

PACKAGING CORP OF AMERICA

Form 10-K

February 27, 2009

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

Form 10-K

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

For the fiscal year ended December 31, 2008

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

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

60045
(Zip Code)

Registrant's telephone number, including area code

(847) 482-3000

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

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

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

None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

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

At June 30, 2008, the last business day of the Registrant's most recently completed second fiscal quarter, the aggregate market value of the Registrant's common equity held by nonaffiliates was approximately \$2,202,087,304 based on the closing sale price as reported on the New York Stock Exchange. This calculation of market value has been made for the purposes of this report only and should not be considered as an admission or conclusion by the Registrant that any person is in fact an affiliate of the Registrant.

On February 25, 2009, there were 102,398,867 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Specified portions of the Proxy Statement for the Registrant's 2009 Annual Meeting of Stockholders are incorporated by reference to the extent indicated in Part III of this Form 10-K.

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Packaging Corporation of America (we, us, our, PCA or the Company) is the fifth largest producer of containerboard and corrugated products in the United States in terms of production capacity. During 2008, we produced approximately 2.35 million tons of containerboard at our mills, of which about 80% was consumed in PCA's corrugated products manufacturing plants, 11% was sold to domestic customers and 9% was sold in the export market. Our corrugated products manufacturing plants sold about 30.3 billion square feet (BSF) of corrugated products. Our net sales to third parties totaled \$2.4 billion in 2008.

Containerboard Production and Corrugated Shipments

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Full Year
Containerboard Production (thousand tons)	2008	586	613	621	533	2,353
	2007	584	615	632	615	2,446
	2006	579	591	621	613	2,404
Corrugated Shipments (BSF)	2008	7.6	8.0	7.8	6.9	30.3
	2007	7.7	8.0	7.9	7.6	31.2
	2006	7.9	8.0	7.8	7.6	31.3

In 2008, we produced 1.44 million tons of kraft linerboard at our mills in Counce, Tennessee and Valdosta, Georgia, and 0.91 million tons of semi-chemical corrugating medium at our mills in Tomahawk, Wisconsin and Filer City, Michigan. We currently lease the cutting rights to approximately 91,000 acres of timberland located near our Counce and Valdosta mills. We also have supply agreements with third parties on approximately 359,000 acres of timberland.

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

Industry Overview

According to the Fibre Box Association, the value of industry shipments of corrugated products was \$26 billion in 2008.

The primary end-use markets for corrugated products are shown below (as reported in the most recent 2007 Fibre Box Association annual report):

Food, beverages and agricultural products	50%
Paper products	23%

Petroleum, plastic, synthetic and rubber products	11%
Appliances, machinery and vehicles	5%
Glass, pottery, metal products and containers	4%
Miscellaneous manufacturing	4%
Textile mill products and apparel	2%
Other	1%

Corrugated products plants tend to be located in close proximity to customers to minimize freight costs. The U.S. corrugated products industry consists of approximately 630 companies and 1,350 plants.

Containerboard, which includes both linerboard and corrugating medium, is the principal raw material used to manufacture corrugated products. Linerboard is used as the inner and outer facings, or liners, of corrugated products. Corrugating medium is fluted and laminated to linerboard in corrugator plants to produce

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corrugated sheets. The sheets are subsequently printed, cut, folded and glued in corrugator plants or sheet plants to produce corrugated products.

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

PCA Operations and Products

Our two linerboard mills can manufacture a broad range of linerboard grades ranging from 26 lb. to 96 lb. Our two semi-chemical corrugating medium mills can manufacture grades ranging in weight from 20 lb. to 47 lb. Mill capacities described below are estimated based on expected mix of paper basis weights. All four of our mills have completed an extensive independent review process to become ISO 9002 certified. ISO 9002 is an international quality certification that verifies a facility maintains and follows stringent procedures for manufacturing, sales and customer service.

The following four paragraphs describe our containerboard mills' annual practical maximum capacity, 2008 actual production and production capabilities.

Counce. Our Counce, Tennessee mill is one of the largest kraft linerboard mills in the United States. Its estimated production capacity, as reported to the American Forest and Paper Association (AF&PA), is approximately 1,007,000 tons per year. In 2008, we produced 970,000 tons of kraft linerboard on two paper machines at Counce. The mill produces a broad range of basis weights from 26 lb. to 90 lb. The mill also produces a variety of performance and specialty grades of linerboard.

Valdosta. Our Valdosta, Georgia mill is a kraft linerboard mill that has an estimated production capacity of approximately 474,000 tons per year, as reported to the AF&PA. In 2008, our single paper machine at Valdosta produced 474,000 tons of kraft linerboard. Valdosta produces linerboard ranging from 35 lb. to 96 lb.

Tomahawk. Our Tomahawk, Wisconsin mill is one of the largest semi-chemical corrugating medium mills in the United States with an estimated production capacity of 581,000 tons per year on three paper machines, as reported to the AF&PA. In April 2005, we completed the indefinite closure of our number three paper machine at Tomahawk and currently operate the remaining two paper machines which have a combined production capacity of 516,000 tons. In 2008, we produced 502,000 tons of semi-chemical corrugating medium on two paper machines at Tomahawk. One of the two paper machines we operate is among the largest corrugating medium machines in the world. The Tomahawk mill produces a broad range of basis weights from 23 lb. to 47 lb. and a variety of performance and specialty grades of corrugating medium.

Filer City. Our Filer City, Michigan mill is a semi-chemical corrugating medium mill with an estimated production capacity of 413,000 tons on three paper machines, as reported to the AF&PA. In 2008, we produced 407,000 tons of corrugating medium at Filer City. Filer City produces corrugating medium grades ranging in basis weight from 20 lb. to 47 lb.

We operate 67 corrugated manufacturing operations, a technical and development center, five regional graphic design centers, a rotogravure printing operation and a complement of packaging supplies and distribution centers. Of the 67 manufacturing facilities, 40 operate as combining operations, commonly called corrugated plants, that manufacture corrugated sheets and finished corrugated containers. The remaining 27 manufacturing facilities, commonly called sheet plants, purchase combined sheets primarily produced at PCA's combining operations and manufacture finished

corrugated containers.

We have corrugated manufacturing operations in 26 states in the U.S., with no manufacturing facilities outside of the continental U.S. Each corrugated plant, for the most part, serves a market radius that typically averages 150 miles. Our sheet plants are generally located in close proximity to our larger corrugated plants, which enables us to offer additional services and converting capabilities such as small volume and quick turnaround items.

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We produce a wide variety of products ranging from basic corrugated shipping containers to specialized packaging such as wax-coated boxes for the agriculture industry. We also have multi-color printing capabilities to make high-impact graphics boxes and displays that offer customers more attractive packaging.

Timberland

We currently lease the cutting rights to approximately 91,000 acres of timberland located near our Counce and Valdosta mills. Virtually all of the acres under cutting rights agreements are located within 100 miles of these two mills, which results in lower wood transportation costs and provides a secure source of wood fiber. These leased cutting rights agreements have terms with over 15 years remaining, on average.

During 1999 and 2000, PCA sold approximately 800,000 acres of timberland. We currently have in place supply agreements covering approximately 359,000 of the 800,000 acres sold. The majority of the acreage under supply agreement is located in close proximity to our Counce mill. We currently hold an approximate 29% equity ownership interest in approximately 51,000 acres owned by Southern Timber Venture, LLC (STV). This acreage is located primarily in southern Georgia and northern Florida, near our Valdosta, Georgia mill, and includes both timberlands and higher beneficial use properties.

In addition to the timberland we manage ourselves, our Forest Management Assistance Program provides professional forestry assistance to private timberland owners to improve harvest yields and to optimize their harvest schedule. We have managed the regeneration of approximately 125,000 acres by supplying pine seedlings. In exchange for our expertise, we are given the right of first refusal over timber sales from those lands. These private lands include over 145,000 acres of timberland. We expect to harvest approximately 80,000 cords of wood from these forests annually.

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

Solid Wood Facilities

We own and operate one sawmill located in Ackerman, Mississippi. During 2008, the Ackerman sawmill sold 51 million board feet of lumber used in the building products and furniture industries. We also have an air-dry yard operation in Burnsville, Mississippi that holds newly cut lumber while it dries.

Sales and Marketing

Our corrugated products are sold through a direct sales and marketing organization. We have sales representatives and a sales manager at each corrugated manufacturing operation who serve local and regional accounts. We also have corporate account managers who serve large national accounts at multiple customer locations. Additionally, our graphic design centers maintain an on-site dedicated graphics sales force. In addition to direct sales and marketing personnel, we utilize new product development engineers and product graphics and design specialists. These individuals are located at both the corrugated plants and the graphic design centers. General marketing support is located at our corporate headquarters.

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

Distribution

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

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Containerboard produced in our mills is shipped by rail or truck. Rail shipments represent about 55% to 60% of the tons shipped and the remaining 40% to 45% is comprised of truck shipments. Our individual mills do not own or maintain outside warehousing facilities. We use third-party warehouses for short-term storage.

Customers

PCA's corrugated products group sells to over 9,600 customers in over 17,500 locations. About two-thirds of our corrugated products customers are regional and local accounts, which are broadly diversified across industries and geographic locations. The remaining one-third of our customer base consists primarily of national accounts, or those customers with a national presence. These customers typically purchase corrugated products from several of our box plants throughout the United States.

Major Raw Materials Used

Fiber supply. Fiber is the single largest cost in the manufacture of containerboard. PCA consumes both wood fiber and recycled fiber in its containerboard mills. We have no 100% recycled mills, or those mills whose fiber consumption consists solely of recycled fiber. To reduce our fiber costs, we have invested in processes and equipment to ensure a high degree of fiber flexibility. Our mills have the capability to shift a portion of their fiber consumption between softwood, hardwood and recycled sources. All of our mills, other than our Valdosta mill, can utilize some recycled fiber in their containerboard production. Our ability to use various types of virgin and recycled fiber helps mitigate the impact of changes in the prices of various fibers. Our corrugated manufacturing operations generate recycled fiber as a by-product from the manufacturing process, which is sold to our mills directly or through trade agreements. During 2008, our containerboard mills consumed approximately 590,000 tons of recycled fiber, and our corrugated converting operations generated approximately 195,000 tons of recycled fiber. As a result, PCA was a net recycled fiber buyer of 395,000 tons, or 17% of PCA's total fiber requirements.

Energy supply. Energy at the mills is obtained through purchased electricity or through various fuels, which are converted to steam or electricity on-site. Fuel sources include coal, natural gas, oil, internally produced and purchased bark and by-products of the containerboard manufacturing and pulping process. These fuels are burned in boilers to produce steam. Steam turbine generators are used to produce electricity. To reduce our mill energy cost, we have invested in processes and equipment to ensure a high level of purchased fuel flexibility. In recent history, natural gas and fuel oil have exhibited higher costs per thermal unit and more price volatility than coal and bark. During 2008, 11.7 million MMBTU's (million BTU's), or approximately 75% of our mills' purchased fuel needs, were from purchased bark and coal, historically our two lowest cost purchased fuels. For the same period, our mills consumed about 2.5 million MMBTU's of natural gas (16% of the mills' total purchased fuels) and 1.0 million MMBTU's of oil (7% of the mills' total purchased fuels). Our two kraft linerboard mills at Counce and Valdosta generate more than two-thirds of their fuel requirements from their own by-products.

PCA's corrugated plants each have a boiler that produces steam which is used by the corrugator. The majority of these boilers burn natural gas, although some also have the ability to burn fuel oil. During 2008, PCA's corrugated products plants consumed approximately 2.0 million MMBTU's of natural gas.

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The following table shows PCA's purchased fuel consumption by fuel type for 2008:

	2008 Purchased MMBTU's					% of Mill Total	% of PCA Total
	1Q	2Q	3Q	4Q	Year		
Containerboard Mills							
Coal	2,208,211	1,927,613	1,712,634	1,855,540	7,703,998	49%	44%
Bark	970,363	931,865	926,673	1,134,560	3,963,461	25%	23%
Steam	112,126	92,050	109,884	100,769	414,829	3%	2%
Coal, Bark and Steam	3,290,700	2,951,528	2,749,191	3,090,869	12,082,288	77%	69%
Oil	575,437	263,883	114,241	92,610	1,046,171	7%	6%
Natural Gas	771,559	648,278	547,311	580,480	2,547,628	16%	14%
Total Mills Purchased Fuels	4,637,696	3,863,689	3,410,743	3,763,959	15,676,087	100%	89%
Corrugated Products Plants Natural Gas	629,435	461,164	415,975	511,953	2,018,527		11%
Total Company Purchased Fuels	5,267,131	4,324,853	3,826,718	4,275,912	17,694,614		100%

Approximately 40% of the electricity consumed by our four mills is generated on-site. Our mills purchase approximately 9,445,000 KWh (hundred kilowatt hours) annually, or the equivalent of 3.2 million MMBTU's. PCA's corrugated products plants purchase about 2,290,000 KWh annually, or the equivalent of 0.8 million MMBTU's.

Competition

According to industry sources, corrugated products are produced by about 630 U.S. companies operating approximately 1,350 plants. Most corrugated products are manufactured to the customer's specifications. Corrugated producers generally sell within a 150-mile radius of their plants and compete with other corrugated producers in their local market. In fact, the Fibre Box Association tracks industry data by 47 distinct market regions.

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

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

Our principal competitors with respect to sales of our containerboard produced but not consumed at our own corrugated products plants are a number of large, diversified paper companies, including International Paper Company, Koch Industries, Inc., Smurfit-Stone Container Corporation and Temple-Inland Inc., as well as other

regional manufacturers. Containerboard is generally considered a commodity-type product and can be purchased from numerous suppliers.

Employees

As of December 31, 2008, we had approximately 8,100 employees. Approximately 2,400 of these employees were salaried and approximately 5,700 were hourly. Approximately 75% of our hourly employees are represented by unions. The majority of our unionized employees are represented by the United Steel

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Workers (USW), the International Brotherhood of Teamsters (IBT) and the International Association of Machinists (IAM).

Based on an agreement reached with the USW in August 2008, the existing labor agreements at our containerboard mills covering USW-represented employees (91% of mill hourly workforce) were extended five years. With this extension, the USW contracts at our mills are currently set to expire between September 2013 and June 2015. Agreements with other union mill employees (9% of mill hourly workforce) expire between October 2009 and June 2012. Contracts for unionized corrugated products plant employees expire between February 2009 and November 2014. We are currently in negotiations to renew or extend any union contracts that have recently expired or are expiring in the near future.

During 2008, we experienced no work stoppages and have experienced no instances of significant work stoppages in the five years prior to 2008. We believe we have satisfactory relations with our employees.

Environmental Matters

Compliance with environmental requirements is a significant factor in our business operations. We commit substantial resources to maintaining environmental compliance and managing environmental risk. We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. The most significant of these laws affecting us are:

1. Resource Conservation and Recovery Act (RCRA)
2. Clean Water Act (CWA)
3. Clean Air Act (CAA)
4. The Emergency Planning and Community Right-to-Know-Act (EPCRA)
5. Toxic Substance Control Act (TSCA)
6. 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. For the year ended December 31, 2008, we spent approximately \$23.5 million to comply with the requirements of these and other environmental laws. For the years ended December 31, 2007 and 2006, the costs of environmental compliance were approximately \$19.4 million and \$17.5 million, respectively. We work diligently to anticipate and budget for the impact of applicable environmental regulations, and do not currently expect that future environmental compliance obligations will materially affect our business or financial condition.

In 1998, the United States Environmental Protection Agency (EPA) finalized a Clean Air and Water Act commonly referred to as the Cluster Rule. The Cluster Rules govern allowable discharges of air and water pollutants at all pulp and paper mill operations. As a result, PCA and its competitors were required to incur costs to ensure compliance with these rules. We completed all of our projects related to Cluster Rule requirements in 2006 and, as a result, do not anticipate any further capital expenditures related to ensuring compliance with the Cluster Rules. From 1997 through 2006, we spent approximately \$39.2 million to ensure compliance with the Cluster Rule requirements. Total capital

costs for environmental matters were \$3.5 million for 2008. We currently estimate 2009 environmental capital expenditures will be \$1.5 million.

As is the case with any industrial operation, we have in the past incurred costs associated with the remediation of soil or groundwater contamination. From 1994 through 2008, remediation costs at our mills and converting plants totaled approximately \$3.2 million. We do not believe that any ongoing remedial projects are material in nature. As of December 31, 2008, we maintained an environmental reserve of \$8.3 million, which includes funds relating to on-site landfill and surface impoundments as well as ongoing and anticipated remedial projects. Of the \$8.3 million reserve, \$4.2 million is reserved for our landfill

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obligations, which are accounted for in accordance with SFAS No. 143, Accounting for Asset Retirement Obligations. We believe these reserves are adequate.

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

On April 12, 1999, Pactiv Corporation, formerly known as Tenneco Packaging Inc., a wholly owned subsidiary of Tenneco Inc., sold its containerboard and corrugated products business to PCA, an entity formed by Madison Dearborn Partners, LLC, a private equity investment firm. As a part of the April 12, 1999 transaction, Pactiv agreed to retain all liability for all former facilities and all sites associated with pre-closing offsite waste disposal. Pactiv also retained environmental liability for a closed landfill located near the Filer City mill.

As of this filing, we believe that it is not reasonably possible that future environmental expenditures above the \$8.3 million accrued as of December 31, 2008 will have a material impact on our financial condition and results of operations.

Available Information

PCA'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 or 15(d) of the Securities Exchange Act of 1934 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. In addition, our Code of Ethics may be accessed in the Investor Relations section of PCA's website. PCA's website and the information contained or incorporated therein are not intended to be incorporated into this report.

Financial Information About Segments

We operate as one segment and our revenues are generated primarily in one geographic segment. See Segment Information of Note 2 Summary of Significant Accounting Policies contained in the Notes to Consolidated Financial Statements.

Item 1A. RISK FACTORS

Some of the statements in this report and, in particular, statements found in Management's Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are often identified by the words will, should, anticipate, believe, expect, intend, estimate, hope, or similar expressions. These statements represent 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, but are not limited to, the factors described below.

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.

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Industry Risks

Industry Earnings Cyclicalities *Imbalances of supply and demand for containerboard could affect the price at which we can sell containerboard and corrugated products, and as a result, could result in lower selling prices and earnings.*

The price of containerboard could fall if the supply of containerboard available for sale in the market exceeds the demand. The demand for containerboard is driven by market needs for containerboard in the United States and abroad to manufacture corrugated shipping containers. Market needs or demand are driven by both global and U.S. business conditions, which severely weakened during the fourth quarter of 2008. If supply exceeds demand, prices for containerboard and corrugated products could decline, resulting in decreased earnings and cash generated from operations.

Competition *The intensity of competition in the containerboard and corrugated packaging industry could result in downward pressure on pricing and volume, which could lower earnings and cash generated from operations.*

The containerboard and corrugated products industry is highly competitive, with no single containerboard or corrugated packaging producer having a dominant position. Containerboard cannot generally be differentiated by producer, which tends to intensify price competition. The corrugated packaging industry is also sensitive to changes in economic conditions, as well as other factors including innovation, design, quality and service. To the extent that one or more competitors are more successful with respect to any key competitive factor, our business could be adversely affected. Our products also compete, to some extent, with various other packaging materials, including products made of paper, plastics, wood and various types of metal. The intensity of competition could lead to a reduction in our market share as well as lower sales prices for our products, both of which could reduce our earnings and cash flow.

Company Risks

Cost of Fiber *An increase in the cost of fiber could increase our manufacturing costs and lower our earnings.*

PCA has supply agreements at market prices for wood fiber to be consumed at three of our four mills on approximately 359,000 acres of timberland. In addition to these supply agreements, PCA also secures wood fiber from various other sources at market prices.

PCA purchases recycled fiber for use at three of its four containerboard mills. PCA currently purchases, net of recycled fiber generated at its box plants, approximately 395,000 tons of recycled fiber per year.

The market price of wood fiber varies based upon availability and source. In addition, the increase in demand of products manufactured, in whole or in part, from recycled fiber, on a global basis, has caused an occasional tightening in the supply of recycled fiber. These periods of supply and demand imbalance have tended to create significant price volatility. Periods of above average fiber costs and unusual price volatility have occurred in the past and may occur again in the future, which could result in lower or volatile earnings.

Cost of Purchased Energy and Chemicals *An increase in the cost of purchased energy and chemicals could lead to higher manufacturing costs, resulting in reduced earnings.*

PCA has the capability to use various types of purchased fuels in its manufacturing operations, including coal, bark, natural gas and oil. Energy prices, in particular prices for oil and natural gas, have fluctuated dramatically in the past and have risen substantially in recent years. In addition, costs for key chemicals used in our manufacturing have risen. These fluctuations impact our manufacturing costs and result in earnings volatility. If energy and chemical prices rise,

our production costs will increase, which will lead to higher manufacturing costs and reduced earnings.

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Material Disruption of Manufacturing *A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales and/or negatively impact our results of operation and financial condition.*

Our business depends on continuous operation of our facilities, particularly at our mills. Any of our manufacturing facilities, or any of our machines within such facilities, could cease operations unexpectedly for a long period of time due to a number of events, including unscheduled maintenance outages; prolonged power failures; an equipment failure; explosion of a boiler; labor difficulties; natural catastrophes; terrorism; governmental regulations; and other operational problems. These events could lead to higher costs and reduced earnings.

Environmental Matters *PCA may incur significant environmental liabilities with respect to both past and future operations.*

We are subject to, and must comply with, a variety of federal, state and local environmental laws, particularly those relating to air and water quality, waste disposal and the cleanup of contaminated soil and groundwater. Because environmental regulations are constantly evolving, we have incurred, and will continue to incur, costs to maintain compliance with those laws. See Item 1. Business Environmental Matters for certain estimates of expenditures we expect to make for environmental compliance in the next few years. Although we have established reserves to provide for future environmental liability, these reserves may not be adequate. In addition, enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant expenditures.

Investment Risks

Market Price of our Common Stock *The market price of our common stock may be volatile, which could cause the value of your investment to decline.*

Securities markets worldwide have recently experienced significant price declines and volume fluctuations. This market volatility, as well as general economic, market or political conditions, could reduce the market price of our common stock in spite of our operating performance. In addition, our operating results could be below the expectations of public market analysts and investors, and in response, the market price of our common stock could decrease significantly.

General Risks

Economic Conditions *Our earnings and cash generated from operations could be significantly lower as a result of the severe and possibly prolonged downturn in the U.S. economy.*

Our operations and financial performance are directly impacted by changes in the U.S. economy, and to a lesser extent, by global economic conditions. The significant downturn in the U.S. economy during the fourth quarter of 2008 significantly lowered the demand for our products. As a result, to balance the production of containerboard at our mills with demand, we reduced our fourth quarter mill production by 90,000 tons and operated our mills at about 85% of capacity. This lower demand and production reduced our revenues, increased our unit production costs, and lowered our earnings and our cash generated from operations. It is uncertain if economic conditions will deteriorate further, or when economic conditions will improve. Until economic conditions improve, our operating and financial performance will continue to be adversely impacted. Lower earnings and reduced cash flow could impact our ability to fund operations, capital requirements, and common stock dividend payments, and a prolonged and severe downturn could possibly impact our ability to comply with our debt covenants.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Table of Contents**Item 2. *PROPERTIES***

The table below provides a summary of our containerboard mills, the principal products produced and each mill's annual practical maximum capacity based upon all of our paper machines' production capabilities:

Location	Function	Capacity (tons)
Counce, TN	Kraft linerboard mill	1,007,000
Valdosta, GA	Kraft linerboard mill	474,000
Tomahawk, WI	Semi-chemical medium mill	581,000*
Filer City, MI	Semi-chemical medium mill	413,000
Total		2,475,000*

* In April, 2005, we shut down the number three paper machine at our Tomahawk mill after resuming operations on the number one paper machine at our Filer City mill. Shutting down the number three machine (out of 3 total paper machines) at Tomahawk reduces our total productive capacity by 65,000 tons at Tomahawk from 581,000 tons to 516,000 tons and reduces our total containerboard mill system capacity from 2,475,000 tons to 2,410,000 tons. This action was based on market conditions and productivity and could change if market conditions or productivity levels change going forward.

We currently own our four containerboard mills and 44 of our corrugated manufacturing operations (37 corrugated plants and seven sheet plants). We also own one sawmill, an air-drying yard, one warehouse and miscellaneous other property, which includes sales offices and woodlands forest management offices. These sales offices and woodlands forest management offices generally have one to four employees and serve as administrative offices. PCA leases the space for three corrugated plants, 20 sheet plants, five regional design centers, and numerous other distribution centers, warehouses and facilities. The equipment in these leased facilities is, in virtually all cases, owned by PCA, except for forklifts and other rolling stock which are generally leased.

We lease the cutting rights to approximately 91,000 acres of timberland located near our Valdosta mill (80,000 acres) and our Counce mill (11,000 acres). On average, these cutting rights agreements have terms with over 15 years remaining.

We currently lease space for our corporate headquarters in Lake Forest, Illinois. The lease for the Lake Forest, Illinois facility is a short term, facility use agreement lease with automatic renewal rights. Specifically, this lease is a continuous month-to-month lease with unlimited automatic renewals entitling either party the right to terminate the lease with at least 8 months notice.

We currently believe that our owned and leased space for facilities and properties are sufficient to meet our operating requirements for the foreseeable future.

Item 3. *LEGAL PROCEEDINGS*

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

financial condition, results of operations or cash flows.

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

No matters were submitted to a vote of security holders in the fourth quarter of 2008.

Item 4.1 EXECUTIVE OFFICERS OF THE REGISTRANT

Brief statements setting forth the age at February 25, 2009, the principal occupation, employment during the past five years, the year in which such person first became an officer of PCA, and other information concerning each of our executive officers appears below.

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Paul T. Stecko is 64 years old and has served as Chief Executive Officer of PCA since January 1999 and as Chairman of PCA since March 1999. From November 1998 to April 1999, Mr. Stecko served as President and Chief Operating Officer of Tenneco Inc. From January 1997 to November 1998, Mr. Stecko served as Chief Operating Officer of Tenneco. From December 1993 through January 1997, Mr. Stecko served as President and Chief Executive Officer of Tenneco Packaging Inc. Prior to joining Tenneco Packaging, Mr. Stecko spent 16 years with International Paper Company. Mr. Stecko is a member of the board of directors of Tenneco Inc., Smurfit Kappa Group Limited, State Farm Mutual Insurance Company and American Forest and Paper Association.

William J. Sweeney is 68 years old and has served as Executive Vice President - Corrugated Products of PCA since April 1999. From May 1997 to April 1999, Mr. Sweeney served as Executive Vice President - Paperboard Packaging of Tenneco Packaging Inc. From May 1990 to May 1997, Mr. Sweeney served as Senior Vice President and General Manager - Containerboard Products of Tenneco Packaging. From 1983 to May 1990, Mr. Sweeney served as General Manager and Vice President of Stone Container Corporation. From 1978 to 1983, Mr. Sweeney served as Sales Manager, Operations Manager and Division Vice President at Continental Group and from 1967 to 1978, as Sales Manager and General Manager of Boise Cascade Corporation.

Mark W. Kowlzan is 53 years old and has served as Senior Vice President - Containerboard of PCA since March 2002 and as Vice President from April 1999 to March 2002. From 1998 to April 1999, Tenneco Packaging Inc. employed Mr. Kowlzan as Vice President and General Manager - Containerboard and from May 1996 to 1998, as Operations Manager and Mill Manager of the Counce mill. Prior to joining Tenneco Packaging, Mr. Kowlzan spent 15 years at International Paper Company, where he held a series of operational positions within its mill organization.

Richard B. West is 56 years old and has served as Chief Financial Officer of PCA since March 1999 and as Senior Vice President since March 2002. From April 1999 to June 2007, Mr. West served as our Corporate Secretary. From April 1999 to March 2002, Mr. West served as Vice President and from March 1999 to June 1999, Mr. West also served as Treasurer of PCA. Mr. West served as Vice President of Finance - Paperboard Packaging of Tenneco Packaging Inc. from 1995 to April 1999. Prior to joining Tenneco Packaging, Mr. West spent 20 years with International Paper Company where he served as an Internal Auditor, Internal Audit Manager and Manufacturing Controller for the Printing Papers Group and Director/Business Process Redesign.

Stephen T. Calhoun is 63 years old and has served as Vice President, Human Resources of PCA since November 2002. From July 1997 to October 2002, Mr. Calhoun served as Director, Human Resources of Corporate and Containerboard Division. From April 1989 to July 1997, Mr. Calhoun was employed principally by Tenneco Packaging Inc. where he held the positions of Area Employee Relations Manager and Human Resources Manager. Prior to joining Tenneco Packaging in 1989, Mr. Calhoun spent 15 years with American Can Company where he held several human resources and manufacturing positions.

Thomas A. Hassfurther is 53 years old and has served as Senior Vice President, Sales and Marketing, Corrugated Products since February 2005 and as Vice President, Sales and Marketing from March 1998 to February 2005. Mr. Hassfurther served as Vice President and Area General Manager from January 1991 to February 1998 for Tenneco Packaging Inc. From 1977 to 1990, Mr. Hassfurther served as a Sales Representative, Sales Manager and General Manager within the Containerboard Products Group.

Table of Contents**PART II****Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information**

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

Quarter Ended	2008			2007		
	Sales Price		Dividends Declared	Sales Price		Dividends Declared
	High	Low		High	Low	
March 31	\$ 28.74	\$ 19.84	\$ 0.30	\$ 25.83	\$ 22.04	\$ 0.25
June 30	26.47	20.46	0.30	26.55	24.35	0.25
September 30	26.99	20.93	0.30	31.78	21.87	0.25
December 31	23.60	10.95	0.30	31.88	26.75	0.30

Stockholders

As of February 25, 2009, there were 99 holders of record of our common stock.

Dividend Policy

PCA expects to continue to pay regular cash dividends, although there is no assurance as to the timing or level of future dividend payments because they depend on future earnings, capital requirements and financial condition.

Sales of Unregistered Securities

No equity securities of PCA were sold by PCA during fiscal year 2008 which were not registered under the Securities Act of 1933.

Purchases of Equity Securities***Stock Repurchase Programs***

On October 17, 2007, PCA announced that its Board of Directors had authorized a \$150.0 million common stock repurchase program. There is no expiration date for the common stock repurchase program. Through December 31, 2008, the Company repurchased 3,818,729 shares of common stock for \$85.0 million. All repurchased shares were retired prior to December 31, 2008.

The following table summarizes the Company's stock repurchases in the fourth quarter of 2008:

Total Number **Approximate**

Period	Total Number of Shares Purchased	Average Price Paid per Share	of Shares Purchased as Part of Publicly Announced Plans or Programs	Dollar Value of Shares that may yet be Purchased Under the Plan or Program
October 1, 2008 to October 31, 2008	1,122,600	\$ 18.11	1,122,600	\$ 64,974,000
November 1, 2008 to November 30, 2008				64,974,000
December 1, 2008 to December 31, 2008				64,974,000
Total	1,122,600	\$ 18.11	1,122,600	\$ 64,974,000

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The graph below compares PCA's cumulative 5-year total shareholder return on common stock with the cumulative total returns of the S&P 500 index; the S&P Midcap 400 index; a New Peer Group that includes three companies, which are International Paper Company, Smurfit-Stone Container Corp. and Temple Inland Inc.; and an Old Peer Group of four companies, which are International Paper Company, Smurfit-Stone Container Corp., Temple Inland Inc. and Weyerhaeuser Company. Peer Group member Weyerhaeuser was dropped from the Old Peer Group comparison due to the sale of its containerboard, packaging and recycling business to International Paper Company in August 2008. The graph tracks the performance of a \$100 investment in our common stock, in each index, and in the peer groups (including the reinvestment of all dividends) from December 31, 2003 through December 31, 2008. The stock price performance included in this graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Packaging Corporation of America, The S&P 500 Index,
The S&P Midcap 400 Index, An Old Peer Group And A New Peer Group

* \$100 invested on 12/31/03 in stock & index, including reinvestment of dividends.

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	Cumulative Total Return					
	12/03	12/04	12/05	12/06	12/07	12/08
Packaging Corporation of America	100.00	110.60	112.69	113.52	150.81	76.57
S & P 500	100.00	110.88	116.33	134.70	142.10	89.53
S & P Midcap 400	100.00	116.48	131.11	144.64	156.18	99.59
Old Peer Group	100.00	104.36	99.48	103.72	103.43	38.10
New Peer Group	100.00	101.92	89.92	90.22	88.92	27.84

The information in the graph and table above is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference in any of PCA's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date of this Annual Report on Form 10-K, except to the extent that PCA specifically incorporates such information by reference.

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The following table sets forth the selected historical financial data of PCA. The information contained in the table should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the historical consolidated financial statements of PCA, including the notes thereto, contained elsewhere in this report.

	2008	For the Year Ended December 31,			2004
		2007	2006	2005	
		(In thousands, except per share data)			
Statement of Income Data:					
Net sales	\$ 2,360,493	\$ 2,316,006	\$ 2,187,046	\$ 1,993,658	\$ 1,890,085
Net income	135,609	170,066	125,032	52,604	68,730
Net income per common share:					
basic	1.32	1.63	1.21	0.49	0.65
diluted	1.31	1.61	1.20	0.49	0.64
Weighted average common shares outstanding:					
basic	102,753	104,483	103,599	107,334	106,358
diluted	103,593	105,459	104,485	108,098	107,570
Cash dividends declared per common share	1.20	1.05	1.00	1.00	0.60
Balance Sheet Data:					
Total assets	\$ 1,939,741	\$ 2,035,857	\$ 1,986,976	\$ 1,973,298	\$ 2,082,774
Total long-term debt obligations(1)	681,135	677,248	686,917	695,203	694,892
Stockholders' equity	683,949	760,861	691,771	681,420	817,570

(1) Total long-term debt obligations include long-term debt, capital lease obligations, short-term debt and current maturities of long-term debt and capital lease obligations.

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

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

Overview

PCA is the fifth largest producer of containerboard and corrugated products in the United States, based on production capacity. We operate four containerboard mills and 67 corrugated products manufacturing plants throughout the United States. Approximately 80% of the containerboard tons produced at our mills are consumed in our corrugated products manufacturing plants. The remaining 20% is sold to domestic customers or the export market. We produce a wide variety of corrugated products ranging from basic corrugated shipping containers to specialized packaging such as wax-coated boxes for the agriculture industry. We also

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have multi-color printing capabilities to make high-impact graphics boxes and displays that offer our customers more attractive packaging.

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

corrugated products demand;

corrugated products and containerboard pricing;

containerboard inventories; and

cost trends and volatility for our major costs, including wood and recycled fiber, purchased fuels, electricity, labor and fringe benefits and transportation costs.

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

The U.S. economy experienced a severe downturn in the fourth quarter of 2008 and, as a result, reported industry shipments of corrugated products decreased 10% for this period compared to 2007. During this same period, reported industry containerboard production levels decreased 14% from fourth quarter of 2007 levels. The total industry reported containerboard mill production for December was the lowest monthly production in over 15 years. As reported by industry publications, linerboard prices decreased \$10 per ton and corrugating medium prices decreased \$20 per ton in December 2008, and additional price decreases of \$10 per ton for both linerboard and corrugating medium were reported by industry publications in both January and February 2009. Average prices for linerboard and corrugating medium ended 2008 at \$45 per ton and \$35 per ton, respectively, higher than December 2007 levels, reflecting the July 2008 \$55 per ton increase, partially offset by the December pricing decline.

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

Our costs for purchased fuels averaged approximately 30% higher for the full year 2008 compared to 2007, while transportation and electricity costs rose more modestly from prior year levels. Recycled fiber costs in 2008 were lower than in 2007 and at the end of 2008 were about 75% below year-end 2007 levels. Wood fiber costs in 2008 were higher than they were in 2007 and, at the end of 2008, about 5% higher than they were in December 2007. Chemical costs were also higher during 2008 compared to 2007; this was particularly significant in the second half of 2008 and is expected to continue into at least the first part of 2009.

For the year ended December 31, 2008, PCA's earnings were negatively impacted by increased costs during the first three quarters and by the severe economic downturn in the fourth quarter. For the full year, 2008 earnings were approximately 20% below the record earnings level set in 2007, but still represented our second highest earnings for a fiscal year, excluding special items, since becoming a standalone company in April 1999. The reduction in earnings was primarily driven by decreased sales volume for both containerboard and corrugated products. Fourth quarter corrugated products sales volume was down 9.9% compared to the fourth quarter of 2007 and market related downtime and machine slowbacks reduced mill production by 90,000 tons. This downtime was the most downtime

our mills have taken in a quarter since becoming a standalone company. Sales prices rose compared to 2007 with the implementation of the containerboard price increase in July 2008 and the corresponding corrugated products price increases. Partially offsetting the beneficial impact of the price increases were cost increases mentioned previously in energy, chemicals and wood fiber in addition to higher labor and fringe benefits costs, including medical costs.

In the first quarter 2009, our Valdosta mill will be down for its annual maintenance outage and in addition, market related downtime is likely. Energy usage will be higher with colder weather, and we also

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expect higher chemical costs. Considering these items and with the current economic conditions and uncertainty, we expect our first quarter 2009 earnings to be lower than our earnings in the fourth quarter of 2008.

Results of Operations***Year Ended December 31, 2008 Compared to Year Ended December 31, 2007***

The historical results of operations of PCA for the years ended December 31, 2008 and 2007 are set forth below:

	For the Year Ended December 31,		
	2008	2007	Change
	(In millions)		
Net sales	\$ 2,360.5	\$ 2,316.0	\$ 44.5
Income from operations	\$ 241.8	\$ 293.5	\$ (51.7)
Interest expense, net	(31.7)	(25.6)	(6.1)
Income before taxes	210.1	267.9	(57.8)
Provision for income taxes	(74.5)	(97.8)	23.3
Net income	\$ 135.6	\$ 170.1	\$ (34.5)

Net Sales

Net sales increased by \$44.5 million, or 1.9%, for the year ended December 31, 2008 from the year ended December 31, 2007. Net sales increased primarily due to increased sales prices of corrugated products and containerboard (\$111.0 million), partially offset by the impact of lower sales volume (\$66.5 million).

Total corrugated products volume sold decreased 2.9% to 30.3 billion square feet in 2008 compared to 31.2 billion square feet in 2007. On a comparable shipment-per-workday basis, corrugated products sales volume decreased 3.3% in 2008 from 2007. Shipments-per-workday is calculated by dividing our total corrugated products volume during the year by the number of workdays within the year. The larger percentage decrease on a shipment-per-workday basis was due to the fact that 2008 had one more workday (252 days), those days not falling on a weekend or holiday, than 2007 (251 days). Containerboard sales volume to external domestic and export customers decreased 11.7% to 478,000 tons for the year ended December 31, 2008 from 541,000 tons in 2007.

Income from Operations

Income from operations decreased by \$51.7 million, or 17.6%, for the year ended December 31, 2008 compared to 2007. The decrease in income from operations was primarily attributable to increased energy and energy related costs including transportation (\$56.2 million), lower sales volume (\$44.4 million), increased costs for wood fiber (\$25.1 million), labor (\$17.6 million), medical (\$8.9 million), bad debts (\$4.1 million), legal matters (\$3.4 million), start-up costs of two major mill projects (\$3.2 million) and fixed asset disposals (\$3.1 million). The impact of higher costs and lower volume was partially offset by increased sales prices (\$111.0 million) and lower recycled fiber costs (\$3.6 million).

Gross profit decreased \$33.3 million, or 6.3%, for the year ended December 31, 2008 from the year ended December 31, 2007. Gross profit as a percentage of net sales decreased from 22.7% of net sales in the year ended December 31, 2007 to 20.8% of net sales in the year ended December 31, 2008 primarily due to the cost increases and reduced sales volume described previously.

Selling and administrative expenses increased \$3.8 million, or 2.2%, for the year ended December 31, 2008 from the year ended December 31, 2007. The increase was primarily the result of higher expenses related

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to labor and fringe benefit costs (\$1.5 million), warehousing costs due to customer requirements (\$1.5 million) and travel, meeting and entertainment expenses (\$0.5 million).

Corporate overhead for the year ended December 31, 2008 increased \$4.8 million, or 8.6%, from the year ended December 31, 2007. The increase was primarily attributable to increased salary and fringe benefit expenses (\$4.5