

GRAPHIC PACKAGING HOLDING CO

Form 10-Q

November 04, 2010

Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

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

For the quarterly period ended September 30, 2010

or

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

For the transition period from

to

COMMISSION FILE NUMBER: 001-33988

Graphic Packaging Holding Company

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☐ No ☐

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

Large

Accelerated filer

Non-accelerated filer ☐

Smaller reporting company ☐

accelerated filer

☐

☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☐

As of October 29, 2010, there were 343,627,679 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.

Table of Contents

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 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 of the Company s 2009 Annual Report on Form 10-K and in other filings with the Securities and Exchange Commission.

TABLE OF CONTENTS

<u>PART I FINANCIAL INFORMATION</u>	4
<u>ITEM 1. FINANCIAL STATEMENTS</u>	4
<u>ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	27
<u>ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK</u>	39
<u>ITEM 4. CONTROLS AND PROCEDURES</u>	39
<u>PART II OTHER INFORMATION</u>	39
<u>ITEM 1. LEGAL PROCEEDINGS</u>	39
<u>ITEM 1A. RISK FACTORS</u>	39
<u>ITEM 6. EXHIBITS</u>	40
<u>SIGNATURES</u>	41
<u>EX-4.1</u>	
<u>EX-4.2</u>	
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

<i>In millions, except per share amounts</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Sales	\$1,042.8	\$1,054.2	\$3,083.4	\$3,117.2
Cost of Sales	887.7	907.8	2,633.7	2,702.4
Selling, General and Administrative	80.9	75.8	236.7	239.4
Other (Income), Net	(4.3)	(3.0)	(3.0)	(13.3)
Restructuring and Other Special (Credits) Charges		(23.9)	55.1	(29.9)
Income from Operations	78.5	97.5	160.9	218.6
Interest Expense, Net	(44.0)	(53.3)	(134.0)	(158.0)
Loss on Modification or Extinguishment of Debt	(6.5)	(1.0)	(7.4)	(7.1)
Income before Income Taxes and Equity in Net Earnings of Affiliates				
Earnings of Affiliates	28.0	43.2	19.5	53.5
Income Tax Expense	(11.0)	(10.3)	(29.8)	(29.7)
Income (Loss) before Equity in Net Earnings of Affiliates				
Affiliates	17.0	32.9	(10.3)	23.8
Equity in Net Earnings of Affiliates	0.6	0.3	1.4	0.8
Net Income (Loss)	\$ 17.6	\$ 33.2	\$ (8.9)	\$ 24.6
Income (Loss) Per Share Basic	\$ 0.05	\$ 0.10	\$ (0.03)	\$ 0.07
Income (Loss) Per Share Diluted	\$ 0.05	\$ 0.10	\$ (0.03)	\$ 0.07
Weighted Average Number of Shares Outstanding Basic	344.1	343.4	343.7	343.0
Weighted Average Number of Shares Outstanding Diluted	347.2	344.9	343.7	343.9

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2010	December 31, 2009
<i>In millions, except share and per share amounts</i>		
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 166.3	\$ 149.8
Receivables, Net	430.9	382.3
Inventories, Net	444.2	436.5
Other Current Assets	70.3	52.7
Total Current Assets	1,111.7	1,021.3
Property, Plant and Equipment, Net	1,662.5	1,797.4
Goodwill	1,204.4	1,204.6
Intangible Assets, Net	587.1	620.0
Other Assets	52.0	58.5
Total Assets	\$ 4,617.7	\$ 4,701.8
LIABILITIES		
Current Liabilities:		
Short Term Debt and Current Portion of Long-Term Debt	\$ 28.8	\$ 17.6
Accounts Payable	336.1	361.8
Interest Payable	34.6	42.7
Other Accrued Liabilities	198.7	212.4
Total Current Liabilities	598.2	634.5
Long-Term Debt	2,696.9	2,782.6
Deferred Income Tax Liabilities	250.9	226.9
Other Noncurrent Liabilities	341.7	329.0
Total Liabilities	3,887.7	3,973.0
SHAREHOLDERS' EQUITY		
Preferred Stock, par value \$.01 per share; 100,000,000 shares authorized; no shares issued or outstanding	3.4	3.4

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Common Stock, par value \$.01 per share; 1,000,000,000 shares authorized;
343,620,179 and 343,245,250 shares issued and outstanding at September 30, 2010
and December 31, 2009, respectively

Capital in Excess of Par Value	1,963.3	1,958.2
Accumulated Deficit	(1,027.9)	(1,019.0)
Accumulated Other Comprehensive Loss	(208.8)	(213.8)
Total Shareholders' Equity	730.0	728.8
Total Liabilities and Shareholders' Equity	\$ 4,617.7	\$ 4,701.8

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
<i>In millions</i>	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	\$ (8.9)	\$ 24.6
Noncash Items Included in Net (Loss) Income:		
Depreciation and Amortization	218.0	228.0
Deferred Income Taxes	24.4	27.9
Amount of Postemployment Expense (Less) Greater Than Funding	(14.8)	13.1
Other, Net	31.3	18.1
Changes in Operating Assets and Liabilities	(75.9)	10.8
Net Cash Provided by Operating Activities	174.1	322.5
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Spending	(73.9)	(96.3)
Proceeds from Sale of Assets, Net of Selling Costs		9.8
Other, Net	(3.6)	(2.2)
Net Cash Used in Investing Activities	(77.5)	(88.7)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance or Modification of Debt	29.4	423.8
Payments on Debt	(101.7)	(425.3)
Borrowings under Revolving Credit Facilities	126.4	147.9
Payments on Revolving Credit Facilities	(124.6)	(291.2)
Redemption and Early Tender Premiums and Debt Issuance Costs	(10.2)	(14.7)
Net Cash Used in Financing Activities	(80.7)	(159.5)
Effect of Exchange Rate Changes on Cash	0.6	0.3
Net Increase in Cash and Cash Equivalents	16.5	74.6
Cash and Cash Equivalents at Beginning of Period	149.8	170.1
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 166.3	\$ 244.7

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

Table of Contents

**GRAPHIC PACKAGING HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

NOTE 1 GENERAL INFORMATION

Nature of Business and Basis of Presentation

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 multi-wall bags. 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 and Graphic Packaging Corporation (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 Graphic Packaging International, Inc.'s (GPII) outstanding common stock.

The Company's Condensed Consolidated Financial Statements include all subsidiaries in which the Company has the ability to exercise direct or indirect control over operating and financial policies. Intercompany transactions and balances are eliminated in consolidation.

In the Company's opinion, the accompanying Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The Company's year end Condensed Consolidated Balance Sheet data was derived from audited financial statements. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all the information required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements. Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with GPHC's Annual Report on Form 10-K for the year ended December 31, 2009. In addition, the preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and changes in these statements are recorded as known. The Company has reclassified the presentation of certain prior period information to conform to the current presentation format.

For a summary of the Company's significant accounting policies, please refer to GPHC's Annual Report on Form 10-K for the year ended December 31, 2009.

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 of 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 of 2009, the Company received notification from the IRS that its registration as an alternate fuel mixer had been approved. As of September 30, 2009, the Company had submitted refund claims based on fuel usage at the two mills from mid-January 2009 through September 30, 2009 totaling \$103.8 million and had received refunds totaling \$97.2 million. The net impact of the tax credit is included in Restructuring and Other Special (Credits) Charges in the amount of \$38.5 million and \$93.8 million for the three and nine months ended September 30, 2009, respectively, and is included in Corporate for segment reporting purposes. The excise tax credit expired on December 31, 2009.

Table of Contents***Adoption of New Accounting Standards***

Effective in the first quarter of 2010, the Company adopted guidance as required by the *Subsequent Events* topic of the Financial Accounting Standards Board (FASB) Accounting Standards CodificationTM (the FASB Codification). The new guidance asserts that an entity that is a United States Securities and Exchange Commission (SEC) filer is not required to disclose the date through which subsequent events have been evaluated. This change alleviates potential conflicts between the *Subsequent Events* topic and the SEC 's requirements. The guidance removes a disclosure only and will have no impact on the Company 's financial position, results of operations or cash flows.

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.

NOTE 2 INVENTORIES

Inventories by major class:

	September 30, 2010	December 31, 2009
<i>In millions</i>		
Finished Goods	\$ 231.4	\$ 251.9
Work in Progress	51.1	40.3
Raw Materials	118.4	105.2
Supplies	65.1	63.6
	466.0	461.0
Less: Allowance	(21.8)	(24.5)
Total	\$ 444.2	\$ 436.5

NOTE 3 RESTRUCTURING RESERVES

Over the last two years, the Company formulated plans to close or exit certain production facilities resulting from the combination in March 2008 of the businesses of GPC and Altivity Packaging, LLC (Altivity). 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.

Since the Company finalized its restructuring activities in the second quarter 2010, there were no termination benefits recorded in the third quarter. There were \$2.2 million of termination benefits recorded in the nine months ended September 30, 2010. The amount of termination benefits recorded in the three and nine months ended September 30, 2009 totaled \$1.3 million and \$4.6 million, respectively. These termination benefits are included in Restructuring and Other Special (Credits) Charges in the Condensed Consolidated Statements of Operations. The restructuring reserves are included in Other Accrued Liabilities on the Company 's Condensed Consolidated Balance Sheets.

Table of Contents

The following table summarizes the transactions within the restructuring reserves:

<i>In millions</i>	Severance and Benefits	Facility Closure Costs	Equipment Removal	Total
Balance at December 31, 2009	\$ 3.5	\$ 3.5	\$ 0.6	\$ 7.6
Additions to Reserves	2.2			2.2
Cash Payments	(2.8)	(1.6)	(0.3)	(4.7)
Other Adjustments	(1.6)	(0.6)		(2.2)
Balance at September 30, 2010	\$ 1.3	\$ 1.3	\$ 0.3	\$ 2.9

Accelerated or incremental depreciation was recorded for assets that will be removed from service before the end of their originally estimated useful lives due to the facility closures. The following table summarizes the accelerated depreciation:

<i>In millions</i>	Three Months Ended September 30, 2010		Nine Months Ended September 30, 2010	
		2009	2010	2009
Accelerated Depreciation	\$0.7	\$1.1	\$3.9	\$9.4

Upon finalizing its restructuring activities, in the second quarter, 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 (Credits) Charges in the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2010.

NOTE 4 DEBT***Credit Agreement***

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 \$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.

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 \$250.0 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.

Table of Contents

Senior and Senior Subordinated Notes

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.

In connection with the above retirements, the Company recorded charges for the three and nine month period ended September 30, 2009 of \$1.0 million and \$7.1 million, respectfully. The charges are reflected as Loss on Modification or Extinguishment of Debt in the Company's Condensed 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 principle of the 9.5% Senior Subordinated Notes 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. In September 2010, the Company called an additional \$29.4 million of its Senior Subordinated Notes due 2013 for settlement on October 29, 2010.

The June 2010 and August 2010 retirements were treated as extinguishments of debt and charges of \$0.9 million and \$1.5 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 Condensed Consolidated Statements of Operations. The September 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 Condensed 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.

Table of Contents

Long-Term Debt is composed of the following:

<i>In millions</i>	September 30, 2010	December 31, 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	102.7	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (2.52% at September 30, 2010) payable through 2014	890.7	890.7
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (3.28% at September 30, 2010) payable through 2014	1,052.4	1,052.4
Senior Secured Revolving Facility with interest payable at various dates at floating rates (2.52% at September 30, 2010) payable in 2013		
Other	1.9	0.8
	2,717.2	2,792.6
Less, current portion	20.3	10.0
Total	\$ 2,696.9	\$ 2,782.6

At September 30, 2010, the Company and its U.S. and international subsidiaries had the following commitments, amounts outstanding and amounts available under revolving credit facilities:

<i>In millions</i>	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available(a)
Revolving Credit Facility	\$ 400.0	\$	\$ 368.0
International Facilities	18.4	9.7	8.7
Total	\$ 418.4	\$ 9.7	\$ 376.7

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 \$32.0 million as of September 30, 2010. These letters of credit are used primarily as security against its self-insurance obligations and workers' compensation obligations. These letters of credit expire at various dates through 2011 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 September 30, 2010, the Company was in compliance with the covenants in the Credit Agreement.

NOTE 5 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. Stock options and other awards granted under all of the 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.

Table of Contents***Stock Options***

GPC and the Company have not granted any stock options since 2004. During the nine months ended September 30, 2010, 4,000 stock options were exercised and 1,081,675 stock options were cancelled. The total number of shares subject to options at September 30, 2010 was 5,356,417 at a weighted average exercise price of \$7.43.

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 four years from date of grant. Upon vesting, RSUs are payable in cash and shares of common stock, based on the proportion set forth in the grant agreements.

Data concerning RSUs and stock awards granted in the first nine months of 2010 is as follows:

<i>Shares in thousands</i>	Shares	Weighted Avg. Grant Date Fair Value Per Share
RSUs Employees	5,464	\$ 3.59
Stock Awards Board of Directors	340	\$ 3.18

The value of the RSUs is based on the market value of the Company's common stock on the date of grant. The RSUs 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 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 the nine months ended September 30, 2010 and 2009, \$7.5 million and \$3.1 million, respectively, were charged to compensation expense for stock incentive plans.

The unrecognized expense related to unvested RSUs as of September 30, 2010 is approximately \$21 million and is expected to be recognized over a weighted average period of two years.

NOTE 6 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

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 employee's 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.

Table of Contents***Pension and Postretirement Expense***

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

<i>In millions</i>	Pension Benefits				Postretirement Health Care Benefits			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2010	2009	2010	2009	2010	2009	2010	2009
Components of Net Periodic Cost:								
Service Cost	\$ 5.0	\$ 4.9	\$ 15.0	\$ 14.6	\$ 0.2	\$ 0.4	\$ 0.8	\$ 1.2
Interest Cost	12.7	12.7	38.1	37.7	0.7	0.9	2.1	2.6
Expected Return on Plan Assets	(12.7)	(10.9)	(38.0)	(32.0)				
Administration Expenses		0.1		0.1				
Amortizations:								
Prior Service Cost	0.1	0.3	0.3	0.9			(0.1)	(0.1)
Actuarial Loss (Gain)	2.3	5.2	6.9	15.5	(0.4)	(0.2)	(1.2)	(0.5)
Net Periodic Cost	\$ 7.4	\$ 12.3	\$ 22.3	\$ 36.8	\$ 0.5	\$ 1.1	\$ 1.6	\$ 3.2

Employer Contributions

The Company made contributions of \$36.6 million and \$34.5 million to its pension plans during the first nine months of 2010 and 2009, respectively. The Company expects to make contributions of \$45 million to \$60 million for the full year 2010. During 2009, the Company made \$43.6 million of contributions to its pension plans.

The Company made postretirement health care benefit payments of \$1.6 million and \$2.0 million during the first nine months of 2010 and 2009, respectively. The Company estimates its postretirement health care benefit payments for the full year 2010 to be approximately \$3 million. During 2009, the Company made postretirement health care benefit payments of \$2.9 million.

NOTE 7 FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the *Derivatives and Hedging* topic of the FASB Codification and those not designated as hedging instruments under this guidance. The Company uses interest rate swaps, natural gas swap contracts, and forward exchange contracts. These derivative instruments are designated as cash flow hedges and, to the extent they are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss. These changes in fair value will subsequently be reclassified to earnings.

Interest Rate Risk

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. At September 30, 2010, the Company had interest rate swap agreements with notional amounts of \$1,460 million which expire on various dates from 2010 to 2012 under which the Company will pay fixed rates of 2.24% to 3.84% and receive the three-month LIBOR rates. At December 31, 2009, the Company had interest rate swap agreements with notional amounts of \$2,170 million, including \$400 million in forward starting interest rate swaps, which expire on various dates from 2010 to 2012 under which the Company will pay fixed rates of 2.24% to 5.06% and receive the three-month LIBOR rates.

Changes in fair value will subsequently be reclassified into earnings as a component of Interest Expense, Net as interest is incurred on amounts outstanding under the term loan facility. Ineffectiveness measured in the hedging

relationship is recorded in earnings in the period it occurs.

Table of Contents

During the first nine months of 2010 and 2009, there were minimal amounts of ineffectiveness related to changes in the fair value of interest rate swap agreements. Additionally, there were no amounts excluded from the measure of effectiveness.

Commodity Risk

To manage risks associated with future variability in cash flows and price risk attributable to certain commodity purchases, the Company enters into natural gas swap contracts to hedge prices for a designated percentage of its expected natural gas usage. The Company has entered into natural gas swap contracts to hedge prices for a portion of its expected natural gas usage for the remainder of 2010. Additionally, the Company has hedged a portion of its expected usage for 2011. When 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.

During the first nine months of 2010 and 2009, there were minimal amounts of ineffectiveness related to changes in the fair value of natural gas swap contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

Foreign Currency Risk

The Company enters into forward exchange contracts to manage risks associated with future variability in cash flows resulting from anticipated foreign currency transactions that may be adversely affected by changes in exchange rates. Gains/losses related to these contracts are recognized in Other (Income), Net when the anticipated transaction affects income.

At September 30, 2010 and at December 31, 2009, multiple forward exchange contracts existed that expire on various dates throughout 2010. Those purchased forward exchange contracts outstanding at September 30, 2010 and December 31, 2009, when aggregated and measured in U.S. dollars at contractual rates at September 30, 2010 and December 31, 2009, respectively, had notional amounts totaling \$13.8 million and \$60.6 million.

No amounts were reclassified to earnings during the first nine months of 2010 or during 2009 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.

Derivatives not Designated as Hedges

The Company enters into forward exchange contracts to effectively hedge substantially all of accounts receivable resulting from transactions denominated in foreign currencies in order to manage risks associated with foreign currency transactions adversely affected by changes in exchange rates. At September 30, 2010 and December 31, 2009, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those foreign currency exchange contracts outstanding at September 30, 2010 and December 31, 2009, when aggregated and measured in U.S. dollars at exchange rates at September 30, 2010 and December 31, 2009, respectively, had net notional amounts totaling \$17.3 million and \$10.1 million. Unrealized gains and losses resulting from these contracts are recognized in Other (Income), Net and approximately offset corresponding recognized but unrealized gains and losses on these accounts receivable.

Fair Value of Financial Instruments

The Company's derivative instruments are carried at fair value. The Company has determined that the inputs to the valuation of these derivative instruments are level 2 in the fair value hierarchy. Level 2 inputs are defined as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

As of September 30, 2010, there has not been any significant impact to the fair value of the Company's derivative liabilities due to its own credit risk. Similarly, there has not been any significant adverse impact to the Company's derivative assets based on evaluation of the Company's counterparties' credit risks.

Table of Contents

The fair value of the Company's derivative instruments is as follows:

<i>In millions</i>	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	September 30, 2010	December 31, 2009	Balance Sheet Location	September 30, 2010	December 31, 2009
Derivative Contracts Designated as Hedging Instruments						
Commodity Contracts	Other Current Assets			Other Accrued Liabilities and Other Noncurrent Liabilities	\$ 4.8	\$
Foreign Currency Contracts	Other Current Assets	\$ 0.5	\$ 0.3	Other Accrued Liabilities	0.8	
Interest Rate Swap Agreements	Other Current Assets			Other Accrued Liabilities and Other Noncurrent Liabilities	33.4	36.1
Total Derivative Contracts		\$ 0.5	\$ 1.3		\$ 39.0	\$ 36.1

The fair values of the Company's other financial assets and liabilities at September 30, 2010 and December 31, 2009 approximately equal the carrying values reported on the Condensed Consolidated Balance Sheets except for Long-Term Debt. The fair value of the Company's Long-Term Debt was \$2,728.9 million and \$2,762.6 million as compared to the carrying amounts of \$2,717.2 million and \$2,792.6 million as of September 30, 2010 and December 31, 2009, respectively. The fair value of Long-Term Debt is based on Level 1 inputs in the fair value hierarchy. Level 1 inputs are defined as quoted prices (unadjusted) in active markets for identical assets or liabilities.

Effect of Derivative Instruments

The effect of derivative instruments in cash flow hedging relationships on the Company's Condensed Consolidated Statements of Operations is as follows:

<i>In millions</i>	Amount of Loss (Gain)			Amount of Loss (Gain)			Amount of (Gain) Loss		
	Recognized in Accumulated Other Comprehensive Loss		Location	Recognized in Statement of Operations (Effective Portion)		Location	Recognized in Statement of Operations (Ineffective Portion)		Three Months Ended September 30,
	2010	2009		2010	2009		2010	2009	
Commodity Contracts	\$ 4.2	\$ (0.5)	Cost of Sales	\$ 1.3	\$ 9.9	Cost of Sales	\$ (0.1)	\$ 0.2	

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Foreign Currency Contracts	1.6	2.6	Other (Income), Net	(1.0)	(0.5)	Other (Income), Net		
Interest Rate Swap Agreements	6.8	16.5	Interest Expense, Net	8.3	13.1	Interest Expense, Net		
Total	\$ 12.6	\$ 18.6		\$ 8.6	\$ 22.5		\$ (0.1)	\$ 0.2

15

Table of Contents

	Amount of Loss (Gain)		Location in Statement of Operations (Effective Portion)	Amount of Loss (Gain) Recognized in Statement of Operations (Effective Portion)		Location in Statement of Operations (Ineffective Portion)	Amount of Gain Recognized in Statement of Operations (Ineffective Portion)	
	Recognized in Accumulated Other Comprehensive Loss Nine Months Ended September 30,			Recognized in Accumulated Other Comprehensive Loss Nine Months Ended September 30,			Recognized in Accumulated Other Comprehensive Loss Nine Months Ended September 30,	
<i>In millions</i>	2010	2009		2010	2009		2010	2009
Commodity Contracts	\$ 9.8	\$13.3	Cost of Sales	\$ 3.4	\$32.0	Cost of Sales	\$	\$ (0.4)
Foreign Currency Contracts	(0.1)	(0.2)	Other (Income), Net	(0.5)	(0.9)	Other (Income), Net		
Interest Rate Swap Agreements	24.4	24.5	Interest Expense, Net	26.8	32.7	Interest Expense, Net	(0.2)	(0.1)
Total	\$34.1	\$37.6		\$29.7	\$63.8		\$ (0.2)	\$ (0.5)

The effect of derivative instruments not designated as hedging instruments on the Company's Condensed Consolidated Statements of Operations is as follows:

	Location in Statement of Operations	Amount of (Loss) Gain Recognized in Statement of Operations			
		Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
<i>In millions</i>					
Foreign Currency Contracts	Other (Income), Net	\$ (1.8)	\$ 0.3	\$ (1.4)	\$ 0.1

Accumulated Derivative Instruments (Loss) Gain

The following is a rollforward of Accumulated Derivative Instruments (Loss) Gain which is included in the Company's Condensed Consolidated Balance Sheets:

In millions

Balance at December 31, 2009	\$ (35.1)
Reclassification to earnings	29.7
Current period change in fair value	(34.1)
Balance at September 30, 2010	\$ (39.5)

At September 30, 2010, the Company expects to reclassify approximately \$29.1 million of losses in the next twelve months from Accumulated Other Comprehensive Loss to earnings, contemporaneously with and offsetting changes in the related hedged exposure. The actual amount that will be reclassified to future earnings may vary from this amount as a result of changes in market conditions.

NOTE 8 COMPREHENSIVE INCOME (LOSS)

The following table shows the components of Comprehensive Income (Loss):

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income (Loss)	\$17.6	\$33.2	\$(8.9)	\$24.6
Other Comprehensive (Loss) Income:				
Derivative Instruments (Loss) Income	(4.0)	3.9	(4.4)	26.2
Pension Benefit Plans	2.4	5.5	7.2	16.4
Postretirement Benefit Plans	(0.5)	(0.2)	(1.4)	(0.6)
Postemployment Benefit Plans	0.1	0.1	0.3	0.4
Currency Translation Adjustment	11.0	7.4	3.3	5.4
Total Comprehensive Income (Loss)	\$26.6	\$49.9	\$(3.9)	\$72.4

Table of Contents

NOTE 9 ENVIRONMENTAL AND LEGAL MATTERS

Environmental Matters

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, solid waste and hazardous wastes, the investigation and remediation of contamination resulting from historical site operations and releases of hazardous substances, and the health and safety of employees. Compliance initiatives could result in significant costs, which could negatively impact the Company's consolidated financial position, results of operations or cash flows, although the Company is not currently aware of any required compliance initiatives that are expected to require material expenditures. Any failure to comply with environmental or health and safety laws and regulations or any permits and authorizations required thereunder could subject the Company to fines, corrective action or other sanctions.

Some of the Company's current and former facilities are the subject of environmental investigations and remediations resulting from historic 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.

On October 8, 2007, the Company received a notice from the United States Environmental Protection Agency (the EPA) indicating that it is a potentially responsible party for the remedial investigation and feasibility study to be conducted at the Devil's Swamp Lake site in East Baton Rouge Parish, Louisiana. The Company believes it is a de minimis contributor to the site and expects to enter into negotiations with the EPA and other potentially responsible parties regarding its potential responsibility and liability, but it is too early in the investigation process to quantify possible costs with respect to such site.

The Company has established reserves for those facilities or issues where liability is probable and the costs are reasonably estimable. The Company believes that the amounts accrued for all of its loss contingencies, and the reasonably possible loss beyond the amounts accrued, are not material to the Company's consolidated financial position, results of operations or cash flows. The Company cannot estimate with certainty other future corrective compliance, investigation or remediation costs. Costs relating to historic usage that the Company considers to be reasonably possible are not quantifiable at this time. The Company will continue to monitor environmental issues at each of its facilities, as well as regulatory developments, and will revise its accruals, estimates and disclosures relating to past, present and future operations, as additional information is obtained.

Legal Matters

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.

NOTE 10 BUSINESS SEGMENT INFORMATION

The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging. These segments are evaluated by the chief operating decision maker based primarily on Income from Operations. The Company's reportable segments are based upon strategic business units that offer different products. The accounting policies of the reportable segments are the same as those described in GPHC's Annual Report on Form 10-K for the year ended December 31, 2009.

The paperboard packaging segment is highly integrated and includes a system of mills and plants that produces a broad range of paperboard grades convertible into folding cartons. Folding cartons are used primarily to protect products, such as food, detergents, paper products, beverages, and health and beauty aids, while providing point of purchase advertising. The paperboard packaging

Table of Contents

business segment includes the design, manufacture and installation of packaging machinery related to the assembly of cartons and the production and sale of corrugated medium and kraft paper from paperboard mills in the U.S.

The multi-wall bag business segment converts kraft and specialty paper into multi-wall bags, consumer bags and specialty retail bags. The bags are designed to ship and protect a wide range of industrial and consumer products including fertilizers, chemicals, concrete and pet and food products.

The specialty packaging business segment primarily includes flexible packaging, label solutions and laminations. This segment converts a wide variety of technologically advanced films for use in the food, pharmaceutical and industrial end-markets. Flexible packaging paper and metallicized paper labels and heat transfer labels are used in a wide range of consumer applications.

Business segment information is as follows:

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
NET SALES:				
Paperboard Packaging	\$ 873.3	\$ 886.2	\$2,575.7	\$2,605.9
Multi-wall Bag	122.2	117.5	354.9	357.6
Specialty Packaging	47.3	50.5	152.8	153.7
Total	\$1,042.8	\$1,054.2	\$3,083.4	\$3,117.2
INCOME (LOSS) FROM OPERATIONS:				
Paperboard Packaging	\$ 86.8	\$ 90.8	\$ 237.5	\$ 232.2
Multi-wall Bag	0.6	1.8	2.9	3.2
Specialty Packaging	1.0		9.9	6.1
Corporate	(9.9)	4.9	(89.4)	(22.9)
Total	\$ 78.5	\$ 97.5	\$ 160.9	\$ 218.6

NOTE 11 EARNINGS PER SHARE

<i>In millions, except per share data</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net Income (Loss)	\$ 17.6	\$ 33.2	\$ (8.9)	\$ 24.6
Weighted Average Shares:				
Basic	344.1	343.4	343.7	343.0
Stock Awards	3.1	1.5		0.9
Diluted	347.2	344.9	343.7	343.9
Earnings (Loss) Per Share Basic	\$ 0.05	\$ 0.10	\$ (0.03)	\$ 0.07
Earnings (Loss) Per Share Diluted	\$ 0.05	\$ 0.10	\$ (0.03)	\$ 0.07

The following are the potentially dilutive securities excluded from the above calculation because the effect would have been anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Employee Stock Options	4,942,072	6,054,592		6,377,864
Restricted Stock Unit Awards		11,667		745,098
Total	4,942,072	6,066,259		7,122,962

Table of Contents**NOTE 12 GUARANTOR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

These Condensed Consolidated Financial Statements reflect GPHC and GPC (collectively the Parent); GPII (the Subsidiary Issuer); and the Subsidiary Guarantors, which consist of all material 100% owned subsidiaries of GPII other than its foreign subsidiaries. The nonguarantor subsidiaries are herein referred to as Nonguarantor Subsidiaries. Separate complete financial statements of the Subsidiary Guarantors are not presented because the guarantors are jointly and severally, fully and unconditionally liable under the guarantees.

Three Months Ended September 30, 2010						
<i>In millions</i>	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	\$	\$844.3	\$132.1	\$ 106.8	\$ (40.4)	\$1,042.8
Cost of Sales		711.3	119.8	97.0	(40.4)	887.7
Selling, General and Administrative		64.5	8.6	7.8		80.9
Other (Income), Net		(4.1)		(0.2)		(4.3)
Income from Operations		72.6	3.7	2.2		78.5
Interest Expense, Net		(43.7)		(0.3)		(44.0)
Loss on Modification or Extinguishment of Debt		(6.5)				(6.5)
Income before Income Taxes and Equity in Net Earnings of Affiliates		22.4	3.7	1.9		28.0
Income Tax Expense		(7.9)	(0.4)	(2.7)		(11.0)
Income (Loss) before Equity in Net Earnings of Affiliates		14.5	3.3	(0.8)		17.0
Equity in Net Earnings of Affiliates				0.6		0.6
Equity in Net Earnings of Subsidiaries	17.6	3.1	(0.8)		(19.9)	
Net Income (Loss)	\$17.6	\$ 17.6	\$ 2.5	\$ (0.2)	\$ (19.9)	\$ 17.6

Table of Contents

Three Months Ended September 30, 2009						
<i>In millions</i>	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	\$	\$850.9	\$130.1	\$110.2	\$ (37.0)	\$1,054.2
Cost of Sales		726.4	116.4	102.0	(37.0)	907.8
Selling, General and Administrative		60.7	8.5	6.6		75.8
Other (Income), Net		(1.3)	(0.4)	(1.3)		(3.0)
Restructuring and Other Special Credits		(23.9)				(23.9)
Income from Operations		89.0	5.6	2.9		97.5
Interest Expense, Net		(53.0)	0.1	(0.4)		(53.3)
Loss on Modification or Extinguishment of Debt		(1.0)				(1.0)
Income before Income Taxes and Equity in Net Earnings of Affiliates		35.0	5.7	2.5		43.2
Income Tax (Expense) Benefit		(8.8)	0.1	(1.6)		(10.3)
Income before Equity in Net Earnings of Affiliates		26.2	5.8	0.9		32.9
Equity in Net Earnings of Affiliates				0.3		0.3
Equity in Net Earnings of Subsidiaries	33.2	7.0	(0.5)		(39.7)	
Net Income (Loss)	\$33.2	\$ 33.2	\$ 5.3	\$ 1.2	\$ (39.7)	\$ 33.2

Table of Contents

Nine Months Ended September 30, 2010						
<i>In millions</i>	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	\$	\$2,496.7	\$ 396.7	\$ 318.4	\$ (128.4)	\$3,083.4
Cost of Sales		2,121.2	351.2	289.7	(128.4)	2,633.7
Selling, General and Administrative		187.4	26.3	23.0		236.7
Other (Income), Net		(2.5)		(0.5)		(3.0)
Restructuring and Other Special Charges		55.1				55.1
Income from Operations		135.5	19.2	6.2		160.9
Interest Expense, Net		(132.9)		(1.1)		(134.0)
Loss on Modification or Extinguishment of Debt		(7.4)				(7.4)
(Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates		(4.8)	19.2	5.1		19.5
Income Tax Expense		(23.7)	(0.4)	(5.7)		(29.8)
(Loss) Income before Equity in Net Earnings of Affiliates		(28.5)	18.8	(0.6)		(10.3)
Equity in Net Earnings of Affiliates				1.4		1.4
Equity in Net Earnings of Subsidiaries	(8.9)	19.6	0.6		(11.3)	
Net (Loss) Income	\$(8.9)	\$ (8.9)	\$ 19.4	\$ 0.8	\$ (11.3)	\$ (8.9)

Table of Contents

Nine Months Ended September 30, 2009						
<i>In millions</i>	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	\$	\$2,521.5	\$404.3	\$ 296.7	\$ (105.3)	\$3,117.2
Cost of Sales		2,173.3	362.8	274.4	(108.1)	2,702.4
Selling, General and Administrative		188.6	29.1	21.7		239.4
Other (Income), Net		(3.0)	(6.0)	(4.3)		(13.3)
Restructuring and Other Special Credits		(29.9)				(29.9)
Income from Operations		192.5	18.4	4.9	2.8	218.6
Interest Expense, Net		(156.7)	0.2	(1.5)		(158.0)
Loss on Modification or Extinguishment of Debt		(7.1)				(7.1)
Income before Income Taxes and Equity in Net Earnings of Affiliates		28.7	18.6	3.4	2.8	53.5
Income Tax (Expense) Benefit		(25.7)	0.1	(4.1)		(29.7)
Income (Loss) before Equity in Net Earnings of Affiliates		3.0	18.7	(0.7)	2.8	23.8
Equity in Net Earnings of Affiliates				0.8		0.8
Equity in Net Earnings of Subsidiaries	24.6	21.6	1.5		(47.7)	
Net Income (Loss)	\$24.6	\$ 24.6	\$ 20.2	\$ 0.1	\$ (44.9)	\$ 24.6

Table of Contents

<i>In millions</i>	September 30, 2010					Consolidated
	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 142.1	\$	\$ 24.2	\$	\$ 166.3
Receivables, Net		300.3	52.3	78.3		430.9
Inventories, Net		326.4	63.6	54.2		444.2
Intercompany	6.9	174.7	(115.9)	(65.7)		
Other Current Assets		61.9	1.2	7.2		70.3
Total Current Assets	6.9	1,005.4	1.2	98.2		1,111.7
Property, Plant and Equipment, Net						
		1,480.0	121.6	61.1	(0.2)	1,662.5
Investment in Consolidated Subsidiaries	723.1	211.2	(2.7)	122.3	(1,053.9)	
Goodwill		1,170.9		33.5		1,204.4
Intangible Assets, Net		575.3		11.8		587.1
Other Assets		35.1	0.7	16.2		52.0
Total Assets	\$730.0	\$4,477.9	\$ 120.8	\$ 343.1	\$(1,054.1)	\$4,617.7
LIABILITIES						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	\$	\$ 20.0	\$	\$ 8.8	\$	\$ 28.8
Accounts Payable		263.4	39.2	33.5		336.1
Interest Payable		34.6				34.6
Other Accrued Liabilities		168.2	9.6	20.9		198.7
Total Current Liabilities		486.2	48.8	63.2		598.2
Long-Term Debt		2,696.0		0.9		2,696.9
Deferred Income Tax Liabilities		245.5	0.9	4.5		250.9
Other Noncurrent Liabilities		327.1		14.6		341.7
Total Liabilities		3,754.8	49.7	83.2		3,887.7

**SHAREHOLDERS
EQUITY**

Total Shareholders Equity	730.0	723.1	71.1	259.9	(1,054.1)	730.0
Total Liabilities and Shareholders Equity	\$730.0	\$4,477.9	\$ 120.8	\$ 343.1	\$(1,054.1)	\$4,617.7

Table of Contents

In millions	December 31, 2009					Consolidated
	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 124.3	\$	\$ 25.5	\$	\$ 149.8
Receivables, Net		266.0	41.6	74.7		382.3
Inventories, Net		333.2	56.8	46.5		436.5
Intercompany	1.8	193.5	(130.9)	(64.4)		
Other Current Assets		48.2	0.7	3.8		52.7
Total Current Assets	1.8	965.2	(31.8)	86.1		1,021.3
Property, Plant and Equipment, Net		1,594.9	139.1	63.6	(0.2)	1,797.4
Investment in Consolidated Subsidiaries	727.0	184.2	(0.2)	123.2	(1,034.2)	
Goodwill		1,171.9		32.7		1,204.6
Intangible Assets, Net		607.7		12.3		620.0
Other Assets		41.5	0.7	16.3		58.5
Total Assets	\$728.8	\$4,565.4	\$ 107.8	\$ 334.2	\$(1,034.4)	\$4,701.8
LIABILITIES						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	\$	\$ 10.0	\$	\$ 7.6	\$	\$ 17.6
Accounts Payable		282.8	39.5	39.5		361.8
Interest Payable		42.7				42.7
Other Accrued Liabilities		184.5	12.6	15.3		212.4
Total Current Liabilities		520.0	52.1	62.4		634.5
Long-Term Debt		2,782.6				2,782.6
Deferred Income Tax Liabilities		221.7	0.9	4.3		226.9
Other Noncurrent Liabilities		314.1		14.9		329.0
Total Liabilities		3,838.4	53.0	81.6		3,973.0

**SHAREHOLDERS
EQUITY**

Total Shareholders Equity	728.8	727.0	54.8	252.6	(1,034.4)	728.8
Total Liabilities and Shareholders Equity	\$728.8	\$4,565.4	\$ 107.8	\$ 334.2	\$(1,034.4)	\$4,701.8

Table of Contents

Nine Months Ended September 30, 2010						
<i>In millions</i>	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net (Loss) Income	\$(8.9)	\$ (8.9)	\$ 19.4	\$ 0.8	\$ (11.3)	\$ (8.9)
Noncash Items Included in Net (Loss) Income:						
Depreciation and Amortization		198.9	12.5	6.6		218.0
Deferred Income Taxes		23.8	0.6			24.4
Amount of Postemployment Expense Less Than Funding		(13.1)		(1.7)		(14.8)
Equity in Subsidiaries	8.9	(19.6)	(0.6)		11.3	
Other, Net		31.3				31.3
Changes in Operating Assets and Liabilities		(41.9)	(29.9)	(4.1)		(75.9)
Net Cash Provided by Operating Activities		170.5	2.0	1.6		174.1
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital Spending		(66.6)	(2.0)	(5.3)		(73.9)
Other, Net		(3.6)				(3.6)
Net Cash Used in Investing Activities		(70.2)	(2.0)	(5.3)		(77.5)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from Issuance or Modification of Debt		29.4				29.4
Payments on Debt		(101.7)				(101.7)
Borrowings under Revolving Credit Facilities		82.4		44.0		126.4
Payments on Revolving Credit Facilities		(82.4)		(42.2)		(124.6)
Redemption and Early Tender Premiums and Debt Issuance Costs		(10.2)				(10.2)

Net Cash (Used in) Provided by Financing Activities	(82.5)	1.8	(80.7)
Effect of Exchange Rate Changes on Cash		0.6	0.6
Net Increase in Cash and Cash Equivalents	17.8	(1.3)	16.5
Cash and Cash Equivalents at Beginning of Period	124.3	25.5	149.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 142.1	\$ 24.2	\$ 166.3

Table of Contents

<i>In millions</i>	Nine Months Ended September 30, 2009					
	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Income (Loss)	\$ 24.6	\$ 24.6	\$ 20.2	\$ 0.1	\$ (44.9)	\$ 24.6
Noncash Items Included in Net Income (Loss):						
Depreciation and Amortization		202.6	17.9	7.5		228.0
Deferred Income Taxes		23.8	4.1			27.9
Amount of Postemployment Expense Greater (Less) Than Funding		15.4		(2.3)		13.1
Equity in Subsidiaries	(24.6)	(21.6)	(1.5)		47.7	
Other, Net		19.3	(1.2)			18.1
Changes in Operating Assets and Liabilities		26.9	(31.2)	17.9	(2.8)	10.8
Net Cash Provided by Operating Activities		291.0	8.3	23.2		322.5
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital Spending		(85.6)	(5.0)	(5.7)		(96.3)
Proceeds from Sales of Assets, Net of Selling Costs		5.7	4.1			9.8
Other, Net		(2.2)				(2.2)
Net Cash Used in Investing Activities		(82.1)	(0.9)	(5.7)		(88.7)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from Issuance of Debt		423.8				423.8
Payments on Debt		(425.3)				(425.3)
Borrowings under Revolving Credit Facilities		105.9		42.0		147.9
Payments on Revolving Credit Facilities		(249.1)		(42.1)		(291.2)
Redemption and Early Tender Premiums and Debt Issuance Costs		(14.7)				(14.7)
Net Cash Used in Financing Activities		(159.4)		(0.1)		(159.5)
				0.3		0.3

Effect of Exchange Rate Changes
on Cash

Net Increase in Cash and Cash Equivalents		49.5	7.4	17.7		74.6
Cash and Cash Equivalents at Beginning of Period		170.8	(7.5)	6.8		170.1
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	\$ 220.3	\$ (0.1)	\$ 24.5	\$	\$ 244.7

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

This management's discussion and analysis of financial conditions and results of operations is intended to provide investors with an understanding of Graphic Packaging Holding Company's (GPHC) and, together with its subsidiaries, the Company's past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Ø Overview of Business

Ø Overview of 2010 Results

Ø Results of Operations

Ø Financial Condition, Liquidity and Capital Resources

Ø Critical Accounting Policies

Ø New Accounting Standards

Ø 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 coated unbleached kraft (CUK), coated-recycled board (CRB) and uncoated-recycled board, 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 also a leading supplier of multi-wall bags and in addition to a full range of products, provides customers with value-added graphical and technical support, and packaging workshops to help educate customers.

The Company's specialty packaging business has an established position in end-markets for food products, pharmaceutical and medical products, personal care, industrial, pet food and pet care products. In addition, 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 low-cost 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. Although the Company is currently experiencing inflation with certain input costs, its cost of goods sold during the first nine months of 2010 reflects the lower cost associated with the inventory on hand at December 31, 2009. Inflation increased costs in the first nine months of 2010 by \$75.5 million, compared to the first nine months of 2009. The higher costs in 2010 are primarily

Table of Contents

related to secondary fiber and wood (\$54.6 million); resin and inks and coatings (\$32.3 million); freight (\$6.6 million); externally purchased board (\$6.0 million) and other costs (\$9.2 million). These higher costs were partially offset by lower energy costs (\$30.7 million), mainly due to the price of natural gas and chemicals (\$2.5 million). 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.

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 natural gas usage for the remainder of 2010. Additionally, the Company has hedged a portion of its expected usage for 2011.

Substantial Debt Obligations. The Company has \$2,725.7 million of outstanding debt obligations as of September 30, 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 dated May 16, 2007, as amended (the "Credit Agreement") and the indentures governing the 9.5% Senior Subordinated Notes due 2013, 9.5% Senior Notes due 2017, and the 7.875% Senior Notes due 2018 (the "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 "Financial Condition, Liquidity and Capital Resources" 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 the first nine months of 2010, the Company achieved \$119.6 million in additional cost savings as compared to the first nine months of 2009, through its continuous improvement programs and integration synergies. 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 solid bleached sulfate and recycled clay-coated news. 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 sales historically are also driven by consumer buying habits in the markets its customers serve. Increases in the costs of living, conditions in the residential real estate market, high unemployment rates, tight credit markets and declines in consumer

Table of Contents

disposable income, 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 of 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 of 2009, the Company received notification from the IRS that its registration as an alternate fuel mixer had been approved. As of September 30, 2009, the Company had submitted refund claims based on fuel usage at the two mills from mid-January 2009 through September 30, 2009 totaling \$103.8 million and had received refunds totaling \$97.2 million. The net impact of the tax credit is included in Restructuring and Other Special (Credits) Charges in the amount of \$38.5 million and \$93.8 million for the three and nine months ended September 30, 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.

Net Sales for the three months ended September 30, 2010 decreased by \$11.4 million, or 1.1%, to \$1,042.8 million from \$1,054.2 million for the three months ended September 30, 2009 primarily due to lower volume in the paperboard packaging and specialty packaging segments. These decreases were partially offset by higher pricing across all segments and volume improvement in multi-wall bag.

Income from Operations for the three months ended September 30, 2010 decreased by \$19.0 million, or 19.5%, to \$78.5 million from \$97.5 million for the three months ended September 30, 2009. This decrease was primarily due to the \$38.5 million alternative fuel tax credit net of expenses received in the third quarter of 2009 and higher input costs experienced in the third quarter of 2010. The negative impact of the inflation was offset by higher pricing and cost savings achieved through continuous improvement programs and integration synergies and lower merger related expenses of \$14.6 million.

RESULTS OF OPERATIONS***Segment Information***

The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging.

<i>In millions</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
NET SALES:				
Paperboard Packaging	\$ 873.3	\$ 886.2	\$2,575.7	\$2,605.9
Multi-wall Bag	122.2	117.5	354.9	357.6
Specialty Packaging	47.3	50.5	152.8	153.7
Total	\$1,042.8	\$1,054.2	\$3,083.4	\$3,117.2
INCOME (LOSS) FROM OPERATIONS:				
Paperboard Packaging	\$ 86.8	\$ 90.8	\$ 237.5	\$ 232.2

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Multi-wall Bag	0.6	1.8	2.9	3.2
Specialty Packaging	1.0		9.9	6.1
Corporate	(9.9)	4.9	(89.4)	(22.9)
Total	\$ 78.5	\$ 97.5	\$ 160.9	\$ 218.6

29

Table of Contents**THIRD QUARTER 2010 COMPARED WITH THIRD QUARTER 2009****Net Sales**

<i>In millions</i>	Three Months Ended September 30,			Percent Change
	2010	2009	Increase (Decrease)	
Paperboard Packaging	\$ 873.3	\$ 886.2	\$(12.9)	(1.5%)
Multi-wall Bag	122.2	117.5	4.7	4.0%
Specialty Packaging	47.3	50.5	(3.2)	(6.3%)
Total	\$1,042.8	\$1,054.2	\$(11.4)	(1.1%)

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