

GRAPHIC PACKAGING HOLDING CO

Form 10-Q

April 21, 2011

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**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 March 31, 2011**

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

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

Yes  No

As of April 18, 2011, there were 343,730,747 shares of the registrant's Common Stock, par value \$0.01 per share, outstanding.



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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, net debt reduction, pension plan contributions and postretirement health care benefit payments, 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 2010 Annual Report on Form 10-K and in other filings with the Securities and Exchange Commission.

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**PART I FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**GRAPHIC PACKAGING HOLDING COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	<b>Three Months Ended March 31,</b>	
<i>In millions, except per share amounts</i>	<b>2011</b>	<b>2010</b>
Net Sales	\$1,000.6	\$1,004.1
Cost of Sales	842.4	858.3
Selling, General and Administrative	89.5	77.4
Other Expense, Net	0.1	0.3
Restructuring and Other Special Charges		8.5
Income from Operations	68.6	59.6
Interest Expense, Net	(39.3)	(45.0)
Income before Income Taxes and Equity Income of Unconsolidated Entities	29.3	14.6
Income Tax Expense	(2.9)	(8.6)
Income before Equity Income of Unconsolidated Entities	26.4	6.0
Equity Income of Unconsolidated Entities	0.3	0.3
Net Income	\$ 26.7	\$ 6.3
Income Per Share Basic	\$ 0.08	\$ 0.02
Income Per Share Diluted	\$ 0.08	\$ 0.02
Weighted Average Number of Shares Outstanding Basic	344.2	343.4
Weighted Average Number of Shares Outstanding Diluted	349.8	346.9

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

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**GRAPHIC PACKAGING HOLDING COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(Unaudited)**

<i>In millions, except share and per share amounts</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 109.1	\$ 138.7
Receivables, Net	409.2	382.2
Inventories, Net	490.5	417.3
Other Current Assets	72.8	75.4
<b>Total Current Assets</b>	<b>1,081.6</b>	<b>1,013.6</b>
Property, Plant and Equipment, Net	1,623.0	1,641.5
Goodwill	1,206.3	1,205.2
Intangible Assets, Net	565.5	576.6
Other Assets	47.7	47.7
<b>Total Assets</b>	<b>\$4,524.1</b>	<b>\$ 4,484.6</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	\$ 26.9	\$ 26.0
Accounts Payable	359.0	361.5
Interest Payable	41.3	28.4
Other Accrued Liabilities	165.4	179.8
<b>Total Current Liabilities</b>	<b>592.6</b>	<b>595.7</b>
Long-Term Debt	2,553.1	2,553.1
Deferred Income Tax Liabilities	244.2	241.1
Other Noncurrent Liabilities	342.5	347.7
<b>Total Liabilities</b>	<b>3,732.4</b>	<b>3,737.6</b>
<b>SHAREHOLDERS EQUITY</b>		
Preferred Stock, par value \$.01 per share; 100,000,000 shares authorized; no shares issued or outstanding		
Common Stock, par value \$.01 per share; 1,000,000,000 shares authorized; 343,730,747 and 343,698,778 shares issued and outstanding at March 31, 2011	3.4	3.4

and December 31, 2010, respectively

Capital in Excess of Par Value	1,967.4	1,965.2
Accumulated Deficit	(981.6)	(1,008.3)
Accumulated Other Comprehensive Loss	(197.5)	(213.3)
<b>Total Shareholders Equity</b>	<b>791.7</b>	<b>747.0</b>
<b>Total Liabilities and Shareholders Equity</b>	<b>\$4,524.1</b>	<b>\$ 4,484.6</b>

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



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

<i>In millions</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 26.7	\$ 6.3
Non-cash Items Included in Net Income:		
Depreciation and Amortization	71.0	74.3
Deferred Income Taxes	2.8	7.9
Amount of Postemployment Expense Less Than Funding	(3.0)	(1.4)
Other, Net	7.7	7.0
Changes in Operating Assets and Liabilities	(99.1)	(119.3)
Net Cash Provided by (Used in) Operating Activities	6.1	(25.2)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital Spending	(36.8)	(18.2)
Other, Net	(0.8)	(1.1)
Net Cash Used in Investing Activities	(37.6)	(19.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under Revolving Credit Facilities	11.2	96.0
Payments on Revolving Credit Facilities	(10.6)	(95.8)
Other, Net	0.1	
Net Cash Provided by Financing Activities	0.7	0.2
Effect of Exchange Rate Changes on Cash	1.2	0.1
Net Decrease in Cash and Cash Equivalents	(29.6)	(44.2)
Cash and Cash Equivalents at Beginning of Period	138.7	149.8
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 109.1</b>	<b>\$ 105.6</b>

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

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**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 flexible packaging. The Company's customers include some of the most widely recognized companies in the world. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, its proprietary carton and packaging designs, and its commitment to customer service.

GPHC 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 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, 2010. 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.

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, 2010.

***Adoption of New Accounting Standards***

Effective January 1, 2011, the Company adopted guidance as required by the *Revenue Recognition* topic of the FASB Codification which requires vendors to account for transactions with the same customer involving multiple products or services (deliverables) separately rather than as a combined unit. The adoption did not have a material impact on the Company's financial position, results of operations or cash flows.

**Table of Contents****NOTE 2 INVENTORIES, NET**

Inventories, Net by major class:

<i>In millions</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Finished Goods	\$277.1	\$ 231.7
Work in Progress	46.0	36.5
Raw Materials	119.8	102.0
Supplies	64.7	65.6
	507.6	435.8
Less: Allowance	(17.1)	(18.5)
Total	\$490.5	\$ 417.3

**NOTE 3 DEBT**

There were no significant changes in the Company's debt agreements during the three months ended March 31, 2011. For more information regarding the characteristics of the Company's debt, see *Note 6 Debt* of the Notes to Consolidated Financial Statements of the Company's 2010 Annual Report on Form 10-K.

Long-Term Debt is composed of the following:

<i>In millions</i>	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Senior Notes with interest payable semi-annually at 7.875%, payable in 2018 (\$250.0 million face amount)	\$ 246.1	\$ 246.0
Senior Notes with interest payable semi-annually at 9.5%, payable in 2017 (\$425.0 million face amount)	423.4	423.5
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	73.3	73.3
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (2.30% at March 31, 2011) payable through 2014	837.7	837.7
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (3.05% at March 31, 2011) payable through 2014	989.9	989.9
Senior Secured Revolving Facility with interest payable at various dates at floating rates (2.52% at March 31, 2011) payable in 2013		
Other	2.4	2.0
	2,572.8	2,572.4
Less: current portion	19.7	19.3
Total	\$2,553.1	\$2,553.1

At March 31, 2011, 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>	<b>Total Commitments</b>	<b>Total Outstanding</b>	<b>Total Available(a)</b>
Revolving Credit Facility	\$ 400.0	\$	\$363.6
International Facilities	17.1	7.2	9.9
<b>Total</b>	<b>\$ 417.1</b>	<b>\$ 7.2</b>	<b>\$373.5</b>

## Note:

- (a) In accordance with its debt agreements, the Company's availability under its Revolving Credit Facility has been reduced by the amount of standby letters of credit issued of \$36.4 million as of March 31, 2011. These letters of credit are primarily used as security against its self-insurance obligations and workers' compensation obligations. These letters of credit expire at various dates in 2012 unless extended.

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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 March 31, 2011, the Company was in compliance with the covenants in the Credit Agreement.

**NOTE 4 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 ). 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.

**Stock Awards, Restricted Stock and Restricted Stock Units**

The Company's 2004 Plan permits the grant of stock awards, restricted stock and RSUs. All RSUs vest and become payable in one to five years from date of grant. 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 three months of 2011 is as follows:

<i>Shares in thousands</i>	<b>Shares</b>	<b>Weighted Avg. Grant Date Fair Value Per Share</b>
RSUs - Employees	3,946	\$ 5.17

During the three months ended March 31, 2011 and 2010, \$8.6 million and \$2.2 million, respectively, were charged to compensation expense for stock incentive plans.

**NOTE 5 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 employees' compensation.

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

**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>	<b>Pension Benefits</b>		<b>Postretirement Health Care Benefits</b>	
	<b>Three Months Ended March 31,</b>			
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Components of Net Periodic Cost:				
Service Cost	\$ 4.8	\$ 5.0	\$ 0.3	\$ 0.3
Interest Cost	13.1	12.7	0.7	0.7
Expected Return on Plan Assets	(14.3)	(12.7)		
Amortization:				
Prior Service Cost	0.1	0.1		
Actuarial Loss (Gain)	3.0	2.3	(0.2)	(0.5)
Net Periodic Cost	\$ 6.7	\$ 7.4	\$ 0.8	\$ 0.5

***Employer Contributions***

The Company made contributions of \$10.2 million and \$8.7 million to its pension plans during the first three months of 2011 and 2010, respectively. The Company expects to make contributions of \$45 million to \$70 million for the full year 2011. During 2010, the Company made \$47.3 million of contributions to its pension plans.

The Company made postretirement health care benefit payments of \$0.3 million and \$0.6 million during the first three months of 2011 and 2010, respectively. The Company estimates its postretirement health care benefit payments for the full year 2011 to be approximately \$4 million. During 2010, the Company made postretirement health care benefit payments of \$3.2 million.

**NOTE 6 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. The differential to be paid or received under these agreements is recognized as an adjustment to Interest Expense related to debt. At March 31, 2011 and December 31, 2010 the Company had interest rate swap agreements with a notional amount of \$1,250.0 million which expire on various dates from 2011 to 2012 under which the Company will pay fixed rates of 2.24% to 3.84% and receive 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.

During the first three months of 2011 and 2010, there were no amounts or 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.

**Table of Contents*****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 price for approximately 48% of its expected natural gas usage for the remainder of 2011 with a weighted average contractual rate of \$4.71 per one million British Thermal Units. Such contracts are designated as cash flow hedges. The contracts are carried at fair value with changes in fair value recognized in Other Comprehensive Income (Loss), and 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 three months of 2011 and 2010, 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. Such contracts are designated as cash flow hedges. The contracts are carried at fair value with changes in fair value recognized in Other Comprehensive Income (Loss), and gains/losses related to these contracts are recognized in Other Expense, Net when the anticipated transaction affects income. At March 31, 2011, multiple forward exchange contracts existed that expire on various dates through 2012. Those purchased forward exchange contracts outstanding at March 31, 2011 and December 31, 2010, when aggregated and measured in U.S. dollars at contractual rates at March 31, 2011 and December 31, 2010, respectively, had notional amounts totaling \$60.2 million and \$58.7 million. No amounts were reclassified to earnings during the first three months of 2011 or during 2010 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 March 31, 2011 and December 31, 2010, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those foreign currency exchange contracts outstanding at March 31, 2011 and December 31, 2010, when aggregated and measured in U.S. dollars at exchange rates at March 31, 2011 and December 31, 2010, respectively, had net notional amounts totaling \$18.9 million and \$8.2 million. Unrealized gains and losses resulting from these contracts are recognized in Other Expense, 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. The Company uses valuation techniques based on discounted cash flow analyses, which reflects the terms of the derivatives and uses observable market-based inputs, including forward rates and uses market price quotations obtained from independent derivatives brokers.

As of March 31, 2011, 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.

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

<i>In millions</i>	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	March 31, 2011	December 31, 2010	Balance Sheet Location	March 31, 2011	December 31, 2010
<b>Derivative Contracts Designated as Hedging Instruments</b>						
Commodity Contracts	Other Current Assets	\$	\$ 0.1	Other Accrued Liabilities	\$ 0.3	\$ 0.8
Foreign Currency Contracts	Other Current Assets	0.3	0.7	Other Accrued Liabilities and Other Noncurrent Liabilities	0.8	0.6
Interest Rate Swap Agreements	Other Current Assets			Other Accrued Liabilities, Other Noncurrent Liabilities, and Interest Payable	26.1	33.3
Total Derivative Contracts		\$0.3	\$ 0.8		\$27.2	\$ 34.7

The fair values of the Company's other financial assets and liabilities at March 31, 2011 and December 31, 2010 approximately equal the carrying values reported on the Consolidated Balance Sheets except for Long-Term Debt. The fair value of the Company's Long-Term Debt was \$2,636.3 million and \$2,626.8 million as compared to the carrying amounts of \$2,572.8 million and \$2,572.4 million as of March 31, 2011 and December 31, 2010, respectively. The fair value of Long-Term Debt is based on quoted market prices.

**Effect of Derivative Instruments**

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

<i>In millions</i>	Amount of Loss (Gain) Recognized in Accumulated Other Comprehensive Loss Three Months Ended March 31,		Location in Statement of Operations (Effective Portion)	Amount of Loss Recognized in Statement of Operations (Effective Portion) Three Months Ended March 31,		Location in Statement of Operations (Ineffective Portion)	Amount of Loss (Gain) Recognized in Statement of Operations (Ineffective Portion) Three Months Ended March 31,	
	2011	2010		2011	2010		2011	2010



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Commodity			Cost of Sales		Cost of Sales		
Contracts	\$0.9	\$ 7.0		\$ 1.7	\$ 0.1		\$ 0.2
Foreign			Other Expense, Net			Other Expense, Net	
Currency							
Contracts	0.7	(1.5)		0.4	0.8		
Interest Rate			Interest Expense, Net			Interest Expense, Net	
Swap							
Agreements	0.8	12.2		7.7	9.5		(0.2)
Total	\$2.4	\$17.7		\$9.8	\$10.4		\$

The effect of derivative instruments not designated as hedging instruments on the Company's Consolidated Statements of Operations is for the three months ended March 31 is as follows:

<i>In millions</i>		<b>2011</b>	<b>2010</b>
Foreign	Other Expense, Net		
Currency			
Contracts		\$0.7	\$0.1

**Table of Contents****Accumulated Derivative Instruments (Loss) Gain**

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

*In millions*

Balance at December 31, 2010	\$ (27.4)
Reclassification to earnings	9.8
Current period change in fair value	(2.4)
Balance at March 31, 2011	\$ (20.0)

At March 31, 2011, the Company expects to reclassify \$19.7 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 7 INCOME TAXES**

During the first three months of 2011, the Company recognized Income Tax Expense of \$2.9 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of \$29.3 million. During the first three months of 2010, the Company recognized Income Tax Expense of \$8.6 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of \$14.6 million. Income Tax Expense for the first three months of 2011 and 2010 primarily relates to the non-cash expense of \$5.6 million and \$7.9 million, respectively, associated with the amortization of goodwill for tax purposes. The reduction was due to a portion of goodwill being fully amortized at the end of 2010. The Company also recorded a benefit related to certain discrete events including the revision of state tax positions and the expiration of the statute of limitation associated with reserves in a foreign jurisdiction. The Company has approximately \$1.3 billion of NOLs for U.S. federal income tax purposes, which may be used to offset future taxable income.

**NOTE 8 COMPREHENSIVE INCOME (LOSS)**

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

<i>In millions</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net Income	\$26.7	\$ 6.3
Other Comprehensive Income (Loss):		
Derivative Instruments Income (Loss)	7.4	(7.3)
Pension Benefit Plans	3.1	2.4
Postretirement Benefit Plans	(0.2)	(0.5)
Postemployment Benefit Plans		0.1
Currency Translation Adjustment	5.5	(0.8)
Total Comprehensive Income	\$42.5	\$ 0.2

**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. 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 historical operations and the release of hazardous substances or other constituents. Some current and former facilities have a history of industrial usage for which investigation and remediation obligations may be imposed in the future or for which indemnification claims may be asserted against the Company. Also, potential future closures or sales of facilities may necessitate further investigation and may result in future remediation at those facilities.

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

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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 historical usage that the Company considers to be reasonably possible of resulting in liability 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 two business segments: paperboard packaging and flexible 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, 2010.

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 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 flexible packaging segment converts kraft and specialty paper into multi-wall bags, consumer and specialty retail bags and produces flexible packaging, label solutions and laminations. 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 flexible packaging, label solutions and laminations are converted from 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>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>NET SALES:</b>		
Paperboard Packaging	\$ 825.0	\$ 834.6
Flexible Packaging	175.6	169.5
Total	\$1,000.6	\$1,004.1
<b>INCOME (LOSS) FROM OPERATIONS:</b>		
Paperboard Packaging	\$ 74.4	\$ 75.7
Flexible Packaging	6.0	6.7

Corporate	(11.8)	(22.8)
Total	\$ 68.6	\$ 59.6

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<i>In millions, except per share data</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net Income	\$ 26.7	\$ 6.3
Weighted Average Shares:		
Basic	344.2	343.4
Dilutive Effect of Stock Awards	5.6	3.5
Diluted	349.8	346.9
Earnings Per Share Basic and Diluted	\$ 0.08	\$ 0.02

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

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Employee Stock Options	4,504,572	4,892,072

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These Consolidating 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.

<i>In millions</i>	<b>Three Months Ended March 31, 2011</b>					
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	<b>Consolidated</b>
Net Sales	\$	\$811.2	\$136.9	\$107.6	\$ (55.1)	\$1,000.6
Cost of Sales		680.5	119.2	97.8	(55.1)	842.4
Selling, General and Administrative		72.9	9.0	7.6		89.5
Other Expense (Income), Net		(0.1)		0.2		0.1
Income from Operations		57.9	8.7	2.0		68.6
Interest Expense, Net		(39.0)		(0.3)		(39.3)
Income before Income Taxes and Equity Income of Unconsolidated Entities		18.9	8.7	1.7		29.3
Income Tax Expense		(2.8)		(0.1)		(2.9)
Income before Equity Income of Unconsolidated Entities		16.1	8.7	1.6		26.4
Equity Income of Unconsolidated Entities				0.3		0.3
Equity in Net Earnings of Subsidiaries	26.7	10.6	(0.4)		(36.9)	
Net Income	\$26.7	\$ 26.7	\$ 8.3	\$ 1.9	\$ (36.9)	\$ 26.7

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<i>In millions</i>	<b>Three Months Ended March 31, 2010</b>					
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	<b>Consolidated</b>
Net Sales	\$	\$808.0	\$133.5	\$98.8	\$(36.2)	\$1,004.1
Cost of Sales		686.2	115.6	92.7	(36.2)	858.3
Selling, General and Administrative		61.0	8.7	7.7		77.4
Other Expense (Income), Net		1.1		(0.8)		0.3
Restructuring and Other Special Charges		8.4	0.1			8.5
Income (Loss) from Operations		51.3	9.1	(0.8)		59.6
Interest Expense, Net		(44.6)		(0.4)		(45.0)
Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities		6.7	9.1	(1.2)		14.6
Income Tax Expense		(7.7)		(0.9)		(8.6)
(Loss) Income before Equity Income of Unconsolidated Entities		(1.0)	9.1	(2.1)		6.0
Equity Income of Unconsolidated Entities				0.3		0.3
Equity in Net Earnings of Subsidiaries	6.3	7.3	1.3		(14.9)	
Net Income (Loss)	\$6.3	\$6.3	\$10.4	\$(1.8)	\$(14.9)	\$6.3



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<i>In millions</i>	<b>March 31, 2011</b>					<b>Consolidated</b>
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 74.5	\$	\$ 34.6	\$	\$ 109.1
Receivables, Net		282.9	51.8	74.5		409.2
Inventories, Net		363.7	66.3	60.5		490.5
Intercompany	11.0	148.9	(99.1)	(60.8)		
Other Current Assets		67.6	1.0	4.2		72.8
<b>Total Current Assets</b>	<b>11.0</b>	<b>937.6</b>	<b>20.0</b>	<b>113.0</b>		<b>1,081.6</b>
Property, Plant and Equipment, Net		1,443.1	116.6	63.5	(0.2)	1,623.0
Investment in Consolidated Subsidiaries	780.7	242.2	2.8	141.4	(1,167.1)	
Goodwill		1,170.8		35.5		1,206.3
Intangible Assets, Net		553.7		11.8		565.5
Other Assets		35.9	0.1	11.7		47.7
<b>Total Assets</b>	<b>\$791.7</b>	<b>\$4,383.3</b>	<b>\$ 139.5</b>	<b>\$ 376.9</b>	<b>\$(1,167.3)</b>	<b>\$4,524.1</b>
<b>LIABILITIES</b>						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	\$	\$ 18.9	\$	\$ 8.0	\$	\$ 26.9
Accounts Payable		270.0	48.3	40.7		359.0
Interest Payable		41.3				41.3
Other Accrued Liabilities		142.2	7.8	15.4		165.4
<b>Total Current Liabilities</b>		<b>472.4</b>	<b>56.1</b>	<b>64.1</b>		<b>592.6</b>
Long-Term Debt		2,552.3		0.8		2,553.1
Deferred Income Tax Liabilities		240.5		3.7		244.2
Other Noncurrent Liabilities		337.4		5.1		342.5
<b>Total Liabilities</b>		<b>3,602.6</b>	<b>56.1</b>	<b>73.7</b>		<b>3,732.4</b>

**SHAREHOLDERS  
EQUITY**

<b>Total Shareholders Equity</b>	791.7	780.7	83.4	303.2	(1,167.3)	791.7
<b>Total Liabilities and Shareholders Equity</b>	\$791.7	\$4,383.3	\$139.5	\$ 376.9	\$(1,167.3)	\$4,524.1

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<i>In millions</i>	<b>December 31, 2010</b>					<b>Consolidated</b>
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 107.1	\$	\$ 31.6	\$	\$ 138.7
Receivables, Net		266.1	46.0	70.1		382.2
Inventories, Net		315.8	55.2	46.3		417.3
Deferred Income Tax Assets		27.4		0.6		28.0
Intercompany	8.8	144.0	(103.3)	(49.5)		
Other Current Assets		42.0	1.0	4.4		47.4
<b>Total Current Assets</b>	<b>8.8</b>	<b>902.4</b>	<b>(1.1)</b>	<b>103.5</b>		<b>1,013.6</b>
Property, Plant and Equipment, Net		1,460.0	119.5	62.2	(0.2)	1,641.5
Investment in Consolidated Subsidiaries	738.2	220.8	0.8	129.6	(1,089.4)	
Goodwill		1,170.7		34.5		1,205.2
Other Assets		600.2	0.2	23.9		624.3
<b>Total Assets</b>	<b>\$747.0</b>	<b>\$4,354.1</b>	<b>\$ 119.4</b>	<b>\$ 353.7</b>	<b>\$(1,089.6)</b>	<b>\$4,484.6</b>
<b>LIABILITIES</b>						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	\$	\$ 18.9	\$	\$ 7.1	\$	\$ 26.0
Accounts Payable		281.6	38.0	41.9		361.5
Interest Payable		28.4				28.4
Other Accrued Liabilities		157.4	8.7	13.7		179.8
<b>Total Current Liabilities</b>		<b>486.3</b>	<b>46.7</b>	<b>62.7</b>		<b>595.7</b>
Long-Term Debt		2,552.2		0.9		2,553.1
Deferred Income Tax Liabilities		237.1		4.0		241.1
Other Noncurrent Liabilities		340.3		7.4		347.7

<b>Total Liabilities</b>		3,615.9	46.7	75.0		3,737.6
<b>SHAREHOLDERS EQUITY</b>						
<b>Total Shareholders Equity</b>	747.0	738.2	72.7	278.7	(1,089.6)	747.0
<b>Total Liabilities and Shareholders Equity</b>	\$747.0	\$4,354.1	\$ 119.4	\$ 353.7	\$(1,089.6)	\$4,484.6

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<i>In millions</i>	<b>Three Months Ended March 31, 2011</b>					
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Combined Consolidating Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net Income (Loss)	\$ 26.7	\$ 26.7	\$ 8.3	\$ 1.9	\$ (36.9)	\$ 26.7
Non-cash Items Included in Net Income (Loss):						
Depreciation and Amortization		64.0	4.4	2.6		71.0
Deferred Income Taxes		5.6	(2.8)			2.8
Amount of Postretirement Expense Less Than Funding		(2.2)		(0.8)		(3.0)
Equity in Net Earnings of Subsidiaries	(26.7)	(10.6)	0.4		36.9	
Other, Net		6.6		1.1		7.7
Changes in Operating Assets and Liabilities		(88.6)	(9.4)	(1.1)		(99.1)
Net Cash Provided by Operating Activities		1.5	0.9	3.7		6.1
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Capital Spending		(33.4)	(0.9)	(2.5)		(36.8)
Other, Net		(0.8)				(0.8)
Net Cash Used in Investing Activities		(34.2)	(0.9)	(2.5)		(37.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings under Revolving Credit Facilities				11.2		11.2
Payments on Revolving Credit Facilities				(10.6)		(10.6)
Other, Net		0.1				0.1
Net Cash Provided by Financing Activities		0.1		0.6		0.7

Effect of Exchange Rate Changes on Cash			1.2		1.2
Net (Decrease) Increase in Cash and Cash Equivalents	(32.6)		3.0		(29.6)
Cash and Cash Equivalents at Beginning of Period	107.1		31.6		138.7
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 74.5	\$	\$ 34.6	\$	\$ 109.1

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<i>In millions</i>	<b>Three Months Ended March 31, 2010</b>					
	<b>Parent</b>	<b>Subsidiary Issuer</b>	<b>Combined Guarantor Subsidiaries</b>	<b>Combined Nonguarantor Subsidiaries</b>	<b>Consolidating Eliminations</b>	<b>Consolidated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net Income (Loss)	\$ 6.3	\$ 6.3	\$ 10.4	\$ (1.8)	\$ (14.9)	\$ 6.3
Non-cash Items Included in Net Income (Loss):						
Depreciation and Amortization		67.9	4.1	2.3		74.3
Deferred Income Taxes		7.9				7.9
Amount of Postretirement Expense Less Than Funding		(0.8)		(0.6)		(1.4)
Equity in Net Earnings of Subsidiaries	(6.3)	(7.3)	(1.3)		14.9	
Other, Net		7.0				7.0
Changes in Operating Assets and Liabilities		(102.9)	(13.2)	(3.2)		(119.3)
Net Cash Used in Operating Activities		(21.9)		(3.3)		(25.2)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Capital Spending		(17.0)		(1.2)		(18.2)
Other, Net		(1.1)				(1.1)
Net Cash Used in Investing Activities		(18.1)		(1.2)		(19.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>						
Borrowings under Revolving Credit Facilities		82.3		13.7		96.0
Payments on Revolving Credit Facilities		(82.7)		(13.1)		(95.8)
Net Cash (Used in) Provided by Financing Activities		(0.4)		0.6		0.2

Effect of Exchange Rate Changes on Cash			0.1		0.1
Net Decrease in Cash and Cash Equivalents	(40.4)		(3.8)		(44.2)
Cash and Cash Equivalents at Beginning of Period	124.3		25.5		149.8
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$	\$ 83.9	\$	\$ 21.7	\$ 105.6



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**NOTE 13 SUBSEQUENT EVENTS**

On April 2, 2011, the Company entered into a definitive agreement to acquire substantially all of the assets and business of Sierra Pacific Packaging, Inc., a producer of folding cartons, beverage carriers and corrugated boxes for the consumer packaged goods industry for approximately \$53.5 million. Completion of the transaction is expected to occur during the second quarter of 2011.

On April 20, 2011, the Company closed the 47.0 million share public offering of its common stock that was priced at \$4.75 per share, representing net proceeds of approximately \$213.2 million after deducting the underwriting discounts. The Company will use a portion of the net proceeds from the offering to repurchase 6.5 million shares of common stock held by the Grover C. Coors Trust. Additionally, the Company intends to use approximately \$53.5 million of the proceeds from the offering to acquire substantially all of the assets of Sierra Pacific Packaging, Inc. The Company will use any remaining net proceeds to reduce its indebtedness and for general corporate purposes. Had the public offering of common stock and repurchase of common shares held by the Grover C. Coors Trust occurred during the first quarter of 2011, the number of common shares outstanding as of March 31, 2011 would have increased from 343.7 million shares to 384.2 million shares.

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**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) past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Overview of Business

Overview of 2011 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 costs in the first three months of 2011 by \$35.5 million, compared to the first three months of 2010. The higher costs in 2011 are primarily related to externally purchased board (\$8.9 million), chemical-based inputs (\$11.0 million); external paper (\$5.8 million); secondary fiber (\$5.0 million); labor and related benefits (\$4.9 million); freight (\$4.8 million) and other costs (\$1.0 million). These higher costs were partially offset by lower wood (\$3.2 million) and energy costs (\$2.7 million), mainly due to the price of natural gas.



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As the price of natural gas has experienced 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 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 \$2,580.0 million of outstanding debt obligations as of March 31, 2011. 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 15, 2007, as amended (the "Credit Agreement") and the indentures governing its 9.5% Senior Notes due 2017, the 9.5% Senior Subordinated Notes due 2013, 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 three months of 2011, the Company achieved \$22.2 million in cost savings as compared to the first three months of 2010, 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 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.

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 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

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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.

**OVERVIEW OF 2011 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 in the first three months of 2011 decreased by \$3.5 million, or 0.3%, to \$1,000.6 million from \$1,004.1 million in the first three months of 2010 primarily due to lower volume in both the paperboard packaging and flexible packaging segments. These decreases were partially offset by pricing improvement across all segments as well as favorable currency exchange rates, primarily in Japan and Australia.

Income from Operations in the first three months of 2011 increased by \$9.0 million, or 15.1%, to \$68.6 million from \$59.6 million in the first three months of 2010. This increase was primarily due to lower restructuring charges of \$8.5 million, the higher pricing, and improved performance due to cost savings, partially offset by the higher inflation and the lower volume.

**RESULTS OF OPERATIONS****Segment Information**

The Company reports its results in two business segments: paperboard packaging and flexible packaging.

<i>In millions</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>NET SALES:</b>		
Paperboard Packaging	\$ 825.0	\$ 834.6
Flexible Packaging	175.6	169.5
Total	\$1,000.6	\$1,004.1
<b>INCOME (LOSS) FROM OPERATIONS:</b>		
Paperboard Packaging	\$ 74.4	\$ 75.7
Flexible Packaging	6.0	6.7
Corporate	(11.8)	(22.8)
Total	\$ 68.6	\$ 59.6

**FIRST QUARTER 2011 COMPARED WITH FIRST QUARTER 2010****Net Sales**

<i>In millions</i>	<b>Three Months Ended March 31,</b>			<b>Percent Change</b>
	<b>2011</b>	<b>2010</b>	<b>Increase / (Decrease)</b>	
Paperboard Packaging	\$ 825.0	\$ 834.6	\$(9.6)	(1.2%)
Flexible Packaging	175.6	169.5	6.1	3.6%
Total	\$1,000.6	\$1,004.1	\$(3.5)	(0.3%)



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

<i>In millions</i>	Three Months Ended March 31,					2011
	2010	Price	Volume/Mix	Exchange	Total	
Paperboard Packaging	\$ 834.6	\$ 14.9	\$ (28.2)	\$ 3.7	\$ (9.6)	\$ 825.0
Flexible Packaging	169.5	9.1	(3.7)	0.7	6.1	175.6
Total	\$ 1,004.1	\$ 24.0	\$ (31.9)	\$ 4.4	\$ (3.5)	\$ 1,000.6

**Paperboard Packaging**

The Company's Net Sales from paperboard packaging in the first three months of 2011 decreased by \$9.6 million, or 1.2%, to \$825.0 million from \$834.6 million in 2010 as a result of lower volume for consumer and beverage products, containerboard and open market CRB. The decrease in volume was partially offset by higher pricing for open market and consumer products sales, which was primarily due to inflationary cost pass throughs. The lower volume for consumer products was due to the continuing impact of general market conditions in which volume was down primarily in cereal and dry foods. Additionally, the storms in the Midwestern United States in February interrupted shipments, resulting in lost sales for consumer products. The decrease in beverage volume was due to the continued decline of the soft drink market due to higher consumer pricing and delayed promotional activity, and lower beer volume due to overall declines. Favorable currency exchange rate changes, primarily in Japan and Australia, also positively impacted Net Sales.

**Flexible Packaging**

The Company's Net Sales from flexible packaging in the first three months of 2011 increased by \$6.1 million, or 3.6%, to \$175.6 million from \$169.5 million as a result of higher pricing primarily due to negotiated inflationary pass throughs, and favorable currency exchange rates in Canada. These increases were partially offset by lower volume as a result of the market conditions where construction and industrial sectors remained weak.

**Income (Loss) from Operations**

<i>In millions</i>	Three Months Ended March 31,			
	2011	2010	Increase (Decrease)	Percent Change
Paperboard Packaging	\$ 74.4	\$ 75.7	\$ (1.3)	(1.7%)
Flexible Packaging	6.0	6.7	(0.7)	(10.4%)
Corporate	(11.8)	(22.8)	11.0	N.M. <sup>(a)</sup>
Total	\$ 68.6	\$ 59.6	\$ 9.0	15.1%

Note:

(a) Percentage calculation not meaningful.

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

<i>In millions</i>	Three Months Ended March 31,						2011
	2010	Price	Volume/Mix	Inflation	Exchange	Other <sup>(a)</sup>	
Paperboard Packaging	\$ 75.7	\$ 14.9	\$ (4.2)	\$ (24.1)	\$ 1.6	\$ 10.5	\$ 74.4



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Flexible Packaging Corporate	6.7 (22.8)	9.1	(1.4)	(11.4)	0.1 2.1	2.9 8.9	(0.7) 11.0	6.0 (11.8)
Total	\$ 59.6	\$24.0	\$ (5.6)	\$(35.5)	\$3.8	\$22.3	\$ 9.0	\$ 68.6

Note:

(a) Includes the Company's cost reduction initiatives.

**Table of Contents****Paperboard Packaging**

The Company's Income from Operations from paperboard packaging in the first three months of 2011 decreased by \$1.3 million, or 1.7%, to \$74.4 million from \$75.7 million in 2010 as a result of inflation, the lower volume, and higher incentive compensation cost. These decreases were partially offset by higher pricing and cost savings through continuous improvement programs and manufacturing initiatives. The inflation was primarily related to externally purchased board (\$8.9 million); higher chemical-based inputs (\$7.9 million); secondary fiber (\$5.0 million); freight (\$4.3 million); labor and related benefits (\$3.7 million); and other costs (\$0.2 million). These higher costs were partially offset by lower wood costs (\$3.2 million) and energy costs (\$2.7 million), mainly due to the price of natural gas.

**Flexible Packaging**

The Company's Income from Operations from flexible packaging in the first three months of 2011 decreased by \$0.7 million, or 10.4%, to \$6.0 million from \$6.7 million in 2010 as a result of the inflation primarily due to external paper (\$5.8 million), resin (\$2.9 million), labor and related benefits (\$1.3 million) and other costs (\$1.4 million), as well as higher incentive compensation cost. The higher inflation was partially offset by the higher pricing and cost savings.

**Corporate**

The Company's Loss from Operations from corporate in the first three months of 2011 was \$11.8 million compared to \$22.8 million for the same period in 2010. The change was primarily due to lower restructuring expenses of \$8.5 million due to the finalization of merger related activities last year and the favorable impact of foreign exchange rates.

**INTEREST EXPENSE AND INCOME TAX EXPENSE****Interest Expense, Net**

Interest Expense, Net was \$39.3 million and \$45.0 million in the first three months of 2011 and 2010, respectively. Interest Expense, Net decreased due to lower debt levels and lower average rates of the Company's debt. As of March 31, 2011, approximately 22.7% of the Company's total debt was subject to floating interest rates. Interest rate swaps with notional amounts totaling \$330 million expired during April 2011. After the expiration of these swaps approximately 35.5% of the Company's total debt was subject to floating interest rates, which are currently lower than the fixed rates under the expiring interest rate swaps.

**Income Tax Expense**

During the first three months of 2011, the Company recognized Income Tax Expense of \$2.9 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of \$29.3 million. During the first three months of 2010, the Company recognized Income Tax Expense of \$8.6 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of \$14.6 million. Income Tax Expense for the first three months of 2011 and 2010 primarily relates to the non-cash expense of \$5.6 million and \$7.9 million, respectively, associated with the amortization of goodwill for tax purposes. The reduction was due to a portion of goodwill being fully amortized at the end of 2010. The Company also recorded a benefit related to certain discrete events including the revision of state tax positions and the expiration of the statute of limitation associated with reserves in a foreign jurisdiction. The Company has approximately \$1.3 billion of NOLs for U.S. federal income tax purposes, which may be used to offset future taxable income.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

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

**Table of Contents****Cash Flows**

<i>In millions</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net Cash (Used in) Provided by Operating Activities	\$ 6.1	\$(25.2)
Net Cash Used in Investing Activities	(37.6)	(19.3)
Net Cash Provided by Financing Activities	0.7	0.2

Net cash provided by operating activities in the first three months of 2011 totaled \$6.1 million, compared to net cash used in operating activities of \$25.2 million in 2010. The increase was primarily due to higher net income and lower working capital requirements, primarily as a result of higher accounts payable and lower receivables and the timing of interest payments, partially offset by higher inventory due to upcoming customer promotions and the lower volume.

Net cash used in investing activities in the first three months of 2011 totaled \$37.6 million, compared to \$19.3 million in 2010. This year over year change was due primarily to an increase in capital spending of \$18.6 million as a result of management's decision to invest in capital projects to improve process capabilities and reduce cost including the previously announced biomass boiler project in Macon, Ga.

Net cash provided by financing activities in the first three months of 2011 totaled \$0.7 million compared to \$0.2 million in 2010. This increase was primarily due to higher net borrowings under the Company's international revolving credit facilities.

**Liquidity and Capital Resources**

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

**Covenant Restrictions**

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

Under the terms of the Credit Agreement, the Company must comply with a maximum consolidated secured leverage ratio, which is defined as the ratio of: (a) total long-term and short-term indebtedness of the Company and its consolidated subsidiaries as determined in accordance with generally accepted accounting principles in the United

States ( U.S. GAAP ), plus the aggregate cash proceeds received by the Company and its subsidiaries from any receivables or other securitization but excluding therefrom (i) all unsecured indebtedness, (ii) all subordinated indebtedness permitted to be incurred under the Credit Agreement, and (iii) all secured indebtedness of foreign subsidiaries to (b) Adjusted EBITDA, which we refer to as Credit Agreement EBITDA<sup>(1)</sup>. Pursuant to this financial covenant, the Company must maintain a maximum consolidated secured leverage ratio of less than the following:

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Secured  
Leverage Ratio<sup>(1)</sup>**

October 1, 2009 and thereafter 4.75 to 1.00

## Note:

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

At March 31, 2011, the Company was in compliance with the financial covenant in the Credit Agreement and the ratio was as follows:

Consolidated Secured Leverage Ratio 2.74 to 1.00

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

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

The calculations of the components of the maximum consolidated secured leverage ratio for and as of the period ended March 31, 2011 are listed below:

<i>In millions</i>	<b>Twelve Months Ended March 31, 2011</b>
Net Income	\$ 31.1
Income Tax Expense	21.8
Interest Expense, Net	168.8
Depreciation and Amortization	285.4
Equity Income of Unconsolidated Entities, Net of Dividends	(0.2)
Other Non-Cash Charges	40.0
Merger Related Expenses	46.6
Losses Associated with Sale/Write-Down of Assets	5.6
Other Non-Recurring/Extraordinary/Unusual Items	8.4
Projected Run Rate Cost Savings <sup>(a)</sup>	60.8
Credit Agreement EBITDA	\$ 668.3



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<i>In millions</i>	<b>As of March 31, 2011</b>
Short-Term Debt	\$ 26.9
Long-Term Debt	2,553.1
Total Debt	\$ 2,580.0
Less: Adjustments <sup>(b)</sup>	752.3
Consolidated Secured Indebtedness	\$ 1,827.7

## Notes:

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

The terms of the Credit Agreement limit the amount of projected run rate cost savings that may be used in calculating Credit Agreement EBITDA by stipulating that such amount may not exceed the lesser of (i) ten percent of EBITDA as defined in the Credit Agreement for the last twelve-month period (before giving effect to projected run rate cost savings) and (ii) \$100 million. As a result, in calculating Credit Agreement EBITDA above, the Company used projected run rate cost savings of \$60.8 million or ten percent of EBITDA as calculated in accordance with the Credit Agreement, which amount is lower than total projected cost savings identified by the Company, net of actual benefits realized for the twelve month period ended March 31, 2011. Projected run rate cost savings were calculated by the Company solely for its use in calculating Credit Agreement EBITDA for purposes of determining compliance with the maximum consolidated secured leverage ratio contained in the Credit Agreement and should not be used for any other purpose.

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

If inflationary pressures on key inputs continue, or depressed selling prices, lower sales volumes, increased operating costs or other factors have a negative impact on the Company's ability to increase its profitability, the Company may not be able to maintain its compliance with the financial covenant in its Credit Agreement. The Company's ability to comply in future periods with the financial covenant in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company's control, and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of the financial covenant or any of the other covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Credit Agreement and the Indentures governing the Notes have certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately. The Credit Agreement is collateralized by substantially all of the Company's domestic assets.

**Capital Investment**

The Company's capital investment in the first three months of 2011 was \$36.8 million compared to \$18.2 million in the first three months of 2010. During the first three months of 2011, the Company had capital spending of \$27.2 million for improving process capabilities, \$4.7 million for capital spares and \$4.9 million for manufacturing

packaging machinery.

**Environmental Matters**

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



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For further discussion of the Company's environmental matters, see Note 9 in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

**CRITICAL ACCOUNTING POLICIES**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used by management in the preparation of the Company's condensed consolidated financial statements are those that are important both to the presentation of the Company's financial condition and results of operations and require significant judgments by management with regard to estimates used.

The Company's most critical accounting policies which require significant judgment or involve complex estimations are described in GPHC's Annual Report on Form 10-K for the year ended December 31, 2010.

**NEW ACCOUNTING STANDARDS**

For a discussion of recent accounting pronouncements impacting the Company, see Note 1 in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

**BUSINESS OUTLOOK**

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

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

The Company also expects the following in 2011:

Depreciation and amortization in the \$285 million range.

Interest expense of \$145 million to \$155 million, including \$9 million of non-cash interest expense associated with amortization of debt issuance costs.

Net debt reduction from operations in the \$200 million to \$220 million range in addition to the use of the proceeds from the equity offering.

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

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

For a discussion of certain market risks related to the Company, see Part II, Item 7A, Quantitative and Qualitative Disclosure about Market Risk, in GPHC's Annual Report on Form 10-K for the year ended December 31, 2010. There have been no significant developments with respect to derivatives or exposure to market risk during the first three months of 2011. For a discussion of the Company's Financial Instruments, Derivatives and Hedging Activities, see GPHC's Annual Report on Form 10-K for the year ended December 31, 2010 and Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Condition, Liquidity and Capital Resources.

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**ITEM 4. CONTROLS AND PROCEDURES**

*Disclosure Controls and Procedures*

The Company's management has carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended. Based upon such evaluation, management has concluded that the Company's disclosure controls and procedures were effective as of March 31, 2011.

*Changes in Internal Control over Financial Reporting*

There was no change in the Company's internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2011 that has materially affected, or is likely to materially affect, the Company's internal control over financial reporting.

**PART II OTHER INFORMATION**

**ITEM 1. 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. For more information see Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental Matters.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in GPHC's Annual Report on Form 10-K for the year ended December 31, 2010.

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**ITEM 6. EXHIBITS**

a) Exhibit Index

<b>Exhibit Number</b>	<b>Description</b>
4.1	Second Amendment to Registration Rights Agreement, dated as of March 7, 2011, by and among Graphic Packaging Holding Company, Clayton Dubilier & Rice Fund V Limited Partnership, Old Town S.A., Jeffrey H. Coors, TPG Bluegrass IV-AIV 1, L.P., TPG Bluegrass IV-AIV 2, L.P., TPG Bluegrass V-AIV 1, L.P., TPG Bluegrass V-AIV 2, L.P., TPG FOF V-A, L.P. and TPG FOF V-B, L.P.
10.1	Form of 2011 Performance-Based Restricted Stock Unit Award Agreement
10.2	Form of 2011 Service-Based Restricted Stock Unit Award Agreement
31.1	Certification required by Rule 13a-14(a).
31.2	Certification required by Rule 13a-14(a).
32.1	Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**GRAPHIC PACKAGING HOLDING COMPANY**

(Registrant)

/s/ STEPHEN A. HELLRUNG Stephen A. Hellrung	Senior Vice President, General Counsel and Secretary	April 21, 2011
/s/ DANIEL J. BLOUNT Daniel J. Blount	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	April 21, 2011
/s/ DEBORAH R. FRANK Deborah R. Frank	Vice President and Chief Accounting Officer (Principal Accounting Officer)	April 21, 2011