370	60,634
Provision for income taxes	(14,715)	(22,532)
Net income	\$ 72,655	\$ 38,102
Weighted average common shares outstanding:		
Basic	101,713	102,562
Diluted	102,536	103,590
Net income per common share:		
Basic	\$ 0.71	\$ 0.37
Diluted	\$ 0.71	\$ 0.37
Dividends declared per common share	\$ 0.15	\$ 0.30

See notes to condensed consolidated financial statements.

## Packaging Corporation of America

Condensed Consolidated Statements of Income  
(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
<b>(In thousands, except per share amounts)</b>		
Net sales	\$ 1,615,332	\$ 1,814,442
Cost of sales	(1,276,293)	(1,437,034)
Gross profit	339,039	377,408
Selling and administrative expenses	(130,325)	(131,913)
Corporate overhead	(42,076)	(44,460)
Alternative fuel mixture tax credits	126,832	
Other expense, net	(11,815)	(11,011)
Income from operations	281,655	190,024
Interest expense, net	(26,529)	(22,571)
Income before taxes	255,126	167,453
Provision for income taxes	(47,914)	(62,086)
Net income	\$ 207,212	\$ 105,367
Weighted average common shares outstanding:		
Basic	101,516	103,147
Diluted	102,275	104,048
Net income per common share:		
Basic	\$ 2.04	\$ 1.02
Diluted	\$ 2.03	\$ 1.01
Dividends declared per common share	\$ 0.45	\$ 0.90

See notes to condensed consolidated financial statements.

## Packaging Corporation of America

Condensed Consolidated Statements of Cash Flows  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>(In thousands)</b>		
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 207,212	\$ 105,367
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	111,900	109,965
Amortization of financing costs	580	489
Amortization of net gain on treasury lock	(1,385)	(1,945)
Share-based compensation expense	6,021	7,441
Deferred income tax provision	(4,340)	(8,903)
Loss on disposals of property, plant and equipment	4,590	5,586
Alternative fuel mixture tax credits receivable	(106,381)	
Changes in operating assets and liabilities:		
Increase in assets		
Accounts receivable	(16,946)	(29,973)
Inventories	(838)	(4,798)
Prepaid expenses and other current assets	(7,290)	(7,133)
Increase (decrease) in liabilities		
Accounts payable	12,396	6,118
Accrued liabilities	13,792	1,773
Other, net	(10,018)	(1,812)
<b>Net cash provided by operating activities</b>	<b>209,293</b>	<b>182,175</b>
<b>Cash Flows from Investing Activities:</b>		
Additions to property, plant and equipment	(68,600)	(98,268)
Additions to other long term assets	(1,941)	(3,072)
Acquisition of business, net of cash acquired	(3,136)	
Proceeds from disposals of property, plant and equipment	28	952
<b>Net cash used for investing activities</b>	<b>(73,649)</b>	<b>(100,388)</b>
<b>Cash Flows from Financing Activities:</b>		
Payments on long-term debt	(457)	(170,148)
Proceeds from long-term debt issued		149,939
Financing costs paid		(1,075)
Settlement of treasury lock		(4,386)
Common stock dividends paid	(61,456)	(93,960)
Repurchases of common stock		(45,334)
Proceeds from exercise of stock options	249	2,391



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Excess tax benefits from share-based awards	910	610
<b>Net cash used for financing activities</b>	<b>(60,754)</b>	<b>(161,963)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>74,890</b>	<b>(80,176)</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>149,397</b>	<b>228,143</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 224,287</b>	<b>\$ 147,967</b>

See notes to condensed consolidated financial statements.

**Packaging Corporation of America**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)  
September 30, 2009**

**1. Basis of Presentation**

The condensed consolidated financial statements as of September 30, 2009 and 2008 of Packaging Corporation of America ( PCA or the Company ) and for the three- and nine-month periods then ended are unaudited but include all adjustments (consisting only of normal recurring adjustments) that management considers necessary for a fair presentation of such financial statements. These financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with Article 10 of SEC Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete audited financial statements. Operating results for the period ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These condensed consolidated financial statements should be read in conjunction with PCA's Annual Report on Form 10-K for the year ended December 31, 2008.

**2. Summary of Accounting Policies**

***Basis of Consolidation***

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

***Use of Estimates***

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

***Revenue Recognition***

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

***Segment Information***

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

***Comprehensive Income***

Comprehensive income is as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>(In thousands)</b>		
Net income	\$ 72,655	\$ 38,102
Other comprehensive income, net of tax:		
Amortization of unfunded employee benefit obligations	858	491
Amortization of net gain on treasury lock	(462)	(507)
Comprehensive income	\$ 73,051	\$ 38,086

**Packaging Corporation of America**

**Notes to Condensed Consolidated Financial Statements  
(Unaudited)**

**September 30, 2009**

**2. Summary of Accounting Policies (Continued)**

- (b) There have been no changes in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Act) that occurred during the Registrant's last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 3. Exhibits.**

Certifications of PEO and PFO as required by Rule 30a-2(a) under the Investment Company Act of 1940.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Registrant: Invesco Insured California Municipal Securities

By: /s/ Philip A. Taylor

Philip A. Taylor  
Principal Executive Officer

Date: April 1, 2011

Pursuant to the requirements of the Securities and Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Philip A. Taylor

Philip A. Taylor  
Principal Executive Officer

Date: April 1, 2011

By: /s/ Sheri Morris

Sheri Morris  
Principal Financial Officer

Date: April 1, 2011

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EXHIBIT INDEX

Certifications of Principal Executive Officer ( PEO ) and Principal Financial Officer ( PFO ) as required by Rule 30a-2(a) under the Investment Company Act of 1940, as amended.