GRAPHIC PACKAGING HOLDING CO
Form 10-K
March 04, 2009

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

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

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

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

(770) 644-3000

Registrant s telephone number, including area code:

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 par value per share	New York Stock Exchange
Series A Junior Participating Preferred Stock Purchase Rights Associated with the Common Stock	New York Stock Exchange

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2008 was $154.9 million.

As of February 27, 2009, there were approximately 342,568,704 shares of the registrant s Common Stock, $0.01 par value per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 2009 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements regarding the expectations of Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company), including, but not limited to, statements regarding the effect of contractual price escalators and price increases for coated paperboard and cartons, inflationary pressures, cost savings from its continuous improvement programs and manufacturing rationalization, capital spending, 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 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 herein under Item 1A., Risk Factors.

PART I

ITEM 1. *BUSINESS*

Overview

Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company) is a leading provider of paperboard packaging solutions for a wide variety of products to multinational food, beverage and other consumer products companies. Additionally, the Company is one of the largest producers of folding cartons and holds a leading market position in coated unbleached kraft paperboard, coated-recycled boxboard, and multi-wall bag. 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.

The Company focuses on providing a range of paperboard packaging products to major companies with well-recognized brands. Its customers generally have prominent market positions in the beverage, food and other consumer products industries. The Company offers customers its paperboard, cartons and packaging machines, either as an integrated solution or separately. The Company has long-term relationships with major companies, including Kraft Foods, Inc., Anheuser-Busch, Inc., General Mills, Inc., SABMiller plc., Molson Coors Brewing Company, Nestlé Group, Kellogg Company, Unilever, The Schwan Food Company, Perseco, Kimberly-Clark, Proctor and Gamble, Nestlé Purina PetCare Company, Purina Mills, LLC and numerous Coca-Cola and Pepsi bottling companies.

The Company s packaging products are made from a variety of grades of paperboard. The Company makes most of its packaging products from coated unbleached kraft (CUK), coated recycled board (CRB), and uncoated recycled board (URB) that the Company produces at its mills. The remaining portion is produced from paperboard, primarily solid bleached sulfate (SBS), purchased from external sources. The Company is 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, customized packaging equipment solutions and packaging workshops to help educate customers. The Company s specialty packaging includes flexible packaging, labels and ink.

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

On March 5, 2008, the United States Department of Justice issued a Consent Decree that required the divesture of two mills as a condition of the Altivity Transaction. On July 8, 2008, GPII signed an agreement with an affiliate of Sun Capital Partners, Inc. to sell two coated recycled boxboard mills as required by the Consent Decree. The sale of the mills was completed on September 17, 2008. The mills that were sold are located in Philadelphia, Pennsylvania and in Wabash, Indiana.

GPHC was incorporated on June 21, 2007 under the laws of the State of Delaware, under the name New Giant Corporation. GPHC did not conduct any material activities until after the closing of the Altivity Transaction. The former publicly traded parent company GPC (formerly known as Riverwood Holding, Inc.), was incorporated on December 7, 1995 under the laws of the State of Delaware. On August 8, 2003, the corporation formerly known as Graphic Packaging International Corporation merged with and into Riverwood Acquisition Sub LLC, a wholly-owned subsidiary of Riverwood Holding, Inc. (Riverwood Holding), with Riverwood Acquisition Sub LLC as the surviving entity (collectively referred to as the Merger). Riverwood

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Acquisition Sub LLC then merged into Riverwood Holding, which was renamed Graphic Packaging Corporation.

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

As a result of the Altivity Transaction, the Company business segments were revised. The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging. Segment disclosures have been reclassified to conform to the new presentation for all periods presented. The Company operates in four geographic areas: the United States (U.S.)/North America, Central/South America, Europe and Asia Pacific. For business segment and geographic area information for each of the last three fiscal years, see Note 18 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data .

Paperboard Packaging

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

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

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

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

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

The Company offers a variety of laminated, coated and printed packaging structures that are produced from its CUK, CRB and URB, as well as other grades of paperboard that are purchased from third-party suppliers. The Company produces cartons using diverse structural designs and combinations of paperboard, films, foils, metallization, holographics, embossing and other characteristics that are tailored to the needs of individual products. The Company provides a wide range of paperboard packaging solutions for the following end-use markets:

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

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

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

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

For its beverage customers, the Company supplies beverage cartons in a variety of designs and formats, including 4, 6, 8, 12, 18, 20, 24, 30 and 36 unit multi-packs. Its proprietary high-speed beverage packaging

machines package cans, bottles and other beverage containers into its beverage cartons. The Company believes the use of such machines creates pull-through demand for its cartons, which in turn creates demand for its CUK. The Company seeks to increase the customers use of its integrated packaging solutions in order to improve its revenue opportunities, enhance customer relationships, provide customers with greater packaging line and supply chain efficiencies and overall cash benefits, and expand opportunities for the Company to provide value-added support and service. The Company enters into annual or multi-year carton supply contracts with its customers, which generally require the customer to purchase a fixed portion of its carton requirements from the Company.

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

Strength Packaging. Through its application of materials and package designs, the Company provides sturdiness to meet a variety of packaging needs, including tear and wet strength, puncture resistance, durability and compression strength (providing stacking strength to meet store display packaging requirements). The Company achieves such strength characteristics through combinations of paperboard and film laminates tailored on a product-by-product basis. The Company s patented Z-Flute® carton is a key component of the Company s strength packaging portfolio. Z-Flute offers customers the strength of corrugate with the performance characteristic of a folding carton due to the strategic location of reinforcing paperboard strips.

Promotional Packaging. The Company offers a broad range of promotional packaging options that help differentiate its customers products. The Company provides products designed to enhance point-of-purchase and marketing opportunities through package shapes, portability, metallization, holographics, embossing and micro-embossing, brilliant high-tech inks, specialized coatings, hot-stamp metal foil surfaces, in-pack and on-pack customized promotions, inserts, windows and die-cuts. These promotional enhancements improve brand awareness and visibility on store shelves.

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

- *beverage multiple packaging* Fridge Vendor® and 4, 6, 8, 12, 18, 20, 24, 30 and 36 unit multi-packs for beer, soft drinks, energy drinks, water and juices;

- *active microwave technologies* MicroRite®, Microrite Technology Browns, Crisps, Cooks Evenly™, Qwik Crisp® trays, Quilt Wave™ and MicroFlex® Q substrates that improve the preparation of foods in the microwave;

- *easy opening and closing features* pour spouts and sealable liners; and

- *IntegraPak*™ the Company s alternative to traditional bag-in-box packaging.

Barrier Packaging. The Company provides packages that protect against moisture, grease, oil, oxygen, sunlight, insects and other potential product-damaging factors. Its barrier technologies integrate a variety of specialized laminate and extruded film layers, metallized package layers, package sealing, applied coatings and other techniques all customized to specific barrier requirements.

Converting Operations

The Company converts CUK and CRB, as well as other grades of paperboard, into cartons at carton converting plants that the Company operates in the U.S., Canada, Mexico, the United Kingdom, Spain, France and Brazil, as well as through converting plants associated with its joint ventures in Japan and Denmark, contract converters and at licensees in other markets outside the U.S. The converting plants print, cut and glue paperboard into cartons designed to meet

customer specifications. These plants utilize roll-fed web-printing presses with in-line cutters and sheet-fed printing presses to print and cut paperboard. Printed and cut cartons are in turn frequently glued and then shipped to the Company s customers.

Converting plants in the U.S. are dedicated to converting paperboard produced by the Company, as well as paperboard supplied by outside producers, into cartons. The presses at these converting plants have high cutting and printing speeds, thereby reducing the labor hours per ton of cartons produced for the high-volume U.S. market. The Company s international converting plants convert paperboard produced by the Company, as

well as paperboard supplied by outside producers, into cartons. These converting plants outside of the U.S. are designed to meet the smaller volume orders of these markets.

Paperboard Production

The following pro forma data assumes that the acquisition of Altivity and the sale of the mills in Philadelphia, Pennsylvania and Wabash, Indiana occurred on January 1, 2008. This pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results:

Location	Product	# of Machines	2008 Net Tons Produced
West Monroe, LA	CUK	2	709,000
Macon, GA	CUK	2	552,000
Kalamazoo, MI	CRB	2	400,000
Battle Creek, MI	CRB	2	151,000
Middletown, OH	CRB	1	142,000
Santa Clara, CA	CRB	1	126,000
Pekin, IL	URB	1	33,000
West Monroe, LA	Containerboard	2	173,000

The Company expects to consume most of its coated board output in its carton converting operations, which is an integral part of its low-cost converting strategy. In 2008, excluding containerboard, 78% of mill production was consumed internally.

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

CUK is manufactured from blends of pine fibers and, in some cases, recycled fibers, primarily clippings from its converting operations. Virgin fiber is obtained in the form of wood chips or pulp wood acquired through open market purchases or the Company s long-term purchase contract with Plum Creek Timber Company, L.P. See Raw Materials. Wood chips are chemically treated to form softwood pulp, which are then blended (together, in some cases, with recycled fibers). In the case of carrierboard (paperboard used in the beverage industry s multi-pack cartons), chemicals are added to increase moisture resistance. The pulp is then processed through the mill s paper machines, which consist of a paper-forming section, a press section (where water is removed by pressing the wet paperboard between rolls), a drying section and a coating section. Coating on CUK, principally a mixture of pigments, binding agents and water, provides a white, smooth finish, and is applied in multiple steps to achieve desired levels of brightness, smoothness and shade on the print side of the paperboard. After the CUK is coated, it is wound into rolls, which are then shipped to the Company s converting plants or to outside converters.

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

quality graphics and appearance characteristics.

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

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

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Packaging Design and Proprietary Packaging Machinery

The Company has research and design centers located in Marietta, Georgia; Golden, Colorado; Concord, New Hampshire; Menasha, Wisconsin; West Monroe, Louisiana; Carol Stream, Illinois; Valley Forge, Pennsylvania; Irvine, California; and Mississauga, Ontario, Canada. At these centers, the Company designs, tests and manufactures prototype packaging for consumer products packaging applications. The Company designs and tests packaging machinery at its product development centers, including full size pilot lines. The Company also utilizes a network of computer equipment at its converting facilities to provide automated computer-to-plate graphic services designed to improve efficiencies and reduce errors associated with the pre-press preparation of printing plates. At the Company s microwave laboratories, the Company designs, tests and reports food performance as part of full-service, turn-key microwave solutions for its food customers.

The Company has broad technical expertise in chemistry, paper science, microwave engineering, mechanical engineering, physics, electrical engineering, and food science. This experience base, along with food technologists and investment in sample line equipment, enables the Company to rapidly design and test prototypes to help its customers develop, test and launch successful microwaveable food products into the market.

The Company s engineers create and test packaging designs, processes and materials based on market and customer needs, which are generally characterized as enhanced stacking or tear strength, promotional or aesthetic appeal, consumer convenience or barrier properties. Concepts go through a gated review process through their development to ensure that resources are being focused on those projects that are most likely to succeed commercially. The Company also works to refine and build on current proprietary materials, processes and designs.

At the Company s product development center in Marietta, Georgia, the Company integrates carton and packaging machinery designs from a common database, balancing carton manufacturing costs and packaging line performance. The Company also manufactures and designs packaging machines for beverage multiple packaging and other multi-pack consumer products packaging applications at its principal U.S. manufacturing facility in Crosby, Minnesota and at a facility near Barcelona, Spain. The Company leases substantially all of its packaging machines to customers, typically under machinery use agreements with original terms of three to six years.

The Company employs a pull-through marketing strategy for its multiple packaging customers, the key elements of which are (1) the design and manufacture of proprietary packaging machines capable of packaging plastic and glass bottles, cans and other primary containers, (2) the installation of the machines at customer locations under multi-year machinery use arrangements and (3) the development of proprietary cartons with high-resolution graphics for use on those machines. The Company continues to innovate in new machinery development and design to offer customers the latest packaging machinery technology to meet their changing needs.

Multi-wall Bag

The Company s multi-wall bag business is the leading supplier of multi-wall bags in North America. The Company operates 12 multi-wall bag plants that print, fold and glue paper into bag packaging. The Company and its predecessors have made significant investments to install state-of-the-art equipment at major plants to expand the business s ability to manufacture a full range of products.

The Company also provides multi-wall bag customers with value-added graphical and technical support, customized packaging equipment solutions and packaging workshops to help educate customers. These operations are supported by trademarks such as Cap-Sac®, Kitchen Master®, Peel Pak®, Soni-Lok®, Soni-Seal®, and The Yard Master®.

The Company s multi-wall bag facilities are strategically located throughout the U.S., allowing it to provide a high level of service to customers, minimize freight and logistics costs, improve order turnaround times and improve supply chain reliability. Furthermore, with relatively comparable manufacturing lines in

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each of the major facilities, the Company has the capacity and the flexibility to manufacture all of its primary multi-wall bag product lines at each location.

The Company s multi-wall bag business had traditionally provided packaging for low-cost, bulk-type commodity products. However, with the continuing evolution of materials management, bag construction, and distribution systems, the Company has gained access to end-markets in which higher-value products are now being packaged in multi-wall bags. Key end markets include food and agriculture, building materials, chemicals, minerals and pet care. For example, today s applications include custom-designed barriers (caustic soda), variable package sizes for varying product weights and increasingly higher quality graphics for enhanced consumer appeal. The business provides customers in a wide variety of end-markets with high-end graphical printing solutions that enable the Company to grow with its customers.

Specialty Packaging

The Company s specialty packaging business includes flexible packaging, labels and ink.

Flexible Packaging

The Company s flexible packaging business operates five modern and technologically competitive manufacturing plants in North America and produces products such as shingle wrap, batch inclusion bags and film, retort pouches (such as meals ready to go), medical test kits and transdermal patch overwraps, multilayer laminations for hard-to-hold products (such as iodine) and plastic bags and films for building materials (such as ready-mix concrete). These plants offer flexographic and rotogravure printing, thermoforming and barrier coating, mono layer and co-extruded films, extrusion lamination, adhesive lamination both stand alone and in-line with flexographic printing, polyethylene bags and rolls, shipping sacks and valve bags.

The Company s flexible 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, horticulture, military and commercial retort pouches and shingle wrap. With the capacity to extrude up to seven layers of multi-layer films and state-of-the-art printing capabilities, the business is ideally positioned to service a variety of niche flexible packaging applications such as stand-up pouches, condiment containers for the fast food industry and plastic valve for shipping sacks. Approximately 17% of the plastics produced is consumed internally.

Labels

The Company s label business focuses on two segments, heat transfer labels and lithographic labels.

The Company operates three dedicated label plants. These facilities feature state-of-the-art lithographic, rotogravure, flexographic and digital printing, including eight color sheet-fed and up to eleven color roll-to-roll equipment which produce cut and stack, in-mold, roll fed and heat transfer labels. The label business provides customers with high quality labels utilizing multiple technology applications, such as DI-NA-CAL®. The DI-NA-CAL heat transfer offering includes a full system solution offering of both labels and the most advanced application equipment manufactured today.

The Company s labels business produces labels for: food, beverage, pharmaceutical, automotive, household and industrial products, detergents, and the health and beauty markets.

Ink

The Company s ink business operates three manufacturing plants in North America. Approximately 40% of the ink produced is consumed internally by the converting facilities.

Joint Ventures

To market machinery-based packaging systems, the Company is a party to joint ventures with Rengo Riverwood Packaging, Ltd. (in Japan) and Graphic Packaging International Schur A/S (in Denmark), in

which it holds a 50% and 60% ownership interest, respectively. The joint venture agreements cover CUK supply, use of proprietary carton designs and marketing and distribution of packaging systems.

Marketing and Distribution

The Company markets its paperboard and paperboard-based products principally to multinational brewers, soft drink bottlers, food companies, and other well-recognized consumer products companies. It also sells paperboard in the open market to independent and integrated paperboard converters.

The Company s major customers for beverage cartons include Anheuser-Busch, Inc., SABMiller plc, Molson Coors Brewing Company, numerous Coca-Cola and Pepsi bottling companies, Inbev, Kirin, and Asahi Breweries. The Company also sells beverage paperboard in the open market to independent converters, including licensees of its proprietary carton designs, for the manufacture of beverage cartons.

The Company s non-beverage consumer products packaging customers include Kraft Foods, Inc., General Mills, Inc., Nestlé Group, Unilever, PepsiCo, Inc., Kellogg Company, The Schwan Food Company, Perseco, Kimberly-Clark, and The Proctor & Gamble Company. It also sells its paperboard to numerous independent and integrated converters who convert the paperboard into cartons for consumer products. The Company has long-standing relationships with a number of major independent and integrated converters who have agreed to purchase a significant portion of their paperboard requirements from the Company and to assist the Company in customer development efforts and who use the Company s products to grow the market for paperboard.

Distribution is primarily accomplished through direct sales offices in the U.S., Australia, Brazil, China, Denmark, Germany, Italy, Japan, Mexico, Spain, and the United Kingdom and, to a lesser degree, through broker arrangements with third parties. The Company s selling activities are supported by its technical and developmental staff.

With its industry leadership position and complete product and services capabilities, the Company s multi-wall bag business has developed longstanding relationships with customers ranging from small, regionally focused companies to large blue-chip consumer and industrial companies. The Company s customers rely on their strategic partnership with the Company to provide innovative and customized product solutions. The Company s multi-wall bag customers include Nestlé Purina PetCare Company, and Purina Mills. LLC.

The flexible packaging business unit has an established position in end-markets for food and foodservice, pharmaceutical and medical, personal care, industrial, pet and pet care products, horticulture and military and commercial retort pouches. The majority of the business s sales are derived from broader industrial applications.

The label business has a broad base of well-recognized industrial and consumer clients, such as Kraft Foods.

During 2008, the Company did not have any one customer who represented 10% or more of its net sales.

Competition

Although a relatively small number of large competitors hold a significant portion of the paperboard packaging market, the Company s business is subject to strong competition. The Company s primary competitors include Caraustar Industries, Inc., International Paper Company, MeadWestvaco Corporation, Packaging Corporation of America, R.A. Jones & Company, Inc., Rock-Tenn Company, and Cascades Inc. There are only two major producers in the U.S. of CUK, MeadWestvaco Corporation and the Company. The Company faces significant competition in its CUK business from MeadWestvaco, as well as from other packaging materials manufacturers. Like the Company, MeadWestvaco produces and converts CUK, designs and places packaging machines with customers and sells CUK

in the open market.

In beverage multiple packaging, cartons made from CUK compete with substitutes such as plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. Although plastics and corrugated packaging are typically priced lower than CUK, the Company believes that cartons

made from CUK offer advantages over these materials in areas such as distribution, high quality graphics, carton designs, package performance, package line speed, environmental friendliness and design flexibility.

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

The Company s multi-wall business competes with Hood Packaging Corporation, Exopack, LLC, Bemis Company, Inc., Mondi Group, and Mid-America Paper Recycling Co. Additionally, the Company faces increasing competition from products imported from Asia and South America.

The U.S. converted flexible packaging industry is highly fragmented, comprising over 500 companies operating 800 converting facilities. Participants range from small, private companies to multinational firms.

Raw Materials

Paperboard Packaging

Pine pulpwood, paper and recycled fibers (including DLK and OCC) and energy used in the manufacture of paperboard, as well as poly sheeting, plastic resins and various chemicals used in the coating of paperboard represent the largest components of the Company s variable costs of paperboard production. The cost of these materials is subject to market fluctuations caused by factors largely beyond the Company s control.

The Company relies on private landowners and the open market for all of its pine pulpwood and recycled fiber requirements, supplemented by CUK clippings that are obtained from its converting operations. The Company is a party to a 20-year supply agreement, expiring in 2016, with Plum Creek Timber Company, L.P., with a 10-year renewal option, for the purchase by the Company, at market-based prices, of a majority of the West Monroe mill s requirements for pine pulpwood and residual chips. An assignee of Plum Creek supplies residual chips to the Company pursuant to this supply agreement. The Company purchases the remainder of the wood fiber used in CUK production at the West Monroe mill from other private landowners in this region. The Company believes that adequate supplies of open market timber currently are available to meet its fiber needs at the West Monroe mill.

The Macon mill purchases most of its fiber requirements on the open market, and is a significant consumer of recycled fiber, primarily in the form of clippings from the Company s domestic converting plants as well as DLK and other recycled fibers. The Company has not experienced any significant difficulties obtaining sufficient DLK or other recycled fibers for its Macon mill operations, which the Company purchases in part from brokers located in the eastern U.S. The Macon mill purchases substantially all of its pine pulpwood requirements from private landowners in central and southern Georgia. Because of the adequate supply and large concentration of private landowners in this area, the Company believes that adequate supplies of pine pulpwood timber currently are available to meet its fiber needs at the Macon mill.

The Kalamazoo mill produces coated 100% recycled paperboard made primarily from OCC, ONP, and boxboard clippings. ONP and OCC recycled fibers are purchased through brokers at market prices and, less frequently, purchased directly from sources under contract. Boxboard clippings are provided by the Company s folding carton converting plants and, to a lesser degree, purchased through brokers. The market price of each of the various recycled fiber grades fluctuates with supply and demand. The Company has many sources for its fiber requirements and

believes that the supply is adequate to satisfy its needs.

The coated and uncoated recycled board produced at the Battle Creek, Middletown, Santa Clara, and Pekin mills are made from 100% recycled fiber. The Company has historically procured the majority of its recycled fiber through a supply agreement with Smurfit-Stone Container Corporation. Starting in 2009, the Company intends to procure its recycled fiber from both Smurfit-Stone Container Corporation and local independent fiber suppliers. The internalization of the Company s recycled fiber procurement function is

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expected to enable the Company to attain the lowest market price for its recycled fiber given the Company s highly fragmented supplier base. The Company believes there are adequate supplies of recycled fiber to serve its mills.

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

Multi-wall Bag

The multi-wall bag operations use a combination of natural kraft, high performance, bleached, metallic and clay coated papers in its converting operations. The paper is supplied directly through North American paper mills, including Smurfit Stone Container Corporation, KapStone Kraft Paper Corporation, Georgia-Pacific LLC, Fraser Papers, Tolko Industries Ltd., and Canfor Corporation, under supply agreements that are typically reviewed annually.

Specialty Packaging

The flexible packaging group currently purchases the majority of its primary raw material of polyethylene resins or additives from Equistar Chemical Company, Dow Chemical Canada, Inc., AT Plastics, Inc., Nova Chemicals, Spartech Plastics and Pliant Corp. Other key material purchases include films, such as nylon, both saran coated and not, polyester film, metallized polyester film, polypropylene films for retort pouch packaging, aluminum foil, inks and adhesives that are secured through a variety of short and mid-term agreements.

The label group purchases its primary raw materials, which includes heat transfer papers and coated one-side and two-side papers from a limited number of suppliers. In addition, the group purchases wet strength and metallized paper for specific, niche label applications and shrink sleeve film substrates through short and mid-term agreements.

Other Raw Materials

The Company purchases a variety of other raw materials for the manufacture of its products, such as inks, aluminum foil, plastic filling, plastic resins, adhesives, process chemicals and coating chemicals such as kaolin and titanium dioxide. While such raw materials are generally readily available from many sources, and the Company is not dependent upon any one source of such raw materials, the Company has developed strategic long-standing relationships with some of its vendors, including the use of multi-year supply agreements, in order to provide a guaranteed source of raw materials that satisfies customer requirements.

Energy

Energy, including natural gas, fuel oil and electricity, represents a significant portion of the Company s manufacturing costs. The Company has entered into contracts designed to manage risks associated with future variability in cash flows and price risk related to future energy cost increases for a portion of its natural gas requirements, primarily at its U.S. mills through December 2009. The Company s hedging program for natural gas is discussed in Note 10 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Backlog

Orders from the Company s principal customers are manufactured and shipped with minimal lead time. The Company did not have a material amount relating to backlog orders at December 31, 2008 or 2007. The Company s entire backlog at December 31, 2008 is expected to be shipped during the first quarter 2009.

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Seasonality

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

Research, Development and Engineering

The Company s research and development staff works directly with its sales and marketing personnel to understand long term consumer and retailer trends and create new packaging solutions. These innovative solutions across the Company s growth platforms provide the business and customers with differentiated packaging solutions. The Company s development efforts include, but are not limited to, extending the shelf life of customers products, reducing production costs, enhancing the heat-managing characteristics of food packaging and refining packaging appearance through new printing techniques and materials. The Company s revolutionary Fridge Vendor carton, a horizontal beverage 12-pack that delivers cold beverages while conserving refrigerator space, is but one example of the Company s successful projects involving both carton and machine design to introduce a new consumer-friendly package. This patented package has proven popular with consumers because it is convenient. Another award-winning package solution is the Company s MicroRite even heating trays that are used for frozen entrees or side dishes that benefit from directing heat towards frozen food centers and deflecting heat from vulnerable food edges to emulate in the microwave the even baking delivered by the conventional oven. Qwik Crisp, MicroFlex Q and Quilt Wave complete the microwave product line. This new product line delivers conventional oven quality at microwave preparation speed and convenience to meet the needs of today s consumers. The Company s patented Z-Flute technology is a third area of innovation that is providing a growth vehicle for the business. Z-Flute technology provides the strength of a corrugate package with the performance characteristics of a folding carton due to the strategic lamination of paperboard strips.

Development efforts also include new product and innovation teams to assist in working with customers, sales, marketing and manufacturing to develop new package features; technical assistance to provide test programs for new or existing packages and product fitness for use and shelf life improvements; addressing customers questions related to the compliance of the Company s products to federal, state and local regulations; production of samples for marketing evaluation, checking the package size or other evaluations; and assistance to identify and quantify the key characteristics of materials which affect product and packaging performance.

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

Patents and Trademarks

As of December 31, 2008, the Company had a large patent portfolio, presently owning, controlling or holding rights to more than 1,350 U.S. and foreign patents, with more than 900 U.S. and foreign patent applications currently pending. The Company s patent portfolio consists primarily of patents relating to packaging machinery, manufacturing methods, structural carton designs, microwave packaging technology, barrier protection packaging, multi-wall packaging manufacturing methods and multi-wall packaging machinery. These patents and processes are significant to the Company s operations and are supported by trademarks such as Z-Flute, Fridge Vendor, IntegraPak, MicroRite, Quilt Wave, Cap-Sac, DI-NA-CAL, Kitchen Master, Peel Pak, Soni-Lok, Soni-Seal, and The Yard Master. The Company takes significant steps to protect its intellectual property and proprietary rights. The Company does not believe that the expiration of any of its patents at the end of their normal lives will have a material adverse effect on its financial condition or results of operations, and the Company s operations are not dependent upon any single patent or trademark.

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Employees and Labor Relations

As of December 31, 2008, the Company had approximately 14,400 employees worldwide (excluding employees of joint ventures), of which approximately 52% were represented by labor unions and covered by collective bargaining agreements. The Company considers its employee relations to be satisfactory.

Certain employees in the U.S. are covered by collective bargaining agreements. The Company has contracts with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied-Industrial and Service Workers International Union (USW), the Association of Western Pulp and Paper Workers (AWPPW), the International Brotherhood of Teamsters (IBT), International Association of Machinists (IAM), International Brotherhood of Firemen and Oilers (IBFO), United Food and Commercial Workers International Union (UFCW), International Union of Operating Engineers (IUOE), United Steelworkers Union (USU), and International Brotherhood of Electrical Workers (IBEW).

Type of Facility and Location	Name of Union	Expiration of Agreement
Paperboard Mills:		
Battle Creek, MI	IBT	April 2, 2010
Battle Creek, MI	IAM	April 2, 2010
Battle Creek, MI	IBEW	April 2, 2010
Battle Creek, MI	IUOE	April 2, 2010
Kalamazoo, MI	USW	January 25, 2011
Macon, GA[a]	USW	December 31, 2010
Middletown, OH	USU	May 31, 2009[b]
Pekin, IL	USU	October 31, 2009[b]
Santa Clara, CA	IBT	August 31, 2010
West Monroe, LA	USW	February 28, 2009[c]
Paperboard Packaging:		
Atlanta, GA	IBT	September 15, 2013
Carol Stream, IL	IBT	December 31, 2009
Carol Stream, IL	IAM	May 2, 2011
Charlotte, NC	USW	August 12, 2009[b]
Cincinnati, OH	USW	January 31, 2010
Fort Wayne, IN	IBT	April 30, 2012
Fort Wayne, IN	IBT	February 19, 2011
Gordonsville, TN	USW	October 14, 2010
Greensboro, NC	IBT	November 15, 2009[b]
Irvine, CA	IBT	August 31, 2010
Kalamazoo, MI	IBT	July 31, 2010
Kalamazoo, MI	USW	January 25, 2011
Menasha, WI	IBT	June 30, 2009[b]
Menasha, WI	USW	October 31, 2008[c]
Morris, IL	USU	July 1, 2009[b]
Muncie, IN	IBT	October 8, 2011
Muncie, IN	UFCW	August 1, 2009[b]
Pacific, MO	IBT	July 31, 2011
Portland, OR	AWPPW	February 28, 2013

Renton, WA	IBT	February 28, 2011
Renton, WA	IBT	April 30, 2011
Santa Clara, CA	IBT	August 31, 2010
Solon, OH	USU	June 19, 2009[(b)]
Valley Forge, PA	IBFO	June 19, 2009[(b)]
Valley Forge, PA	USU	June 19, 2009[(b)]
Wausau, WI	IBT	June 30, 2009[(b)]
Wausau, WI	USW	October 31, 2008[(c)]
West Monroe, LA	USW	August 31, 2009[(b)]

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Type of Facility and Location	Name of Union	Expiration of Agreement
Multi-wall Bag:		
Arcadia, LA	USU	March 31, 2009[b]
Cantonment, FL	USU	August 31, 2011
Cantonment, FL	USU	December 31, 2009[b]
Jacksonville, AR	USU	November 1, 2009[b]
Kansas City, MO	USW	October 31, 2011
Louisville, KY	IBT	October 10, 2009[b]
New Philadelphia, OH	USW	October 1, 2011
Salt Lake City, UT	IBT	June 15, 2010
Wellsburg, WV	USW	May 14, 2011
Specialty:		
Bellwood/Riverdale, IL	IBT	June 30, 2011
Indianapolis, IN	IBT	June 30, 2011
Norwood, OH	USU	March 7, 2009[c]
St. Charles, IL	IBT	July 2, 2008[d]
St. Charles, IL	IBT	April 30, 2009[d]
St. Charles, IL	IBT	November 1, 2009[d]

Notes:

(a) The International Association of Machinists and Aerospace Workers and the International Brotherhood of Electrical Workers represent certain maintenance employees at the Macon, GA mill who are covered by the same agreement that the Company has with USW.

(b) The Company and Union expect to begin negotiations for a new agreement approximately 30 days before expiration.

(c) The Company and Union are presently in negotiations for a new agreement.

(d) Facility closing in the first quarter of 2009.

The Company s international employees are represented by unions in Brazil, Canada, France, Mexico, Spain, and the United Kingdom.

Environmental Matters

The Company is subject to federal, state and local environmental regulations and employs a team of professionals in order to maintain compliance at each of its facilities. For additional information on the financial effects of such regulation and compliance, see Environmental Matters in Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations.

ITEM 1A. ***RISK FACTORS***

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

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

As of December 31, 2008, the Company had an aggregate principal amount of approximately $3.2 billion of outstanding debt. Because of the Company s substantial debt, the Company s ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be restricted in the future. The Company is also exposed to the risk of increased interest costs because approximately $0.7 billion of its debt is at variable rates of interest. As such, a significant portion of the Company s cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available for other purposes. In 2009, the Company estimates it will pay between $210 million and $220 million in interest on its outstanding debt obligations.

Additionally, the Company s Credit Agreement contains covenants that prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of

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dividends, loans or advances and certain other types of transactions. The covenants also require compliance with a maximum consolidated secured leverage ratio. The Company s ability to comply in future periods with the financial covenants will depend on its ongoing financial and operating performance.

The substantial debt and the restrictions under the Credit Agreement could limit the Company s flexibility to respond to changing market conditions and competitive pressures, as well as its ability to withstand competitive pressures. The material outstanding debt obligations and the Credit Agreement 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.

In light of the continuing volatility in the financial services industry, the Company s reliance on a large number of financial institutions for a significant portion of its cash requirements could adversely affect the Company s liquidity and cash flow.

The credit and securities markets exhibited extreme volatility and disruption throughout 2008. The Company has exposure to many companies in the financial services industry, particularly commercial and investment banks who participate in its revolving credit facility and who are counterparties to the Company s interest rate swaps and natural gas and currency hedges. The failure of these financial institutions, or their inability or unwillingness to fund the Company s revolving credit facility or fulfill their obligations under swaps and hedges could have a material adverse affect on the Company s liquidity position and cash flow.

Reduced availability of credit may adversely affect the ability of some of the Company s customers and suppliers to obtain funds for operations and capital expenditures. This could negatively impact the Company s ability to timely collect receivables and to obtain raw materials and supplies.

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

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

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

The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. The Company s ability to implement successfully its business strategies and to realize anticipated savings is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. These strategies include the infrastructure and reliability improvements at the Company s West Monroe mill. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans it may not be able 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.

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

Approximately 52% of the Company s workforce is represented by labor unions, whose goals and objectives may differ significantly from the Company s. The Company may not be able to successfully negotiate new union contracts covering the employees at its various sites without work stoppages or labor difficulties. These events may also occur as a result of other factors. A prolonged disruption at any of the Company s facilities due to work stoppages or labor difficulties could have a material adverse effect on its net

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sales, margins and cash flows. In addition, if new union contracts contain significant increases in wages or other benefits, the Company s margins would be adversely impacted.

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

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

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

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, the investigation and remediation of contamination resulting from releases of hazardous substances, and the health and safety of employees. Environmental liabilities and obligations may result in significant costs, which could negatively impact the Company s financial condition and results of operations.

The Company s operations outside the U.S. are subject to the risks of doing business in foreign countries.

The Company has several converting plants in 6 foreign countries and sells its products worldwide. For 2008, before intercompany eliminations, net sales from operations outside of the U.S. represented approximately 11% of the Company s net sales. The Company s revenues from export sales fluctuate with changes in foreign currency exchange rates. At December 31, 2008, approximately 4% of its total assets were denominated in currencies other than the U.S. dollar. The Company has significant operations in countries that use the British pound sterling, the Australian dollar, the Japanese yen or the euro as their functional currencies. The Company cannot predict major currency fluctuations. The Company pursues a currency hedging program in order to limit the impact of foreign currency exchange fluctuations on financial results.

The Company is also subject to the following significant risks associated with operating in foreign countries:

- adverse political and economic conditions;
- compliance with and enforcement of environmental, health and safety and labor laws and other regulations of the foreign countries in which the Company operates;
- export compliance;
- imposition or increase of withholding and other taxes on remittances and other payments by foreign subsidiaries; and

imposition or increase of investment and other restrictions by foreign governments.

If any of the above events were to occur, the Company s financial position, results of operations or cash flows could be adversely impacted, possibly materially.

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The anticipated benefits of combining the operations of the Company and Altivity may not be fully realized, and the Company may face difficulties integrating Altivity s operations.

The Company and BCH entered into the Altivity Transaction with the expectation that the transaction would result in various benefits, including, among other things, cost synergies and operating efficiencies. However, the achievement of the anticipated benefits of the transaction, including the cost synergies, cannot be assured or may take longer than expected. In addition, the Company may not be able to integrate Altivity s operations with the Company s existing operations without encountering difficulties, including:

- inconsistencies in standards, systems and controls;
- the diversion of management s focus and resources from ordinary business activities and opportunities;
- difficulties in achieving expected cost savings associated with the transaction;
- difficulties in the assimilation of employees and in creating a unified corporate culture;
- challenges in retaining existing customers and obtaining new customers; and
- challenges in attracting and retaining key personnel.

These risks may be exacerbated by the fact that Altivity is the result of the combination of the Smurfit-Stone Container Corporation s Consumer Packaging Division and the Field Companies in 2006. As a result of these risks, the Company may not be able to realize the expected revenue and cash flow growth and other benefits that it expects to achieve from the transaction. In addition, the Company may be required to spend additional time or money on integration efforts that would otherwise have been spent on the development and expansion of its business and services.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Headquarters

The Company leases its principal executive offices in Marietta, GA.

Manufacturing Facilities

A listing of the principal properties owned or leased and operated by the Company is set forth below. The Company s buildings are adequate and suitable for the business of the Company. The Company also leases certain smaller facilities, warehouses and office space throughout the U.S. and in foreign countries from time to time.

Type of Facility and Location	Related Segment(s) or Use of Facility
Paperboard Mills:	

Battle Creek, MI	Paperboard Packaging
Kalamazoo, MI	Paperboard Packaging
Macon, GA	Paperboard Packaging
Middletown, OH	Paperboard Packaging
Pekin, IL	Paperboard Packaging
Santa Clara, CA	Paperboard Packaging
West Monroe, LA	Paperboard Packaging; Research and Development
Paperboard Packaging:	
Atlanta, GA	Paperboard Packaging
Bristol, Avon, United Kingdom	Paperboard Packaging
Carol Stream, IL	Paperboard Packaging; Research and Development
Centralia, IL	Paperboard Packaging
Charlotte, NC	Paperboard Packaging

Type of Facility and Location	Related Segment(s) or Use of Facility
Cincinnati, OH	Paperboard Packaging
Elk Grove, IL[a]	Paperboard Packaging
Fort Smith, AR	Paperboard Packaging
Fort Wayne, IN	Paperboard Packaging
Golden, CO	Paperboard Packaging; Research and Development/Office
Gordonsville, TN	Paperboard Packaging
Idaho Falls, ID	Paperboard Packaging
Igualada, Barcelona, Spain	Paperboard Packaging; Packaging Machinery Engineering Design and Manufacturing
Irvine, CA	Paperboard Packaging; Design Center
Jundiai, Sao Paulo, Brazil	Paperboard Packaging
Kalamazoo, MI	Paperboard Packaging
Kendallville, IN	Paperboard Packaging
La Porte, IN	Paperboard Packaging
Lawrenceburg, TN	Paperboard Packaging
Le Pont de Claix, France	Paperboard Packaging
Lumberton, NC	Paperboard Packaging
Marion, OH	Paperboard Packaging
Masnieres, France	Paperboard Packaging
Menasha, WI	Paperboard Packaging; Research and Development
Mississauga, Ontario, Canada	Paperboard Packaging; Research and Development
Mitchell, SD	Paperboard Packaging
Morris, IL	Paperboard Packaging
Muncie, IN	Paperboard Packaging
Orchard Park, CA	Paperboard Packaging
Pacific, MO	Paperboard Packaging
Perry, GA[b]	Paperboard Packaging
Piscataway, NJ	Paperboard Packaging
Queretaro, Mexico	Paperboard Packaging
Renton, WA	Paperboard Packaging
Richmond, VA	Paperboard Packaging
Santa Clara, CA	Paperboard Packaging
Smyrna, TN	Paperboard Packaging
Solon, OH	Paperboard Packaging
Tuscaloosa, AL[a]	Paperboard Packaging
Valley Forge, PA	Paperboard Packaging; Design Center
Wausau, WI	Paperboard Packaging
West Monroe, LA[a]	Paperboard Packaging
Multi-wall Bag:	
Arcadia, LA	Multi-wall Bag
Cantonment, FL	Multi-wall Bag
Eastman, GA	Multi-wall Bag
Fowler, IN	Multi-wall Bag
Jacksonville, AR	Multi-wall Bag
Kansas City, MO	Multi-wall Bag

Louisville, KY	Multi-wall Bag	
New Philadelphia, OH	Multi-wall Bag	
North Portland, OR	Multi-wall Bag	
Quincy, IL	Multi-wall Bag	
Salt Lake City, UT[(a)]	Multi-wall Bag	
Wellsburg, WV	Multi-wall Bag	
Specialty Packaging:		
Bellwood, IL	Specialty Packaging	Ink
Brampton Ontario, Canada	Specialty Packaging	Flexible Packaging
Des Moines, IA	Specialty Packaging	Flexible Packaging
Greensboro, NC	Specialty Packaging	Labels

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Type of Facility and Location	Related Segment(s) or Use of Facility	
Menomonee Falls, WI	Specialty Packaging	Ink
Milwaukee, WI	Specialty Packaging	Flexible Packaging
Norwood, OH	Specialty Packaging	Labels
Portage, IN	Specialty Packaging	Flexible Packaging
Riverdale, IL	Specialty Packaging	Ink
Schaumburg, IL	Specialty Packaging	Flexible Packaging
St. Charles, IL	Specialty Packaging	Labels
Other:		
Concord, NH	Research and Development	
Crosby, MN	Packaging Machinery Engineering Design and Manufacturing	
Marietta, GA	Research and Development and Packaging Machinery Engineering Design	

Notes:

(a) Multiple facilities in this location.

(b) The facility is leased from the Middle Georgia Regional Development Authority in consideration of the issuance of industrial development bonds by such entity.

ITEM 3. ***LEGAL PROCEEDINGS***

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

See Environmental Matters in Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations.

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

During the fourth quarter of 2008, there were no matters submitted to a vote of security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G (3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the definitive proxy statement that will be filed within 120 days after December 31, 2008.

David W. Scheible, 52, was appointed to GPHC s Board upon its formation (under the name New Giant Corporation) in June 2007. Prior to the Altivity Transaction, he had served as a director, President and Chief Executive Officer of GPC since January 1, 2007. Prior to that time, Mr. Scheible had served as Chief Operating Officer of GPC since October 2004. Mr. Scheible served as Executive Vice President of Commercial Operations from August 2003 until

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

Daniel J. Blount, 53, is the Senior Vice President and Chief Financial Officer of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President and Chief Financial Officer of GPC since September 2005. From October 2003 until September 2005, he was the Senior Vice President, Integration. From August 2003 until October 2003, he was the Senior Vice President, Integration, Chief Financial Officer and Treasurer. From June 2003 until August 2003, he was Senior Vice President, Chief Financial Officer and Treasurer of Riverwood Holding, Inc. From September 1999 until June 2003, Mr. Blount was Senior Vice President and Chief Financial Officer of Riverwood Holding, Inc. Mr. Blount was named Vice President and Chief Financial Officer of Riverwood Holding, Inc. in September 1998. Prior to joining Riverwood Holding, Inc., Mr. Blount spent 13 years at Montgomery Kone, Inc., an elevator, escalator and moving ramp product manufacturer, installer and service provider, lastly as Senior Vice President, Finance.

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James M. Aikins, 51*,* is the Senior Vice President, Human Resources of GPHC. Prior to the Altivity Transaction, he had served as Vice President, Human Resources for Altivity since August 2006. Mr. Aikins previously held a variety of senior-level Human Resources roles in the packaging and consumer products industries, including Senior Vice President, Human Resources at United States Can Company during 2005 and 2006; Vice President, Human Resources with ConAgra Foods from 1999 to 2005; and, a variety of positions at Continental Grain Company from 1983 to 1999, including Senior Vice President, Human Resources.

John C. Best, 49, is the Vice President, Business Development of GPHC. Prior to the Altivity Transaction, he had served as Vice President, Business Development of GPC since January 2006, with responsibility for Marketing, Research and Development and the successful sale of value-added products into the marketplace. Previously he had served as Vice President of Sales for GPC from August 1999 to December 2005. Mr. Best joined GPC in 1994 as the Business Unit Manager for the Folding Carton division.

Michael P. Doss, 42*,* is the Senior Vice President, Consumer Packaging of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, Consumer Products Packaging of GPC since September 2006. From July 2000 until September 2006, he was the Vice President of Operations, Universal Packaging Division. Since joining GPIC in 1990, Mr. Doss held positions of increasing management responsibility, including Plant Manager at the Gordonsville, TN and Wausau, WI plants. Mr. Doss was Director of Web Systems for the Universal Packaging Division prior to his promotion to Vice President of Operations.

Deborah R. Frank, 48, Vice President and Chief Accounting Officer of GPHC. Prior to the Altivity Transaction, she served as Vice President and Controller of GPC since April 2005. Prior to joining the Company, Ms. Frank held various positions of increasing responsibility in the finance, accounting, audit, international and corporate areas at Kimberly Clark Corporation, most recently serving as Assistant Controller.

Philip Geminder, 52, Vice President and Chief Integration Officer of GPHC. Prior to the Altivity Transaction, he served as the Vice President, Integration of GPC from September 2007 through March 2008. Prior to that time he had served as Vice President, Finance of GPC since August 2003 and Vice President, Financial Services of GPIC since January 2000. Before joining GPIC, Mr. Geminder served as Director of Finance with Avery Dennison Corporation after spending 18 years in various positions with Honeywell International Inc.

Stephen A. Hellrung, 61*,* is the Senior Vice President, General Counsel and Secretary of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, General Counsel and Secretary of GPC since October 2003. He was Senior Vice President, General Counsel and Secretary of Lowe s Companies, Inc., a home improvement specialty retailer, from April 1999 until June 2003. Prior to joining Lowe s Companies, Mr. Hellrung held similar positions with Pillsbury Company and Bausch & Lomb, Incorporated.

Kevin J. Kwilinski, 40, Vice President, Supply Chain of GPHC. Prior to the Altivity Transaction, Mr. Kwilinski served as Vice President, Supply Chain for GPC from August 2006 to March 2008. Prior to that time he served as Director, Shared Services from August 2004 to July 2006, Director, Sales & Manufacturing from February 2004 to July 2004 and as the Golden, Colorado Plant Manager from December 2001 to January 2004. Prior to joining the Company, he served as a Senior Strategy Consultant with i2 Technologies, Inc.

Michael R. Schmal, 55, is the Senior Vice President, Beverage Packaging of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, Beverage of GPC since August 2003. From October 1996 until August 2003, Mr. Schmal was the Vice President and General Manager, Brewery Group of Riverwood Holding, Inc. Prior to that time, Mr. Schmal held various positions with Riverwood Holding, Inc. since 1981.

Donald W. Sturdivant, 48, served as the Executive Vice President, Mills, Multi-Wall Bag and Specialty Businesses of GPHC from March 2008 through December 31, 2008. Prior to the Altivity Transaction, he had served as the Chief Operating Officer of Altivity since August 2006. Before joining Altivity, Mr. Sturdivant had served in various senior management positions at GPC, including Senior Vice President for the Consumer Packaging Division from August 2003 until August 2006. From August 1999 until August 2003, he was Senior Vice President of Performance Packaging for GPIC. Mr. Sturdivant was President of the Fort James Packaging Business from December 1998 until August 1999 when the business was purchased by GPIC. Prior to that, Mr. Sturdivant held various general management and senior management positions at James River and Fort James.

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PART II

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

GPHC s common stock (together with the associated stock purchase rights) is traded on the New York Stock Exchange under the symbol GPK. The historical range of the high and low sales price per share for each quarter of 2008 and 2007 are as follows:

	2008		2007	
	High	Low	High	Low
First Quarter	$ 3.61	$ 2.73	$ 6.04	$ 4.11
Second Quarter	3.10	2.02	5.40	4.52
Third Quarter	3.11	1.96	6.10	4.07
Fourth Quarter	2.06	0.94	4.97	3.66

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

On February 27, 2009, there were approximately 2,502 stockholders of record and approximately 2,323 beneficial holders of GPHC s common stock.

Total Return to Stockholders

The following graph compares the total returns (assuming reinvestment of dividends) of the common stock of the Company and its immediate predecessor, GPC, the Standard & Poor s 500 Stock Index and the Dow Jones U.S. Container & Packaging Index. The graph assumes $100 invested on December 31, 2003 in GPC s common stock and each of the indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Graphic Packaging Holding Company	$ 100.00	$ 177.34	$ 56.16	$ 106.65	$ 90.89	$ 28.08
S&P 500 Index	100.00	110.88	116.33	134.70	142.10	89.53

DJ U.S. Container & Packaging Index	100.00	119.64	118.89	133.26	142.22	89.17

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ITEM 6. *SELECTED FINANCIAL DATA*

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

	Year Ended December 31,				
In millions, except per share amounts	2008	2007	2006	2005	2004
Statement of Operations Data:					
Net Sales	$ 4,079.4	$ 2,421.2	$ 2,321.7	$ 2,294.3	$ 2,295.5
Income from Operations	149.9	151.2	93.8	86.5	111.6
Loss from Continuing Operations	(98.8)	(49.1)	(97.4)	(90.1)	(63.2)
(Loss) Income from Discontinued Operations, Net of Taxes	(0.9)	(25.5)	(3.1)	(1.0)	2.3
Net Loss	(99.7)	(74.6)	(100.5)	(91.1)	(60.9)
(Loss) Income Per Share Basic:					
Continuing Operations	(0.32)	(0.24)	(0.48)	(0.45)	(0.32)
Discontinued Operations	(0.00)	(0.13)	(0.02)	(0.01)	0.01
Total	(0.32)	(0.37)	(0.50)	(0.46)	(0.31)
(Loss) Income Per Share Diluted:					
Continuing Operations	(0.32)	(0.24)	(0.48)	(0.45)	(0.32)
Discontinued Operations	(0.00)	(0.13)	(0.02)	(0.01)	0.01
Total	(0.32)	(0.37)	(0.50)	(0.46)	(0.31)
Weighted average number of shares outstanding:					
Basic	315.8	201.8	201.1	200.0	198.9
Diluted	315.8	201.8	201.1	200.0	198.9
Balance Sheet Data:					
(as of period end)					
Cash and Equivalents	$ 170.1	$ 9.3	$ 7.3	$ 12.7	$ 7.3
Total Assets	4,983.1	2,777.3	2,888.6	3,005.2	3,111.3
Total Debt	3,183.8	1,878.4	1,922.7	1,978.3	2,025.2
Total Shareholders Equity	525.2	144.0	181.7	268.7	386.9
Additional Data:					
Depreciation & Amortization	$ 264.3	$ 189.6	$ 188.5	$ 198.8	$ 223.1
Capital Spending[a]	183.3	95.9	94.5	110.8	149.1
Research, Development and Engineering Expense	8.0	9.2	10.8	9.2	8.7

Notes:

(a) Includes capitalized interest and amounts invested in packaging machinery.

ITEM 7. *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 operation is intended to provide investors with an understanding of the Company s past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Overview of Business

Overview of 2008 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 paperboard 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 its CUK and CRB, as well as other grades of paperboard that are purchased from third party suppliers. Innovative designs and combinations of paperboard, films, foils, metallization, holographics, embossing and other 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 or products, provides customers with value-added graphical and technical support, customized packaging equipment solutions 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, horticulture, military and commercial retort pouches and shingle wrap. In addition, the Company s label business focuses on two product lines: heat transfer labels and litho 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 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. The Company continues to be negatively impacted by inflationary pressures which increased year over year costs by $126.3 million, $39.3 million and $67.0 million in 2008, 2007, and 2006, respectively. The 2008 costs are primarily related to chemical-based inputs ($43.7 million); fiber, outside board purchases and corrugated shipping containers ($39.9 million); energy costs ($26.9 million), mainly due to the price of natural gas; labor and related benefits ($15.7 million); and freight ($6.1 million). These increases were offset by other lower costs of $6.0 million. 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 hedged approximately 72% of its expected natural gas usage for the year 2009. The Company believes that inflationary pressures, including higher costs for fiber, wood and chemical-based inputs will continue to negatively impact its results for 2009. 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, thereby further exacerbating the inflationary problems.

Substantial Debt Obligations. The Company has $3,183.8 million of outstanding debt obligations as of December 31, 2008. 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 also prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees) and 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 covenants also require compliance with a consolidated secured leverage ratio. The Company s ability to comply in future periods with the financial covenants will depend on its ongoing financial and operating performance, which in turn will be subject to many other factors, many of which are beyond the Company s control. See Covenant Restrictions in Financial Condition, Liquidity and Capital Resources for additional information regarding the Company s debt obligations.

Integration Risk. Although the Company has made substantial progress in integrating the Altivity business and operations, it is possible that the full amount of expected benefits, including, among other things, cost synergies and operating efficiencies may not be achieved or may take longer to achieve than expected. In addition, the Company may not be able to fully integrate Altivity s operations with GPC s existing operations without encountering difficulties, including:

- inconsistencies in standards, systems and controls;
- difficulties in achieving expected cost savings associated with the transaction;
- difficulties in the assimilation of employees and in creating a unified corporate culture;
- challenges in retaining existing customers and obtaining new customers; and
- challenges in attracting and retaining key personnel.

As a result of these risks, the Company may not be able to realize the expected revenue and cash flow growth and other benefits that it expects to achieve from the transaction. In addition, the Company may be required to spend additional time or money on integration efforts that would otherwise have been spent on the development and expansion of its business and services.

Commitment to Cost Reduction. In light of increasing margin pressure throughout the paperboard 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 principles into manufacturing and supply chain services. As the Company strengthens the systems approach to continuous improvement, Lean supports the efforts to

build a high performing culture. During 2008, the Company achieved $53.8 million in cost savings as compared to 2007, through its continuous improvement programs and manufacturing initiatives.

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 and other substrates solid bleached sulfate, or SBS and recycled clay coated news, or CCN. Substitute products also include shrink film and corrugated containers. In addition, the Company s sales historically are driven by consumer buying habits

in the markets its customers serve. Continuing increases in energy, food and other costs of living, conditions in the residential real estate market, rising unemployment rates, reduced access to credit and declining consumer confidence, 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. In addition, the Company s net sales, income from operations and cash flows from operations are subject to moderate seasonality, with demand usually increasing in the spring and summer due to the seasonality of the beverage multiple packaging markets.

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.

OVERVIEW OF 2008 RESULTS

This management s discussion and analysis contains an analysis of Net Sales, Income from Operations and other information relevant to an understanding of results of operations. To enhance the understanding of continuing operations, this discussion and analysis excludes discontinued operations for all periods presented. Information on discontinued operations can be found in Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data .

Net Sales in 2008 increased by $1,658.2 million, or 68.5%, to $4,079.4 million from $2,421.2 million in 2007 due primarily to $1,601.8 million volume achieved as a result of the Altivity Transaction. Also contributing to the increase was improved pricing across all segments and favorable foreign currency exchange rates in Europe and Japan; partially offset by lower volume and product mix.

Income from Operations in 2008 decreased by $1.3 million, or 0.9%, to $149.9 million from $151.2 million in 2007. This decrease was primarily due to inflation, partially offset by the Altivity Transaction, improved pricing, and worldwide continuous improvement programs and other cost reduction initiatives.

RESULTS OF OPERATIONS

The Company s results of operations include the results of Altivity from March 10, 2008, the date of the Altivity Transaction, through December 31, 2008. The results of operations for 2007 represent the results of the Company s operations prior to the Altivity Transaction.

Segment Information

The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging. As a result of the Altivity Transaction, the Company s reporting segments were revised and the Company reclassified prior period information to conform to the current presentations. Business segment information is as follows:

In millions	Year Ended December 31, 2008	2007	2006
NET SALES:			
Paperboard Packaging	$ 3,377.4	$ 2,340.6	$ 2,243.1
Multi-wall Bag	478.1	80.6	78.6
Specialty Packaging	223.9		
Total	$ 4,079.4	$ 2,421.2	$ 2,321.7
INCOME (LOSS) FROM OPERATIONS:			
Paperboard Packaging	$ 220.8	$ 177.8	$ 112.9
Multi-wall Bag	27.8	6.3	3.4
Specialty Packaging	11.0		
Corporate	(109.7)	(32.9)	(22.5)
Total	$ 149.9	$ 151.2	$ 93.8

2008 COMPARED WITH 2007

Net Sales

In millions	Year Ended December 31, 2008	2007	Increase	Percent Change

Paperboard Packaging	$ 3,377.4	$ 2,340.6	$ 1,036.8	44.3%
Multi-wall Bag	478.1	80.6	397.5	N.M.(a)
Specialty Packaging	223.9		223.9	N.M.(a)
Total	$ 4,079.4	$ 2,421.2	$ 1,658.2	68.5%

Note:

(a) Percentage calculation not meaningful since the segment was created as a result of the Altivity Transaction.

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

	Year Ended December 31,						
		Variances					
			Volume/Mix				
In millions	**2007**	**Price**	**Acquisition**	**Organic**	**Exchange**	**Total**	**2008**
Paperboard Packaging	$ 2,340.6	$ 41.0	$ 990.0	$ (7.1)	$ 12.9	$ 1,036.8	$ 3,377.4
Multi-wall Bag	80.6	6.4	387.9	3.2		397.5	478.1
Specialty Packaging			223.9			223.9	223.9
Total	$ 2,421.2	$ 47.4	$ 1,601.8	$ (3.9)	$ 12.9	$ 1,658.2	$ 4,079.4

Paperboard Packaging

The Company s Net Sales from paperboard packaging in 2008 increased by $1,036.8 million, or 44.3%, to $3,377.4 million from $2,340.6 million in 2007 as a result of the Altivity Transaction, improved pricing across all product lines, as well as improved product mix primarily in North American food and consumer cartons, beverage and Europe. The improvement in pricing reflects negotiated inflationary cost pass-throughs and other contractual increases, as well as price increases on open market roll stock. The Company implemented a $50 per ton price increase for its CRB and URB effective with shipments on or after July 28, 2008, and a $40 per ton price increase for CUK grades, effective with shipments on or after August 1, 2008. The improvement in product mix was primarily in the soft drink, retail carryout, cereal and dry foods product lines, as well as the introduction of new beer promotion items and the introduction of 18 multi-packs which were previously packaged in containerboard. Also contributing to the increase was favorable currency exchange rates, primarily in Europe, Japan, Australia and Brazil. The improved mix was more than offset by lower volume as the result of the Company exiting lower margin business and lower open market sales in Europe. Beverage sales volume decreased in the fourth quarter and impacted the full year due to continued softness in the soft drink market due to price increases as well as downtime taken in the beer market.

Multi-wall Bag

The Company s Net Sales from multi-wall bag in 2008 increased by $397.5 million as a result of the Altivity Transaction, as well as improved pricing and volume. The improved pricing was due to negotiated cost pass-through increases. The Altivity sales were attributable to price and volume primarily in the bag packaging markets.

Specialty Packaging

The Company s Net Sales from specialty packaging in 2008 increased by $223.9 million compared to 2008 as a result of the acquisition of the specialty packaging segment in the Altivity Transaction.

Income (Loss) from Operations

	Year Ended December 31,			
In millions	**2008**	**2007**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 220.8	$ 177.8	$ 43.0	24.2%
Multi-wall Bag	27.8	6.3	21.5	N.M.(a)
Specialty Packaging	11.0		11.0	N.M.(a)
Corporate	(109.7)	(32.9)	(76.8)	(233.4)
Total	$ 149.9	$ 151.2	$ (1.3)	(0.9)%

Note:

(a) Percentage calculation not meaningful since the segment was created as a result of the Altivity Transaction.

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

		Year Ended December 31, Variances							
			Volume/Mix						
In millions	2007	Price	Acquisition	Organic	Inflation	Exchange	Other[(a)]	Total	2008
Paperboard Packaging	$ 177.8	$ 41.0	$ 71.0	$ 3.6	$ (120.9)	$ 1.1	$ 47.2	$ 43.0	$ 220.8
Multi-wall Bag	6.3	6.4	19.4	0.7	(5.4)		0.4	21.5	27.8
Specialty Packaging			11.0					11.0	11.0
Corporate	(32.9)		(84.3)			(9.6)	17.1	(76.8)	(109.7)
Total	$ 151.2	$ 47.4	$ 17.1	$ 4.3	$ (126.3)	$ (8.5)	$ 64.7	$ (1.3)	$ 149.9

Note:

(a) Includes the benefits from the Company s cost reduction initiatives.

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2008 increased by $43.0 million, or 24.2%, to $220.8 million from $177.8 million in 2007 as a result of the Altivity transaction, $52.2 million of continuing cost reduction initiatives, the improved pricing and product mix. These increases more than offset inflationary pressures of $120.9 million, primarily related to chemical-based inputs ($40.3 million); fiber and outside board purchases ($38.5 million); energy costs ($26.9 million), mainly due to the price of natural gas; labor and related benefits ($15.5 million); and freight ($5.8 million), partially offset by other lower costs of $6.1 million. The Company also recorded a charge for the previously announced permanent shutdown of the #2 coated board machine at the West Monroe, LA mill. Results in 2007 included charges related to the continued infrastructure updates at this mill, accelerated depreciation for assets taken out of service due to efficiency improvements, and higher expenses in Europe, primarily relating to the start up costs for a new converting facility in France.

Multi-wall Bag

The Company s Income from Operations from multi-wall bag in 2008 increased by $21.5 to $27.8 million from $6.3 million in 2007 as a result of the Altivity Transaction, the improved pricing and cost saving initiatives of $1.6 million. These increases were partially offset by inflation costs. The segment s Income from Operations was attributable to volume primarily in the bag packaging markets.

Specialty Packaging

The Company s Income from Operations from specialty packaging in 2008 increased by $11.0 million compared to 2008 as a result of the acquisition of the specialty packaging segment in the Altivity Transaction.

Corporate

The Company s Loss from Operations from corporate was $109.7 million in 2008 compared to a loss of $32.9 million in 2007. This $76.8 million increase was due primarily to Altivity Transaction related expenses of $28.1 million and the inclusion of Altivity Corporate expenses of $39.4 million. In addition, the Company recorded $24.4 million of expense related to the step-up in inventory basis to fair value. These expenses were offset by a favorable $10.4 million fair value adjustment for an interest rate swap and lower bonus accruals, partially offset by a net foreign currency loss of $9.6 million. The swap was assumed in the Altivity Transaction. Results for 2007 were positively impacted by the reversal of a $3.0 million liability recorded at the time of the merger of GPII and Riverwood Holdings, Inc. in 2003.

INTEREST INCOME, INTEREST EXPENSE, INCOME TAX EXPENSE, AND EQUITY IN NET EARNINGS OF AFFILIATES

Interest Income

Interest Income increased to $1.3 million in 2008 from $0.4 million in 2007 primarily as a result of higher average balances in cash equivalents.

Interest Expense

Interest Expense increased by $48.5 million to $216.7 million in 2008 from $168.2 million in 2007. Interest Expense increased due to the additional debt acquired as a result of the Altivity Transaction. As of December 31, 2008, approximately 22% of the Company s total debt was subject to floating interest rates.

Income Tax Expense

During 2008, the Company recognized Income Tax Expense of $34.4 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $65.5 million. During 2007, the Company recognized Income Tax Expense of $23.9 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $26.1 million. Income Tax Expense for 2008 and 2007 primarily relates to the noncash expense associated

with the amortization of goodwill for tax purposes, benefits related to losses in certain foreign countries and tax withholding in foreign jurisdictions. Income tax expense for 2007 also increased due to a liability related to a judgment received in a Swedish tax court.

Equity in Net Earnings of Affiliates

Equity in Net Earnings of Affiliates was $1.1 million in 2008 and $0.9 million in 2007 and is related to the Company s equity investment in the joint venture Rengo Riverwood Packaging, Ltd.

2007 COMPARED WITH 2006

Net Sales

	Year Ended December 31,			
In millions	2007	2006	Increase	Percent Change
Paperboard Packaging	$ 2,340.6	$ 2,243.1	$ 97.5	4.3%
Multi-wall Bag	80.6	78.6	2.0	2.5
Total	$ 2,421.2	$ 2,321.7	$ 99.5	4.3%

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

	Year Ended December 31,					
		Variances				
In millions	2006	Price	Volume/Mix	Exchange	Total	2007
Paperboard Packaging	$ 2,243.1	$ 42.9	$ 35.4	$ 19.2	$ 97.5	$ 2,340.6
Multi-wall Bag	78.6	(0.4)	2.4		2.0	80.6
Total	$ 2,321.7	$ 42.5	$ 37.8	$ 19.2	$ 99.5	$ 2,421.2

Paperboard Packaging

The Company s Net Sales from paperboard packaging in 2007 increased by $97.5 million, or 4.3%, to $2,340.6 million from $2,243.1 million in 2006 due to improved pricing across all product lines as well as increased volume in North America open market and consumer packaging. The improvement in pricing reflects negotiated inflationary cost pass-throughs and other contractual increases, as well as price increases on open market roll stock. The 1.5% increase

in volume primarily relates to increased carton sales in the North American food and consumer product markets, primarily for frozen and dry cartons, and sales of open market rollstock. North American beer volumes increased and included the introduction of 18 and 20 multi-packs previously packaged in containerboard. Also contributing to the increase was favorable foreign currency exchange rates, primarily in Europe and Australia. Containerboard net sales increased primarily to improved pricing in the containerboard medium and bag market; partially offset by lower volume for liner and post print.

Multi-wall Bag

The Company s Net Sales from multi-wall bag in 2007 increased by $2.0 million, or 2.5%, to $80.6 million from $78.6 million in 2006 due primarily to higher volume partially offset by decrease in price.

Income (Loss) from Operations

In millions	Year Ended December 31, 2007	2006	Increase (Decrease)	Percent Change
Paperboard Packaging	$ 177.8	$ 112.9	$ 64.9	57.5%
Multi-wall Bag	6.3	3.4	2.9	85.3
Corporate	(32.9)	(22.5)	(10.4)	(46.2)
Total	$ 151.2	$ 93.8	$ 57.4	61.2%

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

In millions	2006	Price	Volume/Mix	Inflation	Exchange	Other[a]	Total	2007
		Year Ended December 31, Variances						
Paperboard Packaging	$ 112.9	$ 42.9	$ 11.6	$ (38.5)	$ 6.4	$ 42.5	$ 64.9	$ 177.8
Multi-wall Bag	3.4	(0.4)	0.6	(0.8)		3.5	2.9	6.3
Corporate	(22.5)				(0.3)	(10.1)	(10.4)	(32.9)
Total	$ 93.8	$ 42.5	$ 12.2	$ (39.3)	$ 6.1	$ 35.9	$ 57.4	$ 151.2

Note:

(a) Includes the benefits from the Company s cost reduction initiatives.

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2007 increased by $64.9 million, or 57.5%, to $177.8 million from $112.9 million in 2006 due primarily to the increased pricing and volume and improved performance, primarily at the Company s West Monroe, LA mill. As previously disclosed, the Company had undertaken an initiative to upgrade the mills maintenance program. In addition, cold outage was expanded to include the overhaul of the clarifier in 2006. Continuous improvement initiatives also benefited the other product lines. These increases were partially offset by inflationary pressures, primarily for fiber, chemical-based inputs and outside board purchases. Containerboard contributed improved pricing in the containerboard medium and bag markets, as well as decrease in liner and post print which is sold at a lower margin; partially offset by inflation.

Multi-wall Bag

The Company s Income from Operations from multi-wall bag in 2007 increased by $2.9 million, or 85.3%, to $6.3 million from $3.4 million in 2006 due primarily to performance and volume. These increases were partially offset by inflation and price.

Corporate

The Company s Loss from Operations from corporate was $32.9 million in 2007 compared to a loss of $22.5 million in 2006. This $10.4 million increase was due primarily to increased expenses for stock-based compensation, management incentives, and merger-related expenses related to the anticipated transaction with Altivity. Partially offsetting these increases was the reversal of a $3.0 million liability recorded at the time of the 2003 Merger. In addition, 2006 included a favorable legal settlement.

INTEREST INCOME, INTEREST EXPENSE, INCOME TAX EXPENSE, AND EQUITY IN NET EARNINGS OF AFFILIATES

Interest Income

Interest Income was $0.4 million in 2007 and $0.6 million in 2006.

Interest Expense

Interest Expense decreased by $3.8 million to $168.2 million in 2007 from $172.0 million in 2006. Interest Expense decreased due to lower average debt balances during the year and the refinancing of the Credit Agreement in May 2007. This decrease was partially offset due to higher interest rates on the unhedged portion of the Company s floating rate debt. As of December 31, 2007, approximately 31% of the Company s total debt was subject to floating interest rates.

Income Tax Expense

During 2007, the Company recognized Income Tax Expense of $23.9 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $26.1 million. During 2006, the Company recognized Income Tax Expense of $20.8 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $77.6 million. Income Tax Expense for 2007 and 2006 primarily relates to the noncash expense associated with the amortization of goodwill for tax purposes, benefits related to losses in certain foreign countries and tax withholding in foreign jurisdictions. Income Tax Expense for 2007 also increased due to a liability related to a judgment received in a Swedish tax court.

Equity in Net Earnings of Affiliates

Equity in Net Earnings of Affiliates was $0.9 million in 2007 and $1.0 million in 2006 and is related to the Company s equity investment in the joint venture Rengo Riverwood Packaging, Ltd.

ALTIVITY TRANSACTION

On March 10, 2008, the businesses of GPC and Altivity were combined in a transaction accounted for under Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* . Altivity was the largest privately-held producer of folding cartons and a market leader in all of its major businesses, including coated-recycled boxboard, multi-wall bag and specialty packaging. Altivity operated recycled boxboard mills and consumer product packaging facilities in North America.

On March 5, 2008, the United States Department of Justice issued a Consent Decree that required the divesture of two mills, as a condition of the Altivity Transaction. On July 8, 2008, GPII signed an agreement with an affiliate of Sun Capital Partners, Inc. to sell two coated-recycled boxboard mills as required by the Consent Decree. The sale of the mills was completed on September 17, 2008. The mills that were sold are located in Philadelphia, Pennsylvania and in Wabash, Indiana.

In connection with the Altivity Transaction, all of the equity interests in Altivity s parent company were contributed to GPHC in exchange for 139,445,038 shares of GPHC s common stock, or approximately 40.6 percent of the Company s outstanding shares of common stock. Stockholders of GPC received one share of GPHC common stock for each share of GPC common stock held immediately prior to the transaction. Subsequently, all of the equity interests in Altivity s parent company were contributed to GPHC s primary operating company, GPII.

The Company determined that the relative outstanding share ownership, voting rights, and the composition of the governing body and senior management positions require GPC to be the acquiring entity for accounting purposes, resulting in the historical financial statements of GPC becoming the historical financial statements of the Company. Under the purchase method of accounting, the assets and liabilities of Altivity were recorded, as of the date of the closing of the Altivity Transaction, at their respective fair values and

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added to those of GPC. The purchase price for the acquisition was based on the average closing price of the Company s common stock on the NYSE for two days prior to, including, and two days subsequent to the public announcement of the transaction of $5.47 per share and capitalized transaction costs. The purchase price has been allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of the Altivity Transaction. The preliminary purchase price allocation is as follows:

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

In millions	
Cash and Cash Equivalents	$ 60.2
Receivables, Net	181.2
Inventories	265.0
Prepaids	13.1
Property, Plant and Equipment	637.0
Intangible Assets	561.1
Other Assets	4.7
Total Assets Acquired	1,722.3
Current Liabilities, Excluding Current Portion of Long-Term Debt	257.8
Pension and Postemployment Benefits	35.3
Other Noncurrent Liabilities	31.8
Total Liabilities Assumed	324.9
Net Assets Acquired	1,397.4
Goodwill	563.3

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

As of December 31, 2008, the preliminary purchase accounting is still subject to final adjustment and could change in the subsequent period. The Company has not finalized its review of all Altivity tax matters and other liabilities. The Company has plans to close certain facilities and has established restructuring reserves that are considered liabilities assumed in the Altivity Transaction. See Restructuring Reserves .

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

The following table shows the allocation of goodwill by segment:

In millions	**Paperboard Packaging**	**Multi-wall Bag**	**Specialty Packaging**	**Total**
Balance at December 31, 2008	$ 408.8	$ 61.9	$ 92.6	$ 563.3

The following table summarizes acquired intangibles:

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

The fair value of intangible assets will be amortized on a straight-line basis over the remaining useful life of 17 years for customer relationships, four years for trademarks and patents, and the remaining contractual period for the non-compete, lease and supply contracts. Amortization expense is estimated to be approximately $34 million for each of the next five years.

The following unaudited pro forma consolidated results of operations assume that the acquisition of Altivity occurred as of the beginning of the periods presented and excludes the fourth quarter 2007 results for the divested mills. This pro forma data is based on historical information and does not necessarily reflect the actual results that would have occurred, nor is it indicative of future results of operations.

	Year Ended December 31,	
In millions	**2008**	**2007**
Net Sales	$ 4,470.5	$ 4,378.2
Net Loss	(62.9)	(69.3)
Loss Per Share Basic and Diluted	(0.18)	(0.20)

RESTRUCTURING RESERVES

In conjunction with the Altivity Transaction, the Company formulated plans to close or exit certain production facilities of Altivity. Restructuring reserves were established for employee severance and benefit payments, equipment removal and facility closure costs. These restructuring reserves were established in accordance with the requirement of Emerging Issues Task Force (EITF) 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination,* and were considered liabilities assumed in the Altivity Transaction and will be finalized by March 10, 2009. The Company has announced the closure of four Altivity facilities and has committed to seven additional plant closures. The restructuring activities are expected to be substantially completed by December 31, 2010.

In addition, during the third quarter 2008, the Company announced the closure of a GPC facility. Termination benefits and retention bonuses related to workforce reduction were accrued in accordance with the requirements of

SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* The amount of termination benefits recorded in 2008 was $1.6 million and is included in Selling, General, and Administrative costs in the Consolidated Statements of Operations.

The following table summarizes the transactions within the restructuring reserves and reconciles to accrued liabilities at December 31, 2008:

In millions	**Severance and Benefits**	**Facility Closure Costs**	**Equipment Removal**	**Total**
Establish Reserve	$ 7.0	$ 8.5	$ 1.8	$ 17.3
Additions to Reserves	13.4	2.3	0.8	16.5
Cash Payments	(6.1)	(0.7)	(0.5)	(7.3)
Other Adjustments	(0.4)	(0.3)	(0.1)	(0.8)
Balance at December 31, 2008	$ 13.9	$ 9.8	$ 2.0	$ 25.7

Acceleration or incremental depreciation was recorded for assets that will be removed from service before the end of their useful lives due to the facility closures. The amount of accelerated depreciation recorded in 2008 was $5.4 million.

DISCONTINUED OPERATIONS

On October 16, 2007, Graphic Packaging International Holding Sweden AB (the Seller), an indirect wholly-owned subsidiary of GPC, entered into a Sale and Purchase Agreement with Lagrumment December nr 1031 Aktiebolg, a company organized under the laws of Sweden that was renamed Fiskeby International Holding AB (the Purchaser), and simultaneously completed the transactions contemplated by such agreement. Pursuant to such Purchase and Sales Agreement, the Purchaser acquired all of the outstanding shares of Graphic Packaging International Sweden (GP-Sweden). GP-Sweden and its subsidiaries are in the business of developing, manufacturing and selling paper and packaging boards made from recycled fiber. The Sale and Purchase Agreement specified that the purchase price was $8.6 million and contained customary representations and warranties of the Seller.

The Purchaser is affiliated with Jeffrey H. Coors, a member of the Board of Directors of the Company. The Seller undertook the sale of GP-Sweden to the Purchaser after a thorough exploration of strategic alternatives with respect to GP-Sweden. The transactions contemplated by the Sale and Purchase Agreement were approved by the Audit Committee of the Board of Directors of the Company pursuant to its Policy Regarding Related Party Transactions and by the full Board of Directors other than Mr. Coors.

In accordance with the FASB SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* the Company reviews long-lived assets for impairment when events or changes in circumstances indicate the carrying value of these assets may exceed their current fair values. During 2007, the Company recognized an impairment charge of $18.6 million relating to GP-Sweden. The Company s plan to sell the operations led to the testing for impairment of long-lived assets. The fair value of the impaired assets was determined based on selling price less cost to sell. The impairment charge is reflected as a component of Loss from Discontinued Operations on the Condensed Consolidated Statements of Operations.

During the third quarter of 2008, the Company determined that an additional $0.9 million environmental reserve related to GP-Sweden was necessary and recorded this in discontinued operations within the Company s Consolidated Statements of Operations. See Note 15 in the Notes to Consolidated Financial Statements included herein under Item 8. Financial Statements and Supplementary Data .

The long-lived assets of GP-Sweden comprised operations and cash flows that could be distinguished from the rest of the Company. Since these cash flows have been eliminated from ongoing operations, the results of operations were reported in discontinued operations for all periods presented. See Note 14 in the Notes to Consolidated Financial Statements included herein under Item 8. Financial Statements and Supplementary Data .

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

Cash Flows

Cash and equivalents increased by $160.8 million in 2008 due mainly to higher draws on the revolver in response to general market concern over the potential freezing of lines of credit by banks.

Net cash provided by operating activities in 2008 totaled $184.2 million, compared to $141.7 million in 2007. The increase was due to higher net income as adjusted for noncash items such as depreciation and amortization and, in 2008, the $24.4 million inventory step up related to Altivity and the $12.6 million write-off of the #2 coated board machine at the West Monroe, LA mill. Changes in operating assets and liabilities provided $16.9 million, primarily from reduction in inventory and receivables due to focus on cash management and higher interest payable resulting from higher average debt balances, partially offset by lower

accounts payable and other accrued liabilities due mainly to timing and to accelerated vesting of restricted stock units and other payments triggered by the change of control resulting from the Altivity Transaction. Higher pension contributions in 2008 and the noncash add back for the impairment charge in 2007 partially offset the overall increase in cash provided by operations.

Net cash used in investing activities in 2008 totaled $143.8 million, compared to $90.8 million in 2007. This year over year change was due primarily to higher capital expenditures in 2008 (see Capital Investment) and the payment of $30.3 million in acquisition related fees. This increase was partially offset by the Altivity Transaction through which the Company acquired $60.2 million of cash, as well as the proceeds from the sale of the two mills located in Philadelphia, Pennsylvania and in Wabash, Indiana.

Net cash provided by financing activities in 2008 totaled $119.8 million, compared to $50.0 million used in financing activities in 2007. This change was primarily due to higher net borrowings under the Company s revolving credit facilities and higher debt proceeds, partially offset by higher debt payments and higher debt issuance costs.

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. The Company believes that cash generated from operations, together with the amounts available under the revolving credit facility will be adequate to meet its debt service, capital expenditures, ongoing operating costs and working capital needs, although no assurance can be given in this regard. The Company has exposure to many companies in the financial services industry, particularly commercial and investment banks who participate in its revolving credit facility and who are counterparties to the Company s interest rate swaps and natural gas and currency hedges. The failure of these financial institutions, or their inability or unwillingness to fund the Company s revolving credit facility or fulfill their obligations under swaps and hedges could have a material adverse affect on the Company s liquidity position.

On May 16, 2007, the Company entered into a new $1,355 million Credit Agreement (Credit Agreement). The Credit Agreement provides 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 continuously monitors the spread between LIBOR and prime to ensure the most economic decision. The facilities under the Credit Agreement replace the revolving credit facility due on August 8, 2009 and the term loan due on August 8, 2010 under the Company s previous senior secured credit agreement. The Company s obligations under the new Credit Agreement are collateralized by substantially all of the Company s domestic assets.

In connection with the May 16, 2007 replacement of the Company s previous revolving credit and term loan facilities and in accordance with Emerging Issues Task Force (EITF) 96-19, *Debtor s Accounting for a Modification or Exchange of Debt Instruments* and EIFT 98-14, *Debtor s Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements* , the Company recorded a charge of $9.5 million, which represented a portion of the unamortized deferred financial costs associated with the previous revolving credit and term loan facilities. This charge is reflected as Loss on Early Extinguishment of Debt in the Company s Consolidated Statements of Operations. In connection with the new Credit Agreement, the Company recorded approximately $7 million of deferred financing costs. These costs, combined with the remainder of the deferred financing costs relating to the previous senior secured credit agreement, will be amortized over the term of the new facility.

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

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interest rate on senior secured term debt will equal approximately LIBOR plus 237.5 basis points. The Company has interest rate swaps covering approximately 69% of its variable rate debt. In connection with the new term loan and revolver increase, the Company recorded approximately $16 million of deferred financing costs.

Long-Term Debt consisted of the following:

In millions	At December 31, 2008	2007
Senior Notes with interest payable semi-annually at 8.5%, payable in 2011	$ 425.0	$ 425.0
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	425.0	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (5.21% at December 31, 2008) payable through 2014	1,000.3	1,010.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (6.68% at December 31, 2008) payable through 2014	1,182.3	
Senior Secured Revolving Facility with interest payable at various dates at floating rates (4.19% at December 31, 2008) payable in 2013	143.2	11.0
Other	0.8	1.0
	3,176.6	1,872.0
Less, current portion	11.4	0.2
Total	$ 3,165.2	$ 1,871.8

At December 31, 2008, the Company and its U.S. and international subsidiaries had the following commitments, amounts outstanding and amounts available under revolving credit facilities:

In millions	Total Commitments	Total Outstanding	Total Available[(a)]
Revolving Credit Facility	$ 400.0	$ 143.2	$ 220.9
International Facilities	17.5	7.1	10.4
Total	$ 417.5	$ 150.3	$ 231.3

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 $35.9 million as of December 31, 2008. These letters of credit are used as security against its self-insurance obligations and workers compensation obligations. These letters of credit expire at various dates through 2009 unless extended.

Principal and interest payments under the term loan facility and the revolving credit facility, together with principal and interest payments on the Senior Notes and the Senior Subordinated Notes (the 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, 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 the credit markets and to financial, business and other factors, many of which are beyond the Company s control and will be substantially dependent on the selling prices and demand for the Company s products, raw material and energy costs, and the Company s ability to successfully implement its overall business and profitability strategies, as well as conditions across the financial services industry.

The Company uses interest rate swaps to manage interest rate risks 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 the debt. At December 31, 2008, the Company had interest rate

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swap agreements with a notional amount of $1,620.0 million, which expire on various dates from 2009 to 2012 under which the Company will pay fixed rates of 2.37% to 5.06% and receive three-month LIBOR rates.

Effective as of December 31, 2008, the Company had approximately $1.4 billion of net operating loss carryforwards (NOLs) for U.S. federal income tax purposes. These NOLs generally may be used by the Company to offset taxable income earned in subsequent taxable years. However, the Company s ability to use these NOLs to offset its future taxable income may be subject to significant limitations as a result of certain shifts in ownership due to direct or indirect transfers of the Company s common stock by one or more 5 percent stockholders, or issuance or redemption of the Company s common stock, which, when taken together with previous changes in ownership of the Company s common stock, constitute an ownership change under the Internal Revenue Code. Imposition of any such limitation of the use of NOLs could have an adverse effect on the Company s future after tax free cash flow.

Covenant Restrictions

The Credit Agreement and the indentures governing the Notes limit the Company s ability to incur additional indebtedness. Additional covenants contained in the Credit Agreement, 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 market, 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(a). Pursuant to this financial covenant, the Company must maintain a maximum consolidated secured leverage ratio of less than the following:

	Maximum Consolidated Secured Leverage Ratio[(a)]
October 1, 2008 September 30, 2009	5.00 to 1.00
October 1, 2009 and thereafter	4.75 to 1.00

Note:

(a) Credit Agreement EBITDA is defined in the Credit Agreement as consolidated net income before consolidated net interest expense, non-cash expenses and charges, total income tax expense, depreciation expense, expense associated with amortization of intangibles and other assets, non-cash provisions for reserves for discontinued operations, extraordinary, unusual or non-recurring gains or losses or charges or

credits, gain or loss associated with sale or write-down of assets not in the ordinary course of business, any income or loss accounted for by the equity method of accounting, and projected run rate cost savings, prior to or within a twelve month period.

At December 31, 2008, the Company was in compliance with the financial covenants in the Credit Agreement and the ratios were as follows:

Consolidated Secured Leverage Ratio	3.60 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

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

The calculations of the components of the maximum consolidated secured leverage ratio for and as of the period ended December 31, 2008 are listed below:

In millions		**Twelve Months Ended December 31, 2008[(a)]**
Pro Forma Net Loss	$	(120.5)
Income Tax Expense		35.1
Interest Expense, Net		246.9
Depreciation and Amortization		283.7
Dividends Received, Net of Earnings of Equity Affiliates		(0.4)
Non-Cash Provisions for Reserves for Discontinued Operations		1.7
Other Non-Cash Charges		26.1
Merger Related Expenses		81.6
Gains/Losses Associated with Sale/Write-Down of Assets		13.5
Other Non-Recurring/Extraordinary/Unusual Items		20.3
Projected Run Rate Cost Savings		58.8
Credit Agreement EBITDA	$	646.8

In millions		**As of December 31, 2008**
Short-Term Debt	$	18.6
Long-Term Debt		3,165.2
Total Debt	$	3,183.8
Less Adjustments[(b)]		857.8
Consolidated Secured Indebtedness	$	2,326.0

Note:

(a) As defined by the Credit Agreement, this calculation includes the historical results of Altivity for the last twelve months.

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 $58.8 or ten percent of EBITDA as calculated in accordance with the Credit Agreement, which amount is lower than total projected cost savings identified by the Company, net of actual benefits realized for the twelve month period ended December 31, 2008. 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) Permitted Subordinated Indebtedness as defined in the Credit Agreement, or secured indebtedness permitted to be incurred by the Company s foreign subsidiaries per the Credit Agreement.