

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**
- 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	New York Stock Exchange
Purchase Rights Associated with the Common Stock	

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

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark 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 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of 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.

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

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

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

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.

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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:

			2010 Net Tons
Location	Product	# of Machines	Produced

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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.

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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.

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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.

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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.

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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.

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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

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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.

Table of Contents**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

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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

Table of Contents**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

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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.

Table of Contents**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

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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

Table of Contents**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.

<i>In millions, except per share amounts</i>	Year Ended December 31,				
	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).

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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.

Table of Contents**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.

<i>In millions</i>	Year Ended December 31,		
	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***

<i>In millions</i>	Year Ended December 31,			Percent Change
	2010	2009	Increase (Decrease)	
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:

<i>In millions</i>	2009	Year Ended December 31, Variances					Total	2010
		Price	Volume/Mix Divested Businesses	Organic	Exchange			
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

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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 p