

GRAPHIC PACKAGING HOLDING CO

Form 10-K/A

October 01, 2009

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

**Form 10-K/A  
Amendment No. 1**

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

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

**Delaware**  
*(State of incorporation)*

**26-0405422**  
*(I.R.S. employer  
identification no.)*

**814 Livingston Court, Marietta, Georgia**  
*(Address of principal executive offices)*

**30067**  
*(Zip Code)*

**(770) 644-3000**

**Registrant's telephone number, including area code:**

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

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

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

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

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 ☐ No ☒

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
				(Do not check if a smaller reporting company)			

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

The aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 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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**EXPLANATORY NOTE**

Graphic Packaging Holding Company (the Company) is filing this Amendment No. 1 on Form 10-K/A to its Annual Report on Form 10-K for the year ended December 31, 2008 (the Form 10-K), filed with the U.S. Securities and Exchange Commission (SEC) on March 4, 2009, for the purpose of disclosing the financial information of the issuer and guarantors of debt securities in accordance with Rule 3-10 of Regulation S-X. This disclosure is contained in Item 8, Financial Statements and Supplementary Data, as Footnote 20 Guarantor Condensed Consolidating Financial Statements. Such disclosure is required because certain subsidiaries of Altivity Packaging, LLC (Altivity) became guarantors of Graphic Packaging International, Inc.'s debt securities on March 10, 2008 in connection with the combination of the businesses of Altivity and Graphic Packaging Corporation.

No other changes have been made to the Form 10-K by this Amendment No. 1. The Form 10-K, as amended, continues to speak as of the original filing date, does not reflect events that may have occurred subsequent to the original filing date and does not modify or update any other disclosures made in the Form 10-K. Pursuant to the rules of the SEC, however, the Company is filing currently dated certifications of the Company's Chief Executive Officer and Chief Financial Officer as Exhibits 31.1, 31.2, 32.1 and 32.2.

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

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**GRAPHIC PACKAGING HOLDING COMPANY**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

<i>In millions, except per share amounts</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net Sales	\$ 4,079.4	\$ 2,421.2	\$ 2,321.7
Cost of Sales	3,596.9	2,089.4	2,048.6
Selling, General and Administrative	332.7	179.2	180.7
Research, Development and Engineering	8.0	9.2	10.8
Other Income, Net	(8.1)	(7.8)	(12.2)
Income from Operations	149.9	151.2	93.8
Interest Income	1.3	0.4	0.6
Interest Expense	(216.7)	(168.2)	(172.0)
Loss on Early Extinguishment of Debt		(9.5)	
Loss before Income Taxes and Equity in Net Earnings of Affiliates	(65.5)	(26.1)	(77.6)
Income Tax Expense	(34.4)	(23.9)	(20.8)
Loss before Equity in Net Earnings of Affiliates	(99.9)	(50.0)	(98.4)
Equity in Net Earnings of Affiliates	1.1	0.9	1.0
Loss from Continuing Operations	(98.8)	(49.1)	(97.4)
Loss from Discontinued Operations, Net of Taxes	(0.9)	(25.5)	(3.1)
Net Loss	\$ (99.7)	\$ (74.6)	\$ (100.5)
Loss Per Share Basic and Diluted			
Continuing Operations	\$ (0.32)	\$ (0.24)	\$ (0.48)
Discontinued Operations	(0.00)	(0.13)	(0.02)
Total	\$ (0.32)	\$ (0.37)	\$ (0.50)
Weighted Average Number of Shares Outstanding Basic	315.8	201.8	201.1
Weighted Average Number of Shares Outstanding Diluted	315.8	201.8	201.1

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

**Table of Contents****GRAPHIC PACKAGING HOLDING COMPANY****CONSOLIDATED BALANCE SHEETS**

<i>In millions, except share amounts</i>	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 170.1	\$ 9.3
Receivables, Net	369.6	226.7
Inventories	532.0	318.6
Deferred Income Tax Assets	31.2	13.3
Other Current Assets	25.7	18.4
Total Current Assets	1,128.6	586.3
Property, Plant and Equipment, Net	1,935.1	1,376.2
Goodwill	1,204.8	641.5
Intangible Assets, Net	664.6	140.4
Other Assets	50.0	32.9
<b>Total Assets</b>	<b>\$ 4,983.1</b>	<b>\$ 2,777.3</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	\$ 18.6	\$ 6.6
Accounts Payable	333.4	222.4
Compensation and Employee Benefits	87.2	69.5
Interest Payable	57.8	40.9
Other Accrued Liabilities	188.6	67.4
Total Current Liabilities	685.6	406.8
Long-Term Debt	3,165.2	1,871.8
Deferred Income Tax Liabilities	187.8	141.5
Accrued Pension and Postretirement Benefits	375.8	170.3
Other Noncurrent Liabilities	43.5	42.9
<b>Total Liabilities</b>	<b>4,457.9</b>	<b>2,633.3</b>



## SHAREHOLDERS EQUITY

Preferred Stock, par value \$.01 per share; 100,000,000 and 50,000,000 shares authorized at December 31, 2008 and December 31, 2007, respectively; no shares issued or outstanding

Common Stock, par value \$.01 per share; 1,000,000,000 and 500,000,000 shares authorized at December 31, 2008 and 2007, respectively; 342,522,470 and 200,978,569 shares issued and outstanding at December 31, 2008 and 2007, respectively

Capital in Excess of Par Value	3.4	2.0
Accumulated Deficit	1,955.4	1,191.6
Accumulated Other Comprehensive Loss	(1,075.4)	(975.7)
	(358.2)	(73.9)

<b>Total Shareholders Equity</b>	525.2	144.0
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<b>Total Liabilities and Shareholders Equity</b>	\$ 4,983.1	\$ 2,777.3
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The accompanying notes are an integral part of the consolidated financial statements.

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**GRAPHIC PACKAGING HOLDING COMPANY**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

<i>In millions, except share amounts</i>							Accumulated	
	Common Stock		Capital in	Excess of	Unearned	Accumulated	Other Comprehensive	Comprehensive
	Shares	Amount	Par Value	Compensation	Deficit		Income (Loss)	Income (Loss)
<b>Balances at December 31, 2005</b>	<b>198,663,007</b>	<b>\$ 2.0</b>	<b>\$ 1,169.6</b>	<b>\$ (0.1)</b>	<b>\$ (800.6)</b>	<b>\$ (102.2)</b>		
Net Loss					(100.5)			\$ (100.5)
Other Comprehensive Income (Loss):								
Derivative Instruments Loss						(10.6)		(10.6)
Minimum Pension Liability Adjustment						23.3		23.3
Currency Translation Adjustment						14.7		14.7
Total Comprehensive Income (Loss)								\$ (73.1)
Adjustment to Initially Apply SFAS No. 158						(31.2)		
Options and Other Stock-Based Awards	1,921,584		17.2	0.1				
<b>Balances at December 31, 2006</b>	<b>200,584,591</b>	<b>2.0</b>	<b>1,186.8</b>		<b>(901.1)</b>	<b>(106.0)</b>		
Net Loss					(74.6)			\$ (74.6)
Other Comprehensive Income (Loss):								
Derivative Instruments Loss						(2.5)		(2.5)
Pension Benefit Plans:								
Net Gain Arising During Period						20.5		20.5
Amortization of Prior Service Cost Included in Net Periodic Pension Cost						4.7		4.7
Postretirement Benefit Plans:								
Net Gain Arising During Period						3.2		3.2
Amortization of Prior Service Cost Included in Net Periodic Pension Cost						0.1		0.1
Postemployment Benefit Plans:								
Net Gain Arising During Period						1.5		1.5

Currency Translation Adjustment					4.6	4.6
Total Comprehensive Income (Loss)						\$ (42.5)
Options and Other Stock-Based Awards	393,978			4.8		
<b>Balances at December 31, 2007</b>	<b>200,978,569</b>	<b>\$ 2.0</b>	<b>\$ 1,191.6</b>	<b>\$</b>	<b>\$ (975.7)</b>	<b>\$ (73.9)</b>
Net Loss					(99.7)	\$ (99.7)
Other Comprehensive Income (Loss):						
Derivative Instruments Loss					(60.6)	(60.6)
Pension Benefit Plans:						
Net Loss Arising During Period					(214.9)	(214.9)
Amortization of Prior Service Cost Included in Net Periodic Pension Cost					2.7	2.7
Postretirement Benefit Plans:						
Net Gain Arising During Period					0.9	0.9
Amortization of Prior Service Cost Included in Net Periodic Pension Cost					1.5	1.5
Postemployment Benefit Plans:						
Net Gain Arising During Period					1.2	1.2
Currency Translation Adjustment					(15.1)	(15.1)
Total Comprehensive Income (Loss)						\$ (384.0)
Common Stock Issued for Acquisition	139,445,038	1.4	761.4			
Options and Other Stock-Based Awards	2,098,863		2.4			
<b>Balances at December 31, 2008</b>	<b>342,522,470</b>	<b>\$ 3.4</b>	<b>\$ 1,955.4</b>	<b>\$</b>	<b>\$ (1,075.4)</b>	<b>\$ (358.2)</b>

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

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**GRAPHIC PACKAGING HOLDING COMPANY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>In millions</i>	Year Ended December 31,		
	2008	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Loss	\$ (99.7)	\$ (74.6)	\$ (100.5)
Noncash Items Included in Net Loss:			
Depreciation and Amortization	264.3	194.8	196.0
Loss on Early Extinguishment of Debt		9.5	
Deferred Income Taxes	28.0	19.0	19.5
Pension, Postemployment and Postretirement Benefits Contributions, Net of Expense	(38.4)	(7.2)	3.6
Amortization of Deferred Debt Issuance Costs	7.9	6.9	8.8
Inventory Step Up Related to Altivity	24.4		
Write-off #2 Coated Board Machine at the West Monroe, LA Mill	12.6		
Loss (Gain) on Disposal of Assets	2.3	2.4	(3.2)
Impairment Charge		18.6	3.9
Other, Net	1.8	8.2	5.9
Changes in Operating Assets and Liabilities (See Note 3)	(19.0)	(35.9)	7.3
Net Cash Provided by Operating Activities	184.2	141.7	141.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital Spending	(183.3)	(95.9)	(94.5)
Acquisition Costs Related to Altivity	(30.3)		
Cash Acquired Related to Altivity	60.2		
Proceeds from Sales of Assets, Net of Selling Costs	20.3	9.5	5.5
Other, Net	(10.7)	(4.4)	(1.4)
Net Cash Used in Investing Activities	(143.8)	(90.8)	(90.4)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from Issuance of Debt	1,200.0	1,135.0	
Payments on Debt	(1,195.9)	(1,180.0)	(54.2)
Borrowings under Revolving Credit Facilities	985.8	848.4	674.8
Payments on Revolving Credit Facilities	(853.4)	(846.3)	(676.5)
Debt Issuance Costs	(16.3)	(7.0)	
Other, Net	(0.4)	(0.1)	(0.7)
Net Cash Provided by (Used in) Financing Activities	119.8	(50.0)	(56.6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	0.6	1.1	0.3
Net Increase (Decrease) in Cash and Cash Equivalents	160.8	2.0	(5.4)

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Cash and Cash Equivalents at Beginning of Period	9.3	7.3	12.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 170.1	\$ 9.3	\$ 7.3

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

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Business***

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

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

For accounting purposes, the Altivity Transaction was accounted for as a purchase by GPHC under the Financial Accounting Standards Board ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 141, *Business Combinations*, ( SFAS 141 ). Under the purchase method of accounting, the assets and liabilities of Altivity were recorded, as of the date of the closing of the Altivity Transaction, at their respective fair values and added to those of GPC. The difference between the purchase price and the fair values of the assets acquired and liabilities assumed of Altivity was recorded as goodwill. The historical financial statements of GPC became the historical financial statements of GPHC. The accompanying Consolidated Statements of Operations for the year ended December 31, 2008 includes nine months and approximately three weeks of Altivity and twelve months of GPC's results. See Note 4 Altivity Transaction.

On March 5, 2008, the United States Department of Justice issued a Consent Decree that required the divestiture 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 conducts no significant business and has no independent assets or operations other than its ownership of GPC, GPII and Altivity. GPHC fully and unconditionally guarantees substantially all of GPII's debt.

***Basis of Presentation and Principles of Consolidation***

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

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company has reclassified the presentation of certain prior period information to conform to the current presentation format. This includes the reclassification of warehousing expense from Selling, General and Administrative to Cost of Sales and the reclassification of the amortization of intangibles from Other Income, Net to either Selling, General and Administrative or Cost of Sales depending on the nature of the underlying assets. These reclassifications had no impact on the Consolidated Balance Sheets, operating income, Consolidated Statements of Shareholders' Equity or Consolidated Statements of Cash Flows and had an immaterial impact on certain captions on the Consolidated Statements of Operations.

The results of operations for Graphic Packaging International Sweden, the Company's discontinued operations, have been eliminated from the Company's continuing operations and classified as discontinued operations for each period presented within the Company's Consolidated Statements of Operations. The Company has not reclassified assets and liabilities related to discontinued operations as Assets Held for Sale or Liabilities Held for Sale. See Note 14 Discontinued Operations.

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

***Use of Estimates***

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

***Revenue Recognition***

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

Payments from packaging machinery use agreements are recognized on a straight-line basis over the term of the agreements. Service revenue on packaging machinery is recorded at the time of service.



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

**Table of Contents****GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Shipping and Handling***

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

***Depreciation and Amortization, and Impairment***

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

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

Depreciation expense for 2008, 2007 and 2006 was \$222.8 million, \$177.8 million and \$176.7 million, respectively.

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

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

The following table displays the intangible assets (liabilities) that continue to be subject to amortization and aggregate amortization expense as well as intangible assets not subject to amortization as of December 31, 2008 and 2007:

		December 31, 2008			December 31, 2007		
		Gross		Net	Gross		Net
<i>In millions</i>	Weighted	Carrying Amount	Accumulated Amortization	Carrying Amount	Carrying Amount	Accumulated Amortization	Carrying Amount

**Average  
Life**

## Amortizable Intangible

## Assets (Liabilities):

Customer Relationships	17.5 years	\$ 656.3	\$ 54.1	\$ 602.2	\$ 109.9	\$ 23.0	\$ 86.9
Non-Compete Agreements	3.2 years	31.5	25.8	5.7	23.3	23.3	
Patents, Trademarks and Licenses	15.0 years	119.8	62.6	57.2	107.7	54.2	53.5
Supply Contracts and Leases	3.7 years	(1.0)	(0.5)	(0.5)			

\$ 806.6    \$ 142.0    \$ 664.6    \$ 240.9    \$ 100.5    \$ 140.4

## Unamortizable Intangible

## Assets:

Goodwill	\$ 1,204.8	\$ 1,204.8	\$ 641.5	\$ 641.5
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The Company recorded amortization expense of \$41.5 million for the year ended December 31, 2008, and \$11.8 million for each of the years ended December 31, 2007 and 2006, relating to intangible assets (liabilities) subject to amortization. The Company expects amortization expense to be approximately

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

\$49 million, \$49 million, \$46 million, \$43 million and \$42 million per year for 2009, 2010, 2011, 2012 and 2013, respectively.

***Research and Development***

Research and development costs, which relate primarily to the development and design of new packaging machines and products, are expensed as incurred. Expenses for the years ended December 31, 2008, 2007 and 2006 were \$8.0 million, \$9.2 million and \$10.8 million, respectively.

***Cash and Cash Equivalents***

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

***Accounts Receivable and Allowances***

Accounts receivable are stated at the amount owed by the customer, net of an allowance for estimated uncollectible accounts, returns and allowances, and cash discounts.

***Inventories***

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

***Property, Plant and Equipment***

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

Costs directly associated with the development and testing of internally used computer information systems are capitalized and depreciated on a straight-line basis over the expected useful life of 5 years as part of property, plant and equipment. Costs indirectly associated with such projects and ongoing maintenance costs are expensed as incurred. A total of \$10.9 million and \$1.5 million in costs relating to software development were capitalized in 2008 and 2007, respectively. The balance as of December 31, 2008 and 2007 is \$16.5 million and \$12.6 million, respectively.

Interest is capitalized on constructed assets. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Capitalized interest was \$1.8 million, \$0.4 million and \$0.6 million in the years ended December 31, 2008, 2007 and 2006, respectively.

***Goodwill***

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

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

During the fourth quarter ended December 31, 2008, the Company concluded that an interim goodwill impairment analysis was required based on significant declines in the capital markets during the quarter, which included a decline in the Company's market capitalization. At December 31, 2008, the company's market capitalization was less than total recorded shareholders' equity.

However, based upon its testing, the Company concluded that the fair value of its reporting units exceeded their carrying amounts including goodwill at October 1, 2008 and at December 31, 2008 and, therefore, that goodwill was not impaired. As part of the Company's ongoing monitoring efforts, the Company will continue to consider the uncertainty surrounding the current economic environment as well as the Company's internal projections of future operating results in assessing goodwill recoverability.

***Retained Insurable Risks***

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

***Environmental Remediation Reserves***

The Company records accruals for environmental obligations based on estimates developed in consultation with environmental consultants and legal counsel. Accruals for environmental liabilities are established in accordance with the American Institute of Certified Public Accountants Statement of Position 96-1, *Environmental Remediation Liabilities*. The Company records a liability at the time it is probable and can be reasonably estimated. Such liabilities are not reduced for potential recoveries from insurance carriers. Costs of future expenditures are not discounted to their present value.

***Asset Retirement Obligations***

Asset retirement obligations are accounted for in accordance with the provisions of SFAS 143, *Accounting for Asset Retirement Obligations*, and FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations An Interpretation of FASB Statement No. 143*. A liability and asset are recorded equal to the present value of the estimated costs associated with the retirement of long-lived assets where a legal or contractual obligation exists and the liability can be reasonably estimated. The liability is accreted over time and the asset is depreciated over the

remaining life of the asset. Asset retirement obligations with indeterminate settlement dates are not recorded.

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***International Currency***

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

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

***Recent Accounting Pronouncements***

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, ( SFAS 57 ). SFAS 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value and expands disclosures about such fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13* ( FSP 157-1 ). FSP 157-1 excludes certain leasing transactions accounted for under FASB Statement No. 13 *Accounting for Leases* from the scope of SFAS 157.

In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* ( FSP 157-2 ). FSP 157-2 delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company has adopted SFAS 157 as of January 1, 2008 related to financial assets and financial liabilities. See Note 11 Fair Value Measurement. The Company is currently evaluating the impact of SFAS 157 related to nonfinancial assets and nonfinancial liabilities on the Company's financial position, results of operations and cash flows.

In October 2008, the FASB issued FASB Staff Position No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ( FSP 157-3 ), which clarifies the application of SFAS 157 when the market for a financial asset is inactive. Specifically, FSP 157-3 clarifies how (1) management's internal assumptions should be considered in measuring fair value when observable data are not present, (2) observable market information from an inactive market should be taken into account, and (3) the use of broker quotes or pricing services should be considered in assessing the relevance of observable and unobservable data to measure fair value. The guidance in FSP 157-3 was effective immediately upon issuance and did not have a material impact on the Company's financial position, results of operations and cash flows.



In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*, ( SFAS 159 ) which is effective for fiscal years beginning after November 15, 2007. This statement permits an entity to choose to measure many financial instruments and certain other items at fair value on specified election dates. The Company adopted SFAS 159 effective January 1, 2008 and did not elect the fair value option established by SFAS 159. As such, the adoption had no impact on the Company's financial position, results of operations and cash flows.

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ) which is effective for fiscal years beginning after December 15, 2008. SFAS 141R establishes principles and requirements for how the acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The impact on the Company of adopting SFAS 141R will depend on the nature, terms and size of the business combinations completed after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51*, ( SFAS 160 ) which is effective for fiscal years beginning after December 15, 2008. SFAS 160 amends Accounting Research Bulletin 51( ARB 51 ) to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51 s consolidation procedures for consistency with the requirements of SFAS 141R. The adoption of SFAS 160 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133*, ( SFAS 161 ) which is effective for fiscal years and interim periods beginning after November 15, 2008. SFAS 161 requires enhanced disclosures of derivative instruments and hedging activities. These requirements include the disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. The adoption of SFAS 161 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, *Determination of the Useful Life of Intangible Assets*, ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ). The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other U.S. generally accepted accounting principles. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The adoption of FSP 142-3 is not expected to have a material impact on the Company s financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, ( SFAS 162 ) which was effective November 15, 2008. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with accounting principles generally accepted in the U.S. The adoption of SFAS 162 did not have an impact on the Company s financial position, results of operations and cash flows.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*, ( FSP 132(R)-1 ). FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009 and requires additional disclosures in plan assets of defined benefit pension or other postretirement plans. The required disclosures include a description of investment policies and strategies, the fair

value of each major category of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets, and the significant concentrations of risk within plan assets. The adoption of FSP 132(R)-1 is not expected to have a material impact on the Company's financial position, results of operations and cash flows.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 2 SUPPLEMENTAL BALANCE SHEET DATA**

Receivables, Net:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Trade	\$ 358.3	\$ 219.1
Less: Allowance	(3.9)	(1.6)
	354.4	217.5
Other	15.2	9.2
Total	\$ 369.6	\$ 226.7

Inventories by Major Class:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Finished Goods	\$ 301.3	\$ 157.8
Work in Progress	46.0	27.9
Raw Materials	116.5	79.8
Supplies	77.9	58.9
	541.7	324.4
Less: Allowance	(9.7)	(5.8)
Total	\$ 532.0	\$ 318.6

Property, Plant and Equipment, Net:

<i><b>In millions</b></i>	<b>2008</b>	<b>2007</b>
Property, Plant and Equipment, at Cost		
Land and Improvements	\$ 136.2	\$ 56.3
Buildings	405.9	229.0
Machinery and Equipment	2,949.8	2,528.9
Construction-in-Progress	110.6	41.9
	3,602.5	2,856.1
Less: Accumulated Depreciation	(1,667.4)	(1,479.9)
Total	\$ 1,935.1	\$ 1,376.2

## Other Assets:

<i><b>In millions</b></i>	<b>2008</b>	<b>2007</b>
Deferred Debt Issuance Costs, Net of Amortization of \$19.5 and \$11.6 for 2008 and 2007, respectively	\$ 34.0	\$ 25.6
Deferred Income Tax Assets	0.4	
Other	15.6	7.3
Total	\$ 50.0	\$ 32.9

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## Other Accrued Liabilities:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Fair Value of Derivatives	\$ 84.3	\$ 6.4
Restructuring Reserves	19.1	
Other	85.2	61.0
Total	\$ 188.6	\$ 67.4

**NOTE 3 SUPPLEMENTAL CASH FLOW INFORMATION**

## Cash Flow Effects of (Increases) Decreases in Operating Assets and Liabilities:

<i>In millions</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Receivables, net	\$ 16.5	\$ (4.4)	\$ (1.0)
Inventories	32.6	(27.0)	10.2
Prepaid Expenses	(13.7)	(11.5)	(4.7)
Accounts Payable	(21.4)	16.1	0.8
Compensation and Employee Benefits	(27.8)	6.6	1.4
Income Taxes	(4.8)	(0.4)	1.1
Interest Payable	16.5	(7.3)	5.6
Other Accrued Liabilities	(17.1)	(14.0)	(1.7)
Other Noncurrent Liabilities	0.2	6.0	(4.4)
Total	\$ (19.0)	\$ (35.9)	\$ 7.3

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

<i>In millions</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
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Interest	\$ 193.4	\$ 168.3	\$ 161.9
Income Taxes	5.0	2.9	1.1

Noncash activities were as follows:

<i>In millions</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Issuance of Common Stock Related to Acquisition	\$ 762.8	\$	\$

#### **NOTE 4 ALTIVITY TRANSACTION**

On March 10, 2008, the businesses of GPC and Altivity were combined in a transaction accounted for under SFAS 141. 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 operates recycled boxboard mills and consumer product packaging facilities in North America.

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 transactions. 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

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accounting purposes, resulting in the historical financial statements of GPC becoming the historical financial statements of the Company. Under the purchase method of accounting, the assets and liabilities of Altivity were recorded, as of the date of the closing of the Altivity Transaction, at their respective fair values and added to those of 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
Prepays	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 of the acquired company and has established restructuring reserves that are considered liabilities assumed in the Altivity Transaction. See Note 5 Restructuring Reserves.

The excess of the 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

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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:

<i>In millions</i>	<b>Paperboard Packaging</b>	<b>Multi-wall Bag</b>	<b>Specialty Packaging</b>	<b>Total</b>
Balance at December 31, 2008	\$ 408.8	\$ 61.9	\$ 92.6	\$ 563.3

The Company expects to deduct approximately \$430 million of goodwill for tax purposes.

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.

<i>In millions</i>	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2007</b>

Net Sales	\$ 4,470.5	\$ 4,378.2
Net Loss	(62.9)	(69.3)
Loss Per Share Basic and Diluted	(0.18)	(0.20)

## NOTE 5 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

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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 reserve and reconciles to accrued liabilities at December 31:

<i>In millions</i>	<b>Severance and Benefits</b>	<b>Facility Closure Costs</b>	<b>Equipment Removal</b>	<b>Total</b>
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

Accelerated 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.

**NOTE 6 DEBT**

Short-Term Debt is composed of the following:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Short-Term Borrowings	\$ 7.2	\$ 6.4
Current Portion of Long-Term Debt	11.4	0.2
Total	\$ 18.6	\$ 6.6

Short-term borrowings are principally at the Company's international subsidiaries. The weighted average interest rate on short-term borrowings as of December 31, 2008 and 2007 was 3.7% and 3.6%, respectively.

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 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 EITF 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 facilities.

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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 will remain in place. The new term loan bears interest at LIBOR plus 275 basis points. The Company's weighted average interest rate on senior secured term debt will equal approximately LIBOR plus 237.5 basis points. In connection with the new term loan and revolver increase, the Company recorded approximately \$16 million of deferred financing costs.

Long-Term Debt is consisted of the following:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
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

Long-Term Debt maturities are as follows:

<i>In millions</i>	
2009	\$ 11.4
2010	22.3
2011	447.3

2012	23.0
2013	590.5
After 2013	2,082.1
Total	\$ 3,176.6

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:

<i>In millions</i>	<b>Total Commitments</b>	<b>Total Outstanding</b>	<b>Total Available<sup>(a)</sup></b>
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.

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Credit Agreement and the indentures governing the Senior Notes and Senior Subordinated Notes (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 dividend and other restricted payments, create liens, make equity or debt investments, make acquisitions, modify terms of 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, could limit the Company's ability to respond to changing market conditions, fund its capital spending program, provide for unexpected capital investments or take advantage of business opportunities.

As of December 31, 2008, the Company was in compliance with the financial covenants in the Credit Agreement. The Company's ability to comply in future periods with the financial covenants in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company's control, and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of the financial covenant or any of the other covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Credit Agreement and the indentures governing the Notes have certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately.

**NOTE 7 STOCK INCENTIVE PLANS**

GPC had eight equity compensation plans, all of which were assumed by the Company pursuant to the Altiivity Transaction. The Company's only active plan as of December 31, 2008 is the Graphic Packaging Corporation 2004 Stock and Incentive Compensation Plan ( 2004 Plan ), pursuant to which the Company may grant stock options, stock appreciation rights, restricted stock, restricted stock units and other types of stock-based awards to employees and directors of the Company. The other plans are the 2003 Riverwood Holding, Inc. Long-Term Incentive Plan ( 2003 LTIP ), the 2003 Riverwood Holding, Inc. Directors Stock Incentive Plan ( 2003 Directors Plan ), the Riverwood Holding, Inc. 2002 Stock Incentive Plan ( 2002 SIP ), the Riverwood Holding, Inc. Supplemental Long-Term Incentive Plan ( 1999 LTIP ), the Riverwood Holding, Inc. Stock Incentive Plan ( 1996 SIP ), the Graphic Packaging Equity Incentive Plan ( EIP ), and the Graphic Packaging Equity Compensation Plan for Non-Employee Directors ( Graphic NEDP ). Stock options and other awards granted under all of the Company's plans generally vest and expire in accordance with terms established at the time of grant. Shares issued are from the Company's authorized but unissued shares. Compensation costs are recognized on a straight-line basis over the requisite service period of the award.

Stock-based compensation expense for all share-based payment awards granted, after the Company's adoption of SFAS No. 123R, *Share-Based Payment*, ( SFAS 123R ) on January 1, 2006 is based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123R.





Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Stock Options**

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

The following table summarizes information pertaining to stock options outstanding and exercisable at December 31, 2008 and the option exercise price range per plan. No options have been granted under the 2004 Plan or the 2003 Directors Plan, so these plans have been omitted from the table.

<b>Plan</b>	<b>Shares Subject to Options</b>	<b>Weighted Average Exercise Price</b>	<b>Shares Subject to Exercisable Options</b>	<b>Weighted Average Exercise Price</b>	<b>Exercise Price Range</b>	<b>Weighted Average Remaining Contractual Life in Years</b>
2003 LTIP	913,645	\$ 6.05	913,645	\$ 6.05	\$4.45 to \$6.57	4.7
2002 SIP	2,130,754	7.88	2,130,754	7.88	7.88	3.0
1999 LTIP	207,112	6.57	207,112	6.57	6.57	0.4
1996 SIP	1,266,021	6.57	1,266,021	6.57	6.57	1.1
EIP	2,588,355	7.44	2,588,355	7.44	1.56 to 13.74	4.4
Graphic NEDP	10,000	3.95	10,000	3.95	2.88 to 7.11	1.2
<b>Total</b>	<b>7,115,887</b>	<b>\$ 7.21</b>	<b>7,115,887</b>	<b>\$ 7.21</b>		<b>3.3</b>

As of December 31, 2008 and 2007, there were exercisable options in the amount of 7,115,887 and 12,730,238, respectively.

A summary of option activity during the three years ended December 31, 2008 is as follows:

<b>Options</b>	<b>Weighted Average Exercise Price</b>
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Outstanding	December 31, 2005	15,944,339	\$	6.84
Exercised		(237,000)		3.13
Canceled		(820,852)		5.54
Outstanding	December 31, 2006	14,886,487		6.97
Exercised		(303,640)		2.93
Canceled		(1,852,609)		4.70
Outstanding	December 31, 2007	12,730,238		7.41
Exercised				
Canceled		(5,614,351)		7.66
Outstanding	December 31, 2008	7,115,887	\$	7.21

### Stock Awards, Restricted Stock and Restricted Stock Units

The Company's 2004 Plan and the 2003 LTIP permit the grant of stock awards, restricted stock and restricted stock units ( RSUs ). All restricted stock and RSUs vest and become unrestricted in one to five years from date of grant. Upon vesting, all RSUs granted under the 2004 Plan are payable 50% in cash and 50% in shares of common stock. All other RSUs are payable in shares of common stock.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

<i>Shares in thousands</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
RSUs Employees	1,140	2,501	2,239
Weighted-average price per share	\$ 2.72	\$ 4.76	\$ 2.83
Stock Awards Board of Directors	434	50	71
Weighted-average price per share	\$ 2.28	\$ 4.83	\$ 3.39

The value of the RSUs is based on the market value of the Company's common stock on the date of grant. The shares payable in cash are subject to variable accounting and marked to market accordingly. The RSUs payable in cash are recorded as liabilities, whereas the RSUs payable in shares are recorded in shareholders' equity. At December 31, 2008 and 2007, the Company had 1,087,510 and 4,796,944 RSUs outstanding, respectively. The unrecognized expense at December 31, 2008 is approximately \$1 million and is expected to be recognized over a weighted average period of 2 years.

The value of restricted stock and stock awards is based on the market value of the Company's common stock at the date of grant and recorded as a component of Shareholders' Equity.

During 2008 and 2007, the Company also issued 56,823 and 17,782 shares of phantom stock, respectively, representing compensation deferred by one of its directors. These shares of phantom stock vest on the date of grant and are payable upon termination of service as a director. The Company also has an obligation to issue 57,215 shares in payment of employee deferred compensation.

During 2008, 2007 and 2006, \$6.6 million, \$6.6 million and \$6.5 million, respectively, was charged to compensation expense. Of the amount charged to expense during 2008, \$7.1 million was attributable to the accelerated vesting of RSUs and other payments triggered by the change of control resulting from the Altivity Transaction on March 10, 2008.

**NOTE 8 POSTRETIREMENT AND OTHER BENEFITS****OVERVIEW OF NORTH AMERICAN PLANS**

The Company maintains both defined benefit pension plans and postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired employees and their dependents. Currently, the plans are closed to newly-hired salaried and non-union hourly employees.

The Company's funding policies with respect to its North American pension plans are to contribute funds to trusts as necessary to at least meet the minimum funding requirements. Plan assets are invested in equities and fixed income

securities.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Pension and Postretirement Expense***

The pension and postretirement expenses related to the North American plans consisted of the following:

<i>In millions</i>	Pension Benefits			Postretirement Benefits		
	Year Ended December 31,					
	2008	2007	2006	2008	2007	2006
Components of Net Periodic Cost:						
Service Cost	\$ 17.8	\$ 14.3	\$ 16.4	\$ 1.3	\$ 1.0	\$ 1.0
Interest Cost	39.7	34.8	33.2	3.1	2.5	2.5
Expected Return on Plan Assets	(42.0)	(36.0)	(32.0)			
Administrative Expense	0.1					
Amortizations:						
Prior Service Cost	2.7	2.3	2.4	(0.2)	0.1	0.1
Actuarial Loss (Gain)	2.2	2.4	6.0	(0.6)	(0.1)	
Net Periodic Cost	\$ 20.5	\$ 17.8	\$ 26.0	\$ 3.6	\$ 3.5	\$ 3.6

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

	Pension Benefits			Postretirement Benefits		
	Year Ended December 31,					
	2008	2007	2006	2008	2007	2006
Weighted Average Assumptions:						
Discount Rate	5.75%-6.65%	5.95%-6.05%	5.75%	5.75%-6.55%	5.80%-6.05%	5.65%
Rate of Increase in Future Compensation Levels	2.50%-4.00%	4.00%	4.50%			
Expected Long-Term Rate of Return on Plan Assets	6.75%-8.50%	8.25%	8.25%			
Initial Health Care Cost Trend Rate				9.00%	9.00%	9.00%
Ultimate Health Care Cost Trend Rate <sup>(a)</sup>				5.00%	5.00%	5.00%

Ultimate Year <sup>(a)</sup>	2017	2016	2014
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Note:

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

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Funded Status***

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

<i>In millions</i>	<b>Pension Benefits</b>		<b>Postretirement Benefits</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Change in Benefit Obligation:				
Benefit Obligation at Beginning of Year	\$ 596.4	\$ 594.6	\$ 44.4	\$ 45.2
Acquisition	50.5		14.3	
Service Cost	17.8	14.3	1.3	1.1
Interest Cost	39.7	34.8	3.1	2.5
Plan Participant's Contributions	0.1			
Actuarial Loss (Gain)	42.7	(19.6)	0.3	(3.4)
Amendments		(2.4)	(1.8)	
Foreign Currency Exchange	(3.1)		(0.4)	
Curtailment	(0.5)		(1.7)	
Retiree Drug Subsidy Paid			0.3	
Change in Claim Reserve			(0.1)	
Benefits Paid	(29.0)	(25.3)	(2.7)	(1.0)
Benefit Obligation at End of Year	\$ 714.6	\$ 596.4	\$ 57.0	\$ 44.4
Change in Plan Assets:				
Fair Value of Plan Assets at Beginning of Year	\$ 468.0	\$ 441.9	\$	\$
Acquisition	32.1			
Actual Return on Plan Assets	(127.6)	26.5		
Employer Contributions	56.8	24.9	2.7	1.0
Foreign Currency Exchange	(2.5)			
Expenses Paid	(0.1)			
Plan Participant's Contributions	0.1			
Benefits Paid	(29.0)	(25.3)	(2.7)	(1.0)
Fair Value of Plan Assets at End of Year	\$ 397.8	\$ 468.0	\$	\$



Plan Assets Less than Projected Benefit Obligation	\$	(316.8)	\$	(128.4)	\$	(57.0)	\$	(44.4)
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Amounts Recognized in the Consolidated Balance Sheets Consist of:

Accrued Pension and Postretirement Benefits Liability Current	(0.7)	(0.3)	(3.6)	(2.5)
Accrued Pension and Postretirement Benefits Liability Noncurrent	(316.1)	(128.1)	(53.4)	(41.9)
Accumulated Other Comprehensive Income:				
Net Actuarial Loss (Gain)	262.0	52.5	(5.4)	(4.5)
Prior Service Cost (Income)	1.0	3.7	(1.4)	0.1

Net Amount Recognized	\$	(53.8)	\$	(72.2)	\$	(63.8)	\$	(48.8)
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Weighted Average Assumptions:

Discount Rate	6.15%-6.50% <sup>(a)</sup>	6.15%-6.35% <sup>(a)</sup>	6.25%-6.50% <sup>(a)</sup>	6.00%-6.35% <sup>(a)</sup>
Rates of Increase in Future Compensation Levels	2.50%-4.00%	4.00%	2.50%	
Initial Health Care Cost Trend Rate			9.00%	9.00%
Ultimate Health Care Cost Trend Rate <sup>(a)</sup>			5.00%	5.00%
Ultimate Year			2017	2016

Notes:

(a) Discount rates assumed for each plan are included in this range.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Information for Pension Plans***

The accumulated benefit obligation for all defined benefit plans was \$687.2 million and \$576.8 million at December 31, 2008 and 2007, respectively.

For plans with accumulated benefit obligations in excess of plan assets, at December 31, the projected benefit obligation, accumulated benefit obligation and fair value of the plan assets were:

<b><i>In millions</i></b>	<b>2008</b>	<b>2007</b>
Projected Benefit Obligation	\$ 714.6	\$ 596.4
Accumulated Benefit Obligation	687.2	576.8
Fair Value of Plan Assets	397.8	468.0

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

The Company's retirement plan asset allocation at December 31, 2008 and 2007 and target allocation for 2009 by asset category are as follows:

	<b>Target Allocation 2009</b>	<b>Percentage of Plan Assets at December 31, 2008      2007</b>	
Asset Category:			
Equity Securities	60.0%	51.0%	59.3%
Debt Securities	40.0	45.4	40.6
Cash		3.6	0.1
Total	100.0%	100.0%	100.0%

Active management of assets is used in asset classes and strategies where there is a potential to add value over a passive benchmark. Investment risk is measured and monitored on an on-going basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

At December 31, 2008 and 2007, pension investments did not include any direct investments in the Company's stock or the Company's debt.

During 2008 and 2007, the Company made \$56.8 million and \$24.9 million, respectively, of contributions to its North American pension plans. For 2009, the Company expects to make contributions of approximately \$65 million.

***Information for Postretirement Benefits***

During 2008 and 2007, the Company made postretirement benefit payments of \$2.7 million and \$1.0 million, respectively. For 2009, the Company expects to make contributions of approximately \$4 million.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Assumed health care cost trend rates affect the amounts reported for postretirement health care benefit plans. A one-percentage-point change in assumed health care trend rates would have the following effects on 2008 data:

<i>In millions</i>	<b>One Percentage Point</b>	
	<b>Increase</b>	<b>Decrease</b>
Health Care Trend Rate Sensitivity:		
Effect on Total Interest and Service Cost Components	\$ 0.6	\$ (0.5)
Effect on Year-End Postretirement Benefit Obligation	5.3	(4.7)

***Estimated Future Benefit Payments***

The following represents the Company's estimated future pension and postretirement benefit payments through the year 2018:

<i>In millions</i>	<b>Pension Plans</b>	<b>Postretirement Benefits</b>
2009	\$ 33.7	\$ 3.8
2010	35.7	4.0
2011	38.1	4.4
2012	41.0	4.4
2013	43.9	4.6
2014 - 2018	262.9	26.7

***Information for Postemployment Benefits***

The Company maintains postemployment benefits for U.S. employees. Certain benefits are based on years of service. The Company recorded an entry to Accumulated Other Comprehensive Loss for the net actuarial gain of \$0.7 million.

***Net Periodic Benefit Costs***

During 2009, amounts expected to be recognized in Net Periodic Benefit Costs are as follows:

<i>In millions</i>	<b>Pension Plans</b>	<b>Postretirement Benefits</b>	<b>Postemployment Benefits</b>
Recognition of Prior Service Cost	\$ 1.2	\$ (0.2)	\$
Recognition of Actuarial Loss (Gain)	20.2	(0.7)	0.6

***Multi-Employer Plan***

Certain of the Company's employees participate in multi-employer plans that provide both pension and other postretirement benefits to employees under union-employer organization agreements. Expense for these plans for the year ended December 31, 2008 was \$5.8 million.

**DEFINED CONTRIBUTION PLANS**

The Company provides defined contribution plans for eligible U.S. employees. The Company's contributions to the plans are based upon employee contributions and the Company's annual operating results. Contributions to these plans for the years ended December 31, 2008, 2007 and 2006 were \$17.6 million, \$8.2 million and \$7.8 million, respectively. Contributions for the year ended December 31, 2008 include \$8.6 million for Aktivty since the acquisition.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****INTERNATIONAL PENSION PLANS***Pension Expense*

The Company maintains international defined benefit pension plans that are both noncontributory and contributory and are funded in accordance with applicable local laws. The pension or termination benefits are based primarily on years of service and the employees' compensation.

The U.K. defined benefit plan was frozen effective March 31, 2001 and replaced with a defined contribution plan. The Company's contribution to the plan is based on employee contributions.

The pension expense (income) related to the international plans consisted of the following:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Components of Net Periodic Pension Cost:			
Service Cost	\$ 0.7	\$ 0.4	\$ 0.6
Interest Cost	7.8	7.6	6.4
Expected Return on Plan Assets	(9.3)	(9.6)	(8.4)
Amortizations:			
Actuarial Loss		0.3	0.3
Net Periodic Pension Income	\$ (0.8)	\$ (1.3)	\$ (1.1)
Weighted Average Assumptions:			
Discount Rate	5.90%	5.10%	4.80%
Rates of Increase in Future Compensation Levels	0.00%	0.00%	0.00%
Expected Long-Term Rate of Return on Plan Assets	7.00%	7.00%	7.00%

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Funded Status***

The following table sets forth the funded status of the international pension plans as of December 31:

<b><i>In millions</i></b>	<b>2008</b>	<b>2007</b>
Change in Benefit Obligation:		
Benefit Obligation at Beginning of Year	\$ 144.1	\$ 148.2
Service Cost	0.7	0.4
Interest Cost	7.8	7.6
Actuarial Gain	(12.7)	(6.8)
Foreign Exchange Translation	(35.9)	2.0
Expenses Paid	(0.7)	(0.4)
Benefits Paid	(5.8)	(6.9)
Benefit Obligation at End of Year	\$ 97.5	\$ 144.1
Change in Plan Assets:		
Fair Value of Plan Assets at Beginning of Year	\$ 143.8	\$ 136.5
Actual Return on Plan Assets	(14.1)	10.8
Foreign Exchange Translation	(34.2)	1.8
Expenses Paid	(0.7)	(0.4)
Employer Contribution	2.2	2.0
Benefits Paid	(5.8)	(6.9)
Fair Value of Plan Assets at End of Year	\$ 91.2	\$ 143.8
Plan Assets Less Than Projected Benefit Obligation	\$ (6.3)	\$ (0.3)
Amounts Recognized in the Consolidated Balance Sheets Consist of:		
Accrued Pension Liability Noncurrent	\$ (6.3)	\$ (0.3)
Accumulated Other Comprehensive Income:		
Net Actuarial Loss	16.9	11.5
Net Amount Recognized	\$ 10.6	\$ 11.2

Weighted Average Assumptions:

Discount Rate	6.40%	5.90%
Rates of Increase in Future Compensation Levels	0.00%	0.00%

The accumulated benefit obligation for the Company's international defined benefit plan was \$97.5 million and \$144.1 million at December 31, 2008 and 2007, respectively.

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



Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's retirement plan asset allocation at December 31, 2008 and 2007 and target allocation for 2009 by asset category are as follows:

<i>In millions</i>	<b>Target Allocation 2009</b>	<b>Percentage of Plan Assets at December 31,</b>	
		<b>2008</b>	<b>2007</b>
<b>Asset Category:</b>			
Equity Securities	50.0%	47.0%	50.0%
Debt Securities	50.0	52.0	49.0
Cash		1.0	1.0
 Total	 100.0%	 100.0%	 100.0%

Active management of assets is used in asset classes and strategies where there is a potential to add value over a passive benchmark. Investment risk is measured and monitored on an on-going basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews.

During 2008 and 2007, the Company made \$2.2 million and \$2.0 million, respectively, of contributions to its international pension plan. For 2009, the Company expects to make contributions of approximately \$2 million.

***Estimated Future Benefit Payments***

The following represents the Company's estimated future benefit payments through the year 2018:

***In millions***

2009	\$ 4.2
2010	4.2
2011	4.3
2012	4.4
2013	4.6
2014 - 2018	28.0

During 2009, \$0.5 million of the net actuarial loss is expected to be recognized in Net Periodic Benefit Cost.

## NOTE 9 INCOME TAXES

The U.S. and international components of Loss before Income Taxes and Equity in Net Earnings of Affiliates consisted of the following:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
U.S.	\$ (74.5)	\$ (26.3)	\$ (66.3)
International	9.0	0.2	(11.3)
Loss before Income Taxes and Equity in Net Earnings of Affiliates	\$ (65.5)	\$ (26.1)	\$ (77.6)

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The provisions for Income Tax Expense on Loss before Income Taxes and Equity in Net Earnings of Affiliates consisted of the following:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Current (Expense) Benefit			
U.S.	\$ (0.4)	\$ 0.2	\$
International	(6.0)	(5.1)	(0.4)
Total Current	(6.4)	(4.9)	(0.4)
Deferred (Expense) Benefit			
U.S.	(28.3)	(19.6)	(19.8)
International	0.3	0.6	(0.6)
Total Deferred	(28.0)	(19.0)	(20.4)
Income Tax Expense	\$ (34.4)	\$ (23.9)	\$ (20.8)

A reconciliation of Income Tax Expense on Loss before Income Taxes and Equity in Net Earnings of Affiliates at the federal statutory rate of 35% compared with the Company's actual Income Tax Expense is as follows:

<i>In millions</i>	<b>Year Ended December 31,</b>		<b>Percent</b>	<b>Percent</b>	<b>Percent</b>	<b>Percent</b>
	<b>2008</b>	<b>Percent</b>	<b>2007</b>	<b>Percent</b>	<b>2006</b>	<b>Percent</b>
Income Tax Benefit at U.S.						
Statutory Rate	\$ 22.9	35.0%	\$ 9.1	35.0%	\$ 27.2	35.0%
U.S. State and Local Tax Benefit	2.0	3.0	0.9	3.5	2.3	3.0
Valuation Allowance on Current						
Year Benefit	(30.8)	(47.0)	(9.1)	(35.1)	(29.2)	(37.7)
International Tax Rate Differences			(2.8)	(10.7)	(1.2)	(1.5)
Amortization of Goodwill	(29.4)	(44.9)	(19.6)	(75.0)	(19.6)	(25.3)
Foreign Withholding Tax	(0.1)	(0.2)	(0.1)	(0.3)	(0.2)	(0.2)

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Adjustment to Tax Contingencies	(0.1)	(0.1)	(2.0)	(7.5)	0.1	0.1
Other	1.1	1.7	(0.3)	(1.3)	(0.2)	(0.2)
Income Tax Expense	\$ (34.4)	(52.5)%	\$ (23.9)	(91.4)%	\$ (20.8)	(26.8)%

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tax effects of differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities as of December 31 were as follows:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Current Deferred Income Tax Assets:		
Compensation Based Accruals	\$ 31.5	\$ 22.1
Other	16.5	3.5
Valuation Allowance	(16.8)	(12.3)
Net Current Deferred Income Tax Assets	\$ 31.2	\$ 13.3
Noncurrent Deferred Income Tax Assets & Liabilities:		
Net Operating Loss Carryforwards	\$ 575.0	\$ 533.8
Pension Accrual	128.9	50.1
Tax Credits	13.5	13.7
Other	54.9	61.6
Valuation Allowance	(287.5)	(344.6)
Property, Plant and Equipment	(284.2)	(299.1)
Goodwill	(156.7)	(128.4)
Other Intangibles	(231.3)	(28.6)
Net Noncurrent Deferred Income Tax Assets & Liabilities	\$ (187.4)	\$ (141.5)
Net Deferred Income Tax Liability	\$ (156.2)	\$ (128.2)

The Company has reviewed the net deferred income tax assets as of December 31, 2008 and 2007, respectively, and determined that it is more likely than not that some or all of the net deferred income tax assets will not be realized. The valuation allowance of \$304.3 million and \$356.9 million at December 31, 2008 and 2007, respectively, is maintained on the remaining net deferred income tax assets for which the Company has not determined that realization is more likely than not. Of the total valuation allowance, \$28.7 million relates to foreign jurisdictions and the remaining \$275.6 million relates to the U.S. The need for a valuation allowance is made on a country-by-country basis, and the amount of the valuation allowance has changed as of December 31, 2008 over 2007 primarily due to operating activities in various countries in 2008 and changes in deferred income tax balances. As of December 31, 2008, the Company has concluded that due to difficulty in maintaining profitability and the lack of sufficient future

taxable income of the appropriate character, realization is less than more likely than not on the deferred income tax assets related primarily to the Company's U.S., Brazil, Germany, France, Hong Kong, Mexico and the United Kingdom operations and as a result, an amount of \$30.8 million was accrued in 2008.

**Table of Contents****GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The U.S. federal net operating loss carryforwards expire as follows:

***In millions***

2012	\$ 384.4
2018	295.0
2019	196.8
2021	144.2
2022	72.1
2023	122.0
2025	24.2
2026	94.6
2028	113.7
Total	\$ 1,447.0

U.S. state net operating loss carryforward amounts total \$1.0 billion and expire in various years.

International net operating loss carryforward amounts total \$77.0 million of which substantially all have no expiration date.

As of December 31, 2008, the Company, in accordance with APB Opinion 23, *Accounting for Income Taxes, Special Areas*, has determined that \$68.4 million of undistributed foreign earnings are not intended to be reinvested indefinitely by its non-U.S. subsidiaries. Deferred income tax was recorded as a reduction to the Company's net operating losses on these undistributed earnings as well as the financial statement carrying value in excess of tax basis in the amount of \$30.5 million. As of December 31, 2007, the Company had determined that \$61.0 million of undistributed foreign earnings were not intended to be reinvested indefinitely. Deferred income tax was recorded as a reduction to the Company's net operating losses on these undistributed earnings as well as the financial statement carrying value in excess of tax basis in the amount of \$28.3 million. The Company periodically determines whether the non-U.S. subsidiaries will invest their undistributed earnings indefinitely and reassesses this determination as appropriate.

***Uncertain Tax Positions***

The Company adopted FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of *FAS Statement 109* effective January 1, 2007. As of the date of adoption, the Company's liability for unrecognized income tax benefits totaled \$4.1 million, the total of which, if recognized, would affect the annual effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>In millions</i>	<b>2008</b>	<b>2007</b>
Balance at January 1,	\$ 1.4	\$ 4.1
Additions for tax positions of prior year	0.1	2.6
Reductions for tax positions of prior years		(1.4)
Settlements		(4.4)
Effect of Exchange Rate Changes	(0.1)	0.5
Balance at December 31,	\$ 1.4	\$ 1.4

The increase in 2007 in unrecognized income tax benefits primarily relates to a judgment received in the Swedish tax court during the first quarter of 2007.



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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

At December 31, 2008 the gross unrecognized tax benefits of \$1.4 million, if recognized, would affect the annual effective income tax rate.

The Company recognizes potential accrued interest and penalties related to unrecognized tax benefits within its global operations in Income Tax Expense. The Company had \$0.1 million and \$1.7 million for the payment of interest and penalties accrued at December 31, 2008 and 2007, respectively.

The Company does not anticipate that total unrecognized tax benefits will significantly change within the next 12 months.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1999.

**NOTE 10 FINANCIAL INSTRUMENTS, DERIVATIVES AND HEDGING ACTIVITIES**

The Company is exposed to fluctuations in interest rates on its variable debt, fluctuations in foreign currency transaction cash flows and variability in cash flows attributable to certain commodity purchases. The Company actively monitors these fluctuations and periodically uses derivatives and other financial instruments to hedge exposures to interest, currency and commodity risks. The Company's use of derivative instruments may result in short-term gains or losses and may increase volatility in its earnings. The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified.

***Interest Rate Risk***

The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The differential to be paid or received under these agreements is recognized as an adjustment to Interest Expense related to the debt. At December 31, 2008, the Company had interest rate swap agreements with a notional amount of \$1.6 billion, 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 the three-month LIBOR rates.

During 2008, the Company recorded a favorable fair value adjustment of \$10.4 million to income for an interest rate swap related to the Altivity Transaction. The interest rate swap is now designated as an effective hedge, and subsequent fair value adjustments for effectiveness are recorded in Other Comprehensive Income. During 2008 and 2007, there were minimal amounts of ineffectiveness.

***Commodity Risk***

To manage risks associated with future variability in cash flows and price risk attributable to certain commodity purchases, the Company entered into natural gas swap contracts to hedge prices for approximately 72% of its expected natural gas usage through 2009 with a weighted average contractual rate of \$9.94 per MMBTU. Such contracts are designated as cash flow hedges. When a contract matures, the resulting gain or loss is reclassified into Cost of Sales

concurrently with the recognition of the commodity purchased. The ineffective portion of the swap contracts change in fair value, if any, would be recognized immediately in earnings.

During 2008 and 2007, there were minimal amounts of ineffective portions related to changes in fair value of natural gas swap contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Foreign Currency Risk***

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

At December 31, 2008 and 2007, multiple forward exchange contracts existed that expire on various dates throughout 2009. Those purchased forward exchange contracts outstanding at December 31, 2008, when measured in U.S. dollars at December 31, 2008 exchange rates, had notional amounts totaling \$80.8 million. Those purchased forward exchange contracts outstanding at December 31, 2007, when measured in U.S. dollars at December 31, 2007 exchange rates, had notional amounts totaling \$78.2 million.

No amounts were reclassified to earnings during 2008 in connection with forecasted transactions that were no longer considered probable of occurring, and there was no amount of ineffective portion related to changes in the fair value of foreign currency forward contracts. Minimal amounts were reclassified to earnings during 2007 in connection with forecasted transactions that were no longer considered probable of occurring due to the sale of the Swedish operations, and there was no amount of ineffective portion related to changes in the fair value of foreign currency forward contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

***Derivatives not Designated as Hedges***

The Company enters into forward exchange contracts to effectively hedge substantially all of accounts receivable resulting from transactions denominated in foreign currencies in order to manage risks associated with foreign currency transactions adversely affected by changes in exchange rates. At December 31, 2008 and 2007, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those foreign currency exchange contracts outstanding at December 31, 2008, when aggregated and measured in U.S. dollars at December 31, 2008 exchange rates, had net notional amounts totaling \$4.4 million. Those foreign currency exchange contracts outstanding at December 31, 2007, when aggregated and measured in U.S. dollars at December 31, 2007 exchange rates, had net notional amounts totaling \$14.5 million. Generally, unrealized gains and losses resulting from these contracts are recognized in Other Income, Net and approximately offset corresponding unrealized gains and losses recognized on these accounts receivable. These contracts are presently being and will continue to be recorded through the income statement.

***Foreign Currency Movement Effect***

Net international currency exchange (gains) losses included in determining Income from Operations for the years ended December 31, 2008, 2007 and 2006 were \$10.7 million, \$(1.3) million and \$(2.3) million, respectively.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Accumulated Derivative Instruments (Loss) Gain***

The following is a reconciliation of changes in the fair value of the interest rate swap agreements, natural gas swaps and foreign currency forward contracts which have been recorded as Accumulated Derivative Instruments (Loss) Gain in the Statements of Shareholders' Equity as of December 31:

<i>In millions</i>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Balance at January 1	\$ (7.9)	\$ (5.4)	\$ 5.2
Reclassification to earnings	10.2	9.3	19.3
Current period change in fair value	(70.8)	(11.8)	(29.9)
Balance at December 31	\$ (68.5)	\$ (7.9)	\$ (5.4)

At December 31, 2008, the Company expects to reclassify \$29.4 million of losses in 2009 from Accumulated Derivative Instruments (Loss) Gain to earnings, contemporaneously with and offsetting changes in the related hedged exposure. The actual amount that will be reclassified to future earnings may vary from this amount as a result of changes in market conditions.

**NOTE 11 FAIR VALUE MEASUREMENT**

In September 2006, the FASB issued SFAS 157, which is effective for fiscal years beginning after November 15, 2007 and for interim periods within those years. This statement defines fair value, establishes a framework for measuring fair value and expands the related disclosure requirements. This statement applies to accounting pronouncements that require or permit fair value measurements. The statement indicates, among other things, that a fair value measurement assumes that the transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. SFAS 157 defines fair value based upon an exit price model, whereby fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 clarifies that fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

Relative to SFAS 157, the FASB issued FSP 157-1, FSP 157-2, and FSP 157-3. FSP 157-1 amends SFAS No. 157 to exclude SFAS No. 13, *Accounting for Leases*, and its related interpretive accounting pronouncements that address leasing transactions, and FSP 157-2 delays the effective date of the application of SFAS 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Nonfinancial assets and nonfinancial liabilities include those measured at fair value in goodwill impairment testing, indefinite lived intangible assets measured at fair value

for impairment testing, asset retirement obligations initially measured at fair value, and those assets and liabilities initially measured at fair value in a business combination. FSP 157-3 clarifies the application of SFAS 157 when the market for a financial asset is inactive.

The Company adopted SFAS 157 for financial assets and financial liabilities as of January 1, 2008, in accordance with the provisions of SFAS 157 and the related guidance of FSP 157-1, FSP 157-2, and FSP 157-3. The adoption did not have a significant impact on the Company's financial position, results of operations or cash flows. The Company has determined that its financial assets and financial liabilities are valued using Level 2 inputs in the fair value hierarchy.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Valuation Hierarchy***

SFAS 157 establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

Level 1 inputs quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.

Level 3 inputs unobservable inputs based on the Company's own assumptions used to measure assets and liabilities at fair value.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

The following table provides the financial assets and (liabilities) carried at fair value measured on a recurring basis as of December 31, 2008:

<i>In millions</i>	<b>Total Carrying Value at December 31, 2008</b>	<b>Quoted Prices in Active Markets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Commodity Contracts	\$ (24.4)		\$ (24.4)	
Foreign Currency Contracts, Net of Liabilities	(1.4)		(1.4)	
Interest Rate Swap Agreements	(53.9)		(53.9)	
Total	\$ (79.7)		\$ (79.7)	

These financial assets can be found in the Other Current Assets and the financial liabilities in the Other Accrued Liabilities and Other Noncurrent Liabilities on the Company's Consolidated Balance Sheets. As of December 31, 2008, there has not been any significant impact to the fair value of the Company's derivative liabilities due to its own

credit risk. Similarly, there has not been any significant adverse impact to the Company's derivative assets based on evaluation of the Company's counterparties' credit risks.

***Fair Value of Financial Instruments***

The fair values of the Company's other financial assets at December 31, 2008 and 2007 approximately equal the carrying values reported on the Consolidated Balance Sheets except for Long-Term Debt. The fair value of the Company's Long-Term Debt was \$2,438.5 million and \$1,829.2 million as compared to the carrying amounts of \$3,176.6 million and \$1,872.0 million as of December 31, 2008 and 2007, respectively. The fair value of Long-Term Debt is based on quoted market prices.

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 12 ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

The changes in the components of Accumulated Other Comprehensive Income (Loss) are as follows:

<i>In millions</i>	Years Ended December 31,								
	Pretax	2008	Net	Pretax	2007	Net	Pretax	2006	Net
	Amount	Tax	Amount	Amount	Tax	Amount	Amount	Tax	Amount
		Effect			Effect			Effect	
Derivative Instruments									
(Loss) Gain	\$ (60.6)	\$	\$ (60.6)	\$ (2.5)	\$	\$ (2.5)	\$ (10.6)	\$	\$ (10.6)
Minimum Pension									
Liability Adjustment							23.3		23.3
Currency Translation									
Adjustment	(15.1)		(15.1)	4.6		4.6	14.7		14.7
Pension Benefit Plans	(212.2)		(212.2)	25.2		25.2	(26.2)		(26.2)
Postretirement Benefit									
Plans	2.4		2.4	3.3		3.3	1.1		1.1
Postemployment Benefit									
Plans	1.2		1.2	1.5		1.5	(6.1)		(6.1)
Accumulated Other									
Comprehensive Income									
(Loss)	\$ (284.3)	\$	\$ (284.3)	\$ 32.1	\$	\$ 32.1	\$ (3.8)	\$	\$ (3.8)

The balances of Accumulated Other Comprehensive Income (Loss), net of applicable taxes are as follows:

<i>In millions</i>	December 31,	
	2008	2007
Accumulated Derivative Instruments Loss	\$ (68.5)	\$ (7.9)
Currency Translation Adjustment	(13.2)	1.9
Pension Benefit Plans	(279.9)	(67.7)
Postretirement Benefit Plans	6.8	4.4
Postemployment Benefit Plans	(3.4)	(4.6)



Accumulated Other Comprehensive Loss	\$ (358.2)	\$ (73.9)
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## NOTE 13 IMPAIRMENT

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 its paperboard mill located in Norrköping, Sweden. The Company's plan to sell the operations led to the testing for impairment of these 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 Consolidated Statements of Operations and as a component of the Company's paperboard packaging segment.

During the third quarter of 2006, the Company recognized an impairment charge of \$3.9 million relating to its Sao Paulo, Brazil operations. The continued and projected operating losses and negative cash flows led to the testing for impairment of long-lived assets. The fair value of the impaired assets was determined using the expected present value method and third party appraisals. The impairment charge is reflected as a component of Cost of Sales on the Consolidated Statements of Operations and as a component of Income from Operations in the Company's paperboard packaging segment.

**Table of Contents****GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 14 DISCONTINUED OPERATIONS**

On October 16, 2007, Graphic Packaging International Holding Sweden AB (the Seller), an indirect wholly-owned subsidiary of the Company, entered into a Sale and Purchase Agreement with Lagrummet 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 Jeffery H. Coors, the former Vice Chairman and 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.

During the third quarter of 2008, the Company determined 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 Environmental and Legal Matters.

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.

Summarized financial information for discontinued operations is as follows:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net Sales	\$	\$ 83.4	\$ 99.4
Loss before Income Taxes	(0.9)	(33.4)	(3.6)

GP-Sweden was included in the paperboard packaging segment and the Europe geographic area.

**NOTE 15 ENVIRONMENTAL AND LEGAL MATTERS***Environmental Matters*

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, solid waste and hazardous wastes, the investigation and remediation of contamination resulting from historical site operations and releases of hazardous substances, and the health and safety of employees.

Compliance initiatives could result in significant costs, which could negatively impact the Company's financial position, results of operations or cash flows. Any failure to comply with such laws and regulations or any permits and authorizations required thereunder could subject the Company to fines, corrective action or other sanctions.

In addition, some of the Company's current and former facilities are the subject of environmental investigations and remediations resulting from historical operations and the release of hazardous substances or other constituents. Some current and former facilities have a history of industrial usage for which investigation and remediation obligations may be imposed in the future or for which indemnification claims may be asserted

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

against the Company. Also, potential future closures or sales of facilities may necessitate further investigation and may result in future remediation at those facilities.

During the first quarter of 2006, the Company self-reported certain violations of its Title V permit under the federal Clean Air Act for its West Monroe, Louisiana mill to the Louisiana Department of Environmental Quality (the LADEQ ). The violations relate to the collection, treatment and reporting of hazardous air pollutants. The Company recorded \$0.6 million of expense in the first quarter of 2006 for compliance costs to correct the technical issues causing the Title V permit violations. The Company received a consolidated Compliance Order and notice of potential penalty dated July 5, 2006 from the LADEQ indicating that the Company may be required to pay civil penalties for violations that occurred from 2001 through 2005. The Company believes that the LADEQ will assess a penalty of approximately \$0.3 million to be paid partially in cash and partially through the completion of beneficial environmental projects.

At the request of the County Administrative Board of Östergötland, Sweden, the Company conducted a risk classification of its mill property located in Norrköping, Sweden. Based on the information collected through this activity, the Company determined that some remediation of the site is reasonably probable and recorded a \$3.0 million reserve in the third quarter of 2007. Pursuant to the Sale and Purchase Agreement dated October 16, 2007 between Graphic Packaging International Holding Sweden AB (the Seller ) and Lagrummet December nr 1031 Aktiebolg under which the Company's Swedish operations were sold, the Seller retains liability for certain environmental claims after the sale. In addition during 2008, the Company determined an additional liability of \$0.9 million was necessary and recorded this in discontinued operations within the Company's Consolidated Statements of Operations. The Company paid \$3.4 million against the reserve.

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

In connection with the Altivity Transaction, the Company acquired several sites with on-going administrative proceedings related to air emission and water discharge permit exceedances and soil contamination issues. The Company does not believe that any of the proceedings will result in material liabilities or penalties.

The Company has established reserves for those facilities or issues where liability is probable and the costs are reasonably estimable. Except for the Title V permit issue in West Monroe, for which a penalty has been estimated, it is too early in the investigation and regulatory process to make a determination of the probability of liability and reasonably estimate costs. Nevertheless, the Company believes that the amounts accrued for all of its loss contingencies, and the reasonably possible loss beyond the amounts accrued, are not material to the Company's financial position, results of operations or cash flows. The Company cannot estimate with certainty other future corrective compliance, investigation or remediation costs, all of which the Company currently considers to be remote. Costs relating to historical usage or indemnification claims that the Company considers to be reasonably possible are not quantifiable at this time. The Company will continue to monitor environmental issues at each of its facilities and will revise its accruals, estimates and disclosures relating to past, present and future operations, as additional

information is obtained.

***Legal Matters***

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

that disposition of these lawsuits will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE 16 COMMITMENTS AND CONTINGENCIES**

The Company leases certain warehouse facilities, office space, data processing equipment and plant equipment under long-term, non-cancelable contracts that expire at various dates and are subject to renewal options. At December 31, 2008, total minimum rental payments under these leases were as follows:

<i>In millions</i>	<b>At December 31,</b>
2009	\$ 38.9
2010	32.0
2011	26.8
2012	16.6
2013	9.2
Thereafter	33.4
 Total	 \$ 156.9

Total rental expense was \$41.8 million, \$16.6 million and \$13.8 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The Company has entered into other long-term contracts principally for the purchase of fiber and chip processing. The minimum purchase commitments extend beyond 2013. At December 31, 2008, total commitments under these contracts were as follows:

<i>In millions</i>	<b>At December 31,</b>
2009	\$ 98.0
2010	58.8
2011	58.8
2012	57.6
2013	56.6
Thereafter	246.1

Total	\$	575.9
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**NOTE 17 RELATED PARTY TRANSACTIONS**

Coors Brewing Company, a subsidiary of Molson Coors Brewing Company (formerly known as the Adolph Coors Company), accounted for approximately \$87 million, \$85 million and \$74 million of the Company's Net Sales for the year ended December 31, 2008, 2007 and 2006, respectively. The Company continues to sell packaging products to Coors Brewing Company. The supply agreement, as amended, effective April 1, 2003, with Coors Brewing Company will not expire until December 31, 2009. Mr. Jeffrey H. Coors, a member of the Company's Board of Directors, was an Executive Vice President of the Adolph Coors Company from 1991 to 1992 and its President from 1985 to 1989. Together with family members and related trusts, Mr. Coors owns a significant interest in Molson Coors Brewing Company.

One of the Company's subsidiaries, Golden Equities, Inc., is the general partner of Golden Properties, Ltd., a limited partnership in which Coors Brewing Company is the limited partner. Before the Altivity Transaction, Golden Equities, Inc. was a subsidiary of Graphic Packaging International Corporation. The partnership owns, develops, operates and sells certain real estate previously owned directly by Coors Brewing

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**GRAPHIC PACKAGING HOLDING COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company or Adolph Coors Company. Transactions between the Company and Golden Properties, Ltd. are eliminated in the Consolidated Financial Statements.

On October 16, 2007, the Company sold an indirect wholly-owned subsidiary to a purchaser affiliated with Jeffrey H. Coors. See Note 14 Discontinued Operations.

**NOTE 18 BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION**

As a result of the Altiivity Transaction, the Company's reporting segments were revised as follows: the Company's containerboard/other were combined into the paperboard packaging segment and additionally, two new segments were created, multi-wall bag and specialty packaging. These segments are evaluated by the chief operating decision maker based primarily on Income from Operations. The Company's reportable segments are based upon strategic business units that offer different products.

The paperboard packaging segment is highly integrated and includes a system of mills and plants that produces a broad range of paperboard grades convertible into folding cartons. Folding cartons are used primarily to protect products, such as food, detergents, paper products, beverages, and health and beauty aids, while providing point of purchase advertising. The paperboard packaging business segment includes the design, manufacture and installation of packaging machinery related to the assembly of cartons and the production and sale of corrugating medium and kraft paper from paperboard mills in the U.S.

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

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

The Company did not have any one customer who accounted for 10% or more of the Company's net sales during 2008, 2007 or 2006.



Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Business segment information is as follows:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>NET SALES:</b>			
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
<b>INCOME (LOSS) FROM OPERATIONS:</b>			
Paperboard Packaging	\$ 220.8	\$ 177.8	\$ 112.9
Multi-wall Bag	27.8	6.3	3.4
Specialty Packaging	11.0		
Corporate <sup>(a)</sup>	(109.7)	(32.9)	(22.5)
Total	\$ 149.9	\$ 151.2	\$ 93.8
<b>CAPITAL EXPENDITURES:</b>			
Paperboard Packaging	\$ 145.6	\$ 92.3	\$ 91.5
Multi-wall Bag	9.8	1.6	0.7
Specialty Packaging	2.4		
Corporate	25.5	2.0	2.3
Total	\$ 183.3	\$ 95.9	\$ 94.5
<b>DEPRECIATION AND AMORTIZATION:</b>			
Paperboard Packaging	\$ 224.9	\$ 180.5	\$ 175.5
Multi-wall Bag	15.2	1.8	2.6
Specialty Packaging	10.0		
Corporate	14.2	7.3	10.4

Total	\$ 264.3	\$ 189.6	\$ 188.5
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<i>In millions</i>	December 31,	
	2008	2007
<b>ASSETS AT DECEMBER 31:</b>		
Paperboard Packaging	\$ 4,143.4	\$ 2,676.4
Multi-wall Bag	376.4	29.7
Specialty Packaging	248.3	
Corporate <sup>(b)</sup>	215.0	71.2
Total	\$ 4,983.1	\$ 2,777.3

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Business geographic area information is as follows:

<i>In millions</i>	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>NET SALES:</b>			
U.S./North America	\$ 3,755.7	\$ 2,122.9	\$ 2,060.9
Central/South America	56.2	29.0	21.9
Europe	264.2	282.1	260.7
Asia Pacific	131.9	136.3	123.6
Eliminations <sup>(c)</sup>	(128.6)	(149.1)	(145.4)
Total	\$ 4,079.4	\$ 2,421.2	\$ 2,321.7

<i>In millions</i>	<b>2008</b>	<b>2007</b>
<b>ASSETS AT DECEMBER 31:</b>		
U.S./North America	\$ 4,573.2	\$ 2,498.4
Central/South America	29.0	16.5
Europe	118.3	145.0
Asia Pacific	47.6	46.2
Corporate	215.0	71.2
Total	\$ 4,983.1	\$ 2,777.3

Notes:

- (a) Primarily consists of unallocated general corporate expenses and costs associated with the combination with Altivity.
- (b) Corporate assets are principally cash and equivalents, other current assets, deferred income tax assets, deferred debt issue costs and a portion of property, plant and equipment.

- (c) Represents primarily the elimination of intergeographic sales and profits from transactions between the Company's U.S., Europe, Asia Pacific and Central/South America operations.

## NOTE 19 QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Results of operations for the four quarters of 2008 and 2007 are shown below.

In millions, except per share amounts	First	Second	2008 Third	Fourth	Total
<b>Statement of Operations Data:</b>					
Net Sales	\$ 724.3	\$ 1,141.7	\$ 1,165.7	\$ 1,047.7	\$ 4,079.4
Gross Profit	86.6	143.6	150.4	101.9	482.5
Income from Operations	25.5	61.9	52.5	10.0	149.9
Loss from Continuing Operations	(23.3)	(4.3)	(13.5)	(57.7)	(98.8)
Loss from Discontinued Operations,					
Net of Taxes			(0.9)		(0.9)
Net Loss	(23.3)	(4.3)	(14.4)	(57.7)	(99.7)
Loss Per Share Basic and Diluted:					
Continuing Operations	(0.10)	(0.01)	(0.04)	(0.17)	(0.32)
Discontinued Operations			(0.00)		(0.00)
Total	(0.10)	(0.01)	(0.04)	(0.17)	(0.32)

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In millions, except per share amounts	2007				
	First	Second	Third	Fourth	Total
<b>Statement of Operations Data:</b>					
Net Sales	\$ 584.1	\$ 623.1	\$ 612.1	\$ 601.9	\$ 2,421.2
Gross Profit	56.0	81.9	105.0	88.9	331.8
Income from Operations	12.8	39.0	61.6	37.8	151.2
(Loss) Income from Continuing Operations	(37.5)	(19.6)	15.1	(7.1)	(49.1)
(Loss) Income from Discontinued Operations,					
Net of Taxes	(1.2)	(1.7)	(29.0)	6.4	(25.5)
Net Loss	(38.7)	(21.3)	(13.9)	(0.7)	(74.6)
(Loss) Income Per Share Basic and Diluted:					
Continuing Operations	(0.18)	(0.10)	0.07	(0.03)	(0.24)
Discontinued Operations	(0.01)	(0.01)	(0.14)	0.03	(0.13)
Total	(0.19)	(0.11)	(0.07)	(0.00)	(0.37)

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****NOTE 20 GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

This disclosure is required because certain subsidiaries of Altiivity became guarantors of GPII debt securities on March 10, 2008, the date of the closing of the Altiivity Transaction.

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

<i>In millions</i>	Parent	Subsidiary Issuer	Year Ended December 31, 2008		Consolidating Eliminations	Consolidated
			Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries		
Net Sales	\$	\$ 2,380.3	\$ 1,404.6	\$ 423.1	\$ (128.6)	\$ 4,079.4
Cost of Sales		2,129.5	1,212.9	384.1	(129.6)	3,596.9
Selling, General and Administrative		198.4	105.0	29.3		332.7
Research, Development and Engineering		7.5		0.5		8.0
Other (Income) Expense, Net		(11.8)	4.2	(0.5)		(8.1)
Income from Operations		56.7	82.5	9.7	1.0	149.9
Interest Expense, Net		(212.6)	1.3	(4.1)		(215.4)
(Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates		(155.9)	83.8	5.6	1.0	(65.5)
Income Tax Expense		(27.6)	(2.8)	(4.0)		(34.4)
(Loss) Income before Equity in Net Earnings of Affiliates		(183.5)	81.0	1.6	1.0	(99.9)

Equity in Net Earnings of Affiliates				1.1		1.1
Equity in Net Earnings of Subsidiaries	(99.7)	84.7	2.2		12.8	
(Loss) Income from Continuing Operations	(99.7)	(98.8)	83.2	2.7	13.8	(98.8)
Loss from Discontinued Operations, Net of Taxes		(0.9)				(0.9)
Net (Loss) Income	\$ (99.7)	\$ (99.7)	\$ 83.2	\$ 2.7	\$ 13.8	\$ (99.7)

Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

<i>In millions</i>	December 31, 2008					
	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
<b>ASSETS</b>						
Current Assets:						
Cash and Cash Equivalents	\$	\$ 170.8	\$ (7.5)	\$ 6.8	\$	\$ 170.1
Receivables, Net		233.4	56.1	80.1		369.6
Inventories		397.0	82.8	55.2	(3.0)	532.0
Intercompany	(1.0)	292.5	(178.3)	(113.2)		
Other Current Assets		50.7	1.1	5.1		56.9
Total Current Assets	(1.0)	1,144.4	(45.8)	34.0	(3.0)	1,128.6
Property, Plant and Equipment, Net		1,699.4	157.8	78.1	(0.2)	1,935.1
Investment in Consolidated Subsidiaries	526.2	68.7	4.1	107.9	(706.9)	
Goodwill		1,230.6	(25.4)	(1.1)	0.7	1,204.8
Other Assets		705.8	1.4	7.4		714.6
<b>Total Assets</b>	\$ 525.2	\$ 4,848.9	\$ 92.1	\$ 226.3	\$ (709.4)	\$ 4,983.1

**LIABILITIES**

Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	\$	\$ 11.9	\$	\$ 6.7	\$	\$ 18.6
Accounts Payable		250.0	47.8	35.6		333.4
Other Accrued Liabilities		302.6	17.2	13.7	0.1	333.6
Total Current Liabilities		564.5	65.0	56.0	0.1	685.6
Long-Term Debt		3,165.2				3,165.2
Deferred Income Tax Liabilities		184.3	0.9	2.6		187.8
Other Noncurrent Liabilities		408.7	0.1	10.6	(0.1)	419.3



<b>Total Liabilities</b>		4,322.7		66.0		69.2		4,457.9
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**SHAREHOLDERS EQUITY**

<b>Total Shareholders Equity</b>	525.2	526.2	26.1	157.1	(709.4)	525.2
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<b>Total Liabilities and Shareholders Equity</b>	\$ 525.2	\$ 4,848.9	\$ 92.1	\$ 226.3	\$ (709.4)	\$ 4,983.1
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Table of Contents**GRAPHIC PACKAGING HOLDING COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Year Ended December 31, 2008					
		Subsidiary	Combined	Combined		
<i>In millions</i>	Parent	Issuer	Guarantor	Nonguarantor	Consolidating	Consolidated
			Subsidiaries	Subsidiaries	Eliminations	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Net (Loss) Income	\$ (99.7)	\$ (99.7)	\$ 83.2	\$ 2.7	\$ 13.8	\$ (99.7)
Noncash Items Included in Net (Loss) Income:						
Depreciation and Amortization		208.4	46.7	9.2		264.3
Deferred Income Taxes		19.4	8.1	0.5		28.0
Amount of Postemployment Expense Less Than Funding		(33.4)		(5.0)		(38.4)
Amortization of Deferred Debt Issuance Costs		7.9				7.9
Inventory Step Up Related to Activity			24.4			24.4
Write-off #2 Coated Board Machine at the West Monroe, LA Mill		12.6				12.6
Loss (Gain) on Disposal of Assets		2.4	(0.2)	0.1		2.3
Equity in Subsidiaries	99.7	(84.7)	(2.2)		(12.8)	
Other, Net		2.3	(0.9)	0.4		1.8
Changes in Operating Assets and Liabilities		117.2	(135.0)	(0.2)	(1.0)	(19.0)
Net Cash Provided by Operating Activities		152.4	24.1	7.7		184.2
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Capital Spending		(141.4)	(31.6)	(10.3)		(183.3)
Acquisition Costs Related to Activity		(30.3)				(30.3)
		60.2				60.2

Cash Acquired Related to Activity									
Proceeds from Sales of Assets, Net of Selling Costs	20.3							20.3	
Other, Net	(10.7)							(10.7)	
Net Cash Used in Investing Activities	(101.9)	(31.6)		(10.3)				(143.8)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>									
Proceeds from Issuance of Debt	1,200.0							1,200.0	
Payments on Debt	(1,195.9)							(1,195.9)	
Borrowings under Revolving Credit Facilities	985.8							985.8	
Payments on Revolving Credit Facilities	(853.4)							(853.4)	
Debt Issuance Costs	(16.3)							(16.3)	
Other, Net				(0.4)				(0.4)	
Net Cash Provided by (Used in) Financing Activities	120.2			(0.4)				119.8	
Effect of Exchange Rate Changes on Cash				0.6				0.6	
Net Increase (Decrease) in Cash and Cash Equivalents	170.7	(7.5)		(2.4)				160.8	
Cash and Cash Equivalents at Beginning of Period	0.1			9.2				9.3	
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$</b>	<b>\$</b>	<b>170.8</b>	<b>\$</b>	<b>(7.5)</b>	<b>\$</b>	<b>6.8</b>	<b>\$</b>	<b>170.1</b>

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Graphic Packaging Holding Company

We have audited the accompanying Consolidated Balance Sheet of Graphic Packaging Holding Company as of December 31, 2008 and the related Consolidated Statement of Operations, Shareholders' Equity and Cash Flows for the year ended December 31, 2008. Our audit also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Graphic Packaging Holding Company at December 31, 2008, and the consolidated results of its operations and its cash flows for the year ended December 31, 2008, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Notes 1 and 11 to the financial statements, in 2008 the Company changed its method of accounting for fair value for all financial assets and liabilities and non-financial assets and liabilities measured at fair value on a recurring basis.

As discussed in Note 20 to the consolidated financial statements, the accompanying consolidated financial statements have been restated to include a previously omitted footnote disclosure.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Graphic Packaging Holding Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 3, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Atlanta, Georgia

March 3, 2009, except for Note 20 as to which the date is October 1, 2009

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of Graphic Packaging Holding Company

We have audited Graphic Packaging Holding Company's internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Graphic Packaging Holding Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Graphic Packaging Holding Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Consolidated Balance Sheet as of December 31, 2008 and the related Consolidated Statement of Operations, Shareholders' Equity and Cash Flows for the year ended December 31, 2008 of Graphic Packaging Holding Company and our report dated March 3, 2009 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP  
Atlanta, Georgia  
March 3, 2009



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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Graphic Packaging Holding Company:

In our opinion, the consolidated balance sheet as of December 31, 2007 and the related consolidated statements of operations, statements of cash flows, and statements of shareholders' equity for each of the two years in the period ended December 31, 2007 present fairly, in all material respects, the financial position of Graphic Packaging Holding Company (formerly known as Graphic Packaging Corporation) and its subsidiaries at December 31, 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule for each of the two years in the period ended December 31, 2007 listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Atlanta, Georgia

February 28, 2008, except for Note 18 to which the date is March 4, 2009

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**PART IV**

**ITEM 15. EXHIBITS**

a.) Financial statements and exhibits filed as part of this report:

1. Consolidated Statements of Operations for each of the three years in the period ended December 31, 2008

Consolidated Balance Sheets as of December 31, 2008 and 2007

Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2008

Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2008

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

2. Exhibits to Annual Report on Form 10-K for Year Ended December 31, 2008.

**Exhibit  
Number**

**Description**

- |      |   |
|------|---|
| 23.1 | Consents of Ernst & Young LLP and PricewaterhouseCoopers LLP.                               |
| 31.1 | Certification required by Rule 13a-14(a).   |
| 31.2 | Certification required by Rule 13a-14(a).   |
| 32.1 | Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code. |
| 32.2 | Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code. |



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

**GRAPHIC PACKAGING HOLDING COMPANY**

(Registrant)

/s/ DAVID W. SCHEIBLE	President and Chief Executive Officer (Principal Executive Officer)	October 1, 2009
David W. Scheible		
/s/ DANIEL J. BLOUNT	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	October 1, 2009
Daniel J. Blount		
/s/ DEBORAH R. FRANK	Vice President and Chief Accounting Officer (Principal Accounting Officer)	October 1, 2009
Deborah R. Frank		

**POWER OF ATTORNEY**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K/A has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. Each of the directors of the Registrant whose signature appears below hereby appoints Daniel J. Blount and Stephen A. Hellrung, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report on Form 10-K/A, making such changes in this report on Form 10-K/A as appropriate, and generally to do all such things on their behalf in their capacities as directors and/or officers to enable the Registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

<b>Signatures</b>	<b>Title</b>	<b>Date</b>
/s/ JOHN R. MILLER*	Non-Executive Chairman and Director	October 1, 2009
John R. Miller		
/s/ GEORGE V. BAYLY*	Director	October 1, 2009
George V. Bayly		
/s/ JOHN D. BECKETT	Director	October 1, 2009

John D. Beckett

/s/ G. ANDREA BOTTA\*

Director

October 1, 2009

G. Andrea Botta

/s/ KEVIN J. CONWAY\*

Director

October 1, 2009

Kevin J. Conway

/s/ JEFFREY H. COORS\*

Director

October 1, 2009

Jeffrey H. Coors

/s/ KELVIN L. DAVIS

Director

October 1, 2009

Kelvin L. Davis

/s/ JEFFREY LIAW\*

Director

October 1, 2009

Jeffrey Liaw

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<b>Signatures</b>	<b>Title</b>	<b>Date</b>
/s/ HAROLD R. LOGAN, JR.* Harold R. Logan, Jr.	Director	October 1, 2009
/s/ MICHAEL G. MACDOUGALL* Michael G. MacDougall	Director	October 1, 2009
/s/ DAVID W. SCHEIBLE* David W. Scheible	Director	October 1, 2009
/s/ ROBERT W. TIEKEN* Robert W. Tieken	Director	October 1, 2009
* By Stephen A. Hellrung, Attorney-in-Fact		