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Packaging Corp. of America Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator

Certainly. [Operator Instructions]. Our first comes from Mark Connelly of Credit Suisse.

Mark Connelly - Credit Suisse

Paul, can you talk... you've talked in past calls about seasonality shifting around a little bit. I wonder if you can talk about that issue in the context of pre-buy in September versus October and whether you think that's any sort of a factor here at all.

Paul T. Stecko - Chairman and Chief Executive Officer

I think, pre-buy is always a little bit, whether it's a price increase, people tend to buy a little extra. But when you're buying boxes storage is a problem. You can't load up on three months supply because you simply can't hold them anywhere. So, I think there is a little. But we've seen no demand shift, no change. October, so far has been, every bit as good, probably a little better than September. And... but I'm sure there is a little... there was a little pre-buy. With regard to seasonality, the business has gotten a lot less seasonal. The last two Decembers have been pretty good and we would expect this December to behave the same way and I think a lot of that has been driven by internet commerce as a lot of new applications for boxes that never existed before because all the stuff that people order on the internet. And that's been the change and so December used to be a horrible month for the industry and PCA. And the last two years have been pretty good month and so, I expect less seasonality except for the fact when you compare it to the third quarter, you got to realize, there is two less days and that does matter. And that's really not seasonality as much as less working days.

Mark Connelly - Credit Suisse

Paul, on that pre-buy issue though. If you were to think about your business in terms of the specific customers that are buying ahead of Christmas then it's really not a multiple month. It's really just August through October and then Christmas is over. Do you have enough business in that piece of it, to get a sense of how much pre-buy might be going on for that customer base?

Paul T. Stecko - Chairman and Chief Executive Officer

I would just say that when we look at our order patterns it's not a large number, it doesn't jump by and say wow, somebody is pre-buying. But you know there is a little there and I think the operative word is a little, I don't think there is much pre-buying.

Mark Connelly - Credit Suisse

Great, thank you Paul.

Operator

Our next question comes from Rick Skidmore of Goldman Sachs.

Richard Skidmore - Goldman Sachs

Good morning Paul. Just to talk about the box price increase for a minute. Can you just relate to how this one is going in relative to the last box price increase you experienced in '06?

Paul T. Stecko - Chairman and Chief Executive Officer

Well, the last one...the one in '06 I thought for us went pretty quick. We got the thing done between 2 and 3 months. This one was quicker. I think and Bill Sweeney is sitting here and I'll let him answer that question. He's been around... he's older than me but he's been around longer than me in this industry. He's the quickest one I've experienced. He's been around longer. You want to respond to that one Bill.

William J. Sweeney - Executive Vice President, Corrugated Products

Most of the people that report to me say that this is the easiest increase so far.

Richard Skidmore - Goldman Sachs

Okay and just to follow that. Would you expect that you would see some of your box customers start paying in the first quarter or do you see all of them paying in the fourth quarter?

Paul T. Stecko - Chairman and Chief Executive Officer

The overwhelming majority will pay in the fourth quarter. You always have a few that carry over. But the operative word there is a few.

Richard Skidmore - Goldman Sachs

Okay. So, just maybe a little bit of residual carries over in the first?

Paul T. Stecko - Chairman and Chief Executive Officer

We had a little bit of residual carrying over into the first. That's true. There is a few accounts that will do that effective January 1st.

Richard Skidmore - Goldman Sachs

Okay, great. Thanks, Paul.

Operator

Our next question comes from George Staphos of Banc of America.

George Staphos - Banc of America Securities

Hi, good morning. I had a question on export. [Technical Difficulty] Do you have any evidence, whether it's hard data or anecdotal commentary that supports the view that perhaps U.S. manufacturers are starting to be able to ship a bit more overseas because of the dollar and then hopefully, that's having a positive affect on the box business.

Paul T. Stecko - Chairman and Chief Executive Officer

We see some of our customers businesses that are up and some of those are exporting. And so we are seeing some of that yes, but it's kind of been a steady, gradual increase, it's not been precipitous. It's was like turn an aircraft carrier, it's slow but you can see it turning. The other anecdotal evidence I have seen and I am seeing some things I am sure you are seeing, the Wallstreet Journal is there where somebody's freight companies are pulling a lot of things and they are saying it's for export. And we weren't exporting these things a few years ago. So, you are seeing some evidence of that also and... but, there are other things that have popped out, that are bigger than that. For example, with the price of corn way up, the meat packing businesses is really taking off because corn prices are high, you slaughter more cattle, pigs, etcetera. And so, that's a bigger event than just a general gradual trend and things moving in export. But, it's definitely happening but I wouldn't say it's explosive, it's more steady and consistent at least for us.

George Staphos - Banc of America Securities

Okay. That's a positive as well. Paul, switching gears, on the decision that you make on dividend and share repurchase and ultimately returning value to the shareholders, integrated with how you think about your other uses for cash whether to invest or opportunity that you have to acquire or given your balance sheet position and everything else, are they really more separate and how you evaluate the various uses for the cash? Thanks.

Paul T. Stecko - Chairman and Chief Executive Officer

No, they are integrated. We have a plan, we have a forecast to what our cash flows will be. As I have stated, many times one of our objectives is to continue to grow our box business, increase our integration level from the low 80's to low 90's and we do that by adding box plants. So, we budget every year that we would like to acquire some box plants without having to borrow and that's in our cash planning and that is integrated into where we think our cash is going, how much cash we would like to keep around, and we are a little on the conservative side, and that then determines how much cash is left over for dividends and share repurchases, which we think are two good vehicles. So, now we have an integrated approach and...

George Staphos - Banc of America Securities

So, the increase in the dividend, the share repurchase basically suggest that some of the external opportunities are opportunities to invest within the company right now aren't as attractive as it might have been whatever six months, a year ago.

Paul T. Stecko - Chairman and Chief Executive Officer

No, absolutely not. We look at the things all the time. I will tell you that we are deliberate investors. We look at companies that we buy and make sure that we think this is going to be a good investment because capital is precious to us. But it's a continuing effort and we like to spend on the ordering, rough number of \$50 million a year to try to increase the size of the company and the growth rates.

George Staphos - Banc of America Securities

Great, thanks Paul.

Operator

Our next question comes from Chip Dillon of Citigroup.

Chip Dillon - Citigroup

Good morning Paul.

Paul T. Stecko - Chairman and Chief Executive Officer

Good morning Chip.

Chip Dillon - Citigroup

As we look at the fourth quarter. I can't remember, the only time I see you all ever having performed better sequentially, I think that I go back to is 1999 in the fourth versus a third. Because I know you typically have a seasonal downer and as you look at this year's fourth quarter and it looks like it's of course going to be up, how much of that would you say is just a quick price increase, maybe faster than those in the past that have occurred in the fourth quarter and how much would you say might be actual seasonal changes because of the holiday season and more internet ordering and therefore the use of more boxes?

Paul T. Stecko - Chairman and Chief Executive Officer

Yes, I don't like it too specific here. But I would just say historically. Historically, the fourth quarter because of seasonal factors, cold weather, energy, less volume, it has been about a nickel share down. All things held because of the fourth quarter being in cold weather etcetera, etcetera. It cost us about a nickel a share. The wild card this year a little bit is the fact that we do have two less shipping days compared to the third quarter. But that's not that big of a deal and the real wild card here and if you say, what's the one thing that is probably the biggest uncertainty factor and I would say it would be fiber prices, both recycled fiber and with the wood product plant situations, with the lack of availability of residual chips. Also, although we've done a great job so far, you never say, never and that would be in the fiber area which makes it... that's the one variable that I wish I had a better handle on. Especially, the recycled fiber part, you got all that capacities starting up in China. They need recycled fiber. You are talking in terms of millions of tons, not hundreds or thousands of tons

for all those mills. So, fiber is the big variable. But it's about a nickel, historically and it's not too far off from it this quarter.

Chip Dillon - Citigroup

Okay, and then secondly when you look at the fiber situation at least, it seems like recently we've seen some unusual dislocations open up in OCC pricing and I'm sure that's much less of a headache for you, fortunately for you than for others. But do you see behavior, first of all, you would think that the gap would close because I don't see why the City of New York or Chicago would care who they sell the OCC to. So, do you see the gap closing and secondly do you see different behavior with something perhaps people from the Far East coming more inland to source OCC?

Paul T. Stecko - Chairman and Chief Executive Officer

Chip, I hate to give you this answer but I really don't know. I think it depends on how much it moves, because obviously you got a freight penalty when you come inland and that's why you buy on the coast. The freight is with the price of oil hidden 80, last time I checked it was 88, I'm not sure where it is today. But freight cost are going up, the other thing is, that situation in Europe with freight rates, they are not shipping much OCC to China and that's supposed to end in a month or so. But I think the answer to your question is it depends how bad it gets. If prices go up a lot, then I think people will move inland. If the thing gets bakes a little bit then they probably won't. But you are probably better off asking one of our competitors that have a big recycled operation. They are... I am sure they are closer to this and not to make excuses but, we don't buy that much. So it's, we don't have as much knowledge probably in that area, some others in our industry do because it's a much more important part of their business.

Chip Dillon - Citigroup

Okay and really quickly finally, why should prices stop moving up here, because this is a function of supply and demand and I think earlier was asked about this huge spread, that you see between prices here and for virgin and for the recycled, I will call it stuff, that's obviously inferior that's made in places like Europe, why shouldn't prices not go up further?

Paul T. Stecko - Chairman and Chief Executive Officer

Well I, as a point of matter, I don't really talk on these calls about forward pricing because on the advice of counsel I have been advised not to. But I would day this, I think business conditions for the industry are very good for a lot of reasons you pointed out, supply, demand are in excellent shape. That's coupled with a weak dollar and a world economy that's doing pretty well which means that we've got multiple markets for our product and at a time that supply and demand are pretty good though. There had been a problem, few problems on the economic horizon, sub-prime etcetera. But that thing seems to be not precipitating any big changes in the business patterns at least that we are seeing. So I think the only I can say to you Chip is that, I think business fundamentals for the industry are pretty good and obviously if we didn't think, they were pretty good, we would not commit to so much cash going forward and return in value to our shareholders. But we do think conditions are pretty good. And, I have to limit my answer to that.

Chip Dillon - Citigroup

Totally understand. Thank you very much.

Operator

Our next question comes from Mark Connelly of Credit Suisse.

Mark Connelly - Credit Suisse

Thanks, Paul. Just one more question, last quarter you talked about positive mix changes, can you talk a little bit about mix and what you might be expecting going forward?

Paul T. Stecko - Chairman and Chief Executive Officer

I would expect our mix to continue, to improve on a fairly, gradual basis. Again, one of the things that really is a foundation on which our box business is built is that we look for, what we call the hard to do, and things that people understand, they are getting value and are willing to pay for it. And, again there is another trend in the industry, that with restructuring and consolidations people are trying to improve their operational efficiency, particularly in their box plants and higher volumes, etcetera reduce cost. I pointed out that our philosophy is actually the opposite. We run our box plants to do whatever we can to maximize revenue. I mean cost is important, but it is not the driver. And when you continue to do, the hard to do, that generates improved mix. It's not simply you are making more high-end graphics, you are doing more of things for customers that are more difficult and what maybe a simple box combined with very difficult service requirements is really something special.

So, our philosophy is we want our mix to get better and better every year. But this is not something, where we are building another high-end graphics plant, we are going to get a 10% improvement. We are going to have this at 2% or 3% a year kind of mix improvement thing. So, again slow but steady.

Mark Connelly - Credit Suisse

One last thing, Paul. Are these low inventories that you got, going to cost you a penny or two in the next quarter?

Paul T. Stecko - Chairman and Chief Executive Officer

Depends, it depends. We are... mill are running well in October, that's the key. Because we do and down, we got a 23 day month. We have some flexibility with export to honor our commitments but maybe ship it a little later. And that is a little bit of a bellows if you will for us to flex. And but, you always... we are running tied inventories, you may have to incur some premium freight if demand is too strong. On the other hand, I want to rule against strong demand just to help my inventories. So, I can't have it both ways. So, the answer is yes, we could... it could cost us some money. I don't think it will be as much as a penny a share but it could be as much as \$0.05 a share.

Mark Connelly - Credit Suisse

Very good. Thanks Paul.

Operator

Our next question comes from Rick Skidmore of Goldman Sachs.

Richard Skidmore - Goldman Sachs

Hey Paul. Just following up on previous question about the export markets. If the economy does slow and say box demands were slower in '08 and in '07 how easy is it to move that incremental unit of linerboard into the export market, is the pretty easy to sell or is there tough... is it difficult from a distribution supply chain perspective?

Paul T. Stecko - Chairman and Chief Executive Officer

Well it worked for us. Our primary sales in the export have been more to existing customers as opposed to just going out and hitting and spot markets. We specialize in things like supper heavyweights in the produce business in South America and what's happened with the dollar and especially in Europe being as weak as it is, we're getting more tons from existing customers because it's a good buy. And so, we are in and out kind of players in the export market and we have the ability to take more business. We could have taken more throughout this year, but we have to balance the domestic versus our export shipments.

So for us, its not just going out and try to take business from somebody, it's more grow with somebody and this business comes to us naturally because of the currency. And so, we have the ability to take more. I mean, we got... we can sell more if we had the tons. And obviously, if our domestic demand slows down then that's one of the things we would obviously do but just as a point of reference through the first ten days of October, our volume is up 2% over the last year on a per

work day basis and there is one extra work day this month now. I'm not saying we can't I don't if we can but if we sustain this rate for the rest of the month, we're up 2% on a work pay basis plus another \$4.5 for an extra day, we'll be up 6.5%. So, the last thing we would be looking for is more export this month and if things lighten up as the quarter moves on that would be the point we're to look to put more in exports.

Richard Skidmore - Goldman Sachs

Okay. I'm just shifting. I'll go with the second question for a second. You've talked about over the last few quarters running the mills extremely hard. You've taken your normal maintenance downtime. Is there any concern that the mills need to have a little bit of extra maintenance given, how hard you'd been running them recently?

Paul T. Stecko - Chairman and Chief Executive Officer

No, we're in pretty good shape. What happened to us last year we did have that problem in December at Valdosta. We had to take some extra maintenance in our wood yard and we lost a little production but once we got to Valdosta woodyard and it adequately maintained and we did some more work there in its annual shutdown this year we're okay and I don't see... there are no known... I had some known problems at this time last year, where I had maintenance concerns. But I'm optimistic. Mark is sitting here and he's shaking his head, yes. We think we can make it to our next shutdown okay, at all of our mills.

Richard Skidmore - Goldman Sachs

Great. Thank you.

Operator

Our next question comes from Mark Weintraub of Buckingham Research.

Mark Weintraub - Buckingham Research Associates

Thank you. Paul, I realize you're not a big exporter and as you said you got a lot of specialty stuff that you're working with but, do you have a sense as to where mill nets are to some of the European markets relative to shipping it domestically?

Paul T. Stecko - Chairman and Chief Executive Officer

Well, I can't speak for everybody. I can speak for us. We had situations where the mill nets to Europe are better than the same thing in the U.S. and some were worse. And the variable is, how far you have to ship domestically because the freight differential as you can get down as low as \$15 to \$20 freight in the U.S. all the way up to \$100 freight if you ship and sail to the west coast. And of course that freight is bared by the... on domestic shipments, by the supplier and we ship FAS just to the port going to Europe and you're talking a much lower freight because, Valdosta for example is two hour truck ride to Port Jacksonville. So, the answer is, export pricing is in a lot of areas... I would say on an average, its close, maybe not quite as good but its close, but there are instances where it's better.

Mark Weintraub - Buckingham Research Associates

And if you contextualize historically what's it been, is that fairly unusual or is that not that unusual.

Paul T. Stecko - Chairman and Chief Executive Officer

It's more unusual than it used to be because if you go back five years ago, our average freight costs... rough numbers were \$25 a ton domestically. Today it's averaged \$50 to \$55 a ton. So, our freight over probably five or six years for containerboard domestically has doubled. And so, that's helped the export business. That's made the export business more competitive, because of domestic freight shipment costs.

Mark Weintraub - Buckingham Research Associates

Okay. And then just last one, quick one. Cap spending for '08, do you have an initial figure?

Paul T. Stecko - Chairman and Chief Executive Officer

Yes. Our number for the year is about \$110 million and what do we got year-to-date, Pete? We're at \$70. So we're about right on track.

Mark Weintraub - Buckingham Research Associates

Okay. Actually the question was for '08?

Paul T. Stecko - Chairman and Chief Executive Officer

Oh, I am sorry. '08, yes we are talking about that. We are probably going to be... our target number is \$110, but we've got a couple of opportunities in the box business to make a few very small investments CapEx wise with very good returns and although I haven't made a final decision on this, I am leaning there hard towards probably, giving this to Sweeney, another \$10 million to \$15 million, because I like the projects they've the do the hard to do things. And I like the returns on these projects. They are hard to walk away from.

We have tried to stay very disciplined on a \$110 and we have. And occasionally, I'll go \$10 or \$15 above it. Last year, I went to only \$90.

So, you got to be a little flexible. So, I am going to say, we are going to be between \$110, and \$125 is what I would say right now.

Mark Weintraub - Buckingham Research Associates

Okay great. Thank you.

Paul T. Stecko - Chairman and Chief Executive Officer

Probably closer to \$125, because I like what we can do. And we have got a lot of cash.

Operator

Our next question comes from George Staphos of Banc of America.

George L. Staphos - Banc of America Securities

: Thanks, hey Paul. Maybe just continuing on that theme, on productivity investments within the mill system do you have any projects, where you can measurably further reduce, either energy consumption, or give yourself a little more fiber flexibility, or have you really pretty much tapped out on bigger projects there and it's more 1%, 2%, 3% types of productivity gains? Thanks.

Paul T. Stecko - Chairman and Chief Executive Officer

We have one energy product... one energy project that's fairly significant and I'll probably... once we get it going and I can quantify that the result was good is I think they're going to be I'll probably talk about that sometime next year. We're spending about \$20 million in the energy arena on one project, fairly heavy return because of energy.

In terms of fiber, we funded some projects to increase our ability to do some things like use more OCC at Tomahawk as oppose to DLK which is little more expensive and you need to use recycled fiber when you make semi-chem medium, because it's the strength component of the mix.

The ideal semi-chem is about, rough number 60%, 65% wood pulp, 35% or so OCC or recycled fiber and so that will save us some money there and we have got a variety of projects that are smaller to improve wood yield. As wood is your single biggest cost in making paper we're doing some things with what we call chip fractionations where you divide the chips by thickness and you cook in pulp like cooking spaghetti. Ideally you like every strand to be the same thickness, because if it varies in thickness you'll over cook or under cook the chips. If you can separate them into all of same thickness, cook them in separate digesters, you can improve your wood yield. We've got some projects in that area and of course the best way to lower your fiber cost, improve your yield.

So, we're doing some things here. So, we got enough going on that I'm happy about it.

George L. Staphos - Banc of America Securities

Now if we take the energy project and the others that you mentioned on fiber, could these be and just thinking about required rates return. Could these be adding, say in a couple years \$10 million to \$15 million?

Paul T. Stecko - Chairman and Chief Executive Officer

I'm not prepared at this point to talk about that, I want to be because I don't like to give rough estimates. We are doing something that are significant, that we got to prove, will be as successful as we think. Until they are proved, I am going to just pass on that one.

George L. Staphos - Banc of America Securities

Okay, thanks Paul. Good luck in the quarter?

Paul T. Stecko - Chairman and Chief Executive Officer

Thank you.

Operator

Our next question comes from Mark Wilde of Deutsche Bank.

Mark Wilde - Deutsche Bank Securities

Hi, good morning. I wondered if we can just get some thoughts on why this box like seems to have gone in, so quickly and where do you think, you will actually get past the \$40 containerboard price and what you realize?

Paul T. Stecko - Chairman and Chief Executive Officer

There is a lot of reasons, I will let Bill jump in here also. I think the primary reason is supply and demand paper is very tight and people understand it, and that historically is what's driven box prices because paper is anywhere from probably 60% to 80% of the cost of the box, and so that's a big driver. I think people understand that and at least from the people that I talk to, customers it is been a mood shift, in terms of worrying as much about a stable, dependable source of supply. Especially, in light of transportation difficulties and they understand that having paper is equally important to paying a little more for. And I think when you look also customers have a realization, everything has gone up in price and really again a corrugated container is still a very darn good value to them for what it does. And I think, there is also a good feeling, that this balance of trade is going to get better and people are feeling better, in general about their ability to compete in world markets. And that's helped the psychology in terms of hey, lets get on with it, and Bill you want to add anything to that from... you are closer to the field than I am.

William J. Sweeney - Executive Vice President, Corrugated Products

Mark the customers understood the situation. In terms of... so they were expecting an increase and that's why it was reasonable. And they are in touch with what's happening. And the relative value of fiber versus resins has also helped. So, there is no substitute for boxes at this point that's economically viable. The other situation is that, when you are talking about a bigger pie, the percent increases help you get more of than fiber. So, we have as our company, as you know, traditionally not only pass through the cost of the fiber but we covered inflation and it is easier now with the bigger pie with same percent increase.

Paul T. Stecko - Chairman and Chief Executive Officer

Yes just... that's a good point. In order to help, we transfer paper to our box plants at market. And lets just... I am going to pick number, our yield is a little better than this. But I will do the math easier. If you have got a 10% yield loss, then if you got a \$40 price increase to break-even at the box plants on it and you have to get \$44 because you have a yield loss. And then as Bill said you have got to do a little better than that even because you got to cover inflation, labor, energy, etcetera. So, our philosophy is that we want the box plants to be paid for the value and the products they supply to the

customers, and that would dictate that you need more than \$40. How much more we think we need or we are going to get that's not something that I discuss on a call like this.

Mark Wilde - Deutsche Bank Securities

Yes, that's fine. It looks like over the last couple of years, that at least some of your competitors weren't able to recoup all of those costs. My follow-on question Paul, is... has to do with this Pensacola startup at your former employer and it is just bringing up the question again of whether the U.S. industry overtime might move to lighter weight packaging and lighter weight containerboard and whether you think there will be anything to that?

Paul T. Stecko - Chairman and Chief Executive Officer

Well, I think the answer is, we already have moved the lighter weight paper, 40 coupon used to be the bell weather grade and now in our own case, we probably make five times as much 35 pound, as 42 pound, 35 pounds now the bell weather grade, weights dropped and now it looks like, at least for the industry have kicked up a touch, in terms of basis weight. And I think that's due to the fact, that lot of these wrap around boxes that say protect things like furniture those markets have gone off shore. And so we are still big in some of the things that produce and food, that have to support weight.

But in terms of will we go lighter in this country, I think there is always the constant pressure to reduce cost in every element of your business and that includes packaging. But, as Bill pointed out there aren't many substitutes that have got the cost position we do, plastic resins, you are not going to be helped by some of these oil and eventually natural gas should... natural gas and oil should not get too far out of parity. But in Europe, it's a little different and what they do in Europe is because they do not have virgin fiber. There used to be only one craft mill on the continent, I am not sure it's still running. So, these will have zero or one crap mill on the continent. It's a 100% recycled market and that's weaker fiber, weaker boxes, and so what they tend to try to do because the fiber is so expensive, they will go multi wall, they will go two ply and we will go one in this country and get the same strength. Now that involves more labor, more starts, more other things. But that's what they do, more than we do and I'm not very familiar, with what, you said my former employer, I have been going here 15, 16 years now. But they have said publicly that a lot of that will go to their European operation which makes a lot of sense. Because they do use a lot more light weight. Will we ever get to that in the U.S., I think, it's probably more a function of fiber prices than anything else and right now, I would say it's not in the foreseeable future.

Mark Wilde - Deutsche Bank Securities

Okay, very good. Thank you.

Operator

[Operator Instructions]. Our next question comes from Tyler Old [ph] of JP Morgan.

Unidentified Analyst

Good morning, just taking a step back and given the current economy that's throwing off mixed signals here. What's your view of where we are ahead and what are your customers order patterns so far in the fourth quarter signaling to you about maybe the direction of where the economy is going in fourth quarter and maybe into early '08?

Paul T. Stecko - Chairman and Chief Executive Officer

Well, in terms of where the economy is going, I really can't add much other than, everybody speculate. My own personal feeling is I think, the economy, despite some problems has handled them well. It is still moving along, business is still good but I'm really not the best person in the world to talk to about an economic forecast going forward. In terms of our customers, we got over 9000 customers and collectively what they are saying to us, is that hey, we are up 2% over a very strong beginning

of October last year. So, collectively, I think they are saying that they have got confidence in this economy.

Unidentified Analyst

Okay, and then could you just quantify the Filer City maintenance and whether or not you're still planning to take downtime accounts in Valdosta in the first quarter.

Paul T. Stecko - Chairman and Chief Executive Officer

Yes, we had Filer City down for four days in beginning of October and that took out about 4000 to 4200 tons of production roughly. And as of right now, things can always change. But we would plan on taking both, for the last except for one year we take down both of those mills in the first quarter and we do that because energy cost are the highest in the first quarter. So, it makes sense to shut a mill down, when you got to pay the most for energy and it's always also a period where historically demand was lower than the other quarters, although that starts to even itself out a little more. And you got good labor ability. Not many people go down in the first quarter. So, the construction labor you need is fairly plentiful then. So, for us it makes a lot of sense and we've got mills in the south, where you can do that. So, yes, that is still our plan. Always subject to change, but you plan any shutdowns a year in advance. So, the chance of changing is not so great.

Unidentified Analyst

Great. Thank you.

Operator

I am not showing any further questions at this time.

Paul T. Stecko - Chairman and Chief Executive Officer

Okay. We're about out of time anyway. Listen, I'd like to thank everybody for participating in the call. And hopefully talk to you again one quarter from now. Good bye.

Operator

Ladies and gentlemen. Thank you for your participation in today's conference. This concludes the program, you may now disconnect. Thank you and have a great day.

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