

KEMET CORP
Form 8-K
October 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (date of earliest event reported): October 30, 2018

KEMET Corporation
(Exact name of registrant as specified in its charter)

Delaware 001-15491 57-0923789
(State of incorporation) (Commission File Number) (IRS Employer Identification No.)

KEMET Tower, One East Broward Blvd., Fort Lauderdale, Florida 33301
(Address of principal executive offices) (Zip Code)

(954) 766-2800
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR §230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR §240.12b-2 of this chapter).
Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 8.01 Other Events

On October 30, 2018, KEMET Corporation (the “Company”) issued a news release announcing that its Board of Directors declared a quarterly cash dividend of \$0.05 per share of its common stock. The dividend is payable to the Company’s shareholders of record at the close of business on November 16, 2018 and is expected to be paid on November 26, 2018.

A copy of the Company’s news release announcing the dividend is attached as Exhibit 99.1 hereto and incorporated herein by reference.

Item 9.01 Financial Statements and Exhibits

(a) Not Applicable

(b) Not Applicable

(c) Not Applicable

(d) Exhibits

Exhibit No. Description of Exhibit

99.1 News Release, dated October 30, 2018 issued by the Company.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 30, 2018 KEMET Corporation

By: /s/ WILLIAM M. LOWE, JR.
William M. Lowe, Jr.
Executive Vice President and
Chief Financial Officer

able 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 the six months ended June 30, 2008 and 2007, \$6.4 million and \$5.7 million was charged to compensation expense, respectively. 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 Altiivity Transaction on March 10, 2008.

The unrecognized expense at June 30, 2008 is approximately \$2 million and is expected to be recognized over a weighted average period of two years.

NOTE 5 INVENTORIES

Inventories by major class:

<i>In millions</i>	June 30, 2008	December 31, 2007
Finished goods	\$320.8	\$ 157.8
Work in progress	56.2	27.9
Raw materials	136.8	79.8
Supplies	78.7	58.9
	592.5	324.4
Less Allowances	7.0	5.8
Total	\$585.5	\$ 318.6

NOTE 6 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 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

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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.

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 Altiivity 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 is currently in the process of reviewing the facts and status of such proceedings, but in all cases it is too early in the proceedings to be able to determine liability and reasonably estimate costs relating to such proceedings. The Company does not believe, however, 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, 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 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 7 BUSINESS SEGMENT INFORMATION

As a result of the Altiivity Transaction, the Company's reporting segments were revised as follows: the Company's containerboard/other was 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 linerboard, 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.

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Segment disclosures contained in this Form 10-Q have been revised to conform to the new presentation for all reporting periods.

Business segment information is as follows:

<i>In millions</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
NET SALES:				
Paperboard Packaging	\$ 928.5	\$604.7	\$1,585.6	\$1,169.7
Multi-wall Bag	166.5	18.4	221.5	37.5
Specialty Packaging	46.7		58.9	
Total	\$1,141.7	\$623.1	\$1,866.0	\$1,207.2
INCOME (LOSS) FROM OPERATIONS:				
Paperboard Packaging	\$ 82.2	\$ 46.4	\$ 141.5	\$ 68.2
Multi-wall Bag	9.3	0.9	14.0	1.8
Specialty Packaging	3.3		3.7	
Corporate	(32.9)	(8.3)	(71.8)	(18.2)
Total	\$ 61.9	\$ 39.0	\$ 87.4	\$ 51.8

<i>In millions</i>	June 30,	December
	2008	31,
		2007
ASSETS:		
Paperboard Packaging	\$3,936.8	\$2,676.4
Multi-wall Bag	490.4	29.7
Specialty Packaging	219.6	
Corporate	372.1	71.2
Total	\$5,018.9	\$2,777.3

NOTE 8 PENSIONS AND OTHER POSTRETIREMENT BENEFITS

GPC maintains defined benefit pension plans for substantially all of its North American employees. Benefits are based on years of service and average base compensation levels over a period of years. Effective January 1, 2008, the plans were amended to exclude salaried and non-union hourly employees hired on or after January 1, 2008.

GPC also sponsors various postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired employees and their dependents. One of the salaried plans closed to new employees who began employment after December 31, 1993 and another salaried plan closed to new employees who began after June 15, 1999.

Altivity sponsors noncontributory defined-benefit pension plans covering substantially all U.S. hourly employees. Altivity also sponsors noncontributory and contributory defined-benefit plans for its Canadian operations. Certain salaried and hourly employees also participate in health care and postretirement defined benefit plans. The Company's funding policies with respect to its pension plans are to contribute funds to trusts as necessary to at least meet the minimum funding requirements. Plan assets are invested in equities, fixed income securities and cash.

Table of Contents***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			
	Three Months		Six Months		Three Months		Six Months	
	Ended		Ended		Ended		Ended	
	June 30,		June 30,		June 30,		June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service Cost	\$ 4.5	\$ 3.4	\$ 8.3	\$ 6.8	\$ 0.4	\$ 0.3	\$ 0.7	\$ 0.6
Interest Cost	9.9	8.7	19.2	17.4	0.9	0.6	1.7	1.2
Expected Return on Plan Assets	(10.4)	(9.0)	(20.4)	(18.0)				
Amortizations:								
Prior Service Cost	0.7	0.7	1.5	1.4				
Actuarial Loss	0.4	0.6	0.8	1.2	(0.1)		(0.2)	
Net Periodic Cost	\$ 5.1	\$ 4.4	\$ 9.4	\$ 8.8	\$ 1.2	\$ 0.9	\$ 2.2	\$ 1.8

The Company made contributions of \$30.2 million and \$5.4 million to its pension plans during the first six months of 2008 and 2007, respectively. The Company expects to make contributions of approximately \$60 million for the full year 2008. During 2007, the Company made \$24.9 million of contributions to its U.S. pension plans.

The Company made postretirement benefit payments of \$1.1 million and \$0.3 million during the first six months of 2008 and 2007, respectively. The Company estimates its postretirement benefit payments for the full year 2008 to be approximately \$3 million. During 2007, the Company made postretirement benefit payments of \$1.0 million.

NOTE 9 DEBT

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 financing costs associated with the previous revolving credit and term loan facilities. In connection with the new Credit Agreement, the Company recorded approximately \$7 million of deferred financing costs.

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.

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Long-Term Debt consisted of the following:

<i>In millions</i>	June 30, 2008	December 31, 2007
Senior Notes with interest payable semi-annually at 8.5%, payable in 2011	\$ 425.0	\$ 425.0
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	425.0	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (4.78% at June 30, 2008) payable through 2014	1,010.0	1,010.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (5.53% at June 30, 2008) payable through 2014	1,194.0	
Senior Secured Revolving Facility with interest payable at various dates at floating rates (5.03% at June 30, 2008) payable in 2013	47.3	11.0
Other	0.8	1.0
	3,102.1	1,872.0
Less, current portion	17.2	0.2
Total	\$3,084.9	\$1,871.8

At June 30, 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>	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available^(a)
Revolving Credit Facility	\$ 400.0	\$ 47.3	\$ 319.1
International Facilities	16.8	6.1	10.7
Total	\$ 416.8	\$ 53.4	\$ 329.8

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 \$33.6 million as of June 30, 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.

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 June 30, 2008, the Company was in compliance with the financial covenant in the Credit Agreement. The Company's ability to comply in future periods with the financial covenant in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company's control, and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of the financial covenant or any of the other covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Credit Agreement and the indentures governing the Notes have certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately.

Table of Contents**NOTE 10 FAIR VALUE MEASUREMENT**

In September 2006, the FASB issued SFAS No. 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 No. 157 defines fair value based upon an exit price model.

Relative to SFAS No. 157, the FASB issued FASB Staff Position No. 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 No. 157-1), and FSP No. 157-2. FSP No. 157-1 amends SFAS No. 157 to exclude SFAS No. 13, "Accounting for Leases, and its related interpretive accounting pronouncements that address leasing transactions, while FSP No. 157-2 delays the effective date of the application of SFAS No. 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. Non-recurring 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.

The Company adopted SFAS No. 157 for financial assets and financial liabilities as of January 1, 2008, in accordance with the provisions of SFAS No. 157 and the related guidance of FSP No. 157-1 and FSP No. 157-2. The adoption did not have a significant impact on the Company's financial position, results of operations or cash flows. The Company intends to utilize the best available information in measuring fair value. The Company has determined that its financial assets and financial liabilities are comprised of Level 2 in the fair value hierarchy.

Valuation Hierarchy

SFAS No. 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.

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The following table provides the financial assets and liabilities carried at fair value measured on a recurring basis as of June 30, 2008:

<i>In millions</i>	Total Carrying Value at June 30, 2008	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Commodity Contracts	\$ 5.4		\$ 5.4	
Foreign Currency Contracts, Net of Asset	(3.8)		(3.8)	
Interest Rate Swap Agreements, Net of Asset	(6.8)		(6.8)	
Total	\$ (5.2)		\$ (5.2)	

These financial assets and liabilities can be found in the Other Current Asset and Other Accrued Liabilities, respectively, on the Company's balance sheets.

During the second quarter of 2008, the Company recorded a favorable \$10.7 million mark to market adjustment for an interest rate swap.

NOTE 11 RESTRUCTURING RESERVES

In conjunction with the Altivity Transaction, the Company formulated plans to close or exit certain production facilities of Altivity. Restructuring reserves of \$17.3 million 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.

The Company has announced the closure of two facilities and has committed to seven additional plant closures. The restructuring activities are expected to be substantially completed by December 31, 2010.

The following table summarizes the transactions within the restructuring reserve and reconciles to accrued liabilities at June 30:

<i>In millions</i>	Severance and Benefits	Facility Closure Costs	Equipment Removal	Total
Establish Reserve	\$ 7.0	\$ 8.5	\$ 1.8	\$17.3
Cash Payments			(0.3)	(0.3)
Total	\$ 7.0	\$ 8.5	\$ 1.5	\$17.0

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 the second quarter was \$0.5 million.

NOTE 12 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 Lagrumment December nr 1031 Aktiebolg, a company organized under the laws of Sweden that will be 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 GP-Sweden. GP-Sweden and its subsidiaries are in the business of developing, manufacturing and selling paper and packaging boards

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made from recycled fiber. The Sale and Purchase Agreement specifies that the purchase price is \$8.6 million and contains 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.

The long-lived assets of GP-Sweden comprise operations and cash flows that can be distinguished from the rest of the Company. Since these cash flows will be 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>	Three Months Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Net Sales	\$	\$26.2	\$	\$52.8
Loss before Income Taxes		(1.7)		(2.9)

GP-Sweden was included in the Paperboard Packaging segment and the Europe geographic area.

NOTE 13 SUBSEQUENT EVENT

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 U.S. Department of Justice pursuant to the Consent Decree governing the Altiivity Transaction. The mills being sold are located in Philadelphia, Pennsylvania and in Wabash, Indiana. The transaction is subject to review by the U.S. Department of Justice and other customary closing conditions.

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

- Ø Overview of Business
- Ø Overview of 2008 Results
- Ø Results of Operations
- Ø Financial Condition, Liquidity and Capital Resources
- Ø Critical Accounting Policies
- Ø New Accounting Standards
- Ø Business Outlook

OVERVIEW OF BUSINESS

The Company's objective is to strengthen its position as a leading provider of packaging solutions. To achieve this objective, the Company offers customers its paperboard, cartons and packaging machines, either as an integrated solution or separately. Cartons and carriers are designed to protect and contain products. Product offerings include a variety of laminated, coated and printed packaging structures that are produced from its CUK board and CRB, as well as other grades of paperboard that are purchased from third party suppliers. Innovative designs and combinations of paperboard, films, foils, metallization, holographics, embossing and other are customized to the individual needs of the customers.

The Company is a leading supplier of multi-wall bags and in addition to a full range of products, provides customers with value-added graphical and technical support, customized packaging equipment solutions and packaging workshops to help educate customers.

The specialty packaging business has an established position in end-markets and produces products such as shingle wrap, batch inclusion bags and film, retort pouches (such as meals ready to go), medical test kit and transdermal patch overwraps, multilayer laminations for hard-to-hold products (such as iodine) and plastic bags and films for building materials. In addition, the Company's label business focuses on two product lines: heat transfer labels and litho labels. The Company is also implementing strategies (i) to expand market share in its current markets and to identify and penetrate new markets; (ii) to capitalize on the Company's customer relationships, business competencies, and mills and converting assets; (iii) to develop and market innovative products and applications; and (iv) to continue to reduce costs by focusing on operational improvements. The Company's ability to fully implement its strategies and achieve its objective may be influenced by a variety of factors, many of which are beyond its control, such as inflation of raw materials and other costs, which the Company cannot always pass through to its customers, and the effect of overcapacity in the worldwide paperboard packaging industry.

Significant Factors That Impact The Company's Business

Impact of Inflation. The Company's cost of sales consists primarily of energy (including natural gas, fuel oil and electricity), pine pulpwood, chemicals, recycled fibers, purchased paperboard, paper, aluminum foil, ink, plastic films and resins, depreciation expense and labor. The Company continues to be negatively impacted by inflationary pressures, which increased costs by \$50.1 million, compared to the first six months of 2007. The 2008 cost increases are primarily related to fiber and outside board purchases (\$25.6 million); chemical-based inputs (\$13.7 million); labor and related benefits (\$8.3 million); energy costs (\$4.2 million), mainly due to the price of natural gas; and freight (\$2.5 million). These increases were offset by other lower costs (\$4.2 million). The Company has entered into

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contracts designed to manage risks associated with future variability in cash flows caused by changes in the price of natural gas. As of July 31, 2008, the Company has entered into swaps to hedge approximately 60% and 15% of its expected natural gas usage for the remainder of year 2008 and for the year 2009, respectively. The Company believes that inflationary pressures, including higher costs for energy, fiber, wood, chemical-based inputs and freight will continue to negatively impact its results for 2008. Since negotiated sales contracts and the market largely determine the pricing for its products, the Company is at times limited in its ability to raise prices and pass through to its customers all inflationary or other cost increases that the Company may incur, thereby further exacerbating the inflationary problems.

Substantial Debt Obligations. The Company has \$3,108.2 million of outstanding debt obligations as of June 30, 2008. This debt can have significant consequences for the Company, as it requires a significant portion of cash flow from operations to be used for the payment of principal and interest, exposes the Company to the risk of increased interest rates and restricts the Company's ability to obtain additional financing. Covenants in the Company's Credit Agreement limit the Company's ability to incur additional indebtedness, 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, engage in mergers or consolidations, change the business conducted by the Company and its subsidiaries, and engage in certain transactions with affiliates. These restrictions could limit the Company's flexibility to respond to changing market conditions and competitive pressures. The covenants also require compliance with a consolidated secured leverage ratio. The Company's ability to comply in future periods with the financial covenants will depend on its ongoing financial and operating performance, which in turn will be subject to many other factors, many of which are beyond the Company's control. See *Financial Condition, Liquidity and Capital Resources* *Liquidity and Capital Resources* for additional information regarding the Company's debt obligations.

Integration Risk. The benefits of combining the operations of GPC and Altivity, (the *Altivity Transaction*), may not be realized, and the Company may face difficulties integrating Altivity's operations. GPC and Altivity's parent companies entered into the Altivity Transaction with the expectation that it would result in various benefits, including, among other things, cost synergies and operating efficiencies. However, the achievement of the anticipated benefits of the transaction, including the cost synergies, cannot be assured or may take longer than expected. In addition, the Company may not be able to integrate Altivity's operations with GPC's existing operations without encountering difficulties, including:

- inconsistencies in standards, systems and controls;

- difficulties in achieving expected cost savings associated with the transaction;

- difficulties in the assimilation of employees and in creating a unified corporate culture;

- challenges in retaining existing customers and obtaining new customers; and

- challenges in attracting and retaining key personnel.

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

Commitment to Cost Reduction. In light of increasing margin pressure throughout the packaging industry, the Company has programs in place that are designed to reduce costs, improve productivity and increase profitability. The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. This includes a Six Sigma process focused on reducing variable and fixed manufacturing and administrative costs. The Company expanded the continuous improvement initiative to include the deployment of Lean principles into manufacturing and supply chain services. As the Company strengthens the systems approach to continuous improvement, Lean supports the

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efforts to build a high performing culture. During the first six months of 2008, the Company achieved \$25.6 million in cost savings as compared to the first six months of 2007, through its continuous improvement programs and manufacturing initiatives.

Competition and Market Factors. As some products can be packaged in different types of materials, the Company's sales are affected by competition from other manufacturers' coated unbleached kraft paperboard, or CUK board, and other substrates' solid bleached sulfate, or SBS and recycled clay coated news, or CCN. Substitute products also include shrink film and corrugated containers. In addition, the Company's sales historically are driven by consumer buying habits in the markets its customers serve. New product introductions and promotional activity by the Company's customers and the Company's introduction of new packaging products also impact its sales. The Company's containerboard business is subject to conditions in the cyclical worldwide commodity paperboard markets, which have a significant impact on containerboard sales. In addition, the Company's net sales, income from operations and cash flows from operations are subject to moderate seasonality, with demand usually increasing in the spring and summer due to the seasonality of the worldwide beverage multiple packaging markets.

The Company works to maintain market share through efficiency, product innovation and strategic sourcing to its customers; however, pricing and other competitive pressures may occasionally result in the loss of a customer relationship.

OVERVIEW OF 2008 RESULTS

This management's discussion and analysis contains an analysis of Net Sales, Income from Operations and other information relevant to an understanding of results of operations. To enhance the understanding of continuing operations, this discussion and analysis excludes discontinued operations for all periods presented. Information on discontinued operations can be found in Note 12 Discontinued Operations in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

Net Sales in the second quarter of 2008 increased by \$518.6 million, or 83.2%, to \$1,141.7 million from \$623.1 million in the second quarter of 2007 due primarily to \$496.4 million volume achieved as a result of the Altivity Transaction. Also contributing to the increase was improved pricing across the paperboard packaging segment and \$9.3 million relating to the favorable foreign currency exchange rates primarily in Europe, Japan and Australia.

Income from Operations in the second quarter of 2008 increased by \$22.9 million, or 58.7%, to \$61.9 million from \$39.0 million in the second quarter of 2007. The improved pricing, the Altivity Transaction, and worldwide continuous improvement programs and other cost reduction initiatives were partially offset by higher inflation.

In March 2008, GPC combined with Altivity in a transaction accounted for under SFAS No. 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 the Company.

RESULTS OF OPERATIONS

The Company's results of operations for the three and six months ended June 30, 2008 include the results of Altivity from March 10, 2008, the date of the Altivity Transaction, through June 30, 2008. The results of operations for the three and six months ended June 30, 2007 represent the results of the Company's operations prior to the Altivity Transaction.

Table of Contents**Segment Information**

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

<i>In millions</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
NET SALES:				
Paperboard Packaging	\$ 928.5	\$604.7	\$1,585.6	\$1,169.7
Multi-wall Bag	166.5	18.4	221.5	37.5
Specialty Packaging	46.7		58.9	
Total	\$1,141.7	\$623.1	\$1,866.0	\$1,207.2
INCOME (LOSS) FROM OPERATIONS:				
Paperboard Packaging	\$ 82.2	\$ 46.4	\$ 141.5	\$ 68.2
Multi-wall Bag	9.3	0.9	14.0	1.8
Specialty Packaging	3.3		3.7	
Corporate	(32.9)	(8.3)	(71.8)	(18.2)
Total	\$ 61.9	\$ 39.0	\$ 87.4	\$ 51.8

SECOND QUARTER 2008 COMPARED WITH SECOND QUARTER 2007**Net Sales**

<i>In millions</i>	Three Months Ended June 30,			Percent Change
	2008	2007	Increase	
Paperboard Packaging	\$ 928.5	\$604.7	\$323.8	53.5%
Multi-wall Bag	166.5	18.4	148.1	N.M. (a)
Specialty Packaging	46.7		46.7	N.M. (a)
Total	\$1,141.7	\$623.1	\$518.6	83.2%

Note:

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

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

<i>In millions</i>	2007	Price	Three Months Ended June 30, Variances		Exchange	Total	2008
			Volume/Mix Acquisition	Organic			
Paperboard Packaging	\$604.7	\$12.5	\$304.4	\$(2.4)	\$9.3	\$323.8	\$ 928.5
Multi-wall Bag	18.4	1.9	145.3	0.9		148.1	166.5
Specialty Packaging			46.7			46.7	46.7
Total	\$623.1	\$14.4	\$496.4	\$(1.5)	\$9.3	\$518.6	\$1,141.7

Paperboard Packaging

The Company's Net Sales from paperboard packaging in the second quarter of 2008 increased by \$323.8 million, or 53.5%, to \$928.5 million from \$604.7 million in 2007 due to the Altivity Transaction, improved pricing across all product lines, as well as improved product mix primarily in North American food and consumer cartons. The improvement in pricing reflects negotiated inflationary cost pass-through and other contractual increases, as well as price increases on open market roll stock. The improved product mix was primarily in the frozen food, pizza and

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cereal product lines. This improved mix was partially offset by lower volume as a result of the Company exiting lower margin businesses and lower open market sales in Europe. Also contributing to the increase was favorable foreign currency exchange rates primarily in Europe, Japan and Australia.

Multi-wall Bag

The Company's second quarter Net Sales increased by \$148.1 million as a result of the acquisition of the multi-wall bag segment from the Altivity Transaction and improved pricing and volume. The improved volume was due to the recapture of product previously lost to a competing substrate. The Altivity sales are attributed to volume primarily in the plastic and bag packaging markets.

Specialty Packaging

The Company's second quarter Net Sales increased by \$46.7 million as a result of the acquisition of the specialty packaging segment from the Altivity Transaction. These sales are attributed to volume primarily in the flexible packaging, heat transfer label and ink coating markets.

Income (Loss) from Operations

<i>In millions</i>	Three Months Ended June 30,			Percent Change
	2008	2007	Increase (Decrease)	
Paperboard Packaging	\$ 82.2	\$46.4	\$ 35.8	77.2%
Multi-wall Bag	9.3	0.9	8.4	N.M. (a)
Specialty Packaging	3.3		3.3	N.M. (a)
Corporate	(32.9)	(8.3)	(24.6)	N.M. (a)
Total	\$ 61.9	\$39.0	\$ 22.9	58.7%

Note:

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

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

<i>In millions</i>	Three Months Ended June 30,							Total	2008
	2007	Price	Volume/Mix		Variances		Other^(b)		
			Acquisition	Organic	Inflation	Exchange			
Paperboard Packaging	\$ 46.4	\$ 12.5	\$ 26.8	\$ 0.5	\$ (21.9)	\$ 0.7	\$ 17.2	\$ 35.8	\$ 82.2
Multi-wall Bag	0.9	1.9	7.4	0.6	(1.4)		(0.1)	8.4	9.3
Specialty Packaging			3.3					3.3	3.3
Corporate	(8.3)		(33.6)			(3.2)	12.2	(24.6)	(32.9)

Total	\$ 39.0	\$ 14.4	\$ 3.9	\$ 1.1	\$ (23.3)	\$ (2.5)	\$ 29.3	\$ 22.9	\$ 61.9
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Note:

- (b) Includes the benefits from the Company's cost reduction initiatives.

Paperboard Packaging

The Company's Income from Operations from paperboard packaging in the second quarter of 2008 increased by \$35.8 million or 77.2%, to \$82.2 million from \$46.4 million in 2007 due to the Altivity Transaction, the improved pricing, \$12.5 million of continuing cost reduction initiatives, and decreased depreciation expense. The impact of continuing cost reduction initiatives particularly benefited the Company's paperboard mills and consisted of projects to reduce natural gas and electricity usage. Additionally, second quarter 2007 included charges related to the continued infrastructure upgrades at the West Monroe, LA mill, accelerated depreciation for assets taken out of service due to efficiency improvements, and higher expenses in Europe, primarily relating to the start up costs for a new converting facility in France.

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These increases were partially offset by charges of \$7.6 million related to the planned maintenance outage at the Macon, GA mill as well as inflationary pressures of \$21.9 million primarily related to fiber and outside board purchases (\$10.7 million); chemical-based inputs (\$6.6 million); labor and related benefits (\$4.4 million); energy costs (\$3.6 million), mainly due to the price of natural gas; and freight (\$1.9 million). These inflationary pressures were offset by other lower costs (\$5.3 million). The Company believes that inflationary pressures, including higher costs for energy, fiber, wood, chemical-based inputs, and freight will continue to negatively impact its results for 2008.

Multi-wall Bag

The Company's second quarter Income from Operations increased by \$8.4 million primarily as a result of the acquisition of the multi-wall bag segment from the Altivity Transaction and improved pricing. Inflation, higher depreciation and higher maintenance costs were partially offset by cost reduction initiatives. The segment's Income from Operations is attributed to volume primarily in the plastic and bag packaging markets.

Specialty Packaging

The Company's second quarter Income from Operations increased by \$3.3 million as a result of the acquisition of the specialty packaging segment from the Altivity Transaction. The segment's Income from Operations is attributed to volume primarily in the flexible packaging, heat transfer label and ink coating markets.

Corporate

The Company's Loss from Operations from corporate in the second quarter of 2008 increased primarily due to Altivity Transaction-related expenses of \$7.9 million and the inclusion of Altivity Corporate of \$17.6 million. In addition, the Company recorded \$11.9 million in expense related to the step-up in inventory basis to fair value and \$8.4 million of increased intangible amortization as a result of the Altivity Transaction. These expenses were offset by a favorable \$10.7 million mark to market adjustment for an interest rate swap and lower compensation expenses which were partially offset by a net foreign currency loss of \$3.2 million. The swap was also a result of the Altivity Transaction.

FIRST SIX MONTHS OF 2008 COMPARED WITH FIRST SIX MONTHS OF 2007**Net Sales**

<i>In millions</i>	Six Months Ended June 30,			Percent Change
	2008	2007	Increase	
Paperboard Packaging	\$1,585.6	\$1,169.7	\$415.9	35.6%
Multi-wall Bag	221.5	37.5	184.0	N.M. (a)
Specialty Packaging	58.9		58.9	N.M. (a)
Total	\$1,866.0	\$1,207.2	\$658.8	54.6%

Note:

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

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

<i>In millions</i>	2007	Price	Six Months Ended June 30,		Exchange	Total	2008
			Variances				
			Volume/Mix	Acquisition			
Paperboard Packaging	\$ 1,169.7	\$ 22.5	\$ 371.8	\$ 3.4	\$ 18.2	\$ 415.9	\$ 1,585.6
Multi-wall Bag	37.5	2.7	178.7	2.6		184.0	221.5
Specialty Packaging			58.9			58.9	58.9
Total	\$ 1,207.2	\$ 25.2	\$ 609.4	\$ 6.0	\$ 18.2	\$ 658.8	\$ 1,866.0

Paperboard Packaging

The Company's Net Sales from paperboard packaging in the first six months of 2008 increased by \$415.9 million, or 35.6%, to \$1,585.6 million from \$1,169.7 million in 2007 due to the Altivity Transaction, improved pricing across all product lines, as well as improved product mix primarily in North American food and consumer cartons. The improvement in pricing reflects negotiated inflationary cost pass-through and other contractual increases, as well as price increases on open market roll stock. The improved product mix was primarily in the pizza, frozen foods, cereal, and snack product lines. This improved mix was partially offset by lower volume as a result of the Company exiting lower margin businesses and lower open market sales in Europe. North American beverage carton volumes increased due to the introduction of 18 and 20 multi-packs, which was previously packaged in containerboard, and a significant share gain with a major customer. Also contributing to the increase was favorable foreign currency exchange rates primarily in Europe, Japan and Australia.

Multi-wall Bag

The Company's Net Sales in the first six months increased by \$184.0 million as a result of the acquisition of the multi-wall bag segment from the Altivity Transaction, as well as improved pricing and volume. These sales are attributed to volume primarily in the plastic and bag packaging markets.

Specialty Packaging

The Company's Net Sales in the first six months increased by \$58.9 million as a result of the acquisition of the specialty packaging segment from the Altivity Transaction. These sales are attributed to volume primarily in the flexible packaging, heat transfer label and ink coating markets.

Income (Loss) from Operations

<i>In millions</i>	Six Months Ended June 30,			Percent Change
	2008	2007	Increase (Decrease)	
Paperboard Packaging	\$ 141.5	\$ 68.2	\$ 73.3	107.5%
Multi-wall Bag	14.0	1.8	12.2	N.M. (a)
Specialty Packaging	3.7		3.7	N.M. (a)
Corporate	(71.8)	(18.2)	(53.6)	N.M. (a)
Total	\$ 87.4	\$ 51.8	\$ 35.6	68.7%

Note:

(a)

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

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

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<i>In millions</i>	2007	Six Months Ended June 30,						2008	
		Price	Volume/Mix		Variances		Total		
			Acquisition Organic		Inflation	Exchange	Other ^(b)		
Paperboard Packaging	\$ 68.2	\$ 22.5	\$ 31.5	\$ 3.2	\$ (47.4)	\$ 1.7	\$ 61.8	\$ 73.3	\$ 141.5
Multi-wall Bag	1.8	2.7	10.8	0.5	(2.7)		0.9	12.2	14.0
Specialty Packaging			3.7					3.7	3.7
Corporate	(18.2)		(63.5)			(3.5)	13.4	(53.6)	(71.8)
Total	\$ 51.8	\$ 25.2	\$ (17.5)	\$ 3.7	\$ (50.1)	\$ (1.8)	\$ 76.1	\$ 35.6	\$ 87.4

Note:

- (b) Includes the benefits from the Company's cost reduction initiatives.

Paperboard Packaging

The Company's Income from Operations from paperboard packaging in the first six months of 2008 increased by \$73.3 million or 107.5%, to \$141.5 million from \$68.2 million in 2007 due to the Altivity transaction, the improved pricing, \$24.7 million of continuing cost reduction initiatives, improved product mix, and decreased depreciation expense. The first six months of 2007 included charges related to the continued infrastructure upgrades at the West Monroe, LA mill, accelerated depreciation for assets taken out of service due to efficiency improvements, and higher expenses in Europe, primarily relating to the start up costs for a new converting facility in France. These increases were partially offset by inflationary pressures of \$47.4 million primarily related to fiber and outside board purchases (\$24.9 million); chemical-based inputs (\$12.0 million); labor and related benefits (\$8.2 million); energy costs (\$4.1 million), mainly due to the price of natural gas; and freight (\$2.3 million). These inflationary pressures were offset by other lower costs (\$4.1 million). The Company believes that inflationary pressures, including higher costs for energy, fiber, wood, chemical-based inputs and freight will continue to negatively impact its results for 2008.

Multi-wall Bag

The Company's first six months Income from Operations increased by \$12.2 million as a result of the acquisition of the multi-wall bag segment from the Altivity Transaction and improved pricing which was offset by inflation. Cost saving initiatives of \$0.9 million also contributed to the increase. The segment's Income from Operations is attributed to volume primarily in the plastic and bag packaging markets.

Specialty Packaging

The Company's first six months Income from Operations increased by \$3.7 million as a result of the acquisition of the specialty packaging segment from the Altivity Transaction. The segment's Income from Operations is attributed to volume primarily in the flexible packaging, heat transfer label and ink coating markets.

Corporate

The Company's Loss from Operations from corporate in the first six months of 2008 increased primarily due to Altivity Transaction-related expenses of \$17.6 million and the inclusion of Altivity Corporate of \$23.1 million. In addition, the Company recorded \$24.4 million of expense related to the step-up in inventory basis to fair value and \$10.3 million of increased intangible amortization as a result of the Altivity Transaction. These expenses were offset by a favorable \$10.7 million mark to market adjustment for an interest rate swap and lower compensation expense partially offset by a net foreign currency loss of \$3.5 million. The swap was also a result of the Altivity Transaction.

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

Interest Income

Interest Income increased to \$0.5 million in the first six months of 2008 from \$0.3 million in the first six months of 2007 primarily due to higher average cash balances.

Interest Expense

Interest Expense was \$100.3 million and \$86.4 million in the first six months of 2008 and 2007, respectively. Interest Expense increased due to the additional debt acquired as a result of the Altivity Transaction. As of June 30, 2008, approximately 23% of the Company's total debt was subject to floating interest rates, after considering interest rate swaps.

Income Tax Expense

During the first six months of 2008, the Company recognized Income Tax Expense of \$16.0 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of \$12.4 million. During the first six months of 2007, the Company recognized Income Tax Expense of \$13.8 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of \$43.8 million. Income Tax Expense for the first six months of 2008 and 2007 was primarily due to the noncash expense of \$13.6 million and \$9.8 million, respectively, associated with the amortization of goodwill for tax purposes and in 2007, an increase in a liability related to a judgment received in a Swedish tax court.

Equity in Net Earnings of Affiliates

Equity in Net Earnings of Affiliates was \$0.8 million the first six months of 2008 and \$0.5 million in the first six months of 2007 and is related to the Company's equity investment in the joint venture Rengo Riverwood Packaging, Ltd.

Altivity Transaction

On March 10, 2008, the businesses of GPC and Altivity were combined in a transaction accounted for under SFAS No. 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 and bag packaging. Altivity operates six recycled boxboard mills and 51 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 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 market values at the date of the Altivity Transaction. The preliminary purchase price allocation is as follows:

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Purchase Price	\$ 762.8
Acquisition Cost	29.8
Assumed Debt	1,167.6
 Total Purchase Consideration	 \$1,960.2

In millions

Cash and Cash Equivalents	\$ 60.2
Receivables, Net	181.2
Inventories	263.7
Prepays	13.1
Property, Plant and Equipment	650.8
Intangible Assets	561.9
Other Assets	4.7
 Total Assets Acquired	 1,735.6
Current Liabilities, Excluding Current Portion of Long Term Debt	243.7
Pension and Postemployment Benefits	32.8
Other Noncurrent Liabilities	31.2
 Total Liabilities Assumed	 307.7
 Net Assets Acquired	 1,427.9
 Goodwill	 532.3
 Total Estimated Fair Value of Net Assets Acquired	 \$1,960.2

As of June 30, 2008, the preliminary purchase accounting is still subject to final adjustment and could change materially in subsequent periods. The Company has not finalized its review of all Altivity environmental matters and other liabilities. The Company has plans to close certain facilities and has established restructuring reserves that are considered liabilities assumed in the Altivity Transaction. See Note 11 Restructuring Reserves.

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

The following table shows the allocation of goodwill by segment:

Paperboard	Multi-wall	Specialty
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<i>In millions</i>	Packaging	Bag	Packaging	Total
Balance at June 30, 2008	\$379.8	\$60.9	\$91.6	\$532.3

The Company expects to deduct approximately \$440 million of goodwill for tax purposes.
The following table summarizes acquired intangibles:

In millions

Customer Relationships	\$546.4
Non-Compete Agreement	9.0
Trademarks and Patents	7.5
Lease and Supply Contracts	(1.0)
Total Fair Market Value of Intangible Assets	\$561.9

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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, 4 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. 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>	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Sales	\$1,141.7	\$1,115.9	\$2,257.1	\$2,185.5
Net Income (Loss)	4.8	(22.6)	(17.0)	(70.3)
Income (Loss) Per Share - Basic	0.01	(0.07)	(0.05)	(0.21)
Income (Loss) Per Share - Diluted	0.01	(0.07)	(0.05)	(0.21)

Restructuring Reserves

In conjunction with the Altivity Transaction, the Company formulated plans to close or exit certain production facilities of Altivity. Restructuring reserves of \$17.3 million 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.

The Company has announced the closure of two facilities and has committed to seven additional plant closures. The restructuring activities are expected to be substantially completed by December 31, 2010.

The following table summarizes the transactions within the restructuring reserve and reconciles to accrued liabilities at June 30:

<i>In millions</i>	Severance and Benefits	Facility Closure Costs	Equipment Removal	Total
Establish Reserve	\$ 7.0	\$ 8.5	\$ 1.8	\$17.3
Cash Payments			(0.3)	(0.3)
Total	\$ 7.0	\$ 8.5	\$ 1.5	\$17.0

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 the second quarter was \$0.5 million.

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 will be 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 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 specifies that the purchase price is \$8.6 million and

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contains 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.

The long-lived assets of GP-Sweden comprise operations and cash flows that can be distinguished from the rest of the Company. Since these cash flows will be 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>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Net Sales	\$	\$26.2	\$	\$52.8
Loss before Income Taxes		(1.7)		(2.9)

GP-Sweden was included in the Paperboard Packaging segment and the Europe geographic area.

Table of Contents**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

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

Cash Flows

Cash provided by operating activities in the first six months of 2008 totaled \$16.0 million, compared to \$9.0 million in 2007. The increase was due to higher net income and higher net non-cash add-backs, partially offset by higher pension contributions and a decrease in working capital. The decrease in working capital was primarily due to an increase in inventory resulting from reduced demand due to the slowing of the economy, a decrease in other non-current liabilities due to accelerated vesting of restricted stock units and other payments triggered by the change of control resulting from the Altivity Transaction, and an increase in accounts receivable mainly due to higher year-to-date sales. These decreases in working capital were partially offset by increases in working capital due to higher debt interest accruals resulting primarily from higher average debt balances and higher accounts payable due to the timing of payments.

Cash used in investing activities in the first six months of 2008 totaled \$54.5 million, compared to \$44.2 million in 2007. The increase in cash usage was due primarily to higher capital expenditures in the first six months of 2008 (see discussion in Capital Investment section below) and the payment of \$29.8 million in acquisition related fees. This increase was partially offset by the Altivity Transaction through which the Company acquired \$60.2 million of cash. Cash provided by financing activities in the first six months in 2008 totaled \$44.5 million, compared to \$39.4 million in 2007. This increase was due to higher debt proceeds, partially offset by higher debt payments, lower net borrowings under the Company's revolving credit facilities, and higher debt issuance costs.

Liquidity and Capital Resources

The Company's liquidity needs arise primarily from debt service on its substantial indebtedness and from the funding of its capital expenditures, ongoing operating costs and working capital. The Company believes that cash generated from operations, together with the amounts available under the revolving credit facility will be adequate to meet its debt service, capital expenditures, ongoing operating costs and working capital needs.

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 financing costs associated with the previous revolving credit and term loan facilities. In connection with the new Credit Agreement, the Company recorded approximately \$7 million of deferred financing costs.

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

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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 consisted of the following:

<i>In millions</i>	June 30, 2008	December 31, 2007
Senior Notes with interest payable semi-annually at 8.5%, payable in 2011	\$ 425.0	\$ 425.0
Senior Subordinated Notes with interest payable semi-annually at 9.5%, payable in 2013	425.0	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (4.78% at June 30, 2008) payable through 2014	1,010.0	1,010.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (5.53% at June 30, 2008) payable through 2014	1,194.0	
Senior Secured Revolving Facility with interest payable at various dates at floating rates (5.03% at June 30, 2008) payable in 2013	47.3	11.0
Other	0.8	1.0
	3,102.1	1,872.0
Less, current portion	17.2	0.2
Total	\$3,084.9	\$1,871.8

At June 30, 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>	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available^(a)
Revolving Credit Facility	\$ 400.0	\$ 47.3	\$ 319.1
International Facilities	16.8	6.1	10.7
Total	\$ 416.8	\$ 53.4	\$ 329.8

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 \$33.6 million
as of June 30,
2008. These
letters of credit
are used as
security against
its
self-insurance
obligations and
workers
compensation
obligations.
These letters of
credit expire at
various dates
through 2009
unless extended.

Principal and interest payments under the term loan facility and the revolving credit facility, together with principal and interest payments on the Senior Notes and the Senior Subordinated Notes (the Notes), represent significant liquidity requirements for the Company. Based upon current levels of operations, anticipated cost-savings and expectations as to future growth, the Company believes that cash generated from operations, together with amounts available under its revolving credit facility and other available financing sources, will be adequate to permit the Company to meet its debt service obligations, necessary capital expenditure program requirements, ongoing operating costs and working capital needs, although no assurance can be given in this regard. The Company's future financial and operating performance, ability to service or refinance its debt and ability to comply with the covenants and restrictions contained in its debt agreements will be subject to future 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 and demand for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies.

Effective as of June 30, 2008, the Company had approximately \$1.4 billion of net operating loss carryforwards (NOLs) for U.S. federal income tax purposes. These NOLs generally may be used by the Company to offset taxable income earned in subsequent taxable years. However, the Company's ability to use these NOLs to offset its future taxable income may be subject to significant limitation as a result of certain shifts in ownership due to direct or indirect transfers of the Company's common stock by one or more 5 percent stockholders, or issuances or redemptions of the Company's common stock, which, when taken together with previous changes in ownership of the Company's common stock, constitute an ownership change under the Internal Revenue Code. Imposition of any such limitation on the use of NOLs could have an adverse effect on the Company's future after tax free cash flow.

Table of Contents**Covenant Restrictions**

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

Under the terms of the Credit Agreement, as long as any commitment remains outstanding under the revolving credit facility, the Company must comply with a maximum consolidated secured leverage ratio, which is defined as the ratio of: (a) total long-term and short-term indebtedness of the Company and its consolidated subsidiaries as determined in accordance with generally accepted accounting principles in the United States (GAAP), plus the aggregate cash proceeds received by the Company and its subsidiaries from any receivables or other securitization but excluding there from (i) all unsecured indebtedness, (ii) all subordinated indebtedness permitted to be incurred under the Credit Agreement and (iii) all secured indebtedness of foreign subsidiaries to (b) Adjusted EBITDA, which we refer to as Credit Agreement EBITDA^(a). Pursuant to this financial covenant, the Company must maintain a maximum consolidated secured leverage ratio of less than the following:

	Maximum Consolidated Secured Leverage Ratio ^(a)
January 1, 2008 – September 30, 2008	5.25 to 1.00
October 1, 2008 – September 30, 2009	5.00 to 1.00
October 1, 2009 and thereafter	4.75 to 1.00

(a) Credit Agreement EBITDA is defined in the Credit Agreement as consolidated net income before consolidated net interest expense, non-cash expenses and charges, total income tax expense, depreciation expense, expense associated with amortization of intangibles and

other assets, non-cash provisions for reserves for discontinued operations, extraordinary, unusual or non-recurring gains or losses or charges or credits, gain or loss associated with sale or write-down of assets not in the ordinary course of business, any income or loss accounted for by the equity method of accounting, and projected run rate cost savings, prior to or within a twelve month period.

At June 30, 2008, the Company was in compliance with the financial covenant in the Credit Agreement and the ratio was as follows:

Consolidated Secured Leverage Ratio 3.28 to 1.00

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

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

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The calculations of the components of the maximum consolidated secured leverage ratio for and as of the period ended June 30, 2008 are listed below:

<i>In millions</i>	Twelve Months Ended June 30, 2008(a)
Pro Forma Net Loss	\$ (74.7)
Income Tax Expense	28.0
Interest Expense, Net	246.0
Depreciation and Amortization	289.6
Dividends Received, Net of Earnings of Equity Affiliates	(1.2)
Non-Cash Provisions for Reserves for Discontinued Operations	23.7
Other Non-Cash Charges	6.8
Merger Related Expenses	35.9
Gains/Losses Associated with Sale/Writedown of Assets	(0.2)
Other Non-Recurring/Extraordinary/Unusual Items	69.6
Projected Run Rate Cost Savings	62.4
Credit Agreement EBITDA	\$ 685.9

<i>In millions</i>	As of June 30, 2008
Short Term Debt	\$ 23.3
Long Term Debt	3,084.9
Total Debt	\$ 3,108.2
Less Adjustment (b)	856.8
Consolidated Secured Indebtedness	\$ 2,251.4

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

As defined by the Credit Agreement, represents projected cost savings expected by the Company to be realized as a result of specific actions taken or expected to be taken prior to or within twelve months of the period in which Credit Agreement EBITDA

is to be calculated, net of the amount of actual benefits realized or expected to be realized from such actions.

The terms of the Credit Agreement limit the amount of projected run rate cost savings that may be used in calculating Credit Agreement EBITDA by stipulating that such amount may not exceed the lesser of (i) ten percent of EBITDA as defined in the Credit Agreement for the last twelve-month period (before giving effect to projected run rate cost savings) and (ii) \$100 million.

As a result, in calculating Credit Agreement EBITDA above, the Company used projected run rate cost savings of \$62.4, or ten percent of EBITDA as calculated in accordance with the Credit Agreement, which amount is lower than total projected cost savings identified by the Company, net of actual benefits realized for the twelve month period ended June 30, 2008. Projected run rate cost savings were calculated by the Company solely for its use in calculating Credit Agreement EBITDA for purposes of determining compliance with the maximum consolidated secured leverage ratio contained in the Credit Agreement and should not be used for any other purpose.

- (b) Represents consolidated indebtedness/securitization that is either (i) unsecured, or (ii) Permitted Subordinated Indebtedness as defined in the Credit Agreement, or secured indebtedness permitted to be incurred by the Company's foreign subsidiaries per the Credit Agreement.

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

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and payable immediately.

Capital Investment

The Company's capital investment in the first six months of 2008 was \$83.3 million (including \$21.7 million for Altivity since the acquisition), compared to \$42.6 million in the first six months of 2007. During the first six months of 2008, the Company had capital spending of \$62.2 million for improving process capabilities, \$9.9 million for capital spares and \$11.2 million for manufacturing packaging machinery.

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 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.

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 is currently in the process of reviewing the facts and status of such proceedings, but in all cases it is too early in the proceedings to be able to determine liability and reasonably estimate costs relating to such proceedings.

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The Company does not believe, however, 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, 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.

CRITICAL ACCOUNTING POLICIES

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

The Company's most critical accounting policies which require significant judgment or involve complex estimations are described in GPC's Annual Report on Form 10-K for the year ended December 31, 2007.

NEW ACCOUNTING STANDARDS

For a discussion of recent accounting pronouncements impacting the Company, see Note 2 in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

BUSINESS OUTLOOK

The Company expects inflationary pressures for production inputs, including higher costs for energy, fiber, wood and chemical-based inputs, to continue to impact results in 2008. To help offset inflation in 2008, the Company expects to realize year over year operating cost savings from its continuous improvement programs, including Lean manufacturing projects. In addition, contractual price escalators and price increases in 2007 for coated board and cartons should favorably impact 2008.

To partially offset increased input costs for fiber, energy and chemicals, the Company announced in July 2008 a \$50 per ton price increase for its coated recycled board (CRB) and uncoated recycled board (URB) and a \$40 per ton price increase for coated unbleached kraft (CUK) grades. The Company also announced that it would set new freight allowances for these products. The price increase for the coated recycled board (CRB) and uncoated recycled board (URB) will be effective with shipments on or after July 28, 2008. The price increase for the coated unbleached kraft (CUK) grades will be effective with shipments on or after August 1, 2008.

Total capital investment for 2008 is expected to be between approximately \$180 million and \$200 million and is expected to relate principally to the Company's process capabilities improvements and for maintaining compliance with environmental laws and regulations, including manufacturing cost reductions, the production of packaging machinery and the acquisition of capital spares.

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The Company also expects the following in 2008:

Interest expense of \$210 million to \$220 million, including approximately \$8 million of non-cash interest expense associated with amortization of debt issuance costs.

Debt reduction of \$120 million to \$140 million.

Capital spending of \$180 million to \$200 million.

Pension plan contributions of \$55 million to \$60 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For a discussion of certain market risks related to the Company, see Part II, Item 7A, Quantitative and Qualitative Disclosure about Market Risk, in GPC's Annual Report on Form 10-K for the year ended December 31, 2007. There have been no significant developments with respect to derivatives or exposure to market risk during the first six months of 2008; for a discussion of the Company's Financial Instruments, Derivatives and Hedging Activities, see Note 11 in Notes to Consolidated Financial Statements in GPC's Annual Report on Form 10-K for the year ended December 31, 2007 and Management's Discussion and Analysis of Financial Condition and Results of Operations -Financial Condition, Liquidity and Capital Resources.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management has carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended. Based upon such evaluation, management has concluded that the Company's disclosure controls and procedures were effective as of June 30, 2008.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2008 that has materially affected, or is likely to affect, the Company's internal control over financial reporting.

Table of Contents**PART II OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. For more information see Management's Discussion and Analysis of Financial Condition and Results of Operations Environmental Matters.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in GPC's Form 10-K for the year ended December 31, 2007.

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

At the Company's Annual Meeting of Stockholders held on May 20, 2008, the stockholders elected the following nominees to the Board of Directors to serve a three-year term. The votes cast were as follows:

Director	FOR	WITHHELD
G. Andrea Botta	304,328,990	18,704,882
Jeffrey H. Coors	300,076,800	22,957,072
Kevin J. Conway	300,048,848	22,985,024
Kelvin L. Davis	300,069,498	22,964,374
David W. Scheible	303,997,415	19,036,457

The terms of George V. Bayly, John D. Beckett, Jack A. Fusco, Jeffrey Liaw, Harold R. Logan, Jr., Michael G. MacDougall, John R. Miller, and Robert W. Tieken continued after the Annual Meeting of Stockholders. No matters other than the election of directors were submitted to the stockholders of the Company at the Annual Meeting.

ITEM 6. EXHIBITS

a) Exhibit Index

Exhibit Number	Description
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SIGNATURES

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

GRAPHIC PACKAGING HOLDING COMPANY

(Registrant)

/s/ STEPHEN A. HELLRUNG Senior Vice President,
General August 7, 2008

Stephen A. Hellrung Counsel and Secretary

/s/ DANIEL J. BLOUNT Senior Vice President
and August 7, 2008

Daniel J. Blount Chief Financial Officer
(Principal
Financial Officer)

/s/ DEBORAH R. FRANK Vice President and
Chief Accounting
Officer August 7, 2008

Deborah R. Frank (Principal Accounting
Officer)