GRAPHIC PACKAGING HOLDING CO
Form 10-K
March 08, 2011

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

COMMISSION FILE NUMBER: 001-33988
Graphic Packaging Holding Company
(Exact name of registrant as specified in its charter)

Delaware *(State of incorporation)*	**26-0405422** *(I.R.S. employer identification no.)*
814 Livingston Court, Marietta, Georgia *(Address of principal executive offices)*	**30067** *(Zip Code)*

(770) 644-3000

Registrant s telephone number, including area code:

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 per share	New York Stock Exchange
Series A Junior Participating Preferred Stock Purchase Rights Associated with the Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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 o No þ

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 þ No o

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

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 the 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. o

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2010 was $246.5 million.

As of March 4, 2011 there were approximately 343,725,669 shares of the registrant s Common Stock, $0.01 par value per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 2011 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements regarding the expectations of Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company), including, but not limited to, statements regarding cost savings from its continuous improvement programs, capital investment, depreciation and amortization, interest expense, debt reduction and pension plan expense and contributions in this report constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from the Company s historical experience and its present expectations. These risks and uncertainties include, but are not limited to, the Company s substantial amount of debt, inflation of and volatility in raw material and energy costs, continuing pressure for lower cost products, the Company s ability to implement its business strategies, including productivity initiatives and cost reduction plans, currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including those that could limit the Company s ability to utilize its net operating losses to offset taxable income and those that impact the Company s ability to protect and use its intellectual property. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made and the Company undertakes no obligation to update such statements. Additional information regarding these and other risks is contained in Part I, Item 1A., Risk Factors.

PART I

ITEM 1. *BUSINESS*

Overview

Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company) is committed to providing packaging solutions that improve the world in which we live. The Company is a leading provider of packaging solutions for a wide variety of products to food, beverage and other consumer products companies. Additionally, the Company is the largest U.S. producer of folding cartons and holds a leading market position in coated unbleached kraft paperboard, coated-recycled boxboard and multi-wall bags.

The Company s customers include some of the world s most widely recognized companies and well-known brands and they generally hold prominent market positions in the beverage, food and other consumer products industries. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, proprietary carton and packaging designs, and its commitment to customer service.

On March 10, 2008, the businesses of Graphic Packaging Corporation (GPC) and Altivity Packaging, LLC (Altivity) were combined through a series of transactions. A new publicly-traded parent company, GPHC, was formed and all of the equity interests in Bluegrass Container Holdings, LLC (BCH), Altivity s parent company, were contributed to GPHC in exchange for shares of GPHC s common stock. Subsequently, all of the equity interests in BCH were contributed to GPHC s primary operating company, Graphic Packaging International, Inc. (GPII). Together, these transactions are referred to herein as the Altivity Transaction. For additional information on the Altivity Transaction, see Note 4 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

GPHC was incorporated on June 21, 2007 under the laws of the State of Delaware, under the name New Giant Corporation. GPHC did not conduct any material activities until after the closing of the Altivity Transaction.

Products

The Company reports its results in two business segments: paperboard packaging and flexible packaging. As a result of changes in the Company s internal reporting structure the previously reported multi-wall bag and specialty packaging segments have been combined into a single reportable segment called flexible packaging and the Company s segment disclosures for 2009 and 2008 were revised. The Company operates in four geographic areas: the United States (U.S.)/Canada, Central/South America, Europe and Asia Pacific. For business segment and geographic area information for each of the last three fiscal years, see Note 17 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Paperboard Packaging

The Company s paperboard packaging products deliver marketing and performance benefits at a competitive cost. The Company supplies paperboard cartons and carriers designed to protect and contain products while providing:

- convenience through ease of carrying, storage, delivery, dispensing of product and food preparation for consumers;

a smooth surface printed with high-resolution, multi-color graphic images that help improve brand awareness and visibility of products on store shelves; and

durability, stiffness and wet and dry tear strength; leak, abrasion and heat resistance; barrier protection from moisture, oxygen, oils and greases as well as enhanced microwave heating performance.

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The Company provides a wide range of paperboard packaging solutions for the following end-use markets:

beverage, including beer, soft drinks, energy drinks, water and juices;

food, including cereal, desserts, frozen, refrigerated and microwavable foods and pet foods;

prepared foods, including snacks, quick-serve foods for restaurants and food service products; and

household products, including dishwasher and laundry detergent, health care and beauty aids, and tissues and papers.

The Company s packaging applications meet the needs of its customers for:

Strength Packaging. The Company provides sturdiness to meet a variety of packaging needs, including tear and wet strength, puncture resistance, durability and compression strength (providing stacking strength to meet store display packaging requirements).

Promotional Packaging. The Company offers a broad range of promotional packaging options that help differentiate its customers products. These promotional enhancements improve brand awareness and visibility on store shelves.

Convenience Packaging. These packaging solutions improve package usage and food preparation:

beverage multiple-packaging Multi-packs for beer, soft drinks, energy drinks, water and juices;

active microwave technologies Substrates that improve the preparation of foods in the microwave; and

easy opening and closing features Pour spouts and sealable liners.

Barrier Packaging. The Company provides packages that protect against moisture, grease, oil, oxygen, sunlight, insects and other potential product-damaging factors.

The Company produces paperboard at its mills; prints, cuts and glues (converts) the paperboard into folding cartons at its converting plants; and designs and manufactures specialized, proprietary packaging machines that package bottles and cans and, to a lesser extent, non-beverage consumer products. The Company also installs its packaging machines at customer plants and provides support, service and advanced performance monitoring of the machines.

The Company offers a variety of laminated, coated and printed packaging structures that are produced from its coated unbleached kraft (CUK), coated-recycled board (CRB) and uncoated-recycled board (URB), as well as other grades of paperboard that are purchased from third-party suppliers.

Below is the paperboard production at each of the Company s mills during 2010:

Location	Product	# of Machines	2010 Net Tons Produced

West Monroe, LA	CUK	2	736,000
Macon, GA	CUK	2	604,000
Kalamazoo, MI	CRB	2	436,000
Battle Creek, MI	CRB	2	163,000
Middletown, OH	CRB	1	158,000
Santa Clara, CA	CRB	1	139,000
Pekin, IL	URB	1	41,000
West Monroe, LA	Containerboard	2	176,000

The Company consumes most of its coated board output in its carton converting operations, which is an integral part of its low-cost converting strategy. In 2010, excluding containerboard, 80% of mill production was consumed internally.

CUK Production. The Company is the largest of three worldwide producers of CUK. CUK is a specialized high-quality grade of coated paperboard with excellent wet and dry tear strength characteristics and printability for high resolution graphics that make it particularly suited for a variety of packaging applications.

CRB Production. The Company is the largest domestic producer of CRB. CRB is manufactured entirely from recycled fibers, primarily old corrugated containers (OCC), doubled-lined kraft cuttings from corrugated box plants (DLK), old newspapers (ONP), and box cuttings. The recycled fibers are re-pulped, formed on paper machines, and clay-coated to provide an excellent printing surface for superior quality graphics and appearance characteristics.

URB Production. URB is an uncoated 100% recycled paperboard used in the manufacture of chipboard for folding cartons, gift boxes, trays and file folders, and tube stock for manufacture of tubes, cores, cans and composite containers.

Containerboard. The Company manufactures corrugated medium and kraft paper for sale in the open market. Corrugated medium is combined with linerboard to make corrugated containers. Kraft paper is used primarily to make grocery bags and sacks.

The Company converts CUK and CRB, as well as other grades of paperboard, into cartons at converting plants the Company operates in various locations across North America and internationally, converting plants associated with its joint ventures in Japan and China, contract converters and at licensees outside the U.S. The converting plants print, cut and glue paperboard into cartons designed to meet customer specifications.

Flexible Packaging

The Company s flexible packaging segment includes multi-wall bags, plastics, and labels.

The Company is a leading supplier of flexible packaging in North America. Products include multi-wall bags, shingle wrap, plastic bags and film for building materials (such as ready-mix concrete), retort pouches (such as meals ready to go), medical test kits, batch inclusion bags and film. Key end-markets include food and agriculture, building and industrial materials, chemicals, minerals, pet foods, and pharmaceutical products. Approximately 20% of the plastics produced are consumed internally. The Company s facilities are strategically located throughout the U.S., allowing it to provide a high level of service to customers, minimize freight and logistics costs, improve order turnaround times and improve supply chain reliability.

The Company s label business focuses on heat transfer labels and lithographic labels and provides customers with high-quality labels utilizing multiple technology applications. The Company operates dedicated label plants which produce labels for food, beverage, pharmaceutical, automotive, household and industrial products, detergents, and the health and beauty markets.

Joint Ventures

The Company is a party to joint ventures with Rengo Riverwood Packaging, Ltd. (in Japan) and Graphic Hung Hing Packaging Ltd. (in China), in which it holds a 50% and 60% ownership interest, respectively. The joint venture agreements cover CUK supply, use of proprietary carton designs and marketing and distribution of packaging systems.

Marketing and Distribution

The Company markets its products principally to multinational beverage, food, and other well-recognized consumer product companies. The multinational beverage companies include Anheuser-Busch InBev, MillerCoors Brewing Company, PepsiCo and The Coca-Cola Company. Non-beverage consumer product customers include Kraft Foods, Inc., General Mills, Inc., Nestlé Group, Kellogg Company, HAVI Global Solutions, and Kimberly-Clark Corporation, among others. The Company also sells paperboard in the open market to independent and integrated paperboard converters.

Distribution of the Company s principal products is primarily accomplished through direct sales offices in the U.S., Australia, Brazil, China, Germany, Italy, Japan, Mexico, Spain and the United Kingdom, and, to a lesser degree, through broker arrangements with third parties.

During 2010, the Company did not have any one customer that represented 10% or more of its net sales.

Competition

Although a relatively small number of large competitors hold a significant portion of the paperboard packaging market, the Company s business is subject to strong competition. There are only two major CUK producers in the U.S., MeadWestvaco Corporation and the Company. Internationally, Klabin, Brazil, makes similar grades of paperboard.

In beverage packaging, cartons made from CUK compete with substitutes such as plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. Although plastics and corrugated packaging are typically priced lower than CUK, the Company believes that cartons made from CUK offer advantages over these materials in areas such as distribution, high-quality graphics, carton designs, package performance, package line speed, environmental friendliness and design flexibility.

In non-beverage consumer packaging, the Company s paperboard competes with MeadWestvaco s CUK, as well as CRB and solid bleached sulfate (SBS) from numerous competitors, and internationally, folding boxboard and white-lined chip. CUK and CRB have generally been priced in a range that is lower than SBS board. There are a large number of producers in the paperboard markets. Suppliers of paperboard compete primarily on the basis of price, strength and printability of their paperboard, quality and service.

The Company s multi-wall bag business competes with a small number of large competitors. Additionally, the Company faces increasing competition from imported products, primarily from Asia.

The plastics and labels businesses are highly fragmented, comprised of over 100 companies operating hundreds of converting facilities. Participants range from small, private companies to multinational firms.

Raw Materials

Paperboard Packaging

The paperboard packaging produced by the Company comes from pine trees. Pine pulpwood, paper and recycled fibers (including DLK and OCC) and energy used in the manufacture of paperboard, as well as poly sheeting, plastic resins and various chemicals used in the coating of paperboard, represent the largest components of the Company s variable costs of paperboard production.

For its West Monroe, LA and Macon, GA mills, the Company relies on private landowners and the open market for all of its pine pulpwood and recycled fiber requirements, supplemented by CUK clippings that are obtained from its converting operations. The Company believes that adequate supplies from both private landowners and open market fiber currently are available in close proximity to meet its fiber needs at these mills.

The Kalamazoo, MI mill produces coated 100% recycled paperboard made primarily from OCC, ONP, and boxboard clippings. The market price of each of the various recycled fiber grades fluctuates with supply and demand. The Company has many sources for its fiber requirements and believes that the supply is adequate to satisfy its needs.

The coated- and uncoated-recycled board produced at the Battle Creek, MI; Middletown, OH; Santa Clara, CA; and Pekin, IL mills is made from 100% recycled fiber. The Company procures its recycled fiber from both a large national corporation and local independent fiber suppliers. The internalization of the Company s recycled fiber procurement function enables the Company to attain the lowest market price for its recycled fiber given the Company s highly fragmented supplier base. The Company believes there are adequate supplies of recycled fiber to serve its mills.

In addition to paperboard that is supplied to its converting operations from its own mills, the Company converts a variety of other paperboard grades such as SBS. The Company purchases such paperboard requirements, including additional CRB and URB, from outside vendors. The majority of external board purchases are acquired through long-term arrangements with other major industry suppliers.

Flexible Packaging

The multi-wall bag business uses a combination of natural kraft, high performance, bleached, metallic and clay-coated papers in its converting operations. The paper is supplied directly through North American paper mills, under supply agreements that are typically reviewed annually.

The plastics business currently purchases the majority of its primary raw material of polyethylene resins or additives from a number of major industry suppliers. Other key material purchases include various films, aluminum foil, inks and adhesives that are secured through a variety of agreements, generally with terms of one to six years.

The label business purchases its primary raw materials, which include heat transfer papers and coated one-side and two-side papers, from a limited number of suppliers. In addition, the group purchases wet strength and metalized paper for specific, niche label applications and shrink sleeve film substrates through a variety of agreements, generally with terms of one to six years.

Energy

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company s manufacturing costs. The Company has entered into contracts designed to manage risks associated with future variability in cash flows and price risk related to future energy cost increases for a portion of its natural gas requirements, primarily at its U.S. mills. The Company s hedging program for natural gas is discussed in Note 10 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Backlog

Orders from the Company s principal customers are manufactured and shipped with minimal lead time. The Company did not have a material amount relating to backlog orders at December 31, 2010 or 2009.

Seasonality

The Company s net sales, income from operations and cash flows from operations are subject to moderate seasonality, with demand usually increasing in the late spring through early fall due to the beverage, folding carton, housing and construction markets.

Research and Development

The Company s research and development staff works directly with its sales and marketing personnel to understand long-term consumer and retailer trends and create relevant new packaging. These innovative solutions provide customers with differentiated packaging to meet customer needs. The Company s development efforts include, but are not limited to, extending the shelf life of customers products; reducing production costs; enhancing the heat-managing characteristics of food packaging; and refining packaging appearance through new printing techniques and materials.

Sustainability represents one of the strongest trends in the packaging industry. The Company s strategy is to combine sustainability with innovation to create new solutions for its customers. The Company s goal is that by 2012, 75% of

the Company s new product sales will come from more sustainable packaging solutions.

For more information on research and development expenses see Note 1 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

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Patents and Trademarks

As of December 31, 2010, the Company had a large patent portfolio, presently owning, controlling or holding rights to more than 1,400 U.S. and foreign patents, with more than 900 U.S. and foreign patent applications currently pending. The Company s patent portfolio consists primarily of patents relating to packaging machinery, manufacturing methods, structural carton designs, microwave packaging technology, barrier protection packaging, multi-wall packaging and manufacturing methods. These patents and processes are significant to the Company s operations and are supported by trademarks such as Cap-Sac®, DI-NA-CAL®, Fridge Vendor®, IntegraPak™, Kitchen Master®, MicroFlex® Q, MicroRite®, Peel Pak®, Quilt Wave™, Qwik Crisp®, Soni-Lok®, Soni-Seal®, The Yard Master®, and Z-Flute®. The Company takes significant steps to protect its intellectual property and proprietary rights.

Culture and Employees

The Company s corporate vision to provide packaging solutions that improve the world in which we live and values of respect, integrity, relationships, teamwork and accountability guide employee behavior, expectations and relations. The Company s ongoing efforts to build a high-performance culture and improve the manner in which work is done across the Company includes a significant focus on continuous improvement utilizing processes like Lean Sigma and Six Sigma. In 2010 we had more than 2,400 new employees participate in over 560 Kaizen Events across the globe. This brings the total company participation to almost 40% and 5,000 employees worldwide.

As of December 31, 2010, the Company had approximately 12,400 employees worldwide (excluding employees of joint ventures), of which approximately 51% were represented by labor unions and covered by collective bargaining agreements. As of December 31, 2010, approximately 859 of the Company s employees were working under an expired contract, which is currently being negotiated, and 1,788 were covered under collective bargaining agreements that expire within one year. The Company considers its employee relations to be satisfactory.

Environmental Matters

The Company is subject to federal, state and local environmental regulations and employs a team of professionals in order to maintain compliance at each of its facilities. For additional information on such regulation and compliance, see Environmental Matters in Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Available Information

The Company s website is located at http://www.graphicpkg.com. The Company makes available, free of charge through its website, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after such materials are electronically filed or furnished to the Securities and Exchange Commission (the SEC). The Company also makes certain investor presentations and access to analyst conference calls available through its website. The information contained or incorporated into the Company s website is not a part of this Annual Report on Form 10-K.

ITEM 1A. *RISK FACTORS*

The following risks could affect (and in some cases have affected) the Company s actual results and could cause such results to differ materially from estimates or expectations reflected in certain forward-looking statements:

The Company s substantial indebtedness may adversely affect its financial health, its ability to obtain financing in the future, and its ability to react to changes in its business.

As of December 31, 2010, the Company had an aggregate principal amount of $2,579.1 million of outstanding debt. Because of the Company s substantial debt, the Company s ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be restricted in the future. The Company is also exposed to the risk of increased interest costs because $577.6 million of its debt is at variable rates of interest which are not hedged by interest rate swaps. A significant portion of the Company s cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available for other purposes. In 2011, the Company estimates it will pay between $145 million and $160 million in interest on its outstanding debt obligations.

Additionally, the Company s Credit Agreement dated May 16, 2007, as amended (the Credit Agreement) and the indentures governing its 9.5% Senior Notes due 2017, 9.5% Senior Subordinated Notes due 2013, and the 7.875% Senior Notes due 2018 (the Indentures) contain covenants that prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of dividends, loans or advances and certain other types of transactions. The Credit Agreement also requires compliance with a maximum consolidated secured leverage ratio. The Company s ability to comply in future periods with these covenants will depend on its ongoing financial and operating performance.

The substantial debt and the restrictions under the Credit Agreement and the Indentures could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The material outstanding debt obligations and the restrictions may also leave the Company more vulnerable to a downturn in general economic conditions or its business, or unable to carry out capital expenditures that are necessary or important to its growth strategy and productivity improvement programs.

Significant increases in prices for raw materials, energy, transportation and other necessary supplies and services could adversely affect the Company s financial results.

Limitations in the availability of and increases in the costs of raw materials, including petroleum-based materials, energy, wood, transportation and other necessary goods and services, could have an adverse effect on the Company s financial results. The Company is also limited in its ability to pass along such cost increases to customers, due to contractual provisions and competitive reasons.

There is no guarantee that the Company s efforts to reduce costs will be successful.

The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. The Company s ability to implement successfully its business strategies and to realize anticipated savings is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans, it may not be able to continue to compete successfully against other manufacturers. In addition, any failure to generate the anticipated efficiencies and savings could adversely affect the Company s financial results.

If a material percentage of the ownership interests in the Company s stockholders who own five percent or more of the Company s common stock are sold or transferred, the Company s ability to use its net operating losses to offset its future taxable income may be limited under Section 382 of the Internal Revenue Code.

As of December 31, 2010, the Company had approximately $1.3 billion of net operating losses (NOLs) available to offset future income for U.S. federal tax liability purposes. The Company s ability to use such NOLs to offset income can be limited, however, if the Company undergoes an ownership change within the meaning of Section 382 of the Internal Revenue Code (Section 382). In general, an ownership change occurs whenever the aggregate percentage of the Company s common stock owned directly or indirectly by its stockholders who own five percent or more of the Company s common stock (Significant Stockholders) increases by more than 50 percentage points over the lowest aggregate percentage of the Company s common stock owned directly or indirectly by such Significant Stockholders at any time during the preceding three years. In addition, under certain circumstances, issuances, sales or other dispositions or acquisitions of the ownership interests in the Company s Significant Stockholders can be deemed an ownership change for the Company.

Although the Stockholders Agreement dated as of July 7, 2007 among the Company, the Coors family trusts and foundation, Clayton, Dubilier & Rice Fund V Limited Partnership, Old Town, S.A. (formerly known as EXOR Group, S.A.), Field Holdings, Inc., and certain affiliates of TPG Capital L.P. contains certain restrictions and limitations on purchasing additional shares of the Company s common stock or selling the shares of the Company s common stock owned by such Significant Stockholders as of the date of the agreement, the Company has little control over changes in the ownership interests of such Significant Stockholders.

If an ownership change occurs, Section 382 establishes an annual limitation on the amount of deferred tax assets attributable to previously incurred NOLs that may be used to offset taxable income in future years. As a result, the Company s tax liability for such years could increase significantly. The magnitude of the annual limitation on the use of deferred tax assets and the effect of such limitation on the Company is difficult to assess and depends in part on the market value of the Company at the time of the ownership change and prevailing interest rates.

Work stoppages and other labor relations matters may make it substantially more difficult or expensive for the Company to manufacture and distribute its products, which could result in decreased sales or increased costs, either of which would negatively impact the Company s financial condition and results of operations.

Approximately 51% of the Company s workforce is represented by labor unions, whose goals and objectives may differ significantly from the Company s. The Company may not be able to successfully negotiate new union contracts covering the employees at its various sites without work stoppages or labor difficulties. These events may also occur as a result of other factors. A prolonged disruption at any of the Company s facilities due to work stoppages or labor difficulties could have a material adverse effect on its net sales, margins and cash flows. In addition, if new union contracts contain significant increases in wages or other benefits, the Company s margins would be adversely impacted.

The Company is subject to environmental, health and safety laws and regulations, and costs to comply with such laws and regulations, or any liability or obligation imposed under such laws or regulations, could negatively impact its financial condition and results of operations.

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, the investigation and remediation of contamination resulting from releases of hazardous substances, and the health and safety of employees. Additionally, the Company cannot currently assess the impact that future emission standards, climate control initiatives and enforcement practices will have on the Company s operations

and capital expenditure requirements. Environmental

liabilities and obligations may result in significant costs, which could negatively impact the Company s financial position, results of operations or cash flows. See Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

The Company may not be able to adequately protect its intellectual property and proprietary rights, which could harm its future success and competitive position.

The Company s future success and competitive position depend in part upon its ability to obtain and maintain protection for certain proprietary carton and packaging machine technologies used in its value-added products, particularly those incorporating the Cap-Sac, DI-NA-CAL, Fridge Vendor, IntegraPak, Kitchen Master, MicroFlex Q, MicroRite, Peel Pak, Quilt Wave, Qwik Crisp, Soni-Lok, Soni-Seal, The Yard Master and Z-Flute technologies. Failure to protect the Company s existing intellectual property rights may result in the loss of valuable technologies or may require it to license other companies intellectual property rights. It is possible that any of the patents owned by the Company may be invalidated, rendered unenforceable, circumvented, challenged or licensed to others or any of its pending or future patent applications may not be issued within the scope of the claims sought by the Company, if at all. Further, others may develop technologies that are similar or superior to the Company s technologies, duplicate its technologies or design around its patents, and steps taken by the Company to protect its technologies may not prevent misappropriation of such technologies.

Competition for sales of the Company s products could have an adverse effect on the Company s financial results.

The Company competes with other manufacturers, both domestically and internationally. The Company s products also compete with other manufacturers CUK board and other substrates, SBS and recycled clay-coated news (CCN). Substitute products also include plastic, shrink film and corrugated containers. In addition, while the Company has long-term relationships with many of its customers, the underlying contracts may be re-bid or renegotiated from time to time, and the Company may not be successful in renewing on favorable terms or at all. The Company works to maintain market share through efficiency, product innovation and strategic sourcing to its customers; however, pricing and other competitive pressures may occasionally result in the loss of a customer relationship.

The Company s working capital, cash flow and profitability could be adversely impacted by the economic conditions, changes in governmental regulations, and the global consolidation of the businesses of the Company s customers.

Reduced availability of credit, current economic conditions, and increased costs as a result of changes in governmental regulations may adversely affect the ability of some of the Company s customers and suppliers to obtain funds for operations and capital expenditures. This could negatively impact the Company s ability to collect receivables in a timely manner and to obtain raw materials and supplies. In addition, increased global consolidation of the Company s customer base could lead to increased pressure on the Company to concede to less favorable price and payment terms. Without the Company s ability to counter such customer concessions by obtaining favorable price and payment term concessions from its own suppliers, or increasing volume, the Company s working capital, cash flow and profitability could be negatively impacted.

The Company s cash flows may also be adversely impacted by the Company s pension funding obligations. The Company s pension funding obligations are dependent upon multiple factors resulting from actual plan experience and assumptions of future experience. The Company has unfunded obligations under its domestic and foreign defined benefit pension plans, and the funded status of these plans is dependent upon various factors, including returns on invested assets, the level of certain market interest rates and the discount rate used to determine pension obligations. Unfavorable returns on the plan assets or unfavorable changes in applicable laws or regulations could materially

change the timing and amount of required plan funding, which would reduce the cash available for the Company.

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The Company s reliance on a large number of financial institutions for a significant portion of its cash requirements could adversely affect the Company s liquidity and cash flow.

The Company has exposure to many companies in the financial services industry, particularly commercial and investment banks that participate in its revolving credit facilities and that are counterparties to the Company s interest rate swaps and natural gas and currency hedges. The failure of these financial institutions, or their inability or unwillingness to fund the Company s revolving credit facility or fulfill their obligations under swaps and hedges, could have a material adverse effect on the Company s liquidity position and cash flow.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Headquarters

The Company leases its principal executive offices in Marietta, GA and maintains country headquarters in Australia, China, Germany, Italy, and Japan.

Operating Facilities

A listing of the principal properties owned or leased and operated by the Company is set forth below. The Company s buildings are adequate and suitable for the business of the Company. The Company also leases certain smaller facilities, warehouses and office space throughout the U.S. and in foreign countries from time to time. The operating locations include 7 paperboard mills and 34 paperboard converting and 17 flexible packaging plants.

Segment and Location	**Related Products or Use of Facility**
Packaging Segment:	
Battle Creek, MI	CRB
Kalamazoo, MI	CRB
Macon, GA	CUK
Middletown, OH	CRB
Pekin, IL	URB
Santa Clara, CA	CRB
West Monroe, LA	CUK; Containerboard; Research and Development
Atlanta, GA	Folding Cartons
Bristol, Avon, United Kingdom	Folding Cartons
Carol Stream, IL	Folding Cartons; Research and Development
Centralia, IL	Folding Cartons
Charlotte, NC	Folding Cartons
Cincinnati, OH	Folding Cartons
Elk Grove, IL[a]	Folding Cartons
Fort Smith, AR[a]	Folding Cartons
Gordonsville, TN	Folding Cartons
Idaho Falls, ID	Folding Cartons

Igualada, Barcelona, Spain[(a)]	Folding Cartons; Packaging Machinery Engineering Design and Manufacturing
Irvine, CA	Folding Cartons; Design Center
Jundiai, Sao Paulo, Brazil	Folding Cartons
Kalamazoo, MI	Folding Cartons
Kendallville, IN	Folding Cartons
La Porte, IN	Folding Cartons
Lawrenceburg, TN	Folding Cartons
Lumberton, NC	Folding Cartons
Marion, OH	Folding Cartons
Masnieres, France	Folding Cartons
Menasha, WI	Folding Cartons; Research and Development
Mississauga, Ontario, Canada	Folding Cartons; Research and Development
Mitchell, SD	Folding Cartons

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Segment and Location	Related Products or Use of Facility
Orchard Park, CA	Folding Cartons
Pacific, MO	Folding Cartons
Perry, GA	Folding Cartons
Piscataway, NJ	Folding Cartons
Queretaro, Mexico	Folding Cartons
Renton, WA	Folding Cartons
Solon, OH	Folding Cartons
Tuscaloosa, AL	Folding Cartons
Valley Forge, PA	Folding Cartons; Design Center
Wausau, WI	Folding Cartons
West Monroe, LA[(a)]	Folding Cartons
Flexible Packaging:	
Arcadia, LA	Multi-wall Bag
Brampton, Ontario, Canada	Plastics
Des Moines, IA	Plastics
Eastman, GA	Multi-wall Bag
Fowler, IN	Multi-wall Bag
Jacksonville, AR[(b)]	Multi-wall Bag
Kansas City, MO	Multi-wall Bag
Louisville, KY	Multi-wall Bag
Milwaukee, WI	Plastics
New Philadelphia, OH	Multi-wall Bag
North Portland, OR	Multi-wall Bag
Norwood, OH	Labels
Portage, IN	Contract Manufacturing
Quincy, IL	Multi-wall Bag
Salt Lake City, UT	Multi-wall Bag
Schaumburg, IL	Plastics
Wellsburg, WV	Multi-wall Bag
Other:	
Concord, NH	Research and Development
Crosby, MN	Packaging Machinery Engineering Design and Manufacturing
Marietta, GA	Research and Development; Packaging Machinery Engineering Design

Notes:

(a) Multiple facilities in this location.

(b) The Company has announced the intended closure of the location.

ITEM 3. *LEGAL PROCEEDINGS*

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Company s consolidated financial position, results of

operations or cash flows. See Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended December 31, 2010.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G.(3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the definitive proxy statement that will be filed within 120 days after December 31, 2010.

David W. Scheible, 54, was appointed to Graphic Packaging Holding Company s Board upon its formation (under the name New Giant Corporation) in June 2007. Prior to the Altivity Transaction, he had served as a director, President and Chief Executive Officer of GPC since January 1, 2007. Prior to that time, Mr. Scheible

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had served as Chief Operating Officer of GPC since October 2004. Mr. Scheible served as Executive Vice President of Commercial Operations from August 2003 until October 2004. Mr. Scheible served as Graphic Packaging International Corporation s Chief Operating Officer from 1999 until August 2003. He also served as President of Graphic Packaging International Corporation s Flexible Division from January to June 1999. Previously, Mr. Scheible was affiliated with the Avery Dennison Corporation, working most recently as its Vice President and General Manager of the Specialty Tape Division from 1995 through 1999 and Vice President and General Manager of the Automotive Division from 1993 to 1995.

Daniel J. Blount, 55, is the Senior Vice President and Chief Financial Officer of Graphic Packaging Holding Company. Prior to the Altivity Transaction, he had served as Senior Vice President and Chief Financial Officer of Graphic Packaging Corporation since September 2005. From October 2003 until September 2005, he was the Senior Vice President, Integration of GPC from August 2003 until October 2003, he was the Senior Vice President, Integration, Chief Financial Officer and Treasurer. From June 2003 until August 2003, he was Senior Vice President, Chief Financial Officer and Treasurer of Riverwood Holding, Inc. From September 1999 until June 2003, Mr. Blount was Senior Vice President and Chief Financial Officer of Riverwood Holding, Inc. Mr. Blount was named Vice President and Chief Financial Officer of Riverwood Holding, Inc. in September 1998. Prior to joining Riverwood Holding, Inc., Mr. Blount spent 13 years at Montgomery Kone, Inc., an elevator, escalator and moving ramp product manufacturer, installer and service provider, most recently serving as Senior Vice President, Finance.

Cynthia A. Baerman, 48, is the Senior Vice President, Human Resources of Graphic Packaging Holding Company. Mrs. Baerman joined Graphic Packaging Holding Company in March 2009 from JohnsonDiversey, a global leader in sanitation products and services where she served as Vice President and General Manager of its Food and Beverage Division from September 2006 until February 2009 and as Vice President, Human Resources from March 2005 until January 2007. From January 2004 until January 2005, Mrs. Baerman was Vice President of Human Resources at Barilla America. Mrs. Baerman previously held senior leadership positions in human resources at top companies in the food and beverage sector, including Kraft Foods, Miller Brewing Company, and Anheuser-Busch Companies.

John C. Best, 51, is the Vice President, Business Development of Graphic Packaging Holding Company. Prior to the Altivity Transaction, he had served as Vice President, Business Development of Graphic Packaging Corporation since January 2006, with responsibility for Marketing, Research and Development and the successful sale of value-added products into the marketplace. Previously, he had served as Vice President of Sales for Graphic Packaging Corporation from August 1999 to December 2005. Mr. Best joined Graphic Packaging Corporation in 1994 as the Business Unit Manager for the Folding Carton Division.

Michael P. Doss, 44, is the Senior Vice President, Consumer Packaging Division of Graphic Packaging Holding Company. Prior to the Altivity Transaction, he had served as Senior Vice President, Consumer Products Packaging of Graphic Packaging Corporation since September 2006. From July 2000 until September 2006, he was the Vice President of Operations, Universal Packaging Division. Since joining Graphic Packaging International Corporation in 1990, Mr. Doss held positions of increasing management responsibility, including Plant Manager at the Gordonsville, TN and Wausau, WI plants. Mr. Doss was Director of Web Systems for the Universal Packaging Division prior to his promotion to Vice President of Operations.

Kristopher L. Dover, 46, is the Senior Vice President, Flexible Group of Graphic Packaging Holding Company. Prior to the Altivity Transaction, Mr. Dover served as Vice President and General Manager, Multi-Wall Bag from August 2007 until March 2008 and as Vice President Operations from December 2006 until August 2007 for Altivity Packaging. Mr. Dover was Vice President, Global Operations Beverage from January 2006 until December 2006 and Vice President, Operations Europe from August 2004 until January 2006 and Director of Operations from August 2003 until August 2004 for Graphic Packaging Corporation. Mr. Dover joined Graphic Packaging International Corporation in 1999 and held various management positions in its U.S. and European operations.

Deborah R. Frank, 50, is the Vice President and Chief Accounting Officer of Graphic Packaging Holding Company. Prior to the Altivity Transaction, she served as Vice President and Controller of Graphic Packaging Corporation since April 2005. Prior to joining the Company, Ms. Frank held various positions of increasing

responsibility in the finance, accounting, audit, international and corporate areas at Kimberly Clark Corporation, most recently serving as Assistant Controller.

Philip H. Geminder, II, 54, is the Vice President, Graphic Business Systems of Graphic Packaging Holding Company. Mr. Geminder previously served as Vice President and Chief Integration Officer from March 2008 through July 2010. Prior to the Altivity Transaction, he served as the Vice President, Integration of Graphic Packaging Corporation from September 2007 through March 2008. Prior to that time, he had served as Vice President, Finance of Graphic Packaging Corporation since August 2003 and Vice President, Financial Services of Graphic Packaging International Corporation since January 2000. Before joining Graphic Packaging International Corporation, Mr. Geminder served as Director of Finance with Avery Dennison Corporation after spending 18 years in various positions with Honeywell International Inc.

Stephen A. Hellrung, 63, is the Senior Vice President, General Counsel and Secretary of Graphic Packaging Holding Company. Prior to the Altivity Transaction, he had served as Senior Vice President, General Counsel and Secretary of Graphic Packaging Corporation since October 2003. He was Senior Vice President, General Counsel and Secretary of Lowe s Companies, Inc., a home improvement specialty retailer, from April 1999 until June 2003. Prior to joining Lowe s Companies, Mr. Hellrung held similar positions with The Pillsbury Company and Bausch & Lomb, Incorporated.

Alan R. Nichols, 48, is the Senior Vice President, Mills Division of Graphic Packaging Holding Company. He served as Vice President, Mills from August 2008 until March 2009. From March 2008 until August 2008, Mr. Nichols was Vice President, CRB Mills. Prior to the Altivity Transaction, Mr. Nichols served as Vice President, CRB Mills for Altivity Packaging from February 2007 until March 2008 and was the Division Manufacturing Manager, Mills for Altivity Packaging and the Consumer Products Division of Smurfit-Stone from August 2005. From February 2001 until August 2005, Mr. Nichols was the General Manager of the Wabash Mill for Smurfit-Stone.

Michael R. Schmal, 58, is the Senior Vice President, Beverage Packaging Division of Graphic Packaging Holding Company. Prior to the Altivity Transaction, he had served as Senior Vice President, Beverage of Graphic Packaging Corporation since August 2003. From October 1996 until August 2003, Mr. Schmal was the Vice President and General Manager, Brewery Group of Riverwood Holding, Inc. Prior to that time, Mr. Schmal held various positions with Riverwood Holding, Inc. since 1981.

Joseph P. Yost, 43, is the Senior Vice President, Supply Chain of Graphic Packaging Holding Company. From 2006 to 2009, he served as Vice President, Operations Support Consumer Packaging for Graphic Packaging International, Inc. Mr. Yost has also served in the following positions with Graphic Packaging legacy companies Director, Finance and Centralized Services from 2003 to 2006 with Graphic Packaging International, Inc., Director, Finance and Centralized Services from 2000 to 2003 with Graphic Packaging Corporation, Manager, Operations Planning and Analysis Consumer Products Division from 1999 to 2000 and other management positions from 1997 to 1999 with Fort James Corporation.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

GPHC s common stock (together with the associated stock purchase rights) is traded on the New York Stock Exchange under the symbol GPK. The historical range of the high and low sales price per share for each quarter of 2010 and 2009 are as follows:

	2010		2009	
	High	**Low**	**High**	**Low**
First Quarter	$ 4.10	$ 3.00	$ 1.25	$ 0.58
Second Quarter	3.99	2.85	2.46	0.82
Third Quarter	3.78	3.02	2.31	1.55
Fourth Quarter	4.07	3.20	3.67	2.24

No cash dividends have been paid during the last three years to the Company s common stockholders. The Company s intent is not to pay dividends at this time. Additionally, the Company s credit facilities and the indentures governing its debt securities place substantial limitations on the Company s ability to pay cash dividends on its common stock (see Covenant Restrictions in Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 6 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data).

On March 4, 2011, there were approximately 2,000 stockholders of record and approximately 5,600 beneficial holders of GPHC s common stock.

Total Return to Stockholders

The following graph compares the total returns (assuming reinvestment of dividends) of the common stock of the Company and its immediate predecessor, GPC, the Standard & Poor s (S&P) 500 Stock Index and the Dow Jones (DJ) U.S. Container & Packaging Index. The graph assumes $100 invested on December 31, 2005 in GPC s common stock and each of the indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Graphic Packaging Holding Company	$ 100.00	$ 189.91	$ 161.84	$ 50.00	$ 152.19	$ 170.61

S&P 500 Stock Index	100.00	115.80	122.16	76.96	97.33	111.99
DJ U.S. Container & Packaging Index	100.00	112.09	119.63	75.00	105.34	123.56

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ITEM 6. *SELECTED FINANCIAL DATA*

The selected consolidated financial data set forth below should be read in conjunction with Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of the Company and the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

	Year Ended December 31,				
In millions, except per share amounts	**2010**	**2009**	**2008**	**2007**	**2006**
Statement of Operations Data:					
Net Sales	$ 4,095.0	$ 4,095.8	$ 4,079.4	$ 2,421.2	$ 2,321.7
Income from Operations	219.5	282.7	149.9	151.2	93.8
Income (Loss) from Continuing Operations	10.7	56.4	(98.8)	(49.1)	(97.4)
Loss from Discontinued Operations, Net of Taxes			(0.9)	(25.5)	(3.1)
Net Income (Loss)	10.7	56.4	(99.7)	(74.6)	(100.5)
Income (Loss) Per Share Basic and Diluted:					
Continuing Operations	0.03	0.16	(0.31)	(0.24)	(0.48)
Discontinued Operations			(0.00)	(0.13)	(0.02)
Total	0.03	0.16	(0.32)	(0.37)	(0.50)
Weighted average number of shares outstanding:					
Basic	343.8	343.1	315.8	201.8	201.1
Diluted	347.4	344.6	315.8	201.8	201.1
Balance Sheet Data:					
(as of period end)					
Cash and Equivalents	$ 138.7	$ 149.8	$ 170.1	$ 9.3	$ 7.3
Total Assets	4,484.6	4,701.8	4,983.1	2,777.3	2,888.6
Total Debt	2,579.1	2,800.2	3,183.8	1,878.4	1,922.7
Total Shareholders Equity	747.0	728.8	525.2	144.0	181.7
Additional Data:					
Depreciation & Amortization	$ 288.7	$ 305.4	$ 264.3	$ 189.6	$ 188.5
Capital Spending	122.8	129.9	183.3	95.9	94.5

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ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

INTRODUCTION

This management s discussion and analysis of financial condition and results of operations is intended to provide investors with an understanding of the Company s past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Overview of Business

Overview of 2010 Results

Results of Operations

Financial Condition, Liquidity and Capital Resources

Critical Accounting Policies

New Accounting Standards

Business Outlook

OVERVIEW OF BUSINESS

The Company s objective is to strengthen its position as a leading provider of packaging solutions. To achieve this objective, the Company offers customers its paperboard, cartons and packaging machines, either as an integrated solution or separately. Cartons and carriers are designed to protect and contain products. Product offerings include a variety of laminated, coated and printed packaging structures that are produced from the Company s CUK, CRB and URB, as well as other grades of paperboard that are purchased from third party suppliers. Innovative designs and combinations of paperboard, films, foils, metallization, holographics and embossing are customized to the individual needs of the customers.

The Company is a leading supplier of flexible packaging in North America. Products include multi-wall bags, shingle wrap, plastic bags and film for building materials (such as ready-mix concrete), retort pouches (such as meals ready to go), medical test kits, batch inclusion bags and film. Key end-markets include food and agriculture, building and industrial materials, chemicals, minerals, pet foods, and pharmaceutical products. The Company s label business focuses on two product lines: heat transfer labels and lithographic labels.

The Company is implementing strategies (i) to expand market share in its current markets and to identify and penetrate new markets; (ii) to capitalize on the Company s customer relationships, business competencies, and mills and converting assets; (iii) to develop and market innovative, sustainable products and applications; and (iv) to continue to reduce costs by focusing on operational improvements. The Company s ability to fully implement its strategies and achieve its objective may be influenced by a variety of factors, many of which are beyond its control, such as inflation of raw material and other costs, which the Company cannot always pass through to its customers, and the effect of overcapacity in the worldwide paperboard packaging industry.

Significant Factors That Impact The Company s Business

Impact of Inflation. The Company s cost of sales consists primarily of energy (including natural gas, fuel oil and electricity), pine pulpwood, chemicals, recycled fibers, purchased paperboard, paper, aluminum foil, ink, plastic films and resins, depreciation expense and labor. Inflation increased year over year costs by $107.3 million in 2010 and by $126.3 million in 2008, while deflation decreased year over year costs by $0.2 million in 2009. The higher costs in 2010 are primarily related to secondary fiber and wood ($58.7 million); resin ($20.7 million); externally purchased board ($18.0 million); ink and coatings ($17.8 million); other costs ($11.0 million); freight ($9.6 million); and labor and related benefits ($5.6 million). These higher costs were partially offset by lower energy costs ($31.9 million), mainly due to the price of natural gas; and other chemical-based inputs ($2.2 million).

As the price of natural gas has experienced significant variability, the Company has entered into contracts designed to manage risks associated with future variability in cash flows caused by changes in the price of natural gas. The Company has entered into natural gas swap contracts to hedge prices for a portion of its expected usage for 2011. Since negotiated sales contracts and the market largely determine the pricing for its products, the Company is at times limited in its ability to raise prices and pass through to its customers any inflationary or other cost increases that the Company may incur.

Substantial Debt Obligations. The Company has $2,579.1 million of outstanding debt obligations as of December 31, 2010. This debt can have significant consequences for the Company, as it requires a significant portion of cash flow from operations to be used for the payment of principal and interest, exposes the Company to the risk of increased interest rates and restricts the Company s ability to obtain additional financing. Covenants in the Company s Credit Agreement and Indentures also prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of dividends, loans or advances and certain other types of transactions. These restrictions could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The Credit Agreement also requires compliance with a maximum consolidated secured leverage ratio. The Company s ability to comply in future periods with the financial covenant will depend on its ongoing financial and operating performance, which in turn will be subject to many other factors, many of which are beyond the Company s control. See Covenant Restrictions in Financial Condition, Liquidity and Capital Resources for additional information regarding the Company s debt obligations.

The substantial debt and the restrictions under the Credit Agreement and the Indentures could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The material outstanding debt obligations and the restrictions may also leave the Company more vulnerable to a downturn in general economic conditions or its business, or unable to carry out capital expenditures that are necessary or important to its growth strategy and productivity improvement programs.

Commitment to Cost Reduction. In light of increasing margin pressure throughout the packaging industry, the Company has programs in place that are designed to reduce costs, improve productivity and increase profitability. The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. This includes a Six Sigma process focused on reducing variable and fixed manufacturing and administrative costs. The Company expanded the continuous improvement initiative to include the deployment of Lean Sigma principles into manufacturing and supply chain services. As the Company strengthens the systems approach to continuous improvement, Lean Sigma supports the efforts to build a high performing culture. During 2010, the Company achieved $154.7 million in cost savings as compared to 2009, through its continuous improvement programs and manufacturing initiatives.

The Company s ability to continue to successfully implement its business strategies and to realize anticipated savings and operating efficiencies is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans it may not be able to continue to compete successfully against other manufacturers. In addition, any failure to generate the anticipated efficiencies and savings could adversely affect the Company s financial results.

Competition and Market Factors. As some products can be packaged in different types of materials, the Company s sales are affected by competition from other manufacturers CUK board and other substrates such as SBS and CCN. Substitute products also include plastic, shrink film and corrugated containers. In addition, while the Company has long-term relationships with many of its customers, the underlying contracts may be re-bid or renegotiated from time to time, and the Company may not be successful in renewing on favorable terms or at all. The Company works to maintain market share through efficiency, product innovation and strategic sourcing to its customers; however, pricing

and other competitive pressures may occasionally result in the loss of a customer relationship.

In addition, the Company s sales historically are driven by consumer buying habits in the markets its customers serve. Increases in the costs of living, the poor condition of the residential real estate market, high

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unemployment rates, reduced access to credit markets, as well as other macroeconomic factors, may significantly negatively affect consumer spending behavior, which could have a material adverse effect on demand for the Company s products. New product introductions and promotional activity by the Company s customers and the Company s introduction of new packaging products also impact its sales. The Company s containerboard business is subject to conditions in the cyclical worldwide commodity paperboard markets, which have a significant impact on containerboard sales.

Alternative Fuel Tax Credit. The Company burns alternative fuel at its West Monroe, LA and Macon, GA mills in order to produce energy and recover chemicals. During 2009, the U.S. Internal Revenue Code allowed an excise tax credit under certain circumstances for the use of alternative fuels and alternative fuel mixtures. In the first quarter 2009, the Company filed an application with the Internal Revenue Service (the IRS) for certification of eligibility to receive the tax credit for its use of black liquor in alternative fuel mixtures in the recovery boilers at the mills. During the second quarter 2009, the Company received notification from the IRS that its registration as an alternate fuel mixer had been approved. The Company submitted excise tax refund claims totaling $147.2 million based on fuel usage at the two mills from mid-January 2009 through December 31, 2009. The Company received excise tax refunds totaling $134.8 million through the end of the year in 2009, and the remainder was received in 2010. The net impact of the excise tax credit is included in Restructuring and Other Special Charges (Credits) in the amount of $137.8 million for the year ended December 31, 2009 and is included in Corporate for segment reporting purposes. The excise tax credit expired on December 31, 2009.

OVERVIEW OF 2010 RESULTS

This management s discussion and analysis contains an analysis of Net Sales, Income from Operations and other information relevant to an understanding of results of operations. To enhance the understanding of continuing operations, this discussion and analysis excludes discontinued operations for all periods presented.

Net Sales in 2010 decreased by $0.8 million to $4,095.0 million from $4,095.8 million in 2009 due primarily to the impact of divested businesses in the flexible packaging segment and lower pricing and volume in the paperboard packaging segment. These decreases were partially offset by higher pricing in flexible packaging and favorable foreign exchange rates, primarily in Japan, Australia and Canada.

Income from Operations in 2010 decreased by $63.2 million, or 22.4%, to $219.5 million from $282.7 million in 2009. This decrease was due primarily to the $137.8 million alternative fuel tax credit net of expenses received in 2009 and higher input costs experienced in 2010. The negative impact of the inflation was offset by cost savings achieved through continuous improvement programs and manufacturing initiatives and lower merger related expenses of $18.1 million.

RESULTS OF OPERATIONS

Segment Information

The Company reports its results in two business segments: paperboard packaging and flexible packaging. As a result of changes in the Company s internal reporting structure the previously reported multi-wall bag and specialty packaging segments have been combined into a single segment called flexible packaging.

	Year Ended December 31,		
In millions	**2010**	**2009**	**2008**
NET SALES:			
Paperboard Packaging	$ 3,419.4	$ 3,423.5	$ 3,377.4
Flexible Packaging	675.6	672.3	702.0
Total	$ 4,095.0	$ 4,095.8	$ 4,079.4
INCOME (LOSS) FROM OPERATIONS:			
Paperboard Packaging	$ 303.7	$ 288.3	$ 220.9
Flexible Packaging	18.0	2.5	35.5
Corporate	(102.2)	(8.1)	(106.5)
Total	$ 219.5	$ 282.7	$ 149.9

2010 COMPARED WITH 2009

Net Sales

	Year Ended December 31,			
In millions	**2010**	**2009**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 3,419.4	$ 3,423.5	$ (4.1)	(0.1)%
Flexible Packaging	675.6	672.3	3.3	0.5
Total	$ 4,095.0	$ 4,095.8	$ (0.8)	(0.0)%

The components of the change in Net Sales by segment are as follows:

	Year Ended December 31,						
		Variances					
			Volume/Mix				
In millions	**2009**	**Price**	**Divested Businesses**	**Organic**	**Exchange**	**Total**	**2010**
Paperboard Packaging	$ 3,423.5	$ (7.6)	$	$ (4.4)	$ 7.9	$ (4.1)	$ 3,419.4
Flexible Packaging	672.3	11.3	(12.5)	2.2	2.3	3.3	675.6
Total	$ 4,095.8	$ 3.7	$ (12.5)	$ (2.2)	$ 10.2	$ (0.8)	$ 4,095.0

Paperboard Packaging

The Company s Net Sales from paperboard packaging in 2010 decreased by $4.1 million, or 0.1%, to $3,419.4 million from $3,423.5 million in 2009 as a result of lower pricing and volume for consumer and beverage products. The lower pricing for consumer and beverage products is primarily due to the timing of deflationary cost pass throughs as a result of deflation during 2009. These negotiated pass throughs usually lag deflation by two to three quarters. The Company implemented several price increases for open market CRB and CUK during 2010, which benefited open market sales. The lower volume for consumer and beverage products was partially offset by increased volume for containerboard and open market CRB and CUK sales. The increase in containerboard was partially driven by the corrugated medium machine at the West Monroe, LA mill being idle for 36 days in 2009 due to softness in the market. The lower consumer products sales were due to a decision to exit lower margin business, as well as the continuing impact of general market conditions

in which volume has remained steady in staples (e.g., cereal, frozen foods) and was down in discretionary items (e.g., eating out, health and beauty, candy). The decrease in beer volume was due to general market conditions, which was partially offset by increases in the international beverage business. Favorable currency exchange rate changes, primarily in Australia and Japan, also positively impacted Net Sales.

Flexible Packaging

The Company s Net Sales from flexible packaging in 2010 increased by $3.3 million, or 0.5%, to $675.6 million from $672.3 million in 2009 as a result of higher pricing primarily due to negotiated inflationary pass throughs, higher volume as a result of market improvements in the chemical and pharmaceutical industries, as well as favorable currency exchange rates in Canada. These increases were partially offset by the impact of the divested bag equipment and ink businesses.

Income (Loss) from Operations

	Year Ended December 31,			
In millions	2010	2009	Increase (Decrease)	Percent Change
Paperboard Packaging	$ 303.7	$ 288.3	$ 15.4	5.3%
Flexible Packaging	18.0	2.5	15.5	N.M.(a)
Corporate	(102.2)	(8.1)	(94.1)	N.M.(a)
Total	$ 219.5	$ 282.7	$ (63.2)	(22.4)%

Note:

(a) Percentage calculation not meaningful.

The components of the change in Income (Loss) from Operations by segment are as follows:

	Year Ended December 31,							
		Variances						
In millions	2009	Price	Volume/Mix	Inflation	Exchange	Other(a)	Total	2010
Paperboard Packaging	$ 288.3	$ (7.6)	$ (4.1)	$ (80.8)	$ (1.8)	$ 109.7	$ 15.4	$ 303.7
Flexible Packaging	2.5	11.3	0.9	(26.5)	(0.4)	30.2	15.5	18.0
Corporate	(8.1)				(2.1)	(92.0)	(94.1)	(102.2)
Total	$ 282.7	$ 3.7	$ (3.2)	$ (107.3)	$ (4.3)	$ 47.9	$ (63.2)	$ 219.5

Note:

(a) Includes the Company s cost reduction initiatives, the alternative fuel tax credit and merger-related expenses.

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2010 increased by $15.4 million, or 5.3%, to $303.7 million from $288.3 million in 2009. This was primarily as a result of cost savings through continuous improvement programs and manufacturing initiatives primarily focused on maximizing productivity and minimizing waste in the production cycle as well as higher output and higher levels of integration of the Company s own board during 2010, as the Company integrated additional tons over the prior year. These cost savings were partially offset by inflation, the lower pricing in consumer and beverage products, and the lower volume. In 2009, the Company incurred higher accelerated depreciation related to assets that will be removed from service before the end of their useful lives due to facility closures, higher costs associated with the then pending closure of the Company s plant in Grenoble, France and higher unabsorbed fixed costs due to the 36 days of market downtime. The inflation was primarily related to higher secondary fiber and wood ($58.7 million); resin and inks and coatings ($19.3 million); externally purchased board ($13.3 million); and freight ($9.2 million); other costs ($9.0 million); and labor and benefits ($5.4 million). These higher costs

were partially offset by lower energy costs ($31.9 million), mainly due to the price of natural gas, and lower chemical costs ($2.2 million).

Flexible Packaging

The Company s Income from Operations from flexible packaging in 2010 increased by $15.5 million, to $18.0 million from $2.5 million in 2009 as a result of the higher pricing and cost savings through continuous improvement programs. Additionally, in 2009, the Company recorded an $11.5 million impairment charge relating to its facility in Ontario, Canada and recorded accelerated depreciation for assets that would be removed from service before the end of their useful lives due to a facility closure. These increases were partially offset by higher inflation, primarily for resin ($19.1 million), externally purchased paper ($4.7 million) and other costs ($2.7 million), and the gain on the sale of the ink business in 2009.

Corporate

The Company s Loss from Operations from corporate was $102.2 million in 2010 compared to $8.1 million in 2009. The change was primarily due to the $137.8 million alternative fuel tax credit net of expenses received in 2009. This was partially offset by lower merger-related expenses, primarily due to finalization of the restructuring activities, and lower payroll related expenses, primarily pension expense.

INTEREST EXPENSE, NET, INCOME TAX EXPENSE, AND EQUITY INCOME OF UNCONSOLIDATED ENTITIES

Interest Expense, Net

Interest Expense, Net decreased by $21.9 million to $174.5 million in 2010 from $196.4 million in 2009. Interest Expense, Net decreased due to lower total debt, lower rates on the fixed portion of the Company s debt, and lower average rates on the unhedged portion of the Company s debt. During the fourth quarter of 2009, the Company recorded a non-cash credit to interest expense, net, of $13.8 million related to an interest rate swap. As of December 31, 2010, approximately 22.4% of the Company s total debt was subject to floating interest rates.

Income Tax Expense

During 2010, the Company recognized Income Tax Expense of $27.5 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $36.6 million. During 2009, the Company recognized Income Tax Expense of $24.1 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $79.2 million. Income Tax Expense for 2010 and 2009 primarily relates to the non-cash expense of $21.9 million and $31.7 million, respectively, associated with the amortization of goodwill for tax purposes. During 2010, the Company determined that the tax basis of goodwill acquired in the Altivity Transaction was not correct and recorded a non-cash credit to income tax expense of $8.9 million in the fourth quarter of 2010 (of which $6.3 million related to prior years). The Company should have been recognizing less income tax expense since March 2008. The effect on prior periods was not material to the consolidated financial statements in those periods. In addition, in 2009, the Company determined that a valuation allowance for its U.K. operations was no longer required. The Company has approximately $1.3 billion of NOLs for U.S. federal income tax purposes, which may be used to offset future taxable income.

Equity Income of Unconsolidated Entities

Equity Income of Unconsolidated Entities was $1.6 million in 2010 and $1.3 million in 2009 and is related to the Company s equity investment in the joint venture, Rengo Riverwood Packaging, Ltd.

2009 COMPARED WITH 2008

The Company s results of operations and cash flows for 2008 include the results of Altivity from March 10, 2008, the date of the Altivity Transaction, through December 31, 2008.

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Net Sales

In millions	Year Ended December 31, 2009	2008	Increase (Decrease)	Percent Change
Paperboard Packaging	$ 3,423.5	$ 3,377.4	$ 46.1	1.4%
Flexible Packaging	672.3	702.0	(29.7)	(4.2)
Total	$ 4,095.8	$ 4,079.4	$ 16.4	0.4%

The components of the change in Net Sales by segment are as follows:

	Year Ended December 31,							
		Variances						
			Volume/Mix					
In millions	2008	Price	Acquisition	Organic	Divested Businesses	Exchange	Total	2009
Paperboard Packaging	$ 3,377.4	$ 15.0	$ 209.3	$ (106.2)	$ (55.5)	$ (16.5)	$ 46.1	$ 3,423.5
Flexible Packaging	702.0	(19.4)	122.0	(108.3)	(23.6)	(0.4)	(29.7)	672.3
Total	$ 4,079.4	$ (4.4)	$ 331.3	$ (214.5)	$ (79.1)	$ (16.9)	$ 16.4	$ 4,095.8

Paperboard Packaging

The Company s Net Sales from paperboard packaging in 2009 increased by $46.1 million, or 1.4%, to $3,423.5 million from $3,377.4 million in 2008 as a result of the Altivity Transaction, improved pricing in beverage and consumer products, as well as higher volume/mix in beverage. Beverage volumes were up in the beer market, primarily in the sub-premium category, but remained down in soft drink. Beer sales also benefited by the move to 30-pack. The increase in Net Sales was partially offset by lower volume in consumer products, containerboard and European open market, and the impact of the two coated-recycled board mills divested in September 2008. The lower consumer products sales were due to a decision to exit lower margin business as well as the general market conditions in which volume has remained steady in staples (e.g., dry mixes, cereal, pizza) and continues to be down in discretionary items (e.g., candy, eating out). Management idled the corrugated medium machine at the West Monroe, LA mill for 36 days during the first six months of 2009 due to softness in that market. Unfavorable currency exchange rate changes, primarily in Europe, also negatively impacted Net Sales.

Flexible Packaging

The Company s Net Sales from flexible packaging in 2009 decreased by $29.7 million as the volume increase from the Altivity Transaction was offset by lower volumes due to market declines in the building products, chemicals, minerals, and agriculture and food industries, lower pricing due to negotiated deflationary pass throughs, and the impact of the divested businesses.

Income (Loss) from Operations

	Year Ended December 31,			
In millions	**2009**	**2008**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 288.3	$ 220.9	$ 67.4	30.5%
Flexible Packaging	2.5	35.5	(33.0)	(93.0)
Corporate	(8.1)	(106.5)	98.4	N.M.(a)
Total	$ 282.7	$ 149.9	$ 132.8	88.6%

Note:

(a) Percentage calculation not meaningful.

The components of the change in Income (Loss) from Operations by segment are as follows:

	Year Ended December 31,								
		Variances							
			Volume/Mix						
In millions	2008	Price	Acquisition	Organic	Inflation	Exchange	Other(a)	Total	2009
Paperboard Packaging	$ 220.9	$ 15.0	$ 19.5	$ (20.0)	$ (19.0)	$ (2.0)	$ 73.9	$ 67.4	$ 288.3
Flexible Packaging	35.5	(19.4)	3.4	(16.6)	19.2	1.6	(21.2)	(33.0)	2.5
Corporate	(106.5)		24.4			9.5	64.5	98.4	(8.1)
Total	$ 149.9	$ (4.4)	$ 47.3	$ (36.6)	$ 0.2	$ 9.1	$ 117.2	$ 132.8	$ 282.7

Note:

(a) Includes the Company s cost reduction initiatives, the alternative fuel tax credit and merger-related expenses.

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2009 increased by $67.4 million, or 30.5%, to $288.3 million from $220.9 million in 2008 as a result of cost savings and synergies, the Altivity Transaction and the improved pricing. These increases were partially offset by the lower volume, higher inflation and depreciation expense and higher unabsorbed fixed costs, including the 36 days of downtime of the corrugated medium machine. The inflation was primarily related to labor and related benefits, primarily pension expense, ($29.8 million); outside board purchases ($20.4 million); and the December 31, 2008 inventory sold during the first quarter of 2009 ($19.5 million); partially offset by lower costs primarily for secondary fiber, energy and wood ($50.7 million). In 2008, the Company recorded a charge for the permanent shutdown of the #2 coated board machine at the West Monroe, LA mill.

Flexible Packaging

The Company s Income from Operations from flexible packaging in 2009 decreased by $33.0 million as a result of the lower pricing and volume, lower fixed cost absorption due to downtime for inventory control, and higher depreciation and work force reduction expenses. The higher costs were partially offset by lower inflation, primarily for external board and chemical-based inputs, the volume increase from the Altivity Transaction and the gain on the sale of the ink business. In addition, in 2009, the Company recorded an $11.5 million impairment charge relating to its facility in Ontario, Canada.

Corporate

The Company s Loss from Operations from corporate was $8.1 million in 2009 compared to $106.5 million in 2008. The improvement resulted primarily from the alternative fuel tax credit net of expenses of $137.8 million. The improvement was partially offset by higher merger-related expenses of $22.7 million, excluding an $18.8 million

non-cash charge related to excess maintenance, repair and overhaul (MRO) inventory, and higher incentive expense. As part of the integration strategy, control over MRO inventory was centralized and the current on hand/replenishment strategy was reviewed. As a result of the review, the Company determined that $18.8 million of inventory on hand was excess and recorded a non-cash charge. Results for 2008 included $24.4 million of expense related to the step-up in inventory basis to fair value, partially offset by a favorable $10.4 million mark-to-market adjustment for an interest rate swap.

INTEREST EXPENSE, NET, INCOME TAX EXPENSE, AND EQUITY INCOME OF UNCONSOLIDATED ENTITIES

Interest Expense, Net

Interest Expense, Net decreased by $19.0 million to $196.4 million in 2009 from $215.4 million in 2008. Interest Expense, Net decreased due to lower average rates on the unhedged portion of the Company s debt. During the fourth quarter 2009, the Company recorded a non-cash credit to interest expense, net of $13.8 million related to the interest rate swap mentioned above. The Company should have been amortizing

the fair value of the swap as of the date of hedge designation on a straight line basis to reduce interest expense since August 2008. The effect on prior periods was not material to the consolidated financial statements in those periods. The swap expired in January 2010. As of December 31, 2009, approximately 7% of the Company s total debt was subject to floating interest rates.

Income Tax Expense

During 2009, the Company recognized Income Tax Expense of $24.1 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $79.2 million. During 2008, the Company recognized Income Tax Expense of $34.4 million on Loss before Income Taxes and Equity Income of Unconsolidated Entities of $65.5 million. Income Tax Expense for 2009 and 2008 primarily relates to the non-cash expense of $31.7 million and $29.4 million, respectively, associated with the amortization of goodwill for tax purposes. In addition, in 2009, the Company determined that a valuation allowance for its U.K. operations was no longer required.

Equity Income of Unconsolidated Entities

Equity Income of Unconsolidated Entities was $1.3 million in 2009 and $1.1 million in 2008 and is related to the Company s equity investment in the joint venture, Rengo Riverwood Packaging, Ltd.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company broadly defines liquidity as its ability to generate sufficient funds from both internal and external sources to meet its obligations and commitments. In addition, liquidity includes the ability to obtain appropriate debt and equity financing and to convert into cash those assets that are no longer required to meet existing strategic and financial objectives. Therefore, liquidity cannot be considered separately from capital resources that consist of current or potentially available funds for use in achieving long-range business objectives and meeting debt service commitments.

Cash Flows

In millions	Years Ended December 31, 2010	2009
Net Cash Provided by Operating Activities	$ 338.1	$ 503.5
Net Cash Used in Investing Activities	(122.7)	(124.7)
Net Cash Used in Financing Activities	(227.4)	(399.2)

Net cash provided by operating activities in 2010 totaled $338.1 million, compared to $503.5 million in 2009. The decrease was primarily due to the alternative fuel tax credit received in 2009 of $134.8 million, lower inventory levels at the end of 2009 as a result of inventory reduction effort and timing of compensation and benefits.

Net cash used in investing activities in 2010 totaled $122.7 million, compared to $124.7 million in 2009. This year over year change was due primarily to $9.8 million of proceeds from the sale of assets in 2009, partially offset by a decrease in capital spending of $7.1 million as a result of completion of the integration plans.

Net cash used in financing activities in 2010 totaled $227.4 million, compared to $399.2 million used in financing activities in 2009. This decrease was primarily due to lower net payments under the Company s revolving credit facilities, partially offset by the Company s redemptions in June and August of 2010 for $34.9 million and $66.8 million, respectfully, of its Senior Subordinated Notes due 2013. On September 29, 2010, the Company completed the issuance and sale of $250.0 million of aggregate principal amount of its 7.875% Senior Notes due in 2018. A portion of the proceeds were used to retire, through a tender offer, $220.6 million aggregate principal amount of 9.5% Senior Subordinated Notes due 2013. In October 2010, the Company redeemed an additional $29.4 million of its Senior Subordinated Notes due 2013. The Company also made payments on its term loans which totaled $115.5 million in the fourth quarter of 2010.

Liquidity and Capital Resources

The Company s liquidity needs arise primarily from debt service on its substantial indebtedness and from the funding of its capital expenditures, ongoing operating costs and working capital. Principal and interest payments under the term loan facility and the revolving credit facility, together with principal and interest payments on the Company s 9.5% Senior Notes due 2017, the 9.5% Senior Subordinated Notes due 2013, and the 7.875% Senior Notes due 2018 (Notes), represent significant liquidity requirements for the Company. Based upon current levels of operations, anticipated cost savings and expectations as to future growth, the Company believes that cash generated from operations, together with amounts available under its revolving credit facility and other available financing sources, will be adequate to permit the Company to meet its debt service obligations, necessary capital expenditure program requirements and ongoing operating costs and working capital needs, although no assurance can be given in this regard. The Company s future financial and operating performance, ability to service or refinance its debt and ability to comply with the covenants and restrictions contained in its debt agreements (see Covenant Restrictions) will be subject to future economic conditions, including conditions in the credit markets, and to financial, business and other factors, many of which are beyond the Company s control, and will be substantially dependent on the selling prices and demand for the Company s products, raw material and energy costs, and the Company s ability to successfully implement its overall business and profitability strategies.

As of December 31, 2010, the Company had approximately $1.3 billion of NOLs for U.S. federal income tax purposes. These NOLs generally may be used by the Company to offset taxable income earned in subsequent taxable years. However, the Company s ability to use these NOLs to offset its future taxable income may be subject to significant limitations as a result of certain shifts in ownership due to direct or indirect transfers of the Company s common stock by one or more five percent stockholders, or issuance or redemption of the Company s common stock, which, when taken together with previous changes in ownership of the Company s common stock, constitute an ownership change under Section 382. Imposition of any such limitation of the use of NOLs could have an adverse effect on the Company s future after tax free cash flow.

Covenant Restrictions

The Credit Agreement and the Indentures limit the Company s ability to incur additional indebtedness. Additional covenants contained in the Credit Agreement and the Indentures, among other things, restrict the ability of the Company to dispose of assets, incur guarantee obligations, prepay other indebtedness, make dividends and other restricted payments, create liens, make equity or debt investments, make acquisitions, modify terms of the indentures under which the Notes are issued, engage in mergers or consolidations, change the business conducted by the Company and its subsidiaries, and engage in certain transactions with affiliates. Such restrictions, together with the highly leveraged nature of the Company and disruptions in the credit markets, could limit the Company s ability to respond to changing market conditions, fund its capital spending program, provide for unexpected capital investments or take advantage of business opportunities.

Under the terms of the Credit Agreement, the Company must comply with a maximum consolidated secured leverage ratio, which is defined as the ratio of: (a) total long-term and short-term indebtedness of the Company and its consolidated subsidiaries as determined in accordance with generally accepted accounting principles in the United States (U.S. GAAP), plus the aggregate cash proceeds received by the Company and its subsidiaries from any receivables or other securitization but excluding therefrom (i) all unsecured indebtedness, (ii) all subordinated indebtedness permitted to be incurred under the Credit Agreement, and (iii) all secured indebtedness of foreign subsidiaries to (b) Adjusted EBITDA, which we refer to as Credit Agreement EBITDA(1). Pursuant to this financial covenant, the Company must maintain a maximum consolidated secured leverage ratio of less than the following:

	Maximum Consolidated Secured Leverage Ratio[1]
October 1, 2009 and thereafter	4.75 to 1.00

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Note:

(1) Credit Agreement EBITDA is defined in the Credit Agreement as consolidated net income before consolidated net interest expense, non-cash expenses and charges, total income tax expense, depreciation expense, expense associated with amortization of intangibles and other assets, non-cash provisions for reserves for discontinued operations, extraordinary, unusual or non-recurring gains or losses or charges or credits, gain or loss associated with sale or write-down of assets not in the ordinary course of business, any income or loss accounted for by the equity method of accounting, and projected run rate cost savings, prior to or within a twelve month period.

At December 31, 2010, the Company was in compliance with the financial covenant in the Credit Agreement and the ratio was as follows:

Consolidated Secured Leverage Ratio 2.73 to 1.00

The Company s management believes that presentation of the consolidated secured leverage ratio and Credit Agreement EBITDA herein provides useful information to investors because borrowings under the Credit Agreement are a key source of the Company s liquidity, and the Company s ability to borrow under the Credit Agreement is dependent on, among other things, its compliance with the financial ratio covenant. Any failure by the Company to comply with this financial covenant could result in an event of default, absent a waiver or amendment from the lenders under such agreement, in which case the lenders may be entitled to declare all amounts owed to be due and payable immediately.

Credit Agreement EBITDA is a financial measure not calculated in accordance with U.S. GAAP, and is not a measure of net income, operating income, operating performance or liquidity presented in accordance with U.S. GAAP. Credit Agreement EBITDA should be considered in addition to results prepared in accordance with U.S. GAAP, but should not be considered a substitute for or superior to U.S. GAAP results. In addition, Credit Agreement EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies because other companies may not calculate Credit Agreement EBITDA in the same manner as the Company does.

The calculations of the components of the maximum consolidated secured leverage ratio for and as of the period ended December 31, 2010 are listed below:

In millions		**Twelve Months Ended December 31, 2010**
Net Income	$	10.7
Income Tax Expense		27.5
Interest Expense, Net		174.5
Depreciation and Amortization		288.7
Equity Income of Unconsolidated Entities, Net of Dividends		(0.4)
Other Non-Cash Charges		39.1
Merger Related Expenses		55.1
Losses Associated with Sale/Write-Down of Assets		4.9
Other Non-Recurring/Extraordinary/Unusual Items		8.4
Projected Run Rate Cost Savings[(a)]		60.9

Credit Agreement EBITDA	$	669.4

In millions		As of December 31, 2010
Short-Term Debt	$	26.0
Long-Term Debt		2,553.1
Total Debt	$	2,579.1
Less: Adjustments(b)		751.4
Consolidated Secured Indebtedness	$	1,827.7

Notes:

(a) As defined by the Credit Agreement, this represents projected cost savings expected by the Company to be realized as a result of specific actions taken or expected to be taken prior to or within twelve months of the period in which Credit Agreement EBITDA is to be calculated, net of the amount of actual benefits realized or expected to be realized from such actions.

The terms of the Credit Agreement limit the amount of projected run rate cost savings that may be used in calculating Credit Agreement EBITDA by stipulating that such amount may not exceed the lesser of (i) ten percent of EBITDA as defined in the Credit Agreement for the last twelve-month period (before giving effect to projected run rate cost savings) and (ii) $100 million. As a result, in calculating Credit Agreement EBITDA above, the Company used projected run rate cost savings of $60.9 million or ten percent of EBITDA as calculated in accordance with the Credit Agreement, which amount is lower than total projected cost savings identified by the Company, net of actual benefits realized for the twelve month period ended December 31, 2010. Projected run rate cost savings were calculated by the Company solely for its use in calculating Credit Agreement EBITDA for purposes of determining compliance with the maximum consolidated secured leverage ratio contained in the Credit Agreement and should not be used for any other purpose.

(b) Represents consolidated indebtedness/securitization that is either (i) unsecured, or (ii) all subordinated indebtedness permitted to be incurred under the Credit Agreement, or secured indebtedness permitted to be incurred by the Company s foreign subsidiaries per the Credit Agreement.

The Senior Notes and Senior Subordinated Notes are rated B by Standard & Poor s and B3 by Moody s Investor Services. The Company s indebtedness under the Credit Agreement is rated BB+ by Standard & Poor s and Ba3 by Moody s Investor Services. As of December 31, 2010, Moody s Investor Services ratings on the Company has improved to a stable outlook, while Standard & Poor s ratings on the Company have a positive outlook. During 2010, cash paid for interest was $180.9 million.

If inflationary pressures on key inputs resume, or depressed selling prices, lower sales volumes, increased operating costs or other factors have a negative impact on the Company s ability to increase its profitability, the Company may not be able to maintain its compliance with the financial covenant in its Credit Agreement. The Company s ability to

comply in future periods with the financial covenant in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company s control, and will be substantially dependent on the selling prices for the Company s products, raw material and energy costs, and the Company s ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of the financial covenant or any of the other covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Credit Agreement and the indentures governing the Notes have certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately. The Credit Agreement is collateralized by substantially all of the Company s domestic assets.

Capital Investment

The Company s capital investment in 2010 was $122.8 million compared to $129.9 million in 2009. During 2010, the Company had capital spending of $90.6 million for improving process capabilities, $18.3 million for capital spares and $13.9 million for manufacturing packaging machinery.

Environmental Matters

Some of the Company s current and former facilities are the subject of environmental investigations and remediations resulting from historical operations and the release of hazardous substances or other constituents. Some current and former facilities have a history of industrial usage for which investigation and remediation obligations may be imposed in the future or for which indemnification claims may be asserted against the Company. Also, potential future closures or sales of facilities may necessitate further investigation and may result in future remediation at those facilities. The Company has established reserves for those facilities or issues where liability is probable and the costs are reasonably estimable.

For further discussion of the Company s environmental matters, see Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Contractual Obligations and Commitments

A summary of our contractual obligations and commitments as of December 31, 2010 is as follows:

	Payments Due by Period				
In millions	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-Term Debt	$ 2,572.4	$ 19.3	$ 112.8	$ 1,770.9	$ 669.4
Operating Leases	143.6	35.4	50.9	29.6	27.7
Interest Payable	697.8	137.8	227.5	202.4	130.1
Purchase Obligations[(a)]	553.9	128.4	157.8	118.7	149.0
Pension Funding	58.0	58.0			
Total Contractual Obligations[(b)]	$ 4,025.7	$ 378.9	$ 549.0	$ 2,121.6	$ 976.2

Notes:

(a) Purchase obligations primarily consist of commitments related to pine pulpwood, wood chips, and wood processing and handling.

(b) Some of the figures included in this table are based on management s estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the obligations the Company will actually pay in the future periods may vary from those reflected in the table.

International Operations

For 2010, before intercompany eliminations, net sales from operations outside of the U.S. represented approximately 10% of the Company s net sales. The Company s revenues from export sales fluctuate with changes in foreign currency exchange rates. At December 31, 2010, approximately 7% of the Company s total assets were denominated in

currencies other than the U.S. dollar. The Company has significant operations in countries that use the British pound sterling, the Australian dollar, the Japanese yen or the euro as their functional currencies. The effect of a generally stronger U.S. dollar against these currencies produced a net currency translation adjustment gain of $5.5 million, which was recorded as an adjustment to Shareholders Equity for the year ended December 31, 2010. The magnitude and direction of this adjustment in the future depends on the relationship of the U.S. dollar to other currencies. The Company cannot predict major currency fluctuations. The Company pursues a currency hedging program in order to limit the impact of foreign currency exchange fluctuations on financial results. See Financial Instruments below.

The functional currency of the Company s international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to shareholders equity. Gains and losses on foreign currency transactions are included in Other (Income) Expense, Net for the period in which the exchange rate changes.

Financial Instruments

The Company pursues a currency hedging program which utilizes derivatives to limit the impact of foreign currency exchange fluctuations on its consolidated financial results. Under this program, the Company has entered into forward exchange contracts in the normal course of business to hedge certain foreign currency denominated transactions. Realized and unrealized gains and losses on these forward contracts are included in the measurement of the basis of the related foreign currency transaction when recorded. The Company also pursues a hedging program that utilizes derivatives designed to manage risks associated with future variability in cash flows and price risk related to future energy cost increases. Under this program, the Company has entered into natural gas swap contracts to hedge a portion of its natural gas requirements through December 2011. Realized gains and losses on these contracts are included in the financial results concurrently with the recognition of the commodity purchased. The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The Company does not hold or issue financial instruments for trading purposes. See Item 7A., Quantitative and Qualitative Disclosure About Market Risk.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used by management in the preparation of the Company s consolidated financial statements are those that are important both to the presentation of the Company s financial condition and results of operations and require significant judgments by management with regard to estimates used. The critical judgments by management relate to pension benefits, retained insurable risks, future cash flows associated with impairment testing for goodwill and long-lived assets, and deferred income taxes.

Pension Benefits

The Company sponsors defined benefit pension plans (the Plans) for eligible employees in North America and certain international locations. The funding policy for the qualified defined benefit plans is to, at a minimum, contribute assets as required by the Internal Revenue Code Section 412. Nonqualified U.S. plans providing benefits in excess of limitations imposed by the U.S. income tax code are not funded.

The Company s pension expense for defined benefit pension plans was $30.0 million in 2010 compared with $47.9 million in 2009. Pension expense is calculated based upon a number of actuarial assumptions applied to each of the defined benefit plans. The weighted average expected long-term rate of return on pension fund assets used to calculate pension expense was 7.95% and 7.91% in 2010 and 2009, respectively. The expected long-term rate of return on pension assets was determined based on several factors, including historical rates of return, input from our pension investment consultants and projected long-term returns of broad equity and bond indices. The Company evaluates its long-term rate of return assumptions annually and adjusts them as necessary.

The Company determined pension expense using both the fair value of assets and a calculated value that averages gains and losses over a period of years. Investment gains or losses represent the difference between the expected and actual return on assets. As of December 31, 2010, the net actuarial loss was $194.5 million. These net losses may increase future pension expense if not offset by (i) actual investment returns that exceed the assumed investment returns, or (ii) other factors, including reduced pension liabilities arising from higher discount rates used to calculate pension obligations, or (iii) other actuarial gains, including whether such accumulated actuarial losses at each measurement date exceed the corridor determined under the *Compensation Retirement Benefits* topic of the Financial

Accounting Standards Board (FASB) Accounting Standards Codification™ (the FASB Codification).

The discount rate used to determine the present value of future pension obligations at December 31, 2010 was based on a yield curve constructed from a portfolio of high-quality corporate debt securities with

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maturities ranging from 1 year to 30 years. Each year s expected future benefit payments were discounted to their present value at the appropriate yield curve rate thereby generating the overall discount rate for the Company s pension obligations. The weighted average discount rate used to determine the pension obligations was 5.74% and 6.10% in 2010 and 2009, respectively.

The Company s pension expense is estimated to be approximately $27 million in 2011. The estimate is based on a weighted average expected long-term rate of return of 7.91%, a weighted average discount rate of 5.74% and other assumptions. Pension expense beyond 2011 will depend on future investment performance, the Company s contribution to the plans, changes in discount rates and other factors related to covered employees in the plans.

If the discount rate assumptions for the Company s U.S. plans were reduced by 0.25%, pension expense would increase by approximately $4 million and the December 31, 2010 pension funding obligation would increase by about $25 million.

The fair value of assets in the Company s plans was $706.0 million at December 31, 2010 and $622.2 million at December 31, 2009. The projected benefit obligations exceed the fair value of plan assets by $223.7 million and $236.7 million as of December 31, 2010 and 2009, respectively. Primarily due to the lower discount rates, the accumulated benefit obligation (ABO) exceeded plan assets by $204.2 million at the end of 2010. At the end of 2009, the ABO exceeded the fair value of plan assets by $219.1 million.

Retained Insurable Risks

The Company is self-insured for certain losses relating to workers compensation claims and employee medical and dental benefits. Provisions for expected losses are recorded based on the Company s estimates, on an undiscounted basis, of the aggregate liabilities for known claims and estimated claims incurred but not reported. The Company has purchased stop-loss coverage or insurance with deductibles in order to limit its exposure to significant claims. The Company also has an extensive safety program in place to minimize its exposure to workers compensation claims. Self-insured losses are accrued based upon estimates of the aggregate uninsured claims incurred using certain actuarial assumptions, loss development factors followed in the insurance industry and historical experience.

Goodwill

The Company evaluates goodwill for potential impairment annually as of October 1, as well as whenever events or changes in circumstances suggest that the fair value of a reporting unit may no longer exceeds its carrying amount. Potential impairment of goodwill is measured at the reporting unit level by comparing the reporting unit s carrying amount, including goodwill, to the estimated fair value of the reporting unit. As of October 1, 2010, the Company had seven reporting units, of which five of the units had goodwill.

The calculated fair value of each reporting unit is determined by utilizing a discounted cash flow analysis based on the Company s forecasts discounted using a weighted average cost of capital and market indicators of terminal year cash flows based upon a multiple of EBITDA. In determining fair value, management relies on and considers a number of factors, including but not limited to, operating results, business plans, economic projections, forecasts including anticipated future cash flows, and market data and analysis, including market capitalization. Fair value determinations are sensitive to changes in the factors described above. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill recoverability.

The Company performed its annual goodwill impairment test as of October 1, 2010 and concluded that the fair value of its reporting units exceeded their carrying values including goodwill and, therefore, that goodwill was not impaired. Fair values exceeded carrying value by at least 42% for each of the Company s reporting units as of October 1, 2010.

The variability of the assumptions that management uses to perform the goodwill impairment test depends on a number of conditions, including uncertainty about future events and cash flows. Accordingly, the Company s accounting estimates may materially change from period to period due to changing market factors.

If the Company had used other assumptions and estimates or if different conditions occur in future periods, future operating results could be materially impacted. The Company determined that if forecasted cash flows were decreased by 10%, the calculated fair value of each of the reporting units would continue to exceed their respective carrying values. Alternatively, if the Company had concluded that it was appropriate to increase the WACC by 100 basis points or to decrease the terminal EBITDA multiple by one times terminal EBITDA, the fair value for each of the reporting units would continue to exceed its carrying value. Therefore, the Company does not believe that any of its reporting units are at risk for an impairment of goodwill.

The assumptions used in the goodwill impairment testing process could be adversely impacted by certain of the risks discussed in Item 1A., Risk Factors and thus could result in future goodwill impairment charges.

Recovery of Long-Lived Assets

The Company reviews long-lived assets (including property, plant and equipment and intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of such long-lived assets may not be fully recoverable by undiscounted cash flows. Measurement of the impairment loss, if any, is based on the fair value of the asset, which is determined by an income, cost or market approach. The Company evaluates the recovery of its long-lived assets by analyzing operating results and considering significant events or changes in the business environment that may have triggered impairment. See Note 13 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Deferred Income Taxes and Potential Assessments

As of December 31, 2010, the Company, in accordance with the *Income Taxes* topic of the FASB Codification, has determined that $92.6 million of undistributed foreign earnings are not intended to be reinvested indefinitely by its non-U.S. subsidiaries. Deferred income tax was recorded as a reduction to the Company s NOLs on these undistributed earnings as well as the financial statement carrying value in excess of tax basis in the amount of $35.4 million. As of December 31, 2009, the Company had determined that $83.8 million of undistributed foreign earnings were not intended to be reinvested indefinitely. Deferred income tax was recorded as a reduction to the Company s NOLs on these undistributed earnings, as well as the financial statement carrying value in excess of tax basis in the amount of $32.0 million. The Company periodically determines whether the non-U.S. subsidiaries will invest their undistributed earnings indefinitely and reassesses this determination as appropriate.

The Company records current liabilities for potential assessments. The accruals relate to uncertain tax positions in a variety of taxing jurisdictions and are based on what management believes will be the most likely outcome of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations.

NEW ACCOUNTING STANDARDS

For a discussion of recent accounting pronouncements impacting the Company, see Note 1 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

BUSINESS OUTLOOK

The Company expects to realize between $70 million and $90 million of year over year operating cost savings from its continuous improvement programs, including Lean Sigma manufacturing projects.

Total capital investment for 2011 is expected to be between $170 million and $190 million and is expected to relate principally to the Company s process capability improvements (approximately $146 million), acquiring capital spares (approximately $20 million), and producing packaging machinery (approximately $14 million).

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The Company also expects the following in 2011:

Depreciation and amortization between $285 million and $305 million.

Interest expense of $145 million to $160 million, including $9 million of non-cash interest expense associated with amortization of debt issuance costs.

Debt reduction of $200 million to $220 million.

Pension plan contributions of $45 million to $70 million.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK*

The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified.

Interest Rates

The Company is exposed to changes in interest rates, primarily as a result of its short-term and long-term debt, which bear both fixed and floating rate debt. The Company uses interest rate swap agreements effectively to fix the LIBOR rate on certain variable rate borrowings. At December 31, 2010, the Company had interest rate swap agreements with a notional amount of $1,250.0 million.

The table below sets forth interest rate sensitivity information related to the Company s debt.

Long-Term Debt Principal Amount by Maturity-Average Interest Rate

	Expected Maturity Date							
In millions	**2011**	**2012**	**2013**	**2014**	**2015**	**Thereafter**	**Total**	**Fair Value**
Total Debt								
Fixed Rate	$ 0.4	$ 1.4	$ 73.6	$	$	$ 669.4(a)	$ 744.8	$ 806.3
Average Interest Rate	4.14%	6.61%	9.48%	%	%	8.90%		
Variable Rate	$ 18.9	$ 18.9	$ 18.9	$ 1,770.9	$	$	$ 1,827.6	$ 1,820.5
Average Interest Rate, spread range is 2.00% 2.75%	LIBOR+ spread	LIBOR+ spread	LIBOR+ spread	LIBOR+ spread				

Total Interest Rate Swaps-Notional Amount by Expiration-Average Swap Rate

	Expected Maturity Date						
In millions	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**	**Fair Value**
Interest Rate Swaps (Pay Fixed/Receive Variable)							
Notional	$330.0	$920.0	$	$	$	$ 1,250.0	$ (33.3)
Average Pay Rate	3.13%	2.62%	%	%	%		
Average Receive Rate	3-Month LIBOR	3-Month LIBOR					

Note:

(a) Includes face amounts of $425.0 million and $250.0 million.

Foreign Exchange Rates

The Company enters into forward exchange contracts to effectively hedge substantially all accounts receivable resulting from transactions denominated in foreign currencies. The purpose of these forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from the collection of these accounts receivable will be adversely affected by changes in exchange

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rates. At December 31, 2010, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those forward currency exchange contracts outstanding at December 31, 2010, when aggregated and measured in U.S. dollars at December 31, 2010 exchange rates, had net notional amounts totaling $8.2 million. The Company continuously monitors these forward exchange contracts and adjusts accordingly to minimize the exposure.

The Company also enters into forward exchange contracts to hedge certain other anticipated foreign currency transactions. The purpose of these contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from anticipated foreign currency transactions will be adversely affected by changes in exchange rates.

During the years ended December 31, 2010 and 2009, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring and there was no amount of ineffectiveness related to changes in the fair value of foreign currency forward contracts. Additionally, there were no amounts excluded from the measure of effectiveness during the years ended December 31, 2010 and 2009.

Foreign Exchange Rates Contractual Amount by Expected Maturity-Average Contractual Exchange Rate

	December 31, 2010	
In millions	**Contract Amount**	**Fair Value**
FORWARD EXCHANGE AGREEMENTS:		
Receive $US/Pay Yen	$ 31.4	$ (0.6)
Weighted average contractual exchange rate	82.44	
Receive $US/Pay Euro	$ 18.9	$ 0.6
Weighted average contractual exchange rate	1.38	
Receive $US/Pay GBP	$ 8.4	$ 0.1
Weighted average contractual exchange rate	1.58	

Natural Gas Contracts

The Company has hedged a portion of its expected usage for 2011. The carrying amount and fair value of the natural gas swap contracts is a net liability of $0.7 million as of December 31, 2010. Such contracts are designated as cash flow hedges and are accounted for by deferring the quarterly change in fair value of the outstanding contracts in Shareholders Equity. On the date a contract matures, the resulting gain or loss is reclassified into Cost of Sales concurrently with the recognition of the commodity purchased. The ineffective portion of the swap contracts change in fair value, if any, would be recognized immediately in earnings.

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ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

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GRAPHIC PACKAGING HOLDING COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

In millions, except per share amounts	Year Ended December 31, 2010	2009	2008
Net Sales	$ 4,095.0	$ 4,095.8	$ 4,079.4
Cost of Sales	3,501.8	3,567.2	3,587.1
Selling, General and Administrative	320.4	314.6	306.9
Other (Income) Expense, Net	(1.8)	(15.6)	2.3
Restructuring and Other Special Charges (Credits)	55.1	(53.1)	33.2
Income from Operations	219.5	282.7	149.9
Interest Expense, Net	(174.5)	(196.4)	(215.4)
Loss on Modification or Extinguishment of Debt	(8.4)	(7.1)	
Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities	36.6	79.2	(65.5)
Income Tax Expense	(27.5)	(24.1)	(34.4)
Income (Loss) before Equity Income of Unconsolidated Entities	9.1	55.1	(99.9)
Equity Income of Unconsolidated Entities	1.6	1.3	1.1
Income (Loss) from Continuing Operations	10.7	56.4	(98.8)
Loss from Discontinued Operations, Net of Taxes			(0.9)
Net Income (Loss)	$ 10.7	$ 56.4	$ (99.7)
Income (Loss) Per Share Basic and Diluted			
Continuing Operations	$ 0.03	$ 0.16	$ (0.31)
Discontinued Operations			(0.00)
Total	$ 0.03	$ 0.16	$ (0.32)
Weighted Average Number of Shares Outstanding Basic	343.8	343.1	315.8
Weighted Average Number of Shares Outstanding Diluted	347.4	344.6	315.8

The accompanying notes are an integral part of the consolidated financial statements.

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GRAPHIC PACKAGING HOLDING COMPANY

CONSOLIDATED BALANCE SHEETS

In millions, except share amounts	December 31, 2010	December 31, 2009
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 138.7	$ 149.8
Receivables, Net	382.2	382.3
Inventories, Net	417.3	436.5
Deferred Income Tax Assets	28.0	34.7
Other Current Assets	47.4	18.0
Total Current Assets	1,013.6	1,021.3
Property, Plant and Equipment, Net	1,641.5	1,797.4
Goodwill	1,205.2	1,204.6
Intangible Assets, Net	576.6	620.0
Other Assets	47.7	58.5
Total Assets	$ 4,484.6	$ 4,701.8
LIABILITIES		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	$ 26.0	$ 17.6
Accounts Payable	361.5	361.8
Compensation and Employee Benefits	93.5	105.6
Interest Payable	28.4	42.7
Other Accrued Liabilities	86.3	106.8
Total Current Liabilities	595.7	634.5
Long-Term Debt	2,553.1	2,782.6
Deferred Income Tax Liabilities	241.1	226.9
Accrued Pension and Postretirement Benefits	275.0	284.6
Other Noncurrent Liabilities	72.7	44.4
Total Liabilities	3,737.6	3,973.0

SHAREHOLDERS EQUITY		
Preferred Stock, par value $.01 per share; 100,000,000 shares authorized at December 31, 2010 and December 31, 2009; no shares issued or outstanding		
Common Stock, par value $.01 per share; 1,000,000,000 shares authorized at December 31, 2010 and 2009, respectively; 343,698,778 and 343,245,250 shares issued and outstanding at December 31, 2010 and 2009, respectively	3.4	3.4
Capital in Excess of Par Value	1,965.2	1,958.2
Accumulated Deficit	(1,008.3)	(1,019.0)
Accumulated Other Comprehensive Loss	(213.3)	(213.8)
Total Shareholders Equity	747.0	728.8
Total Liabilities and Shareholders Equity	$ 4,484.6	$ 4,701.8

The accompanying notes are an integral part of the consolidated financial statements.

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GRAPHIC PACKAGING HOLDING COMPANY

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

In millions, except share amounts	**Common Stock Shares**	**Common Stock Amount**	**Capital in Excess of Par Value**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Comprehensive Income (Loss)**
Balances at December 31, 2007	**200,978,569**	**$ 2.0**	**$ 1,191.6**	**$ (975.7)**	**$ (73.9)**	
Net Loss				(99.7)		$ (99.7)
Other Comprehensive (Loss) Income:						
Derivative Instruments					(60.6)	(60.6)
Pension Benefit Plans					(212.2)	(212.2)
Postretirement Benefit Plans					2.4	2.4
Postemployment Benefit Plans					1.2	1.2
Currency Translation Adjustment					(15.1)	(15.1)
Total Comprehensive Loss						$ (384.0)
Common Stock Issued for Acquisition	139,445,038	1.4	761.4			
Issuance of Shares for Stock-Based Awards	2,098,863		2.4			
Balances at December 31, 2008	**342,522,470**	**$ 3.4**	**$ 1,955.4**	**$ (1,075.4)**	**$ (358.2)**	
Net Income				56.4		$ 56.4
Other Comprehensive Income (Loss):						
Derivative Instruments					33.4	33.4
Pension Benefit Plans					91.7	91.7
Postretirement Benefit Plans					7.6	7.6
Postemployment Benefit Plans					3.9	3.9
Currency Translation Adjustment					7.8	7.8
Total Comprehensive Income						$ 200.8
Issuance of Shares for Stock-Based Awards	722,780		2.8			
Balances at December 31, 2009	**343,245,250**	**$ 3.4**	**$ 1,958.2**	**$ (1,019.0)**	**$ (213.8)**	

	Shares	Common Stock Amount	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)
Net Income				10.7		10.7
Other Comprehensive Income (Loss):						
Derivative Instruments					7.7	7.7
Pension Benefit Plans					(6.2)	(6.2)
Postretirement Benefit Plans					(6.5)	(6.5)
Currency Translation Adjustment					5.5	5.5
Total Comprehensive Income						$ 11.2
Issuance of Shares for Stock-Based Awards	453,528		7.0			
Balances at December 31, 2010	**343,698,778**	**$ 3.4**	**$ 1,965.2**	**$ (1,008.3)**	**$ (213.3)**	

The accompanying notes are an integral part of the consolidated financial statements.

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GRAPHIC PACKAGING HOLDING COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

In millions	Year Ended December 31, 2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income (Loss)	$ 10.7	$ 56.4	$ (99.7)
Non-cash Items Included in Net Income (Loss):			
Depreciation and Amortization	288.7	305.4	264.3
Write-off of Deferred Debt Issuance Costs on Early Extinguishment of Debt	1.4	2.3	
Amortization of Deferred Debt Issuance Costs	8.3	8.5	7.9
Deferred Income Taxes	21.6	19.6	28.0
Amount of Postretirement Expense (Less) Greater Than Funding	(18.2)	4.7	(38.4)
Inventory Step Up Related to Altivity			24.4
Impairment Charges/Asset Write-offs	14.6	15.3	14.9
Other, Net	7.7	(6.8)	2.2
Changes in Operating Assets and Liabilities (See Note 3)	3.3	98.1	(19.0)
Net Cash Provided by Operating Activities	338.1	503.5	184.6
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital Spending	(122.8)	(129.9)	(183.3)
Acquisition Costs Related to Altivity			(30.3)
Cash Acquired Related to Altivity			60.2
Proceeds from Sales of Assets, Net of Selling Costs		9.8	20.3
Other, Net	0.1	(4.6)	(11.1)
Net Cash Used in Investing Activities	(122.7)	(124.7)	(144.2)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Issuance or Modification of Debt	30.6	423.8	1,200.0
Payments on Debt	(246.4)	(664.5)	(1,195.9)
Borrowings under Revolving Credit Facilities	138.8	166.2	1,072.5
Payments on Revolving Credit Facilities	(139.7)	(308.6)	(940.5)
Redemption and Early Tender Premiums and Debt Issuance Costs	(10.9)	(16.1)	(16.3)
Other, Net	0.2		
Net Cash (Used in) Provided by Financing Activities	(227.4)	(399.2)	119.8
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.9	0.1	0.6
Net (Decrease) Increase in Cash and Cash Equivalents	(11.1)	(20.3)	160.8
Cash and Cash Equivalents at Beginning of Period	149.8	170.1	9.3

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 138.7	$ 149.8	$ 170.1

The accompanying notes are an integral part of the consolidated financial statements.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company) is a leading provider of packaging solutions for a wide variety of products to food, beverage and other consumer products companies. The Company is the largest U.S. producer of folding cartons and holds a leading market position in coated unbleached kraft paperboard, coated-recycled boxboard and flexible packaging. The Company s customers include some of the most widely recognized companies in the world. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, its proprietary carton and packaging designs, and its commitment to customer service.

GPHC became a new publicly-traded parent company when, on March 10, 2008, the businesses of Graphic Packaging Corporation (GPC) and Altivity Packaging, LLC (Altivity) were combined through a series of transactions. All of the equity interests in Altivity s parent company were contributed to GPHC in exchange for 139,445,038 shares of GPHC s common stock, par value $0.01. Stockholders of GPC received one share of GPHC common stock for each share of GPC common stock held immediately prior to the transactions. Subsequently, all of the equity interests in Altivity s parent company were contributed to GPHC s primary operating company, Graphic Packaging International, Inc. (GPII). Together, these transactions are referred to herein as the Altivity Transaction.

For accounting purposes, the Altivity Transaction was accounted for as a purchase by GPHC under the Financial Accounting Standards Board (FASB) business combinations standards. Under the purchase method of accounting, the assets and liabilities of Altivity were recorded, as of the date of the closing of the Altivity Transaction, at their respective fair values and added to those of GPII. The difference between the purchase price and the fair values of the assets acquired and liabilities assumed of Altivity was recorded as goodwill. The historical financial statements of GPC became the historical financial statements of GPHC. The accompanying Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2008 includes nine months and approximately three weeks of Altivity and twelve months of GPC s results. See Note 4 Altivity Transaction.

GPHC and GPC conduct no significant business and have no independent assets or operations other than GPHC s ownership of all of GPC s outstanding common stock, and GPC s ownership of all of GPII s outstanding common stock.

Basis of Presentation and Principles of Consolidation

The Company s Consolidated Financial Statements include all subsidiaries in which the Company has the ability to exercise direct or indirect control over operating and financial policies. The accompanying Consolidated Financial Statements include the worldwide operations of the paperboard packaging segment, which includes the paperboard packaging, packaging machinery, and containerboard businesses; and the flexible packaging segment, which converts kraft, specialty paper and plastics into multi-wall, consumer and specialty retail bags and produces flexible packaging, label solutions, and laminations. Intercompany transactions and balances are eliminated in consolidation.

The Company has reclassified the presentation of certain prior period information to conform to the current presentation format. These reclassifications had no impact on operating income, or the Consolidated Statements of

Shareholders Equity and had an immaterial impact on the Consolidated Balance Sheets, Consolidated Statements of Cash Flows, and certain captions on the Consolidated Statements of Operations.

The results of operations for Graphic Packaging International Sweden, the Company s discontinued operations, have been eliminated from the Company s continuing operations and classified as discontinued

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

operations for the period presented within the Company s Consolidated Statements of Operations. In 2008, the Company determined an additional $0.9 million environmental reserve was necessary and recorded this in discontinued operations within the Company s Consolidated Statements of Operations.

The Company holds a 50% ownership interest in a joint venture with Rengo Riverwood Packaging, Ltd. (in Japan) which is accounted for using the equity method.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting periods. Actual results could differ from these estimates, and changes in these estimates are recorded when known. Estimates are used in accounting for, among other things, pension benefits, retained insurable risks, slow-moving and obsolete inventory, allowance for doubtful accounts, useful lives for depreciation and amortization, future cash flows, discount rates and earnings before interest, taxes, depreciation and amortization, (EBITDA) multiples associated with impairment testing of goodwill and long-term assets, fair value of derivative financial instruments, deferred income tax assets and potential income tax assessments, and contingencies.

Revenue Recognition

The Company receives revenue from the sales of manufactured products. The Company recognizes sales revenue when all of the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the Company s price to the buyer is fixed or determinable and collectability is reasonably assured. Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated as free on board (f.o.b.) shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when title to the product passes upon delivery to the customer. The Company recognizes revenues on its annual and multi-year carton supply contracts as the shipment occurs in accordance with the shipping terms discussed above.

Discounts and allowances are comprised of trade allowances and rebates, cash discounts and sales returns. Cash discounts and sales returns are estimated using historical experience. Trade allowances are based on the estimated obligations and historical experience. Customer rebates are determined based on contract terms and are recorded at the time of sale.

Shipping and Handling

The Company includes shipping and handling costs in Cost of Sales.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Betterments, renewals and extraordinary repairs that extend the life of the asset are capitalized; other repairs and maintenance charges are expensed as incurred. The Company s cost and related accumulated depreciation applicable to assets retired or sold are removed from the accounts and the gain

or loss on disposition is included in income from operations.

Interest is capitalized on assets under construction for one year or longer with an estimated spending of $1.0 million or more. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset s estimated useful life. Capitalized interest was $1.1 million, $2.4 million and $1.8 million in the years ended December 31, 2010, 2009 and 2008, respectively.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company assesses its long-lived assets, including certain identifiable intangibles, for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable. To analyze recoverability, the Company projects future cash flows, undiscounted and before interest, over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. The impairment loss is measured based upon the difference between the carrying amount and the fair value of the assets. The Company assesses the appropriateness of the useful life of its long-lived assets periodically. See Note 13 Impairment.

Depreciation and Amortization

Depreciation is computed using the straight-line method based on the following estimated useful lives of the related assets:

Buildings	40 years
Land improvements	15 years
Machinery and equipment	3 to 40 years
Furniture and fixtures	10 years
Automobiles, trucks and tractors	3 to 5 years

Depreciation expense for 2010, 2009 and 2008 was $239.8 million, $256.9 million and $222.8 million, respectively.

Intangible assets (liabilities) with a determinable life are amortized on a straight-line basis over that period. The amortization expense for each intangible asset (liability) is recorded in the Consolidated Statements of Operations according to the nature of that asset (liability).

Goodwill is the Company s only intangible asset not subject to amortization at December 31, 2010 and 2009. The following table displays the intangible assets (liabilities) that continue to be subject to amortization and aggregate amortization expense as of December 31, 2010 and 2009:

	December 31, 2010			**December 31, 2009**		
In millions	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortizable Intangible Assets (Liabilities):						
Customer Relationships	$ 657.2	$ 129.0	$ 528.2	$ 656.3	$ 91.5	$ 564.8

Non-Compete Agreements	7.3	6.2	1.1	7.2	3.9	3.3
Patents, Trademarks and Licenses	129.0	81.0	48.0	124.2	71.6	52.6
Supply Contracts and Leases, Net	(2.1)	(1.4)	(0.7)	(2.1)	(1.4)	(0.7)
Total	$ 791.4	$ 214.8	$ 576.6	$ 785.6	$ 165.6	$ 620.0

The Company recorded amortization expense for the years ended December 31, 2010, 2009 and 2008 of $48.9 million, $48.5 million and $41.5 million, respectively, relating to intangible assets (liabilities) subject to amortization. The Company expects amortization expense to be approximately $47 million in 2011, $44 million in 2012, and $43 million for 2013 through 2015.

Research and Development

Research and development costs, which relate primarily to the development and design of new packaging machines and products and are recorded as a component of Selling, General and Administrative expenses, are

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

expensed as incurred. Expenses for the years ended December 31, 2010, 2009 and 2008 were $12.8 million, $7.2 million and $8.0 million, respectively.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits, certificates of deposit and other marketable securities with original maturities of three months or less.

Accounts Receivable and Allowances

Accounts receivable are stated at the amount owed by the customer, net of an allowance for estimated uncollectible accounts, returns and allowances, and cash discounts. The allowance for doubtful accounts is estimated based on historical experience, current economic conditions and the credit worthiness of customers. Receivables are charged to the allowance when determined to be no longer collectible.

Concentration of Credit Risk

The Company s cash, cash equivalents, and accounts receivable are potentially subject to concentration of credit risk. Cash and cash equivalents are placed with financial institutions that management believes are of high credit quality. Accounts receivable are derived from revenue earned from customers located in the U.S. and internationally. As of December 31, 2010 and 2009, no customers accounted for more than 10% of net accounts receivable.

Inventories

Inventories are stated at the lower of cost or market with cost determined principally by the first-in, first-out (FIFO) basis. Average cost basis is used to determine the cost of supplies inventories. Raw materials and consumables used in the production process such as wood chips and chemicals are valued at purchase cost on a FIFO basis upon receipt. Work in progress and finished goods inventories are valued at the cost of raw material consumed plus direct manufacturing costs (such as labor, utilities and supplies) as incurred and an applicable portion of manufacturing overhead. Inventories are stated net of an allowance for slow-moving and obsolete inventory.

Alternative Fuel Tax Credit

The Company burns alternative fuel at its West Monroe, LA and Macon, GA mills in order to produce energy and recover chemicals. During 2009, the U.S. Internal Revenue Code allowed an excise tax credit under certain circumstances for the use of alternative fuels and alternative fuel mixtures. In the first quarter 2009, the Company filed an application with the Internal Revenue Service (the IRS) for certification of eligibility to receive the tax credit for its use of black liquor in alternative fuel mixtures in the recovery boilers at the mills. During the second quarter 2009, the Company received notification from the IRS that its registration as an alternate fuel mixer had been approved. The Company submitted excise tax refund claims totaling $147.2 million based on fuel usage at the two mills from mid-January 2009 through December 31, 2009. The Company received excise tax refunds totaling $134.8 million through the end of the year in 2009, and the remainder was received in 2010. The net impact of the excise tax credit is included in Restructuring and Other Special Charges (Credits) in the amount of $137.8 million for the year ended December 31, 2009 and is included in Corporate for segment reporting purposes. The excise tax credit expired on December 31, 2009.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill

The Company tests goodwill for impairment annually as of October 1, as well as whenever events or changes in circumstances suggest that the estimated fair value of a reporting unit may no longer exceed its carrying amount.

The Company tests goodwill for impairment at the reporting unit level, which is an operating segment or level below an operating segment, which is referred to as a component. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information in available and segment management regularly reviews the operating results of that component. However, two or more components of an operating segment are aggregated and deemed a single reporting unit if the components have similar economic characteristics.

Recoverability of goodwill is measured at the reporting unit level by comparing the reporting unit s carrying amount including goodwill, to the fair value of the reporting unit. The estimated fair value of each reporting unit is determined by utilizing a discounted cash flow analysis based on the Company s forecasts discounted using a weighted average cost of capital and market indicators of terminal year cash flows based upon a multiple of EBITDA. If the carrying amount of a reporting unit exceeds its estimated fair value, goodwill is considered potentially impaired. In determining fair value, management relies on and considers a number of factors, including but not limited to, operating results, business plans, economic projections, forecasts including anticipated future cash flows, and market data and analysis, including market capitalization. The assumptions we use are based on what we believe a hypothetical market participant would use in estimating fair value. Fair value determinations are sensitive to changes in the factors described above. There are inherent uncertainties related to these factors and judgments in applying them to the analysis of goodwill recoverability. We completed the annual test of goodwill associated with each of our reporting units during 2010 and concluded that the fair values were in excess of the carrying values of each of the reporting units. No events have occurred since the latest annual goodwill impairment assessment that would necessitate an interim goodwill impairment assessment.

The following is a rollforward of goodwill by reportable segment as of December 31, 2010:

In millions	**Paperboard Packaging**	**Flexible Packaging**	**Total**
Balance at December 31, 2008	$ 1,050.3	$ 154.5	$ 1,204.8
Altivity Purchase Accounting	(4.4)	4.8	0.4
Divesture of Businesses		(1.9)	(1.9)
Foreign Currency Effects		1.3	1.3
Balance at December 31, 2009	$ 1,045.9	$ 158.7	$ 1,204.6
Altivity Purchase Accounting	(1.1)		(1.1)
Foreign Currency Effects	0.6	1.1	1.7

Balance at December 31, 2010	$ 1,045.4	$ 159.8	$ 1,205.2

Retained Insurable Risks

It is the Company s policy to self-insure or fund a portion of certain expected losses related to group health benefits and workers compensation claims. Provisions for expected losses are recorded based on the Company s estimates, on an undiscounted basis, of the aggregate liabilities for known claims and estimated claims incurred but not reported.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Asset Retirement Obligations

Asset retirement obligations are accounted for in accordance with the provisions of the *Asset Retirement and Environmental Obligations* topic of FASB Accounting Standards Codification^tm (the FASB Codification). A liability and asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists and the liability can be reasonably estimated. The liability is accreted over time and the asset is depreciated over the remaining life of the asset. Upon settlement of the liability, we will recognize a gain or loss for any difference between the settlement amount and the liability recorded. Asset retirement obligations with indeterminate settlement dates are not recorded until such time that a reasonable estimate may be made.

International Currency

The functional currency of the international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to a separate component of Shareholders Equity, unless there is a sale or complete liquidation of the underlying foreign investments.

The Company pursues a currency hedging program which utilizes derivatives to limit the impact of foreign currency exchange fluctuations on its consolidated financial results. Under this program, the Company has entered into forward exchange contracts in the normal course of business to hedge certain foreign currency denominated transactions. Realized and unrealized gains and losses on these forward contracts are included in the measurement of the basis of the related foreign currency transaction when recorded.

Adoption of New Accounting Standards

Effective January 1, 2010, the Company adopted guidance as required by the *Consolidation* topic of the FASB Codification which clarifies the accounting and reporting for decreases in ownership of a subsidiary. The adoption did not have an impact on the Company s financial position, results of operations or cash flows.

Effective January 1, 2010, the Company adopted guidance contained within the *Fair Value Measurements and Disclosures* topic of the FASB Codification to improve the disclosure requirements related to Level 1 and Level 2 fair value measurements. The guidance requires entities to disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and to describe the reasons for the transfers. In addition, entities are required to present separately information about purchases, sales, issuances, and settlements for fair value measurements using significant unobservable inputs (Level 3). The disclosures related to Level 3 fair value measurements are effective for the Company in 2011. The guidance requires new disclosures only and did not have an impact on the Company s financial position, results of operations or cash flows. Effective January 1, 2011, the Company adopted the second phase of the amended guidance within the *Fair Value Measurements and Disclosures* topic of the FASB Codification, which requires the Company to disclose information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances and settlements on a gross basis, separately for assets and liabilities. The adoption of this amended guidance will require expanded disclosure in the notes to the Company s consolidated financial statements but will not have an impact on the Company s financial position, results of operations

or cash flows.

Accounting Standards Not Yet Adopted

In October 2009, the FASB issued guidance amending the *Revenue Recognition* topic of the FASB Codification. The guidance enables vendors to account for transactions with the same customer involving

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

multiple products or services (deliverables) separately rather than as a combined unit, and is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. This guidance will be effective for the Company in the first quarter of 2011, and is not expected to have a material impact on the Company s financial position, results of operations or cash flows.

NOTE 2 SUPPLEMENTAL BALANCE SHEET DATA

Receivables, Net:

In millions	2010	2009
Trade	$ 366.5	$ 356.5
Less: Allowance	(3.2)	(4.6)
	363.3	351.9
Other	18.9	30.4
Total	$ 382.2	$ 382.3

Inventories, Net:

In millions	2010	2009
Finished Goods	$ 231.7	$ 251.9
Work in Progress	36.5	40.3
Raw Materials	102.0	105.2
Supplies	65.6	63.6
	435.8	461.0
Less: Allowance	(18.5)	(24.5)
Total	$ 417.3	$ 436.5

Other Current Assets:

In millions	**2010**	**2009**
Asset Held for Sale	$ 27.4	$
Prepaid Expenses	19.7	17.6
Other	0.3	0.4
Total	$ 47.4	$ 18.0

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Property, Plant and Equipment, Net:

In millions	2010	2009
Property, Plant and Equipment, at Cost		
Land and Improvements	$ 118.7	$ 134.3
Buildings	329.7	357.3
Machinery and Equipment	3,169.2	3,106.7
Construction-in-Progress	63.6	62.6
	3,681.2	3,660.9
Less: Accumulated Depreciation	(2,039.7)	(1,863.5)
Total	$ 1,641.5	$ 1,797.4

Other Assets:

In millions	2010	2009
Deferred Debt Issuance Costs, Net of Amortization of $26.2 million and $20.9 million for 2010 and 2009, respectively	$ 24.7	$ 34.4
Deferred Income Tax Assets	6.3	9.4
Prepaid Benefit Cost		2.2
Other	16.7	12.5
Total	$ 47.7	$ 58.5

Other Accrued Liabilities:

In millions	2010	2009
Fair Value of Derivatives, current portion	$ 19.8	$ 26.3

Restructuring Reserves	2.1	7.6
Deferred Revenue	14.9	16.1
Accrued Customer Rebates	18.2	22.0
Other	31.3	34.8
Total	$ 86.3	$ 106.8

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GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 SUPPLEMENTAL CASH FLOW INFORMATION

Cash Flow Provided by (Used in) Operations Due to Changes in Operating Assets and Liabilities:

In millions	2010	2009	2008
Receivables, Net	$ 5.0	$ (6.5)	$ 16.5
Inventories, Net	13.3	91.0	32.6
Prepaid Expenses	(7.3)	8.8	(13.7)
Accounts Payable	6.0	19.4	(21.4)
Compensation and Employee Benefits	(11.9)	12.4	(27.8)
Income Taxes	(2.4)	0.1	(4.8)
Interest Payable	(15.3)	(15.1)	16.5
Other Accrued Liabilities	(12.1)	(17.3)	(17.1)
Other Noncurrent Liabilities	28.0	5.3	0.2
Total	$ 3.3	$ 98.1	$ (19.0)

Cash paid for interest and cash paid, net of refunds, for income taxes was as follows:

In millions	2010	2009	2008
Interest	$ 180.9	$ 219.5	$ 193.4
Income Taxes	6.7	7.7	5.0

Significant non-cash activities were as follows:

In millions	2010	2009	2008
Issuance of Common Stock Related to Acquisition	$	$	$ 762.8

NOTE 4 ALTIVITY TRANSACTION

On March 10, 2008, the businesses of GPC and Altivity were combined in a transaction accounted for under the FASB s business combination guidance. Altivity was the largest privately-held producer of folding cartons and a market leader in all of its major businesses, including coated-recycled boxboard and flexible packaging. Altivity operated recycled boxboard mills and consumer product packaging facilities in North America.

The Company determined that the relative outstanding share ownership, voting rights, and the composition of the governing body and senior management positions required GPC to be the acquiring entity for accounting purposes, resulting in the historical financial statements of GPC becoming the historical financial statements of the Company. Under the purchase method of accounting, the assets and liabilities of Altivity were recorded, as of the date of the closing of the Altivity Transaction, at their respective fair values and added to those of GPII. The purchase price for the acquisition was based on the average closing price of the Company s common stock on the NYSE for two days prior to, including, and two days subsequent to the public announcement of the transaction of $5.47 per share and capitalized transaction costs. The purchase

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GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of the Altivity Transaction. The final purchase price allocation is as follows:

In millions	
Purchase Price	$ 762.8
Acquisition Costs	30.3
Assumed Debt	1,167.6
Total Purchase Consideration	$ 1,960.7

In millions	
Cash and Cash Equivalents	$ 60.2
Receivables, Net	181.2
Inventories, Net	265.0
Prepaids	13.1
Property, Plant and Equipment	636.7
Intangible Assets	561.1
Other Assets	4.5
Total Assets Acquired	1,721.8
Current Liabilities, Excluding Current Portion of Long-Term Debt	253.7
Pension and Postemployment Benefits	35.3
Other Noncurrent Liabilities	35.8
Total Liabilities Assumed	324.8
Net Assets Acquired	1,397.0
Goodwill	563.7

Total Estimated Fair Value of Net Assets Acquired	$ 1,960.7

The Company has finalized plans to close certain facilities of the acquired company and has established restructuring reserves that are considered liabilities assumed in the Altivity Transaction. See Note 5 Restructuring Reserves.

The excess of the total purchase consideration over the aggregate fair value of identifiable net assets acquired was allocated to goodwill. Management believes that the portion of the total purchase consideration attributable to goodwill represents benefits expected as a result of the acquisition, including 1) significant cost-reduction opportunities and synergies by combining sales and support functions and eliminating duplicate corporate functions, 2) diversification of the Company s product line and new opportunities for top-line growth, which will allow the Company to compete effectively in the global packaging market, and 3) expansion of the Company s manufacturing system to include expanded folding carton converting operations, flexible packaging facilities, ink manufacturing facilities and label facilities.

The following table shows the final allocation of goodwill by segment:

In millions	**Paperboard Packaging**	**Flexible Packaging**	**Total**
Goodwill	$ 404.4	$ 159.3	$ 563.7

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company expects to deduct approximately $310 million of goodwill for tax purposes.

The following table summarizes acquired intangibles other than goodwill:

In millions	
Customer Relationships	$ 546.4
Non-Compete Agreements	8.2
Trademarks and Patents	7.5
Leases and Supply Contracts	(1.0)
Total Estimated Fair Value of Intangible Assets	$ 561.1

The fair value of intangible assets is being amortized on a straight-line basis over the remaining useful life, estimated at the date of the Altivity Transaction, of 17 years for customer relationships and four years for trademarks and patents, and over the remaining contractual period for the non-compete, lease and supply contracts.

The following unaudited pro forma consolidated results of operations assume that the acquisition of Altivity occurred as of the beginning of the periods presented and excludes the 2008 results for the two coated-recycled board mills divested in September 2008. This pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations.

In millions		**Year Ended December 31, 2008**
Net Sales	$	4,415.0
Net Loss		(66.6)
Loss Per Share Basic and Diluted		(0.19)

NOTE 5 RESTRUCTURING RESERVES

The Company formulated plans to close or exit certain production facilities resulting from the Altivity Transaction. Restructuring reserves were established in accordance with the requirements of Emerging Issues Task Force 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination,* and the *Exit or Disposal Cost Obligations* topic of the FASB Codification Topic 420.

The amount of severance and benefits recorded in 2010, 2009 and 2008 totaled $2.2 million, $4.1 million and $1.6 million, respectively. These severance and benefits are included in Restructuring and Other Special Charges (Credits) in the Consolidated Statements of Operations. The portion of the restructuring reserves expected to be settled within one year is included in Other Accrued Liabilities on the Company s Consolidated Balance Sheets.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes the transactions within the restructuring reserves:

In millions	Severance and Benefits	Facility Closure Costs	Equipment Removal	Total
Establish Reserve	$ 7.0	$ 8.5	$ 1.8	$ 17.3
Additions to Reserves	13.4	2.3	0.8	16.5
Cash Payments	(6.1)	(0.7)	(0.5)	(7.3)
Other Adjustments	(0.4)	(0.3)	(0.1)	(0.8)
Balance at December 31, 2008	$ 13.9	$ 9.8	$ 2.0	$ 25.7
Additions to Reserves	6.4	0.9	0.3	7.6
Cash Payments	(11.8)	(2.2)	(0.3)	(14.3)
Other Adjustments	(5.0)	(5.0)	(1.4)	(11.4)
Balance at December 31, 2009	$ 3.5	$ 3.5	$ 0.6	$ 7.6
Additions to Reserves	2.2			2.2
Cash Payments	(2.9)	(1.8)	(0.3)	(5.0)
Other Adjustments	(2.2)	(0.5)		(2.7)
Balance at December 31, 2010	$ 0.6	$ 1.2	$ 0.3	$ 2.1

Accelerated or incremental depreciation was recorded for assets that would be removed from service before the end of their originally estimated useful lives due to the facility closures. The amount of accelerated depreciation recorded in 2010, 2009 and 2008 was $3.9 million, $9.1 million and $5.4 million, respectively.

Upon finalizing its restructuring activities, in the second quarter of 2010, the Company concluded that certain facilities were no longer an essential part of its manufacturing and warehouse footprint and that the facilities would be sold. Accordingly the facilities are reported at the lower of their carrying value or fair market value less costs to sell and reclassified as assets held for sale and are included in other current assets. In addition, estimated liabilities related to the partial or complete withdrawal from certain multi-employment benefit plans for union employees at certain of these facilities were established. Charges of $21.9 million for estimated multiemployer pension plan withdrawal liabilities and $7.8 million related to assets written down to fair market value less costs to sell were recorded, and are included in Restructuring and Other Special Charges (Credits) in the Condensed Consolidated Statements of Operations for the twelve months ended December 31, 2010.

NOTE 6 DEBT

Short-Term Debt is composed of the following:

In millions	**2010**	**2009**
Short-Term Borrowings	$ 6.7	$ 7.6
Current Portion of Long-Term Debt	19.3	10.0
Total	$ 26.0	$ 17.6

Short-term borrowings are principally at the Company s international subsidiaries. The weighted average interest rate on short-term borrowings as of December 31, 2010 and 2009 was 2.6% and 2.9%, respectively.

On May 16, 2007, the Company entered into a $1,355 million Credit Agreement (Credit Agreement). The Credit Agreement provided for a $300 million revolving credit facility due on May 16, 2013 and a

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$1,055 million term loan facility due on May 16, 2014. The revolving credit facility bears interest at a rate of LIBOR plus 225 basis points and the term loan facility bears interest at a rate of LIBOR plus 200 basis points. The Company s obligations under the Credit Agreement are collateralized by substantially all of the Company s domestic assets.

On March 10, 2008, the Company entered into Amendment No. 1 and Amendment No. 2 to the Credit Agreement. Under such amendments, the Company obtained (i) a new $1,200 million term loan facility, due on May 16, 2014, to refinance the outstanding amounts under Altivity s parent company s existing first and second lien credit facilities and (ii) an increase to the Company s existing revolving credit facility to $400 million due on May 16, 2013. The Company s existing $1,055 million term loan facility remains in place. The new term loan bears interest at LIBOR plus 275 basis points. The Company s weighted average interest rate on senior secured term debt equals approximately LIBOR plus 241 basis points. In connection with the new term loan and revolver increase, the Company recorded approximately $16 million of deferred financing costs.

On December 3, 2009, the Company entered into Amendment No. 3 to the Credit Agreement. In satisfaction of a condition precedent to the effectiveness of Amendment No. 3, the Company made a $150.0 million voluntary prepayment of the outstanding term loans under the Credit Agreement (the Initial Term Loan Prepayment). Amendment No. 3 increases the basket under which the Company may voluntarily redeem or repurchase prior to maturity its 9.5% Senior Subordinated Notes due 2013 from time to time outstanding by an amount equal to $37.5 million plus 75.0% of the aggregate principal amount of prepayments of the term loans under the Company s Credit Agreement made after the effective date of Amendment No. 3 (excluding the Initial Term Loan Prepayment). As a condition precedent to any future redemption or repurchase of the notes prior to their maturity, Amendment No. 3 requires that the Company have available liquidity (defined as cash and cash equivalents on hand plus availability under the Company s senior secured revolver) of at least $250 million. In connection with Amendment No. 3, the Company recorded deferred financing costs of approximately $1 million. These costs are being amortized using the effective interest method over the term of the facilities.

On June 16, 2009, the Company completed the issuance and sale of $245 million aggregate principal amount of its 9.5% Senior Notes due in 2017. The proceeds from the offering were $238.4 million after deducting the original issue discount. The proceeds were used to retire, through a tender offer, $225 million aggregate principal amount of the 8.5% Senior Notes due in 2011 and to pay applicable early tender premiums and offering expenses.

On August 5, 2009, the Company announced that it would redeem and prepay approximately $20 million in aggregate principal and interest of the 8.5% Senior Notes due in 2011. The Credit Agreement contains, among other exceptions to the restrictions on prepayment of the Senior Notes, a $20 million basket for such redemptions. The redemption occurred on September 4, 2009 (the Redemption Date), at a redemption price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest up to, but not including the Redemption Date. In total, $19.9 million aggregate principal amount of the 8.5% Senior Notes due in 2011 was redeemed on September 4, 2009.

On August 20, 2009, the Company completed the issuance and sale of an additional $180 million of 9.5% Senior Notes due in 2017. The proceeds from the offering were $185.4 million, including a premium of $5.4 million. These proceeds were used to redeem the remaining $180.1 million aggregate principal amount of the 8.5% Senior Notes due in 2011, to pay accrued interest on these existing notes, and to pay fees and expenses incurred in connection with the offering and redemption. In connection with the 9.5% Senior Notes due in 2017, the Company recorded deferred financing costs of approximately $10 million. These costs are being amortized using the effective interest method over the term of the 9.5% Senior Notes due in 2017.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with the above retirements, the Company recorded charges of $7.1 million in 2009. The charges are reflected as Loss on Modification or Extinguishment of Debt in the Company s Consolidated Statements of Operations. The charges consisted of unamortized deferred financing costs and, in regards to the June 2009 retirement, the early tender premiums associated with the 8.5% Senior Notes due in 2011.

In June 2010, the Company purchased $34.9 million aggregate principal amount of its 9.5% Senior Subordinated Notes due 2013 at purchase prices ranging from 101.75% to 101.833% of the principal amount of the notes purchased, plus accrued and unpaid interest up to, but not including the date of purchase.

On July 15, 2010, the Company announced that it would redeem and prepay approximately $66.8 million in aggregate principal of the 9.5% Senior Subordinated Notes due in 2013 at a redemption price of 101.583%. The redemption occurred on August 16, 2010.

On September 29, 2010, the Company completed the issuance and sale of $250.0 million of aggregate principal amount of its 7.875% Senior Notes due in 2018. A portion of the proceeds were used to retire, through a tender offer, $220.6 million aggregate principal amount of 9.5% Senior Subordinated Notes due 2013. On October 29, 2010, the Company redeemed $29.4 million of its Senior Subordinated Notes due 2013 at a redemption price of 101.583%. In the fourth quarter of 2010, the Company also paid down $115.5 million of its term loans.

The June 2010, August 2010 and October 2010 retirements were treated as extinguishments of debt and charges of $3.4 million consisting of unamortized deferred financing costs and amounts paid in excess of par are reflected as Loss on Modification or Extinguishment of Debt in the Company s Consolidated Statements of Operations.

The September 2010 debt exchange was accounted for as a modification. Fees paid to third parties of $5.0 million are reflected as Loss on Modification or Extinguishment of Debt in the Company s Consolidated Statements of Operations. Fees paid to creditors of approximately $4.0 million are reflected as a reduction of debt and will be amortized using the effective interest method over the term of the 7.875% Senior Notes.

Long-Term Debt is composed of the following:

In millions	**2010**	**2009**
Senior Notes with interest payable semi-annually at 7.875%, payable in 2018 ($250.0 million face amount)	$ 246.0	
Senior Notes with interest payable semi-annually at 9.5%, payable in 2017 ($425.0 million face amount)	423.5	423.7
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	73.3	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (2.29% at December 31, 2010) payable through 2014	837.7	890.7
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (3.04% at December 31, 2010) payable through 2014	989.9	1,052.4
Senior Secured Revolving Facility with interest payable at various dates at floating rates (2.50% at December 31, 2010) payable in 2013		

Other	2.0	0.8
	2,572.4	2,792.6
Less: current portion	19.3	10.0
Total	$ 2,553.1	$ 2,782.6

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Term Debt maturities are as follows:

In millions	
2011	$ 19.3
2012	20.3
2013	92.5
2014	1,770.9
2015	
After 2015	669.4
Total	$ 2,572.4

At December 31, 2010, the Company and its U.S. and international subsidiaries had the following commitments, amounts outstanding and amounts available under revolving credit facilities:

In millions	Total Commitments	Total Outstanding	Total Available[(a)]
Revolving Credit Facility	$ 400.0	$	$ 363.6
International Facilities	17.2	6.7	10.5
Total	$ 417.2	$ 6.7	$ 374.1

Note:

(a) In accordance with its debt agreements, the Company s availability under its Revolving Credit Facility has been reduced by the amount of standby letters of credit issued of $36.4 million as of December 31, 2010. These letters of credit are primarily used as security against its self-insurance obligations and workers compensation obligations. These letters of credit expire at various dates through 2012 unless extended.

The Credit Agreement and the indentures governing the 9.5% Senior Notes due 2017, the 9.5% Senior Subordinated Notes due 2013, and the 7.875% Senior Notes due 2018 (the Indentures) limit the Company s ability to incur additional indebtedness. Additional covenants contained in the Credit Agreement and the Indentures, among other

things, restrict the ability of the Company to dispose of assets, incur guarantee obligations, prepay other indebtedness, make dividend and other restricted payments, create liens, make equity or debt investments, make acquisitions, modify terms of the Indentures, engage in mergers or consolidations, change the business conducted by the Company and its subsidiaries, and engage in certain transactions with affiliates. Such restrictions, together with the highly leveraged nature of the Company, could limit the Company s ability to respond to changing market conditions, fund its capital spending program, provide for unexpected capital investments or take advantage of business opportunities. As of December 31, 2010, the Company was in compliance with the covenants in the Credit Agreement.

NOTE 7 STOCK INCENTIVE PLANS

The Company has five equity compensation plans, but since 2004 the Company s only plan pursuant to which new grants are made is the Graphic Packaging Holding Company Amended and Restated 2004 Stock and Incentive Compensation Plan (previously named the Graphic Packaging Corporation 2004 Stock and Incentive Compensation Plan) (the 2004 Plan). Under the 2004 Plan, the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units (RSUs) and other types of stock-based and cash awards to employees and directors of the Company. The other plans are the 2003 Riverwood Holding, Inc. Long-Term Incentive Plan (2003 LTIP), the Riverwood Holding, Inc. 2002 Stock Incentive Plan (2002 SIP), the Graphic Packaging Equity Incentive Plan (EIP), and the Graphic Packaging Equity Compensation Plan for Non-Employee Directors (Graphic NEDP). Stock options and other awards granted under all of the

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s plans generally vest and expire in accordance with terms established at the time of grant. Shares issued pursuant to awards under the plans are from the Company s authorized but unissued shares. Compensation costs are recognized on a straight-line basis over the requisite service period of the award.

Stock Options

GPC and the Company have not granted any stock options since 2004. The weighted average fair value of stock options is estimated to be $2.73 per option as of the date of grant for stock options granted in 2004. The Company used the Black-Scholes Merton option pricing model to value stock options with the following assumptions: dividend yield of zero, expected volatility ranging from 0% to 74%, risk-free interest rates ranging from 4.23% to 6.75%, a zero forfeiture rate and an expected life of 3 to 10 years.

The following table summarizes information pertaining to stock options outstanding and exercisable at December 31, 2010 and the option exercise price range per plan. No options have been granted under the 2004 Plan, so this plan has been omitted from the table.

Plan	Shares Subject to Options	Weighted Average Exercise Price	Shares Subject to Exercisable Options	Weighted Average Exercise Price	Exercise Price Range	Weighted Average Remaining Contractual Life in Years
2003 LTIP	684,070	$ 5.96	684,070	$ 5.96	$4.70 to $6.57	2.72
2002 SIP	2,130,754	7.88	2,130,754	7.88	7.88	1.00
EIP	2,463,443	7.60	2,463,443	7.60	1.55 to 13.74	2.59
Graphic NEDP	2,000	7.11	2,000	7.11	7.11	0.41
Total	5,280,267	$ 7.50	5,280,267	$ 7.50		1.96

As of December 31, 2010 and 2009, there were 5,280,267 and 6,442,092 exercisable options, respectively.

A summary of option activity during the three years ended December 31, 2010 is as follows:

	Options	Weighted Average Exercise Price

Outstanding	December 31, 2007	12,730,238	$	7.41
Exercised				
Canceled		(5,614,351)		7.66
Outstanding	December 31, 2008	7,115,887	$	7.21
Exercised				
Canceled		(673,795)		6.54
Outstanding	December 31, 2009	6,442,092	$	7.28
Exercised		(80,150)		2.30
Canceled		(1,081,675)		6.57
Outstanding	December 31, 2010	5,280,267	$	7.50

Stock Awards, Restricted Stock and Restricted Stock Units

The Company s 2004 Plan permits the grant of stock awards, restricted stock and RSUs. All RSUs vest and become payable in one to five years from date of grant. RSUs granted to employees generally contain service requirements and performance conditions that must be met for the shares to vest. Upon vesting, RSUs are payable in cash and shares of common stock, based on the proportion set forth in the grant agreements. Stock awards granted to non-employee directors are unrestricted.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Data concerning RSUs and stock awards granted in the years ended December 31:

	2010	2009	2008
RSUs Employees	5,503,250	8,390,054	1,139,970
Weighted-average price per share	$ 3.60	$ 0.89	$ 2.72
Stock Awards Board of Directors	339,612	651,310	433,697
Weighted-average price per share	$ 3.18	$ 1.52	$ 2.28

A summary of the Company s unvested RSUs as of December 31, 2010 and changes during the fiscal years ended December 31 is presented below:

	Shares	Weighted Average Grant Date Fair Value
Outstanding December 31, 2007	4,796,944	$ 4.11
Granted	1,139,970	2.72
Released	(4,844,138)	4.11
Canceled	(5,266)	2.72
Outstanding December 31, 2008	1,087,510	$ 2.72
Granted	8,390,054	0.89
Released	(207,037)	2.72
Canceled	(565,408)	1.09
Outstanding December 31, 2009	8,705,119	$ 1.07
Granted	5,503,250	3.60
Released	(76,546)	2.22
Canceled	(288,339)	2.26
Outstanding December 31, 2010	13,843,484	$ 2.05

The value of the RSUs is based on the market value of the Company s common stock on the date of grant. The shares payable in cash are subject to variable accounting and marked to market accordingly. The RSUs payable in cash are recorded as liabilities, whereas the RSUs payable in shares are recorded in Shareholders Equity. The unrecognized expense at December 31, 2010 is approximately $19 million and is expected to be recognized over a weighted average period of 2 years.

The value of a stock award is based on the market value of the Company s common stock on the date of grant. These awards are unrestricted on the date of grant.

During 2009 and 2008, the Company also issued 15,607 and 56,823 shares of phantom stock, respectively, representing compensation deferred by one of its directors. These shares of phantom stock are fully vested on the date of grant and are payable upon termination of service as a director. The Company also has an obligation to issue 40,091 shares in payment of employee deferred compensation.

During 2010, 2009 and 2008, $12.8 million, $5.9 million and $6.6 million, respectively, were charged to compensation expense for stock incentive plans. Of the amount charged to expense during 2008, $7.1 million was attributable to the accelerated vesting of RSUs and other payments triggered by the change of control resulting from the Altivity Transaction on March 10, 2008.

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GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 POSTRETIREMENT AND OTHER BENEFITS

DEFINED BENEFIT PLANS

The Company maintains both defined benefit pension plans and postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired employees in North America and their dependents. The Company maintains international defined benefit pension plans which are both noncontributory and contributory and are funded in accordance with applicable local laws. Pension or termination benefits are based primarily on years of service and the employees compensation.

Currently, the North American plans are closed to newly-hired salaried and non-union hourly employees. The U.K. defined benefit plan was frozen effective March 31, 2001 and replaced with a defined contribution plan.

Pension and Postretirement Expense

The pension and postretirement expenses related to the Company s plans consisted of the following:

	Pension Benefits			Postretirement Health Care Benefits		
	Year Ended December 31,					
In millions	2010	2009	2008	2010	2009	2008
Components of Net Periodic Cost:						
Service Cost	$ 19.0	$ 20.5	$ 18.5	$ 1.1	$ 1.4	$ 1.3
Interest Cost	51.3	50.5	47.5	3.0	3.3	3.1
Expected Return on Plan Assets	(50.8)	(41.8)	(51.3)			
Amortization:						
Prior Service Cost (Credit)	0.5	1.2	2.7	(0.2)	(0.1)	(0.2)
Actuarial Loss (Gain)	10.1	20.2	2.2	(1.3)	(1.2)	(0.6)
Curtailment Gain	(0.2)	(3.2)		(0.3)		
Other	0.1	0.5	0.1			
Net Periodic Cost	$ 30.0	$ 47.9	$ 19.7	$ 2.3	$ 3.4	$ 3.6

Certain assumptions used in determining the pension and postretirement expenses were as follows:

Pension Benefits	Postretirement Health Care Benefits
Year Ended December 31,	

	2010	2009	2008	2010	2009	2008
Weighted Average Assumptions:						
Discount Rate	6.10%	6.28%	6.21%	5.93%	6.27%	6.17%
Rate of Increase in Future Compensation Levels	2.19%	2.52%	2.44%			
Expected Long-Term Rate of Return on Plan Assets	7.95%	7.91%	7.96%			
Initial Health Care Cost Trend Rate				8.50%	9.00%	9.00%
Ultimate Health Care Cost Trend Rate[(a)]				5.00%	5.00%	5.00%
Ultimate Year[(a)]				2017	2017	2017

Note:

(a) One of the salaried plan s costs was capped beginning in 1999.

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GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Funded Status

The following table sets forth the funded status of the Company s pension and postretirement plans as of December 31:

In millions	Pension Benefits 2010	Pension Benefits 2009	Postretirement Health Care Benefits 2010	Postretirement Health Care Benefits 2009
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	$ 858.9	$ 812.1	$ 49.6	$ 57.0
Service Cost	19.0	20.5	1.1	1.4
Interest Cost	51.3	50.5	3.0	3.3
Actuarial Loss (Gain)	43.8	3.2	4.9	(9.3)
Foreign Currency Exchange	(3.4)	13.2		0.2
Curtailment		(3.5)	(0.3)	(0.6)
Settlement		(1.7)		
Benefits Paid	(39.4)	(36.0)	(3.2)	(2.9)
Other	(0.5)	0.6	0.5	0.5
Benefit Obligation at End of Year	$ 929.7	$ 858.9	$ 55.6	$ 49.6
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	$ 622.2	$ 489.0	$	$
Actual Return on Plan Assets	79.3	115.5		
Employer Contributions	47.3	43.6	3.2	2.9
Foreign Currency Exchange	(2.8)	12.3		
Benefits Paid	(39.4)	(37.7)	(3.2)	(2.9)
Other	(0.6)	(0.5)		
Fair Value of Plan Assets at End of Year	$ 706.0	$ 622.2	$	$
Plan Assets Less than Projected Benefit Obligation	$ (223.7)	$ (236.7)	$ (55.6)	$ (49.6)
Amounts Recognized in the Consolidated Balance Sheets Consist of:				
Noncurrent Asset Prepaid Benefit Cost	$	$ 2.2	$	$

Accrued Pension and Postretirement Benefits Liability Current	(0.7)	(0.8)	(3.6)	(3.1)
Accrued Pension and Postretirement Benefits Liability Noncurrent	(223.0)	(238.1)	(52.0)	(46.5)
Accumulated Other Comprehensive Income:				
Net Actuarial Loss (Gain)	194.5	189.6	(7.1)	(13.4)
Prior Service (Income) Cost	(0.2)	0.3	(1.1)	(1.3)

Weighted Average Calculations:				
Discount Rate	5.74%	6.10%	5.48%	5.93%
Rates of Increase in Future Compensation Levels	2.16%	2.19%		
Initial Health Care Cost Trend Rate			8.50%	8.50%
Ultimate Health Care Cost Trend Rate[a]			5.00%	5.00%
Ultimate Year			2018	2017

(a) One of the salaried plan s cost was capped beginning in 1999.

Accumulated Benefit Obligation

The accumulated benefit obligation, (ABO), for all defined benefit pension plans was $910.2 million and $841.3 million at December 31, 2010 and 2009, respectively. All of the Company s defined benefit pension plans had an ABO in excess of plan assets at December 31, 2010 and 2009, except at December 31, 2009, one plan had assets of $17.2 million and an ABO of $15.0 million.

Employer Contributions

The Company made contributions of $47.3 million and $43.6 million to its pension plans during 2010 and 2009, respectively. The Company also made postretirement health care benefit payments of $3.2 million

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and $2.9 million during 2010 and 2009, respectively. For 2011, the Company expects to make contributions of $45 to $70 million to its pension plans and approximately $4 million to its postretirement health care plans.

Pension Assets

The Company s overall investment strategy is to achieve a mix of investments for long-term growth and near-term benefit payments through diversification of asset types, fund strategies and fund managers. Investment risk is measured on an on-going basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. The plans invest in the following major asset categories: cash, equity securities, fixed income securities, real estate and diversified growth funds. At December 31, 2010 and 2009, pension investments did not include any direct investments in the Company s stock or the Company s debt.

The weighted average allocation of plan assets and the target allocation by asset category is as follows:

	Target	2010	2009
Cash		0.3%	1.0%
Equity Securities	52.0	55.1	53.4
Fixed Income Securities	42.0	39.7	40.2
Other Investments	6.0	4.9	5.4
Total	100.0%	100.0%	100.0%

The plans investment in equity securities primarily includes investments in U.S. and international companies of varying sizes and industries. The strategy of these investments is to 1) exceed the return of an appropriate benchmark for such equity classes and 2) through diversification, reduce volatility while enhancing long term real growth.

The plans investment in fixed income securities includes government bonds, investment grade bonds and non-investment grade bonds across a broad and diverse issuer base. The strategy of these investments is to provide income and stability and to diversify the fixed income exposure of the plan assets, thereby reducing volatility.

The Company s approach to developing the expected long-term rate of return on pension plan assets combines an analysis of historical investment performance by asset class, the Company s investment guidelines and current and expected economic fundamentals.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables set forth, by category and within the fair value hierarchy, the fair value of the Company s pension assets at December 31, 2010 and 2009:

		Fair Value Measurements at December 31, 2010		
In millions	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category:				
Cash	$ 3.7	$ 1.3	$ 2.4	$
Equity Securities:				
Domestic	264.4	52.1	212.3	
Foreign	123.1	32.5	90.6	
Fixed Income Securities:	280.4	111.4	169.0	
Other Investments:				
Real estate[a]	11.6	11.6		
Diversified growth fund[b]	22.8	22.8		
Total	$ 706.0	$ 231.7	$ 474.3	$

		Fair Value Measurements at December 31, 2009		
In millions	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Category:				
Cash	$ 4.3	$ 1.1	$ 3.2	$
Equity Securities:				
Domestic	226.5	44.9	181.6	
Foreign	105.9	29.9	76.0	

Fixed Income Securities:	251.5	96.1	155.4
Other Investments:			
Real estate[(a)]	11.4	11.4	
Diversified growth fund[(b)]	22.6	22.6	
Total	$ 622.2	$ 206.0	$ 416.2	$

(a) This category represents investments in real estate funds which are traded daily on a public exchange.

(b) The fund invests in a combination of traditional investments (equities, bonds, and foreign exchange), seeking to achieve returns through active asset allocation over a three to five year horizon.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Postretirement Health Care Trend Rate Sensitivity

Assumed health care cost trend rates affect the amounts reported for postretirement health care benefit plans. A one-percentage-point change in assumed health care trend rates would have the following effects on 2010 data:

In millions	One Percentage Point Increase	One Percentage Point Decrease
Health Care Trend Rate Sensitivity:		
Effect on Total Interest and Service Cost Components	$ 0.4	$ (0.3)
Effect on Year-End Postretirement Benefit Obligation	$ 4.4	$ (3.7)

Estimated Future Benefit Payments

The following represents the Company s estimated future pension and postretirement health care benefit payments through the year 2020:

In millions	Pension Plans	Postretirement Health Care Benefits
2011	$ 43.7	$ 4.0
2012	45.4	3.9
2013	48.3	4.1
2014	51.2	4.4
2015	53.9	4.7
2016 2020	317.9	25.7

Amounts in Accumulated Other Comprehensive Loss Expected to Be Recognized in Net Periodic Benefit Costs in 2011

During 2011, amounts recorded in Accumulated Other Comprehensive Loss expected to be recognized in Net Periodic Benefit Costs are as follows:

In millions	Pension Benefits	Postretirement Health Care Benefits	Postemployment Benefits[a]
Recognition of Prior Service Cost	$ 0.4	$ (0.2)	$
Recognition of Actuarial Loss (Gain)	11.3	(0.7)	0.2

Note:

(a) The Company maintains postemployment benefits for U.S. employees. Certain benefits are based on years of service. In 2010, there was no impact to Accumulated Other Comprehensive Loss.

Multi-Employer Plan

Certain of the Company s employees participate in multi-employer plans that provide both pension and other postretirement health care benefits to employees under union-employer organization agreements. Expense related to ongoing participation in these plans for the years ended December 31, 2010 and 2009 was $8.0 million and $8.3 million, respectively. The multi-employer plans were assumed as part of the Altivity Transaction.

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

DEFINED CONTRIBUTION PLANS

The Company provides defined contribution plans for eligible U.S. employees. The Company s contributions to the plans are based upon employee contributions, a percentage of eligible compensation, and the Company s annual operating results. Contributions to these plans for the years ended December 31, 2010, 2009 and 2008 were $19.5 million, $20.2 million and $17.6 million, respectively.

NOTE 9 INCOME TAXES

The U.S. and international components of Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities consisted of the following:

	Year Ended December 31,		
In millions	**2010**	**2009**	**2008**
U.S.	$ 29.3	$ 89.0	$ (73.1)
International	7.3	(9.8)	7.6
Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities	$ 36.6	$ 79.2	$ (65.5)

The provisions for Income Tax Expense on Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities consisted of the following:

	Year Ended December 31,		
In millions	**2010**	**2009**	**2008**
Current (Expense) Benefit			
U.S.	$ 0.1	$ 0.1	$ (0.4)
International	(6.0)	(4.6)	(6.0)
Total Current	(5.9)	(4.5)	(6.4)
Deferred (Expense) Benefit			
U.S.	(21.4)	(31.4)	(28.3)
International	(0.2)	11.8	0.3

Total Deferred	(21.6)	(19.6)	(28.0)
Income Tax Expense	$ (27.5)	$ (24.1)	$ (34.4)

GRAPHIC PACKAGING HOLDING COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

A reconciliation of Income Tax Expense on Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities at the federal statutory rate of 35% compared with the Company s actual Income Tax Expense is as follows: