GRAPHIC PACKAGING HOLDING CO
Form 10-K
February 23, 2010

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

or

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

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

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

(770) 644-3000

Registrant s telephone number, including area code:

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2009 was $142.5 million.

As of February 19, 2010 there were approximately 343,247,088 shares of the registrant s Common Stock, $0.01 par value per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2010 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements regarding the expectations of Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company), including, but not limited to, statements regarding the effect of deflation of certain input costs, price increases for coated paperboard and cartons, cost savings from its continuous improvement programs, capital investment, depreciation and amortization, interest expense, debt reduction and pension plan contributions in this report constitute forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such statements are based on currently available operating, financial and competitive information and are subject to various risks and uncertainties that could cause actual results to differ materially from the Company s historical experience and its present expectations. These risks and uncertainties include, but are not limited to, the Company s substantial amount of debt, inflation of and volatility in raw material and energy costs, continuing pressure for lower cost products, the Company s ability to implement its business strategies, including productivity initiatives and cost reduction plans, currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including those that could limit the Company s ability to utilize its net operating losses to offset taxable income and those that impact the Company s ability to protect and use its intellectual property. Undue reliance should not be placed on such forward-looking statements, as such statements speak only as of the date on which they are made and the Company undertakes no obligation to update such statements. Additional information regarding these and other risks is contained herein under Item 1A., Risk Factors.

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PART I

ITEM 1. *BUSINESS*

Overview

Graphic Packaging Holding Company (GPHC and, together with its subsidiaries, the Company) is committed to providing packaging solutions that improve the world in which we live. The Company is a leading provider of packaging solutions for a wide variety of products to food, beverage and other consumer products companies. Additionally, the Company is the largest U.S. producer of folding cartons and holds a leading market position in coated unbleached kraft paperboard, coated-recycled boxboard and multi-wall bags.

The Company s customers include some of the world s most widely recognized companies and well-known brands and they generally hold prominent market positions in the beverage, food and other consumer products industries. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, proprietary carton and packaging designs, and its commitment to customer service.

On March 10, 2008, the businesses of Graphic Packaging Corporation (GPC) and Altivity Packaging, LLC (Altivity) were combined through a series of transactions. A new publicly-traded parent company, GPHC, was formed and all of the equity interests in Bluegrass Container Holdings, LLC (BCH), Altivity s parent company, were contributed to GPHC in exchange for shares of GPHC s common stock. Subsequently, all of the equity interests in BCH were contributed to GPHC s primary operating company, Graphic Packaging International, Inc. (GPII). Together, these transactions are referred to herein as the Altivity Transaction. For additional information on the Altivity Transaction, see Note 4 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

GPHC was incorporated on June 21, 2007 under the laws of the State of Delaware, under the name New Giant Corporation. GPHC did not conduct any material activities until after the closing of the Altivity Transaction.

Products

The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging. As a result of the Altivity Transaction, the Company s business segments were revised and the segment disclosures for 2007 results were reclassified. The Company operates in four geographic areas: the United States (U.S.)/Canada, Central/South America, Europe and Asia Pacific. For business segment and geographic area information for each of the last three fiscal years, see Note 18 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Paperboard Packaging

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

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

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

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

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The Company provides a wide range of paperboard packaging solutions for the following end-use markets:

- beverage, including beer, soft drinks, energy drinks, water and juices;
- food, including cereal, desserts, frozen, refrigerated and microwavable foods and pet foods;
- prepared foods, including snacks, quick-serve foods for restaurants and food service products; and
- household products, including dishwasher and laundry detergent, health care and beauty aids, and tissues and papers.

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

Strength Packaging. The Company provides sturdiness to meet a variety of packaging needs, including tear and wet strength, puncture resistance, durability and compression strength (providing stacking strength to meet store display packaging requirements).

Promotional Packaging. The Company offers a broad range of promotional packaging options that help differentiate its customers products. These promotional enhancements improve brand awareness and visibility on store shelves.

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

- beverage multiple-packaging Multi-packs for beer, soft drinks, energy drinks, water and juices;
- active microwave technologies Substrates that improve the preparation of foods in the microwave; and
- easy opening and closing features Pour spouts and sealable liners.

Barrier Packaging. The Company provides packages that protect against moisture, grease, oil, oxygen, sunlight, insects and other potential product-damaging factors.

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

The Company offers a variety of laminated, coated and printed packaging structures that are produced from its coated unbleached kraft (CUK), coated-recycled board (CRB) and uncoated-recycled board (URB), as well as other grades of paperboard that are purchased from third-party suppliers.

Below is the paperboard production at each of the Company s mills during 2009:

Location	Product	# of Machines	2009 Net Tons Produced
West Monroe, LA	CUK	2	724,000

Macon, GA	CUK	2	576,000
Kalamazoo, MI	CRB	2	419,000
Battle Creek, MI	CRB	2	162,000
Middletown, OH	CRB	1	156,000
Santa Clara, CA	CRB	1	134,000
Pekin, IL	URB	1	38,000
West Monroe, LA	Containerboard	2	159,000

The Company consumes most of its coated board output in its carton converting operations, which is an integral part of its low-cost converting strategy. In 2009, excluding containerboard, 82% of mill production was consumed internally.

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

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

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

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

The Company converts CUK and CRB, as well as other grades of paperboard, into cartons at converting plants the Company operates in various locations across North America and internationally, converting plants associated with its joint ventures in Japan and China, contract converters and at licensees outside the U.S. The converting plants print, cut and glue paperboard into cartons designed to meet customer specifications.

Multi-wall Bag

The Company s multi-wall bag business is the leading supplier of multi-wall bags in North America. This business has traditionally provided packaging for low-cost, bulk-type commodity products. However, with the continuing evolution of materials management, bag construction, and distribution systems, the Company has gained access to end-markets in which higher-value products are now being packaged in multi-wall bags. Key end-markets include food and agriculture, building materials, chemicals, minerals and pet food.

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

Specialty Packaging

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

The Company s flexible packaging business operates modern and technologically competitive manufacturing plants in North America and has an established position in end-markets for food products, pharmaceutical and medical products, personal care, industrial, pet food and pet care products. Products include retort pouches (such as meals ready to go), medical test kits, multi-layer laminations for hard-to-hold products (such as iodine), batch inclusion bags and film, shingle wrap and plastic bags and films for building materials (such as ready-mix concrete). Approximately 17% of the plastics produced are consumed internally.

The Company s label business focuses on heat transfer labels and lithographic labels and provides customers with high-quality labels utilizing multiple technology applications. The Company operates dedicated label plants which produce labels for food, beverage, pharmaceutical, automotive, household and industrial products, detergents, and the health and beauty markets.

Joint Ventures

The Company is a party to joint ventures with Rengo Riverwood Packaging, Ltd. (in Japan) and Graphic Hung Hing Packaging Ltd. (in China), in which it holds a 50% and 60% ownership interest, respectively. The joint venture agreements cover CUK supply, use of proprietary carton designs and marketing and distribution of packaging systems.

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Marketing and Distribution

The Company markets its paperboard and paperboard-based products principally to multinational beverage, food, and other well-recognized consumer product companies. The multinational beverage companies include Anheuser-Busch InBev, MillerCoors Brewing Company, PepsiCo and The Coca-Cola Company. Non-beverage consumer product customers include Kraft Foods, Inc., General Mills, Inc., Nestlé Group, Kellogg Company, HAVI Global Solutions, and Kimberly-Clark Corporation, among others. The Company also sells paperboard in the open market to independent and integrated paperboard converters.

Distribution of the Company s principal products is primarily accomplished through direct sales offices in the U.S., Australia, Brazil, China, Germany, Italy, Japan, Mexico, Spain and the United Kingdom, and, to a lesser degree, through broker arrangements with third parties.

During 2009, the Company did not have any one customer that represented 10% or more of its net sales.

Competition

Although a relatively small number of large competitors hold a significant portion of the paperboard packaging market, the Company s business is subject to strong competition. There are only two major CUK producers in the U.S., MeadWestvaco Corporation and the Company.

In beverage packaging, cartons made from CUK compete with substitutes such as plastics and corrugated packaging for packaging glass or plastic bottles, cans and other primary containers. Although plastics and corrugated packaging are typically priced lower than CUK, the Company believes that cartons made from CUK offer advantages over these materials in areas such as distribution, high-quality graphics, carton designs, package performance, package line speed, environmental friendliness and design flexibility.

In non-beverage consumer packaging, the Company s paperboard also competes with MeadWestvaco s CUK, as well as CRB and solid bleached sulfate (SBS) from numerous competitors, and internationally, folding boxboard and white-lined chip. CUK and CRB have generally been priced in a range that is lower than SBS board. There are a large number of producers in the paperboard markets. Suppliers of paperboard compete primarily on the basis of price, strength and printability of their paperboard, quality and service.

The Company s multi-wall bag business competes with a small number of large competitors. Additionally, the Company faces increasing competition from products imported primarily from Asia.

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

Raw Materials

Paperboard Packaging

The paperboard packaging produced by the Company comes from pine trees. Pine pulpwood, paper and recycled fibers (including DLK and OCC) and energy used in the manufacture of paperboard, as well as poly sheeting, plastic resins and various chemicals used in the coating of paperboard, represent the largest components of the Company s variable costs of paperboard production.

For its West Monroe, LA and Macon, GA mills, the Company relies on private landowners and the open market for all of its pine pulpwood and recycled fiber requirements, supplemented by CUK clippings that are obtained from its converting operations. The Company believes that adequate supplies from both private landowners and open market fiber currently are available to meet its fiber needs at these mills.

The Kalamazoo, MI mill produces coated 100% recycled paperboard made primarily from OCC, ONP, and boxboard clippings. The market price of each of the various recycled fiber grades fluctuates with supply and demand. The Company has many sources for its fiber requirements and believes that the supply is adequate to satisfy its needs.

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The coated- and uncoated-recycled board produced at the Battle Creek, MI; Middletown, OH; Santa Clara, CA; and Pekin, IL mills is made from 100% recycled fiber. The Company procures its recycled fiber from both a large national corporation and local independent fiber suppliers. The internalization of the Company s recycled fiber procurement function enables the Company to attain the lowest market price for its recycled fiber given the Company s highly fragmented supplier base. The Company believes there are adequate supplies of recycled fiber to serve its mills.

In addition to paperboard that is supplied to its converting operations from its own mills, the Company converts a variety of other paperboard grades such as SBS. The Company purchases such paperboard requirements, including additional CRB and URB, from outside vendors. The majority of external board purchases are acquired through long term arrangements with other major industry suppliers.

Multi-wall Bag

The multi-wall bag operations use a combination of natural kraft, high performance, bleached, metallic and clay-coated papers in its converting operations. The paper is supplied directly through North American paper mills, under supply agreements that are typically reviewed annually.

Specialty Packaging

The flexible packaging group currently purchases the majority of its primary raw material of polyethylene resins or additives from a number of major industry suppliers. Other key material purchases include various films, aluminum foil, inks and adhesives that are secured through a variety of agreements, generally with terms of one to six years.

The label group purchases its primary raw materials, which include heat transfer papers and coated one-side and two-side papers, from a limited number of suppliers. In addition, the group purchases wet strength and metalized paper for specific, niche label applications and shrink sleeve film substrates through a variety of agreements, generally with terms of one to six years.

Energy

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

Backlog

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

Seasonality

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

Research and Development

The Company s research and development staff works directly with its sales and marketing personnel to understand long-term consumer and retailer trends and create relevant new packaging. These innovative solutions provide customers with differentiated packaging to meet customer needs. The Company s development efforts include, but are not limited to, extending the shelf life of customers products; reducing

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production costs; enhancing the heat-managing characteristics of food packaging; and refining packaging appearance through new printing techniques and materials.

Sustainability represents one of the strongest trends in the packaging industry. The Company s strategy is to combine sustainability with innovation to create new solutions for its customers. The Company s goal is that over the next three years, 75% of the Company s new product sales will come from more sustainable packaging solutions.

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

Patents and Trademarks

As of December 31, 2009, the Company had a large patent portfolio, presently owning, controlling or holding rights to more than 1,300 U.S. and foreign patents, with more than 900 U.S. and foreign patent applications currently pending. The Company s patent portfolio consists primarily of patents relating to packaging machinery, manufacturing methods, structural carton designs, microwave packaging technology, barrier protection packaging, multi-wall packaging and manufacturing methods. These patents and processes are significant to the Company s operations and are supported by trademarks such as Cap-Sac®, DI-NA-CAL®, Fridge Vendor®, IntegraPak™, Kitchen Master®, Micro Flex® Q, MicroRite®, Peel Pak®, Quilt Wave™, Quick Crisp®, Soni-Lok®, Soni-Seal®, The Yard Master®, and Z-Flute®. The Company takes significant steps to protect its intellectual property and proprietary rights.

Culture and Employees

The Company s corporate vision to provide packaging solutions that improve the world in which we live and values of respect, integrity, relationships, teamwork and accountability guide employee behavior, expectations and relations. In 2009, the Company completed its second company-wide culture survey, in which 80% of employees participated. The survey is part of the Company s ongoing efforts to build a high-performance culture and improve the manner in which work is done across the Company. This effort is in line with the Company s focus on continuous improvement utilizing processes like Lean Sigma and Six Sigma.

As of December 31, 2009, the Company had approximately 13,100 employees worldwide (excluding employees of joint ventures), of which approximately 51% were represented by labor unions and covered by collective bargaining agreements. As of December 31, 2009, approximately 200 of the Company s employees were working under an expired contract, which is currently being negotiated, and 1,600 were covered under collective bargaining agreements that expire within one year. The Company considers its employee relations to be satisfactory.

Environmental Matters

The Company is subject to federal, state and local environmental regulations and employs a team of professionals in order to maintain compliance at each of its facilities. For additional information on such regulation and compliance, see Environmental Matters in Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 15 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Available Information

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

ITEM 1A. *RISK FACTORS*

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

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

As of December 31, 2009, the Company had an aggregate principal amount of $2,800.2 million of outstanding debt. Because of the Company s substantial debt, the Company s ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be restricted in the future. The Company is also exposed to the risk of increased interest costs because approximately $181 million of its debt is at variable rates of interest. A significant portion of the Company s cash flow from operations must be dedicated to the payment of principal and interest on its indebtedness, thereby reducing the funds available for other purposes. In 2010, the Company estimates it will pay between $170 million and $190 million in interest on its outstanding debt obligations.

Additionally, the Company s Credit Agreement dated May 16, 2007, as amended (the Credit Agreement) and the indentures governing its 9.5% Senior Notes due 2017 and 9.5% Senior Subordinated Notes due 2013 (the Indentures) contain covenants that prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of dividends, loans or advances and certain other types of transactions. The Credit Agreement also requires compliance with a maximum consolidated secured leverage ratio. The Company s ability to comply in future periods with these covenants will depend on its ongoing financial and operating performance.

The substantial debt and the restrictions under the Credit Agreement and the Indentures could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The material outstanding debt obligations and the restrictions may also leave the Company more vulnerable to a downturn in general economic conditions or its business, or unable to carry out capital expenditures that are necessary or important to its growth strategy and productivity improvement programs.

The Company s reliance on a large number of financial institutions for a significant portion of its cash requirements could adversely affect the Company s liquidity and cash flow.

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

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

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

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There is no guarantee that the Company s efforts to reduce costs, or to maintain current level run rates for realized cost synergies and operating efficiencies, will be successful.

The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. In addition, the Company has accelerated and achieved cost synergies and operating efficiencies resulting from the Altivity Transaction sooner than expected. The Company s ability to implement successfully its business strategies and to realize anticipated savings, in addition to maintaining current level run rates for these cost synergies and operating efficiencies is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans, or maintain current level run rates for realized cost synergies and operating efficiencies, it may not be able to continue to compete successfully against other manufacturers. In addition, any failure to generate the anticipated efficiencies and savings could adversely affect the Company s financial results.

If a material percentage of the ownership interests in the Company s stockholders who own five percent or more of the Company s common stock are sold or transferred, the Company s ability to use its net operating losses to offset its future taxable income may be limited under Section 382 of the Internal Revenue Code.

As of December 31, 2009, the Company had approximately $1.3 billion of net operating losses (NOLs) available to offset future income for U.S. federal tax liability purposes. The Company s ability to use such NOLs to offset income can be limited, however, if the Company undergoes an ownership change within the meaning of Section 382 of the Internal Revenue Code (Section 382). In general, an ownership change occurs whenever the aggregate percentage of the Company s common stock owned directly or indirectly by its stockholders who own five percent or more of the Company s common stock (Significant Stockholders) increases by more than 50 percentage points over the lowest aggregate percentage of the Company s common stock owned directly or indirectly by such Significant Stockholders at any time during the preceding three years. In addition, under certain circumstances, issuances, sales or other dispositions or acquisitions of the ownership interests in the Company s Significant Stockholders can be deemed an ownership change for the Company.

Although the Stockholders Agreement dated as of July 7, 2007 among the Company, the Coors family trusts and foundation, Clayton, Dubilier & Rice Fund V Limited Partnership, Old Town, S.A. (formerly known as EXOR Group, S.A.), Field Holdings, Inc., and certain affiliates of TPG Capital L.P. contains certain restrictions and limitations on purchasing additional shares of the Company s common stock or selling the shares of the Company s common stock owned by such Significant Stockholders as of the date of the agreement, the Company has little control over changes in the ownership interests of such Significant Stockholders.

If an ownership change occurs, Section 382 establishes an annual limitation on the amount of deferred tax assets attributable to previously incurred NOLs that may be used to offset taxable income in future years. As a result, the Company s tax liability for such years could increase significantly. The magnitude of the annual limitation on the use of deferred tax assets and the effect of such limitation on the Company is difficult to assess and depends in part on the market value of the Company at the time of the ownership change and prevailing interest rates.

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

Approximately 51% of the Company s workforce is represented by labor unions, whose goals and objectives may differ significantly from the Company s. The Company may not be able to successfully negotiate new union contracts covering the employees at its various sites without work stoppages or labor

difficulties. These events may also occur as a result of other factors. A prolonged disruption at any of the Company s facilities due to work stoppages or labor difficulties could have a material adverse effect on its net sales, margins and cash flows. In addition, if new union contracts contain significant increases in wages or other benefits, the Company s margins would be adversely impacted.

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

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

Competition for sales of the Company s products could have an adverse effect on the Company s financial results.

The Company competes with other manufacturers, both domestically and internationally. The Company s products also compete with other manufacturers CUK board and other substrates, SBS and recycled clay-coated news (CCN). Substitute products also include plastic, shrink film and corrugated containers. In addition, while the Company has long-term relationships with many of its customers, the underlying contracts may be re-bid or renegotiated from time to time, and the Company may not be successful in renewing on favorable terms or at all. The Company works to maintain market share through efficiency, product innovation and strategic sourcing to its customers; however, pricing and other competitive pressures may occasionally result in the loss of a customer relationship.

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

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, the investigation and remediation of contamination resulting from releases of hazardous substances, and the health and safety of employees. Additionally, the Company cannot currently assess the impact that future emission standards, climate control initiatives and enforcement practices will have on the Company s operations and capital expenditure requirements. Environmental liabilities and obligations may result in significant costs, which could negatively impact the Company s financial position, results of operations or cash flows. See Note 15 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

The Company s working capital, cash flow and profitability could be adversely impacted by the current economic downturn, changes in governmental regulations, and the global consolidation of the businesses of the Company s customers.

Reduced availability of credit, lower profitability resulting from the current economic downturn, and increased costs as a result of changes in governmental regulations may adversely affect the ability of some of the Company s customers and suppliers to obtain funds for operations and capital expenditures. This could negatively impact the Company s ability to collect receivables in a timely manner and to obtain raw materials

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and supplies. In addition, increased global consolidation of the Company s customer base could lead to increased pressure on the Company to concede to less favorable price and payment terms. Without the Company s ability to counter such customer concessions by obtaining favorable price and payment term concessions from its own suppliers, the Company s working capital, cash flow and profitability could be negatively impacted.

The Company s cash flows may also be adversely impacted by the Company s pension funding obligations. The Company s pension funding obligations are dependent upon multiple factors resulting from actual plan experience and assumptions of future experience. The Company has unfunded obligations under its domestic and foreign defined benefit pension plans, and the funded status of these plans is dependent upon various factors, including returns on invested assets, the level of certain market interest rates and the discount rate used to determine pension obligations. Unfavorable returns on the plan assets or unfavorable changes in applicable laws or regulations could materially change the timing and amount of required plan funding, which would reduce the cash available for the Company.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

Headquarters

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

Operating Facilities

A listing of the principal properties owned or leased and operated by the Company is set forth below. The Company s buildings are adequate and suitable for the business of the Company. The Company also leases certain smaller facilities, warehouses and office space throughout the U.S. and in foreign countries from time to time. The operating locations include 7 paperboard mills and 39 paperboard converting, 12 multi-wall bag and 11 specialty plants.

Type of Facility and Location	Related Segment(s) or Use of Facility
Paperboard Mills:	
Battle Creek, MI	Paperboard Packaging
Kalamazoo, MI	Paperboard Packaging
Macon, GA	Paperboard Packaging
Middletown, OH	Paperboard Packaging
Pekin, IL	Paperboard Packaging
Santa Clara, CA	Paperboard Packaging
West Monroe, LA	Paperboard Packaging; Research and Development
Paperboard Packaging:	
Atlanta, GA	Paperboard Packaging
Bristol, Avon, United Kingdom	Paperboard Packaging
Carol Stream, IL	Paperboard Packaging; Research and Development
Centralia, IL	Paperboard Packaging
Charlotte, NC	Paperboard Packaging
Cincinnati, OH	Paperboard Packaging

Elk Grove, IL[a]	Paperboard Packaging
Fort Smith, AR[a]	Paperboard Packaging
Fort Wayne, IN[b]	Paperboard Packaging
Golden, CO	Paperboard Packaging; Research and Development
Gordonsville, TN	Paperboard Packaging
Idaho Falls, ID	Paperboard Packaging
Igualada, Barcelona, Spain[a]	Paperboard Packaging; Packaging Machinery Engineering Design and Manufacturing
Irvine, CA	Paperboard Packaging; Design Center
Jundiai, Sao Paulo, Brazil	Paperboard Packaging
Kalamazoo, MI	Paperboard Packaging

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Type of Facility and Location	Related Segment(s) or Use of Facility	
Kendallville, IN	Paperboard Packaging	
La Porte, IN	Paperboard Packaging	
Lawrenceburg, TN	Paperboard Packaging	
Lumberton, NC	Paperboard Packaging	
Marion, OH	Paperboard Packaging	
Masnieres, France	Paperboard Packaging	
Menasha, WI	Paperboard Packaging; Research and Development	
Mississauga, Ontario, Canada	Paperboard Packaging; Research and Development	
Mitchell, SD	Paperboard Packaging	
Morris, IL[(b)]	Paperboard Packaging	
Muncie, IN[(b)]	Paperboard Packaging	
Orchard Park, CA	Paperboard Packaging	
Pacific, MO	Paperboard Packaging	
Perry, GA	Paperboard Packaging	
Piscataway, NJ	Paperboard Packaging	
Queretaro, Mexico	Paperboard Packaging	
Renton, WA	Paperboard Packaging	
Santa Clara, CA[(b)]	Paperboard Packaging	
Solon, OH	Paperboard Packaging	
Tuscaloosa, AL	Paperboard Packaging	
Valley Forge, PA	Paperboard Packaging; Design Center	
Wausau, WI	Paperboard Packaging	
West Monroe, LA[(a)]	Paperboard Packaging	
Multi-wall Bag:		
Arcadia, LA	Multi-wall Bag	
Cantonment, FL[(b)]	Multi-wall Bag	
Eastman, GA	Multi-wall Bag	
Fowler, IN	Multi-wall Bag	
Jacksonville, AR	Multi-wall Bag	
Kansas City, MO	Multi-wall Bag	
Louisville, KY	Multi-wall Bag	
New Philadelphia, OH	Multi-wall Bag	
North Portland, OR	Multi-wall Bag	
Quincy, IL	Multi-wall Bag	
Salt Lake City, UT	Multi-wall Bag	
Wellsburg, WV	Multi-wall Bag	
Specialty Packaging:		
Bellwood, IL[(b)]	Specialty Packaging	Ink
Brampton, Ontario, Canada	Specialty Packaging	Flexible Packaging
Des Moines, IA	Specialty Packaging	Flexible Packaging
Greensboro, NC	Specialty Packaging	Labels
Menomonee Falls, WI[(b)]	Specialty Packaging	Ink
Milwaukee, WI	Specialty Packaging	Flexible Packaging
Norwood, OH	Specialty Packaging	Labels
Portage, IN	Specialty Packaging	Flexible Packaging

Riverdale, IL(b)	Specialty Packaging	Ink
Schaumburg, IL	Specialty Packaging	Flexible Packaging
St. Charles, IL(b)	Specialty Packaging	Labels
Country Headquarters:		
Bella Vista, New South Wales, Australia	Paperboard Packaging	
Milan, Lombardy, Italy	Paperboard Packaging	
Melbourne, Victoria, Australia	Paperboard Packaging	
Pulheim, North Rhine-Westphalia, Germany	Paperboard Packaging	
PuDong, Shanghai, China	Paperboard Packaging	
Tokyo, Japan	Paperboard Packaging	
Other:		
Concord, NH	Research and Development	
Crosby, MN	Packaging Machinery Engineering Design and Manufacturing	
Marietta, GA	Research and Development; Packaging Machinery Engineering Design	

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Notes:

(a) Multiple facilities in this location.

(b) The Company has announced the intended closure of the location.

ITEM 3. ***LEGAL PROCEEDINGS***

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows. See Note 15 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

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

No matters were submitted to a vote of security holders during the fiscal quarter ended December 31, 2009.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G (3) of Form 10-K, the following list is included as an unnumbered item in Part I of this Report in lieu of being included in the definitive proxy statement that will be filed within 120 days after December 31, 2009.

David W. Scheible, 53, is the President and Chief Executive Officer of GPHC. He was appointed to GPHC s Board upon its formation (under the name New Giant Corporation) in June 2007. Prior to the Altivity Transaction, he had served as a director, President and Chief Executive Officer of GPC since January 1, 2007. Prior to that time, Mr. Scheible had served as Chief Operating Officer of GPC since October 2004. Mr. Scheible served as Executive Vice President of Commercial Operations from August 2003 until October 2004. Mr. Scheible served as Graphic Packaging International Corporation s (GPIC) Chief Operating Officer from 1999 until August 2003. He also served as President of GPIC s Flexible Division from January to June 1999. Previously, Mr. Scheible was affiliated with the Avery Dennison Corporation, working most recently as its Vice President and General Manager of the Specialty Tape Division from 1995 through 1999 and Vice President and General Manager of the Automotive Division from 1993 to 1995.

Daniel J. Blount, 54, is the Senior Vice President and Chief Financial Officer of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President and Chief Financial Officer of GPC since September 2005. From October 2003 until September 2005, he was the Senior Vice President, Integration of GPC and from August 2003 until October 2003, he was the Senior Vice President, Integration, Chief Financial Officer and Treasurer. From June 2003 until August 2003, he was Senior Vice President, Chief Financial Officer and Treasurer of Riverwood Holding, Inc. From September 1999 until June 2003, Mr. Blount was Senior Vice President and Chief Financial Officer of Riverwood Holding, Inc. Mr. Blount was named Vice President and Chief Financial Officer of Riverwood Holding, Inc. in September 1998. Prior to joining Riverwood Holding, Inc., Mr. Blount spent 13 years at Montgomery Kone, Inc., an elevator, escalator and moving ramp product manufacturer, installer and service provider, most recently serving as Senior Vice President, Finance.

Cynthia A. Baerman, 47, is the Senior Vice President, Human Resources of GPHC. Mrs. Baerman joined GPHC in March 2009 from JohnsonDiversey, a global leader in sanitation products and services, where she served as Vice President and General Manager of its Food and Beverage Division from September 2006 until February 2009, and as

Vice President, Human Resources from March 2005 until January 2007. From January 2004 until January 2005, Mrs. Baerman was Vice President of Human Resources at Barilla America. Mrs. Baerman previously held senior leadership positions in human resources at top companies in the food and beverage sector, including Kraft Foods, Miller Brewing Company and Anheuser-Busch Companies.

John C. Best, 50, is the Vice President, Business Development of GPHC. Prior to the Altivity Transaction, he had served as Vice President, Business Development of GPC since January 2006, with responsibility for Marketing, Research and Development and the successful sale of value-added products into the marketplace.

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Previously, he had served as Vice President of Sales for GPC from August 1999 to December 2005. Mr. Best joined GPC in 1994 as the Business Unit Manager for the Folding Carton Division.

Michael P. Doss, 43*,* is the Senior Vice President, Consumer Packaging Division of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, Consumer Products Packaging of GPC since September 2006. From July 2000 until September 2006, he was the Vice President of Operations, Universal Packaging Division. Since joining GPIC in 1990, Mr. Doss held positions of increasing management responsibility, including Plant Manager at the Gordonsville, TN and Wausau, WI plants. Mr. Doss was Director of Web Systems for the Universal Packaging Division prior to his promotion to Vice President of Operations.

Kristopher L. Dover, 45, is the Senior Vice President, Flexible Group of GPHC. Prior to the Altivity Transaction, Mr. Dover served as Vice President and General Manager, Multi-wall Bag from August 2007 until March 2008 and as Vice President Operations from December 2006 until August 2007 for Altivity Packaging. Mr. Dover was Vice President, Global Operations Beverage from January 2006 until December 2006 and Vice President, Operations Europe from August 2004 until January 2006 and Director of Operations from August 2003 until August 2004 for GPC. Mr. Dover joined GPIC in 1999 and held various management positions in its U.S. and European operations.

Deborah R. Frank, 49, is the Vice President and Chief Accounting Officer of GPHC. Prior to the Altivity Transaction, she served as Vice President and Controller of GPC since April 2005. Prior to joining the Company, Ms. Frank held various positions of increasing responsibility in the finance, accounting, audit, international and corporate areas at Kimberly Clark Corporation, most recently serving as Assistant Controller.

Philip H. Geminder II, 53, is the Vice President and Chief Integration Officer of GPHC. Prior to the Altivity Transaction, he served as the Vice President, Integration of GPC from September 2007 through March 2008. Prior to that time, he had served as Vice President, Finance of GPC since August 2003 and Vice President, Financial Services of GPIC since January 2000. Before joining GPIC, Mr. Geminder served as Director of Finance with Avery Dennison Corporation after spending 18 years in various positions with Honeywell International Inc.

Stephen A. Hellrung, 62*,* is the Senior Vice President, General Counsel and Secretary of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, General Counsel and Secretary of GPC since October 2003. He was Senior Vice President, General Counsel and Secretary of Lowe s Companies, Inc., a home improvement specialty retailer, from April 1999 until June 2003. Prior to joining Lowe s Companies, Mr. Hellrung held similar positions with Pillsbury Company and Bausch & Lomb, Incorporated.

Alan R. Nichols, 47, is the Senior Vice President, Mills Division of GPHC. He served as Vice President, Mills from August 2008 until March 2009. From March 2008 until August 2008, Mr. Nichols was Vice President, CRB Mills. Prior to the Altivity Transaction, Mr. Nichols served as Vice President, CRB Mills for Altivity Packaging from February 2007 until March 2008 and was the Division Manufacturing Manager, Mills for Altivity Packaging and the Consumer Products Division of Smurfit-Stone from August 2005. From February 2001 until August 2005, Mr. Nichols was the General Manager of the Wabash Mill for Smurfit-Stone.

Michael R. Schmal, 56, is the Senior Vice President, Beverage Packaging Division of GPHC. Prior to the Altivity Transaction, he had served as Senior Vice President, Beverage of GPC since August 2003. From October 1996 until August 2003, Mr. Schmal was the Vice President and General Manager, Brewery Group of Riverwood Holding, Inc. Prior to that time, Mr. Schmal held various positions with Riverwood Holding, Inc. since 1981.

Joseph P. Yost, 42, is the Senior Vice President, Supply Chain of GPHC. From 2006 to 2009, he served as Vice President, Operations Support Consumer Packaging Division. Mr. Yost has also served in the following positions with Graphic Packaging legacy companies Director, Finance and Centralized Services from 2003 to 2006 with GPII, Director, Finance and Centralized Services from 2000 to 2003 with GPC, Manager, Operations Planning and Analysis Consumer Products Division from 1999 to 2000 and other management positions from 1997 to 1999 with Fort James Corporation.

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PART II

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

GPHC s common stock (together with the associated stock purchase rights) is traded on the New York Stock Exchange under the symbol GPK. The historical range of the high and low sales price per share for each quarter of 2009 and 2008 are as follows:

	2009		2008	
	High	**Low**	**High**	**Low**
First Quarter	$ 1.25	$ 0.58	$ 3.61	$ 2.73
Second Quarter	2.46	0.82	3.10	2.02
Third Quarter	2.31	1.55	3.11	1.96
Fourth Quarter	3.67	2.24	2.06	0.94

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

On February 19, 2010, there were approximately 2,359 stockholders of record and approximately 4,090 beneficial holders of GPHC s common stock.

Total Return to Stockholders

The following graph compares the total returns (assuming reinvestment of dividends) of the common stock of the Company and its immediate predecessor, GPC, the Standard & Poor s (S&P) 500 Stock Index and the Dow Jones (DJ) U.S. Container & Packaging Index. The graph assumes $100 invested on December 31, 2004 in GPC s common stock and each of the indices. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09
Graphic Packaging Holding Company	$ 100.00	$ 31.67	$ 60.14	$ 51.25	$ 15.83	$ 48.19

S&P 500 Stock Index	100.00	104.91	121.48	128.16	80.74	102.11
DJ U.S. Container & Packaging Index	100.00	99.37	111.38	118.87	74.53	104.68

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ITEM 6. *SELECTED FINANCIAL DATA*

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

	Year Ended December 31,				
In millions, except per share amounts	**2009**	**2008**	**2007**	**2006**	**2005**
Statement of Operations Data:					
Net Sales	$ 4,095.8	$ 4,079.4	$ 2,421.2	$ 2,321.7	$ 2,294.3
Income from Operations	282.7	149.9	151.2	93.8	86.5
Income (Loss) from Continuing Operations	56.4	(98.8)	(49.1)	(97.4)	(90.1)
Loss from Discontinued Operations, Net of Taxes		(0.9)	(25.5)	(3.1)	(1.0)
Net Income (Loss)	56.4	(99.7)	(74.6)	(100.5)	(91.1)
Income (Loss) Per Share Basic and Diluted:					
Continuing Operations	0.16	(0.31)	(0.24)	(0.48)	(0.45)
Discontinued Operations		(0.00)	(0.13)	(0.02)	(0.01)
Total	0.16	(0.32)	(0.37)	(0.50)	(0.46)
Weighted average number of shares outstanding:					
Basic	343.1	315.8	201.8	201.1	200.0
Diluted	344.6	315.8	201.8	201.1	200.0
Balance Sheet Data:					
(as of period end)					
Cash and Equivalents	$ 149.8	$ 170.1	$ 9.3	$ 7.3	$ 12.7
Total Assets	4,701.8	4,983.1	2,777.3	2,888.6	3,005.2
Total Debt	2,800.2	3,183.8	1,878.4	1,922.7	1,978.3
Total Shareholders Equity	728.8	525.2	144.0	181.7	268.7
Additional Data:					
Depreciation & Amortization	$ 305.4	$ 264.3	$ 189.6	$ 188.5	$ 198.8
Capital Spending	129.9	183.3	95.9	94.5	110.8
Research, Development and Engineering Expense	7.2	8.0	9.2	10.8	9.2

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ITEM 7. *MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

INTRODUCTION

This management s discussion and analysis of financial condition and results of operations is intended to provide investors with an understanding of the Company s past performance, its financial condition and its prospects. The following will be discussed and analyzed:

Overview of Business

Overview of 2009 Results

Results of Operations

Financial Condition, Liquidity and Capital Resources

Critical Accounting Policies

New Accounting Standards

Business Outlook

OVERVIEW OF BUSINESS

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

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

The Company s specialty packaging business has an established position in end-markets for food products, pharmaceutical and medical products, personal care, industrial, pet food and pet care products. In addition, the Company s label business focuses on two product lines: heat transfer labels and lithographic labels.

The Company is implementing strategies (i) to expand market share in its current markets and to identify and penetrate new markets; (ii) to capitalize on the Company s customer relationships, business competencies, and mills and converting assets; (iii) to develop and market innovative, sustainable products and applications; and (iv) to continue to reduce costs by focusing on operational improvements. The Company s ability to fully implement its strategies and achieve its objective may be influenced by a variety of factors, many of which are beyond its control, such as inflation of raw material and other costs, which the Company cannot always pass through to its customers, and the effect of overcapacity in the worldwide paperboard packaging industry.

Significant Factors That Impact The Company s Business

Impact of Inflation. The Company s cost of sales consists primarily of energy (including natural gas, fuel oil and electricity), pine pulpwood, chemicals, recycled fibers, purchased paperboard, paper, aluminum foil, ink, plastic films and resins, depreciation expense and labor. Although the Company is currently experiencing some deflation of certain input costs, its cost of goods sold during 2009 reflects the higher costs associated with the inventory on hand at December 31, 2008. Deflation decreased year over year costs by $0.2 million in 2009, while inflation increased year over year costs by $126.3 million and $39.3 million in 2008 and 2007, respectively. The lower costs in 2009 are primarily related to fiber, wood and corrugated shipping containers ($22.4 million); chemical-based inputs ($21.6 million); energy ($19.5 million), mainly due to the price of natural gas; and freight ($5.1 million). These lower costs were partially offset by labor and related benefits ($30.7 million); the December 31, 2008 inventory sold during the first quarter of 2009 ($19.5 million); outside board purchases ($15.9 million); and other costs ($2.3 million).

As the price of natural gas has experienced significant variability, the Company has entered into contracts designed to manage risks associated with future variability in cash flows caused by changes in the price of natural gas. As of December 31, 2009, the Company has hedged approximately 52% of its expected natural gas usage for the year 2010. Since negotiated sales contracts and the market largely determine the pricing for its products, the Company is at times limited in its ability to raise prices and pass through to its customers any inflationary or other cost increases that the Company may incur.

Substantial Debt Obligations. The Company has $2,800.2 million of outstanding debt obligations as of December 31, 2009. 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 and Indentures also prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of dividends, loans or advances and certain other types of transactions. These restrictions could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The Credit Agreement also requires compliance with a maximum consolidated secured leverage ratio. The Company s ability to comply in future periods with the financial covenant will depend on its ongoing financial and operating performance, which in turn will be subject to many other factors, many of which are beyond the Company s control. See Covenant Restrictions in Financial Condition, Liquidity and Capital Resources for additional information regarding the Company s debt obligations.

The substantial debt and the restrictions under the Credit Agreement and the Indentures could limit the Company s flexibility to respond to changing market conditions and competitive pressures. The material outstanding debt obligations and the restrictions may also leave the Company more vulnerable to a downturn in general economic conditions or its business, or unable to carry out capital expenditures that are necessary or important to its growth strategy and productivity improvement programs.

Commitment to Cost Reduction. In light of increasing margin pressure throughout the packaging industry, the Company has programs in place that are designed to reduce costs, improve productivity and increase profitability. The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. This includes a Six Sigma process focused on reducing variable and fixed manufacturing and administrative costs. The Company expanded the continuous improvement initiative to include the deployment of Lean Sigma principles into manufacturing and supply chain services. As the Company strengthens the systems approach to continuous improvement, Lean Sigma supports the efforts to build a high performing culture. During 2009, the Company achieved $60.8 million in cost savings as compared to 2008, through its continuous improvement programs and manufacturing initiatives.

In addition, the Company has accelerated and achieved cost synergies and operating efficiencies resulting from the Altivity Transaction sooner than expected. The Company s ability to implement successfully its business strategies and to realize anticipated savings, in addition to maintaining current level run rates for these cost synergies and operating efficiencies is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company s control. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans, or maintain current level run rates for realized cost synergies and operating efficiencies, it may not be able to continue to compete successfully against other manufacturers. In addition, any failure to generate the anticipated efficiencies and savings could adversely affect the Company s financial results.

Competition and Market Factors. As some products can be packaged in different types of materials, the Company s sales are affected by competition from other manufacturers CUK board and other substrates such as SBS and CCN. Substitute products also include plastic, shrink film and corrugated containers. In addition, while the Company has long-term relationships with many of its customers, the underlying contracts may be re-bid or renegotiated from time to time, and the Company may not be successful in renewing on favorable terms or at all. The Company works to maintain market share through efficiency, product innovation and strategic sourcing to its customers; however, pricing and other competitive pressures may occasionally result in the loss of a customer relationship.

In addition, the Company s sales historically are driven by consumer buying habits in the markets its customers serve. Continuing increases in the costs of living, conditions in the residential real estate market, rising unemployment rates, reduced access to credit and declining consumer confidence, as well as other macroeconomic factors, may significantly negatively affect consumer spending behavior, which could have a material adverse effect on demand for the Company s products. New product introductions and promotional activity by the Company s customers and the Company s introduction of new packaging products also impact its sales. The Company s containerboard business is subject to conditions in the cyclical worldwide commodity paperboard markets, which have a significant impact on containerboard sales. In addition, the Company s net sales, income from operations and cash flows from operations are subject to moderate seasonality, with demand usually increasing in the late spring through early fall due to the beverage, folding carton, housing and construction markets.

OVERVIEW OF 2009 RESULTS

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

Net Sales in 2009 increased by $16.4 million, or 0.4%, to $4,095.8 million from $4,079.4 million in 2008 due primarily to $331.3 million volume achieved as a result of the Altivity Transaction, improved pricing in beverage and consumer products as well as higher volume/mix in beverage. These increases were partially offset by the impact of divested businesses, lower consumer products volume, lower volume and pricing in multi-wall bag and specialty packaging, and unfavorable changes in currency exchange rates, primarily in Europe.

Income from Operations in 2009 increased by $132.8 million, or 88.6%, to $282.7 million from $149.9 million in 2008. This increase was primarily due to a $137.8 million alternative fuel tax credit (net of expenses), cost savings through continuous improvement and synergy programs, and the Altivity Transaction. These increases were partially offset by the lower volume, higher unabsorbed fixed costs and merger-related, pension and depreciation expenses.

Throughout 2009, the Company burned alternative fuel mixtures at its West Monroe, LA and Macon, GA mills in order to produce energy and recover chemicals. The U.S. Internal Revenue Code allows an excise tax credit under certain circumstances for the use of alternative fuels and alternative fuel mixtures. In the first quarter 2009, the Company filed an application with the Internal Revenue Service (the IRS) for certification of eligibility to receive the tax credit for its use of black liquor in alternative fuel mixtures in the recovery boilers at the mills. During the second quarter 2009, the Company received notification from the IRS that its registration as an alternate fuel mixer had been approved. The Company has submitted refund claims totaling $147.2 million based on fuel usage at the two mills from mid-January 2009 through December 31, 2009. The Company received refunds totaling $134.8 million through the end of the year. The net impact of the tax credit is included in Restructuring and Other Special (Credits) Charges in the amount of $137.8 million for the year ended December 31, 2009 and is included in corporate for segment reporting purposes. The excise tax credit expired on December 31, 2009.

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RESULTS OF OPERATIONS

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

Segment Information

The Company reports its results in three business segments: paperboard packaging, multi-wall bag and specialty packaging. Prior segment results have been reclassified for the allocation of certain corporate costs.

	Year Ended December 31,		
In millions	**2009**	**2008**	**2007**
NET SALES:			
Paperboard Packaging	$ 3,423.5	$ 3,377.4	$ 2,340.6
Multi-wall Bag	471.6	478.1	80.6
Specialty Packaging	200.7	223.9	
Total	$ 4,095.8	$ 4,079.4	$ 2,421.2
INCOME (LOSS) FROM OPERATIONS:			
Paperboard Packaging	$ 288.3	$ 220.9	$ 177.8
Multi-wall Bag	3.9	25.9	6.3
Specialty Packaging	(1.4)	9.6	
Corporate	(8.1)	(106.5)	(32.9)
Total	$ 282.7	$ 149.9	$ 151.2

2009 COMPARED WITH 2008

Net Sales

	Year Ended December 31,			
In millions	**2009**	**2008**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 3,423.5	$ 3,377.4	$ 46.1	1.4%

Multi-wall Bag	471.6	478.1	(6.5)	(1.4)
Specialty Packaging	200.7	223.9	(23.2)	(10.4)
Total	$ 4,095.8	$ 4,079.4	$ 16.4	0.4%

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

	Year Ended December 31,							
		Variances						
			Volume/Mix					
In millions	2008	Price	Acquisition	Organic	Divested Businesses	Exchange	Total	2009
Paperboard Packaging	$ 3,377.4	$ 15.0	$ 209.3	$ (106.2)	$ (55.5)	$ (16.5)	$ 46.1	$ 3,423.5
Multi-wall Bag	478.1	(11.8)	80.0	(67.9)	(6.8)		(6.5)	471.6
Specialty Packaging	223.9	(7.6)	42.0	(40.4)	(16.8)	(0.4)	(23.2)	200.7
Total	$ 4,079.4	$ (4.4)	$ 331.3	$ (214.5)	$ (79.1)	$ (16.9)	$ 16.4	$ 4,095.8

Paperboard Packaging

The Company s Net Sales from paperboard packaging in 2009 increased by $46.1 million, or 1.4%, to $3,423.5 million from $3,377.4 million in 2008 as a result of the Altivity Transaction, improved pricing in beverage and consumer products, as well as higher volume/mix in beverage. Beverage volumes were up in the beer market, primarily in the sub-premium category, but remained down in soft drink. Beer sales also benefited by the move to 30-pack. The increase in Net Sales was partially offset by lower volume in consumer products, containerboard and European open market, and the impact of the two coated-recycled board mills divested in September 2008. The lower consumer products sales were due to a decision to exit lower margin business as well as the general market conditions in which volume has remained steady in staples (e.g., dry mixes, cereal, pizza) and continues to be down in discretionary items (e.g., candy, eating out). Management idled the corrugated medium machine at the West Monroe, LA mill for 36 days during the first six months of 2009 due to softness in that market. Unfavorable currency exchange rate changes, primarily in Europe, also negatively impacted Net Sales.

Multi-wall Bag

The Company s Net Sales from multi-wall bag in 2009 decreased by $6.5 million as the volume increase from the Altivity Transaction was offset by lower volumes due to market declines in the building products, chemicals, minerals, and agriculture and food industries, lower pricing due to negotiated deflationary pass throughs, and the impact of the divested business.

Specialty Packaging

The Company s Net Sales from specialty packaging in 2009 decreased by $23.2 million compared to 2008 as the volume increase from the Altivity Transaction was offset by lower volumes due to market declines in the building products, chemicals, and food and pharmaceutical industries, the impact of the divested business, and lower pricing due to negotiated deflationary pass throughs.

Income (Loss) from Operations

	Year Ended December 31,			
In millions	**2009**	**2008**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 288.3	$ 220.9	$ 67.4	30.5%
Multi-wall Bag	3.9	25.9	(22.0)	(84.9)
Specialty Packaging	(1.4)	9.6	(11.0)	N.M.(a)
Corporate	(8.1)	(106.5)	98.4	N.M.(a)
Total	$ 282.7	$ 149.9	$ 132.8	88.6%

Note:

(a) Percentage calculation not meaningful.

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

Year Ended December 31,

			Variances						
			Volume/Mix						
In millions	2008	Price	Acquisition	Organic	Inflation	Exchange	Other(a)	Total	2009
Paperboard Packaging	$ 220.9	$ 15.0	$ 19.5	$ (20.0)	$ (19.0)	$ (2.0)	$ 73.9	$ 67.4	$ 288.3
Multi-wall Bag	25.9	(11.8)	1.1	(8.0)	9.0		(12.3)	(22.0)	3.9
Specialty Packaging	9.6	(7.6)	2.3	(8.6)	10.2	1.6	(8.9)	(11.0)	(1.4)
Corporate	(106.5)		24.4			9.5	64.5	98.4	(8.1)
Total	$ 149.9	$ (4.4)	$ 47.3	$ (36.6)	$ 0.2	$ 9.1	$ 117.2	$ 132.8	$ 282.7

Note:

(a) Includes the Company s cost reduction initiatives, the alternative fuel tax credit and merger-related expenses.

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2009 increased by $67.4 million, or 30.5%, to $288.3 million from $220.9 million in 2008 as a result of cost savings and synergies, the Altivity Transaction and the improved pricing. These increases were partially offset by the lower volume, higher inflation and depreciation expense and higher unabsorbed fixed costs, including the 36 days of downtime of the corrugated medium machine. The inflation was primarily related to labor and related benefits, primarily pension expense, ($29.8 million); outside board purchases ($20.4 million); and the December 31, 2008 inventory sold during the first quarter of 2009 ($19.5 million); partially offset by lower costs primarily for secondary fiber, energy and wood ($50.7 million). In 2008, the Company recorded a charge for the permanent shutdown of the #2 coated board machine at the West Monroe, LA mill.

Multi-wall Bag

The Company s Income from Operations from multi-wall bag in 2009 decreased by $22.0 million as a result of the lower pricing and volume, lower fixed cost absorption due to downtime for inventory control, and higher depreciation and work force reduction expenses. The higher costs were partially offset by lower inflation, primarily for external board and chemical-based inputs.

Specialty Packaging

The Company s Income from Operations from specialty packaging in 2009 decreased by $11.0 million as a result of the lower volume and pricing. In addition, in the fourth quarter of 2009, the Company recorded an $11.5 million impairment charge relating to its flexible packaging facility in Ontario, Canada. These decreases were offset by lower costs, primarily for chemical-based inputs, the volume increase from the Altivity Transaction and the gain on the sale of the ink business.

Corporate

The Company s Loss from Operations from corporate was $8.1 million in 2009 compared to $106.5 million in 2008. The improvement resulted primarily from the alternative fuel tax credit (net of expenses) of $137.8 million. The improvement was partially offset by higher merger-related expenses of $22.7 million, excluding an $18.8 million noncash charge related to excess maintenance, repair and overhaul (MRO) inventory, and higher incentive expense. As part of the integration strategy, control over MRO inventory was centralized and the current on hand/replenishment strategy was reviewed. As a result of the review, the Company determined that $18.8 million of inventory on hand was excess and recorded a noncash charge. Results for 2008 included $24.4 million of expense related to the step-up in inventory basis to fair value, partially offset by a favorable $10.4 million mark-to-market adjustment for an interest rate swap.

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

Interest Expense

Interest Expense decreased by $19.9 million to $196.8 million in 2009 from $216.7 million in 2008. Interest Expense decreased due to lower average rates on the unhedged portion of the Company s debt. During the fourth quarter 2009, the Company recorded a non-cash credit to interest expense of $13.8 million related to the interest rate swap mentioned above. The Company should have been amortizing the fair value of the swap as of the date of hedge designation on a straight line basis to reduce interest expense since August 2008. The effect on prior periods was not material to the consolidated financial statements in those periods. The swap expired in January 2010. As of December 31, 2009, approximately 7% of the Company s total debt was subject to floating interest rates.

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Income Tax Expense

During 2009, the Company recognized Income Tax Expense of $24.1 million on Income before Income Taxes and Equity in Net Earnings of Affiliates of $79.2 million. During 2008, the Company recognized Income Tax Expense of $34.4 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $65.5 million. Income Tax Expense for 2009 and 2008 primarily relates to the noncash expense of $31.6 million and $29.4 million, respectively, associated with the amortization of goodwill for tax purposes. In addition, in 2009, the Company determined that a valuation allowance for its U.K. operations was no longer required. The Company has approximately $1.3 billion of NOLs for U.S. federal income tax purposes, which may be used to offset future taxable income.

Equity in Net Earnings of Affiliates

Equity in Net Earnings of Affiliates was $1.3 million in 2009 and $1.1 million in 2008 and is related to the Company s equity investment in the joint venture, Rengo Riverwood Packaging, Ltd.

2008 COMPARED WITH 2007

Net Sales

	Year Ended December 31,			
In millions	2008	2007	Increase	Percent Change
Paperboard Packaging	$ 3,377.4	$ 2,340.6	$ 1,036.8	44.3%
Multi-wall Bag	478.1	80.6	397.5	N.M.[(a)]
Specialty Packaging	223.9		223.9	N.M.[(a)]
Total	$ 4,079.4	$ 2,421.2	$ 1,658.2	68.5%

Note:

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

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

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

Specialty Packaging			223.9			223.9	223.9
Total	$ 2,421.2	$ 47.4	$ 1,601.8	$ (3.9)	$ 12.9	$ 1,658.2	$ 4,079.4

Paperboard Packaging

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

Europe. Beverage sales volume decreased in the fourth quarter and impacted the full year due to continued softness in the soft drink market due to price increases as well as downtime taken in the beer market.

Multi-wall Bag

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

Specialty Packaging

The Company s Net Sales from specialty packaging in 2008 increased by $223.9 million compared to 2007 as a result of the acquisition of the specialty packaging segment in the Altivity Transaction.

Income (Loss) from Operations

	Year Ended December 31,			
In millions	**2008**	**2007**	**Increase (Decrease)**	**Percent Change**
Paperboard Packaging	$ 220.9	$ 177.8	$ 43.1	24.2%
Multi-wall Bag	25.9	6.3	19.6	N.M.[a]
Specialty Packaging	9.6		9.6	N.M.[a]
Corporate	(106.5)	(32.9)	(73.6)	N.M.[a]
Total	$ 149.9	$ 151.2	$ (1.3)	(0.9)%

Note:

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

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

		Year Ended December 31, Variances							
			Volume/Mix						
In millions	**2007**	**Price**	**Acquisition**	**Organic**	**Inflation**	**Exchange**	**Other(a)**	**Total**	**2008**
Paperboard Packaging	$ 177.8	$ 41.0	$ 46.7	$ 3.6	$ (120.9)	$ 1.1	$ 71.6	$ 43.1	$ 220.9
Multi-wall Bag	6.3	6.4	17.5	0.7	(5.4)		0.4	19.6	25.9
Specialty Packaging			9.6					9.6	9.6
Corporate	(32.9)		(56.7)			(9.6)	(7.3)	(73.6)	(106.5)

Total	$ 151.2	$ 47.4	$ 17.1	$ 4.3	$ (126.3)	$ (8.5)	$ 64.7	$ (1.3)	$ 149.9

Note:

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

Paperboard Packaging

The Company s Income from Operations from paperboard packaging in 2008 increased by $43.1 million, or 24.2%, to $220.9 million from $177.8 million in 2007 as a result of $52.2 million of continuing cost reduction initiatives, the Altivity transaction, the improved pricing, and improved product mix. These increases more than offset inflationary pressures of $120.9 million, primarily related to chemical-based inputs ($40.3 million); fiber and outside board purchases ($38.5 million); energy costs ($26.9 million), mainly due to the price of natural gas; labor and related benefits ($15.5 million); and freight ($5.8 million), partially offset by other lower costs of $6.1 million. The Company also recorded a charge for the previously announced permanent shutdown of the #2 coated board machine at the West Monroe, LA mill. Results in 2007 included charges related to the continued infrastructure updates at this mill, accelerated depreciation for assets taken out of service due to efficiency improvements, and higher expenses in Europe, primarily relating to the start up costs for a new converting facility in France.

Multi-wall Bag

The Company s Income from Operations from multi-wall bag in 2008 increased by $19.6 million to $25.9 million from $6.3 million in 2007 as a result of the Altivity Transaction, the improved pricing and cost saving initiatives of $1.6 million. These increases were partially offset by inflation costs. The segment s Income from Operations was attributable to volume primarily in the bag packaging markets.

Specialty Packaging

The Company s Income from Operations from specialty packaging in 2008 increased by $9.6 million compared to 2007 as a result of the acquisition of the specialty packaging segment in the Altivity Transaction.

Corporate

The Company s Loss from Operations from corporate was $106.5 million in 2008 compared to a loss of $32.9 million in 2007. This $73.6 million increase was due primarily to Altivity Transaction related expenses of $28.1 million and the inclusion of Altivity Corporate expenses of $11.8 million. In addition, the Company recorded $24.4 million of expense related to the step-up in inventory basis to fair value. These expenses were offset by a favorable $10.4 million fair value adjustment for an interest rate swap and lower bonus accruals, partially offset by a net foreign currency loss of $9.6 million. The swap was assumed in the Altivity Transaction. Results for 2007 were positively impacted by the reversal of a $3.0 million liability recorded at the time of the merger of GPII and Riverwood Holdings, Inc. in 2003.

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

Interest Expense

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

Income Tax Expense

During 2008, the Company recognized Income Tax Expense of $34.4 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $65.5 million. During 2007, the Company recognized Income Tax Expense of $23.9 million on Loss before Income Taxes and Equity in Net Earnings of Affiliates of $26.1 million. Income Tax Expense for 2008 and 2007 primarily relates to the noncash expense associated with the amortization of goodwill for tax purposes, benefits related to losses in certain foreign countries and tax withholding in foreign jurisdictions. Income tax expense for 2007 also increased due to a liability related to a judgment received in a Swedish tax court.

Equity in Net Earnings of Affiliates

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

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.

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Cash Flows

In millions	Years Ended December 31, 2009	2008
Net Cash Provided by Operating Activities	$ 502.9	$ 184.2
Net Cash Used in Investing Activities	(124.1)	(143.8)
Net Cash (Used in) Provided by Financing Activities	(399.2)	119.8

Net cash provided by operating activities in 2009 totaled $502.9 million, compared to $184.2 million in 2008. The increase was primarily due to cash received from the alternative fuel tax credit of $134.8 million; improved working capital of $117.1 million primarily as a result of lower inventory levels; higher net income when adjusted for noncash items such as depreciation and amortization and, in 2008, the $24.4 million inventory step-up related to Altivity, the $12.6 million write-off of the #2 coated board machine at the West Monroe, LA mill, and lower postemployment contributions of $15.2 million.

Net cash used in investing activities in 2009 totaled $124.1 million, compared to $143.8 million in 2008. This year over year change was due primarily to a decrease in capital spending of $53.4 million in 2009, the $60.2 million of cash acquired by the Company in the Altivity Transaction, and higher proceeds from the sales of assets in 2008, partially offset by $30.3 million in acquisition costs in 2008.

Net cash used in financing activities in 2009 totaled $399.2 million, compared to $119.8 million provided by financing activities in 2008. This change was primarily due to higher net debt repayments in 2009, as well as the repayment of funds borrowed under the Company s revolving credit facilities in 2008 when the credit and securities markets were more volatile and the Company felt it necessary to maintain sufficient cash to meet any foreseeable liquidity needs.

Liquidity and Capital Resources

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

As of December 31, 2009, the Company had approximately $1.3 billion of NOLs for U.S. federal income tax purposes. These NOLs generally may be used by the Company to offset taxable income earned in subsequent taxable years. However, the Company s ability to use these NOLs to offset its future taxable income may be subject to significant limitations as a result of certain shifts in ownership due to direct or indirect transfers of the Company s common stock by one or more five percent stockholders, or issuance or redemption of the Company s common stock, which, when taken together with previous changes in ownership of the Company s common stock, constitute an ownership change under Section 382. Imposition of any such limitation of the use of NOLs could have an adverse effect on the Company s future after tax free cash flow.

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Covenant Restrictions

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

Under the terms of the Credit Agreement, the Company must comply with a maximum consolidated secured leverage ratio, which is defined as the ratio of: (a) total long-term and short-term indebtedness of the Company and its consolidated subsidiaries as determined in accordance with generally accepted accounting principles in the United States (U.S. GAAP), plus the aggregate cash proceeds received by the Company and its subsidiaries from any receivables or other securitization but excluding therefrom (i) all unsecured indebtedness, (ii) all subordinated indebtedness permitted to be incurred under the Credit Agreement, and (iii) all secured indebtedness of foreign subsidiaries to (b) Adjusted EBITDA, which we refer to as Credit Agreement EBITDA(1). 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(1)
October 1, 2008 September 30, 2009	5.00 to 1.00
October 1, 2009 and thereafter	4.75 to 1.00

Note:

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

At December 31, 2009, the Company was in compliance with the financial covenant in the Credit Agreement and the ratio was as follows:

Consolidated Secured Leverage Ratio	2.94 to 1.00

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

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

The calculations of the components of the maximum consolidated secured leverage ratio for and as of the period ended December 31, 2009 are listed below:

In millions		Twelve Months Ended December 31, 2009
Net Income	$	56.4
Income Tax Expense		24.1
Interest Expense, Net		196.4
Depreciation and Amortization		305.4
Dividends Received, Net of Earnings of Equity Affiliates		0.1
Non-Cash Provisions for Reserves for Discontinued Operations		
Other Non-Cash Charges		56.5
Merger Related Expenses		50.8
Losses Associated with Sale/Write-Down of Assets		39.1
Other Non-Recurring/Extraordinary/Unusual Items		(127.5)
Projected Run Rate Cost Savings[a]		60.1
Credit Agreement EBITDA	$	661.4

In millions		As of December 31, 2009
Short-Term Debt	$	17.6
Long-Term Debt		2,782.6
Total Debt	$	2,800.2
Less Adjustments[b]		857.0
Consolidated Secured Indebtedness	$	1,943.2

Notes:

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

The terms of the Credit Agreement limit the amount of projected run rate cost savings that may be used in calculating Credit Agreement EBITDA by stipulating that such amount may not exceed the lesser of (i) ten percent of EBITDA as defined in the Credit Agreement for the last twelve-month period (before giving effect to projected run rate cost savings) and (ii) $100 million. As a result, in calculating Credit Agreement EBITDA above, the Company used projected run rate cost savings of $60.1 million or ten percent of EBITDA as calculated in accordance with the Credit Agreement, which amount is lower than total projected cost savings identified by the Company, net of actual benefits realized for the twelve month period ended December 31, 2009. Projected run rate cost savings were calculated by the Company solely for its use in calculating Credit Agreement EBITDA for purposes of determining compliance with the maximum consolidated secured leverage ratio contained in the Credit Agreement and should not be used for any other purpose.

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

The Senior Notes and Senior Subordinated Notes are rated B- by Standard & Poor s and B3 by Moody s Investor Services. The Company s indebtedness under the Credit Agreement is rated BB by Standard & Poor s and Ba3 by Moody s Investor Services. As of December 31, 2009, Moody s Investor Services ratings on the Company remain on negative outlook, while Standard & Poor s ratings on the Company have a positive outlook. During 2009, cash paid for interest was $219.5 million.

If inflationary pressures on key inputs resume, or depressed selling prices, lower sales volumes, increased operating costs or other factors have a negative impact on the Company s ability to increase its profitability, the Company may not be able to maintain its compliance with the financial covenant in its Credit Agreement. The Company s ability to comply in future periods with the financial covenant in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic

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

Capital Investment

The Company s capital investment in 2009 was $129.9 million compared to $183.3 million (including $38.1 million for Altivity) in 2008. During 2009, the Company had capital spending of $102.1 million for improving process capabilities, $21.0 million for capital spares, $6.6 million for manufacturing packaging machinery and $0.2 million for compliance with environmental laws and regulations.

Environmental Matters

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

For further discussion of the Company s environmental matters, see Note 15 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Contractual Obligations and Commitments

A summary of our contractual obligations and commitments as of December 31, 2009 is as follows:

		Payments Due by Period			
In millions	**Total**	**Less than 1 Year**	**1-3 Years**	**3-5 Years**	**More than 5 Years**
Long-Term Debt	$ 2,792.6	$ 10.0	$ 40.8	$ 2,318.1	$ 423.7
Operating Leases	159.3	42.3	63.1	28.3	25.6
Interest Payable	1,015.6	171.1	345.4	278.7	220.4
Purchase Obligations[(a)]	607.6	116.5	165.7	117.3	208.1
Pension Funding	58.0	58.0			

Total Contractual Obligations[b]	$ 4,633.1	$ 397.9	$ 615.0	$ 2,742.4	$ 877.8

Notes:

(a) Purchase obligations primarily consist of commitments related to pine pulpwood, wood chips, and wood processing and handling.

(b) Some of the figures included in this table are based on management s estimates and assumptions about these obligations. Because these estimates and assumptions are necessarily subjective, the obligations the Company will actually pay in the future periods may vary from those reflected in the table.

International Operations

For 2009, before intercompany eliminations, net sales from operations outside of the U.S. represented approximately 10% of the Company s net sales. The Company s revenues from export sales fluctuate with changes in foreign currency exchange rates. At December 31, 2009, approximately 7% of its total assets were denominated in currencies other than the U.S. dollar. The Company has significant operations in countries that use the British pound sterling, the Australian dollar, the Japanese yen or the euro as their functional currencies. The effect of a generally stronger U.S. dollar against these currencies produced a net currency translation adjustment gain of $7.8 million, which was recorded as an adjustment to Shareholders Equity for the year ended December 31, 2009. The magnitude and direction of this adjustment in the future depends on the relationship of the U.S. dollar to other currencies. The Company cannot predict major currency fluctuations. The Company pursues a currency hedging program in order to limit the impact of foreign currency exchange fluctuations on financial results. See Financial Instruments below.

Financial Instruments

The functional currency of the Company s international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to shareholders equity. Gains and losses on foreign currency transactions are included in Other (Income) Expense, Net for the period in which the exchange rate changes.

The Company pursues a currency hedging program which utilizes derivatives to limit the impact of foreign currency exchange fluctuations on its consolidated financial results. Under this program, the Company has entered into forward exchange contracts in the normal course of business to hedge certain foreign currency denominated transactions. Realized and unrealized gains and losses on these forward contracts are included in the measurement of the basis of the related foreign currency transaction when recorded. The Company also pursues a hedging program which utilizes derivatives designed to manage risks associated with future variability in cash flows and price risk related to future energy cost increases. Under this program the Company has entered into natural gas swap contracts to hedge a portion of its natural gas requirements through December 2010. Realized gains and losses on these contracts are included in the financial results concurrently with the recognition of the commodity purchased. The Company uses interest rate swaps to manage interest rate risks on future income caused by interest rate changes on its variable rate term loan facility. These instruments involve, to varying degrees, elements of market and credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company does not hold or issue financial instruments for trading purposes. See Item 7A., Quantitative and Qualitative Disclosure About Market Risk.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used by management in the preparation of the Company s 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 critical judgments by management relate to pension benefits, retained insurable risks, future cash flows associated with impairment testing for goodwill and long-lived assets, and deferred income taxes.

Pension Benefits

The Company sponsors defined benefit pension plans (the Plans) for eligible employees in North America and certain international locations. The funding policy for the qualified defined benefit plans is to, at a minimum, contribute assets as required by the Internal Revenue Code Section 412. Nonqualified U.S. plans providing benefits in excess of limitations imposed by the U.S. income tax code are not funded.

The Company s pension expense for defined benefit pension plans was $47.9 million in 2009 compared with $19.7 million in 2008. Pension expense is calculated based upon a number of actuarial assumptions applied to each of the defined benefit plans. The weighted average expected long-term rate of return on pension fund assets used to calculate pension expense was 7.91% and 7.96% in 2009 and 2008, respectively. The expected long-term rate of return on pension assets was determined based on several factors, including historical rates of return, input from our pension investment consultants and projected long-term returns of broad equity and bond indices. The Company evaluates its long-term rate of return assumptions annually and adjusts them as necessary.

The Company determined pension expense using both the fair value of assets and a calculated value that averages gains and losses over a period of years. Investment gains or losses represent the difference between the expected and actual return on assets. As of December 31, 2009, the net actuarial loss was $189.6 million. These net losses may increase future pension expense if not offset by (i) actual investment returns that exceed the assumed investment returns, or (ii) other factors, including reduced pension liabilities arising from higher discount rates used to calculate pension obligations, or (iii) other actuarial gains, including whether such accumulated actuarial losses at each measurement date exceed the corridor determined under the *Compensation Retirement Benefits* topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification™ (the FASB Codification).

The discount rate used to determine the present value of future pension obligations at December 31, 2009 was based on a yield curve constructed from a portfolio of high-quality corporate debt securities with maturities ranging from 1 year to 30 years. Each year s expected future benefit payments were discounted to their present value at the appropriate yield curve rate thereby generating the overall discount rate for the Company s pension obligations. The weighted average discount rate used to determine the pension obligations was 6.10% and 6.28% in 2009 and 2008, respectively.

The Company s pension expense is estimated to be approximately $32 million in 2010. The estimate is based on a weighted average expected long-term rate of return of 7.95%, a weighted average discount rate of 6.10% and other assumptions. Pension expense beyond 2010 will depend on future investment performance, the Company s contribution to the plans, changes in discount rates and other factors related to covered employees in the plans.

If the discount rate assumptions for the Company s U.S. plans were reduced by 0.25%, pension expense would increase by approximately $3 million and the December 31, 2009 pension funding obligation would increase by about $22 million.

The fair value of assets in the Company s plans was $622.2 million at December 31, 2009 and $489.0 million at December 31, 2008. The projected benefit obligations exceed the fair value of plan assets by $236.7 million and $323.1 million as of December 31, 2009 and 2008, respectively. Primarily due to the lower discount rates, the accumulated benefit obligation (ABO) exceeded plan assets by $219.1 million at the end of 2009. At the end of 2008, the ABO exceeded the fair value of plan assets by $295.7 million.

Retained Insurable Risks

The Company is self-insured for certain losses relating to workers compensation claims and employee medical and dental benefits. Provisions for expected losses are recorded based on the Company s estimates, on an undiscounted basis, of the aggregate liabilities for known claims and estimated claims incurred but not reported. The Company has purchased stop-loss coverage or insurance with deductibles in order to limit its exposure to significant claims. The Company also has an extensive safety program in place to minimize its exposure to workers compensation claims.

Self-insured losses are accrued based upon estimates of the aggregate uninsured claims incurred using certain actuarial assumptions and loss development factors followed in the insurance industry and historical experience.

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Goodwill

The Company evaluates goodwill for potential impairment annually as of October 1 of each year, as well as whenever events or changes in circumstances suggest that the fair value of a reporting unit may no longer exceed its carrying amount. Potential impairment of goodwill is measured at the reporting unit level by comparing the reporting unit s carrying amount including goodwill, to the estimated fair value of the reporting unit.

A reporting unit is an operating segment or one level below an operating segment (referred to as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and senior management regularly reviews the operating results of that component. The Company s reporting units are all one level below the reported segments except for the multi-wall bag reporting unit which is also an operating segment. As of October 1, 2009, the Company had eleven reporting units, of which six of the units had goodwill.

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

The Company performed its annual goodwill impairment test as of October 1, 2009. In performing the annual impairment test, the Company utilized a number of assumptions. The assumed revenue growth rates of the reporting units were consistent with historic growth rates. Projected margins were based on the current cost structure including synergies achieved from the Altivity Transaction, as well as on-going cost savings initiatives. Other assumptions included a weighted average cost of capital of 8.0% as of October 1, 2009.

The Company performed sensitivity analyses related to the weighted average cost of capital and concluded that the weighted average cost of capital could increase by 150 basis points and all of the reporting units would continue to have estimated fair value in excess of carrying value.

The Company concluded that the fair value of its reporting units exceeded their carrying values including goodwill at October 1, 2009 and, therefore, that goodwill was not impaired.

The assumptions used in the goodwill impairment testing process could be adversely impacted by certain of the risks discussed in Item 1A., Risk Factors and thus could result in future goodwill impairment charges.

Recovery of Long-Lived Assets

The Company reviews long-lived assets (including property, plant and equipment and intangible assets) for impairment whenever events or changes in circumstances indicate that the carrying amount of such long-lived assets may not be fully recoverable by undiscounted cash flows. Measurement of the impairment loss, if any, is based on the fair value of the asset, which is determined by an income, cost or market approach. The Company evaluates the recovery of its long-lived assets by analyzing operating results and considering significant events or changes in the business environment that may have triggered impairment. See Note 13 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

Deferred Income Taxes and Potential Assessments

As of December 31, 2009, the Company, in accordance with the *Income Taxes* topic of the FASB Codification, has determined that $83.8 million of undistributed foreign earnings are not intended to be reinvested indefinitely by its non-U.S. subsidiaries. Deferred income tax was recorded as a reduction to the

Company s NOLs on these undistributed earnings as well as the financial statement carrying value in excess of tax basis in the amount of $32.0 million. As of December 31, 2008, the Company had determined that $68.4 million of undistributed foreign earnings were not intended to be reinvested indefinitely. Deferred income tax was recorded as a reduction to the Company s NOLs on these undistributed earnings, as well as the financial statement carrying value in excess of tax basis in the amount of $30.5 million. The Company periodically determines whether the non-U.S. subsidiaries will invest their undistributed earnings indefinitely and reassesses this determination as appropriate.

The Company records current liabilities for potential assessments. The accruals relate to uncertain tax positions in a variety of taxing jurisdictions and are based on what management believes will be the most likely outcome of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations.

NEW ACCOUNTING STANDARDS

For a discussion of recent accounting pronouncements impacting the Company, see Note 1 in the Notes to Consolidated Financial Statements included herein under Item 8., Financial Statements and Supplementary Data.

BUSINESS OUTLOOK

The Company expects to realize between $80 million and $100 million of year over year operating cost savings from its continuous improvement programs, including Lean Sigma manufacturing projects and synergies.

Total capital investment for 2010 is expected to be between $130 million and $150 million and is expected to relate principally to the Company s process capability improvements (approximately $113 million), acquiring capital spares (approximately $20 million), and producing packaging machinery (approximately $7 million).

The Company also expects the following in 2010:

- Depreciation and amortization between $310 million and $330 million.
- Interest expense of $180 million to $200 million, including $9 million of noncash interest expense associated with amortization of debt issuance costs.
- Debt reduction of $180 million to $200 million.
- Pension plan contributions of $45 million to $70 million.

ITEM 7A. ***QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK***

The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified.

Interest Rates

The Company is exposed to changes in interest rates, primarily as a result of its short-term and long-term debt, which bear both fixed and floating rate debt. The Company uses interest rate swap agreements effectively to fix the LIBOR rate on variable rate borrowings. At December 31, 2009, the Company had interest rate swap agreements with a notional amount of $2,170.0 million, including $400.0 million in forward starting interest rate swaps.

The table below sets forth interest rate sensitivity information related to the Company s debt.

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Long-Term Debt Principal Amount by Maturity-Average Interest Rate

	Expected Maturity Date							
ions	**2010**	**2011**	**2012**	**2013**	**2014**	**Thereafter**	**Total**	**Fa Va**
Debt								
Rate	$	$	$ 0.8	$ 425.0	$	$ 423.7(a)	$ 849.5	$ 8
ge	%							
t Rate		%	8.63%	9.5%	%	9.5%		
le Rate	$ 10.0	$ 20.0	$ 20.0	$ 20.0	$ 1,873.1	$	$ 1,943.1	$ 1,8
ge t Rate, range %	LIBOR+. spread	LIBOR+ spread	+. LIBORspread	+. LIBORspread	+. LIBORspread			

Total Interest Rate Swaps-Notional Amount by Expiration-Average Swap Rate

	Expected Maturity Date						
In millions	**2010**	**2011**	**2012**	**2013**	**Thereafter**	**Total**	**Fair Value**
Interest Rate Swaps (Pay Fixed/Receive Variable)							
Notional	$920.0	$330.0	$ 920.0	$	$	$ 2,170.0	$ (36.1)
Average Pay Rate	3.98%	3.13%	2.62%	%	%		
Average Receive Rate	3-Month LIBOR	3-Month LIBOR	3-Month LIBOR				

Note:

(a) $425.0 million face amount.

Foreign Exchange Rates

The Company enters into forward exchange contracts to effectively hedge substantially all accounts receivable resulting from transactions denominated in foreign currencies. The purpose of these forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from the collection of these accounts receivable will be adversely affected by changes in exchange rates. At December 31, 2009, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those forward currency exchange contracts outstanding at December 31, 2009, when aggregated and measured in U.S. dollars at December 31, 2009 exchange rates, had net notional amounts totaling $10.1 million. The Company continuously monitors these forward exchange contracts and adjusts accordingly to minimize the exposure.

The Company also enters into forward exchange contracts to hedge certain other anticipated foreign currency transactions. The purpose of these contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from anticipated foreign currency transactions will be adversely affected by changes in exchange rates.

During the years ended December 31, 2009 and 2008, no amounts were reclassified to earnings in connection with forecasted transactions that were no longer considered probable of occurring and there was no amount of ineffectiveness related to changes in the fair value of foreign currency forward contracts. Additionally, there were no amounts excluded from the measure of effectiveness during the years ended December 31, 2009 and 2008.

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Foreign Exchange Rates Contractual Amount by Expected Maturity-Average Contractual Exchange Rate

In millions	December 31, 2009 Contract Amount	Fair Value
FORWARD EXCHANGE AGREEMENTS:		
Receive $US/Pay Yen	$ 31.6	$ 0.1
Weighted average contractual exchange rate	92.44	
Receive $US/Pay Euro	$ 19.9	$ 0.8
Weighted average contractual exchange rate	1.49	
Receive $US/Pay GBP	$ 9.1	$ 0.1
Weighted average contractual exchange rate	1.63	

Natural Gas Contracts

The Company entered into natural gas swap contracts to hedge prices for approximately 52% of its expected natural gas usage through December 2010 with a weighted average contractual rate of $5.68 per MMBTU. The carrying amount and fair value of the natural gas swap contracts is an asset of $0.3 million as of December 31, 2009, and is recorded as Other Current Assets in the Consolidated Balance Sheet. Such contracts are designated as cash flow hedges and are accounted for by deferring the quarterly change in fair value of the outstanding contracts in Shareholders Equity. On the date a contract matures, the resulting gain or loss is reclassified into Cost of Sales concurrently with the recognition of the commodity purchased. The ineffective portion of the swap contracts change in fair value, if any, would be recognized immediately in earnings.

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

INDEX TO FINANCIAL STATEMENTS

GRAPHIC PACKAGING HOLDING COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

In millions, except per share amounts	2009	Year Ended December 31, 2008	2007
Net Sales	$ 4,095.8	$ 4,079.4	$ 2,421.2
Cost of Sales	3,567.2	3,587.1	2,089.4
Selling, General and Administrative	305.3	298.9	179.2
Research, Development and Engineering	7.2	8.0	9.2
Other (Income) Expense, Net	(13.5)	2.3	(7.8)
Restructuring and Other Special (Credits) Charges	(53.1)	33.2	
	P		
Income from Operations	282.7 VALIGN="bottom">		

(1) Includes the following:
- 714,503 shares available under the Company s 1988 Incentive Stock Option Plan.
- 3,069,863 shares available under the Company s 1988 Nonqualified Stock Option Plan.
- 327,097 shares available under the Company s 1989 Non-Employee Directors Stock Option Plan.
- 2,379,908 shares available under the Company s Employee Stock Purchase Plan.

(2) The following plans have not been approved by the Company s stockholders: the Deferred Equity Participation Plan and the Restricted Stock Plan.

(3) Includes 2,298,896 shares available under the Restricted Stock Plan.

Set forth below is a brief description of the material features of each of the Company s equity compensation plans that was adopted without the approval of the Company s stockholders and that was in effect at December 31, 2007.

Deferred Equity Participation Plan

A description of the Deferred Equity Participation Plan may be found under the Narrative to Summary Compensation Table and Plan Based Award Table on page 28 of this Proxy Statement.

Restricted Stock Plan

All of the Company s directors, officers and employees are eligible to receive awards under the Company s Restricted Stock Plan adopted by the Board of Directors effective on June 1, 2003. The Restricted Stock Plan provides for the grant to certain directors, officers and employees of the Company of contingent rights to receive shares of Common Stock. Awards under the plan are granted at the discretion of the Compensation Committee. Each award granted under the plan represents the right of the holder of the award to receive shares of common stock of the Company, cash or a combination of shares and cash, upon and subject to the holder s continued employment with the Company for a period of time after the date the award is granted. The Compensation Committee shall determine each recipient of an award under the plan, the number of shares of common stock subject to such an award and the period of continued employment required for the vesting of such award. 4,000,000 shares of common stock of the Company are authorized to be issued pursuant to the Restricted Stock Plan.

REPORT OF THE AUDIT COMMITTEE

Notwithstanding anything to the contrary set forth in any of the Company s filings under the Securities Act or the Exchange Act that might incorporate filings, including this Proxy Statement, in whole or in part, the following report shall not be incorporated by reference into any such filings.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained a formal written statement from the independent registered public accounting firm describing all relationships between the independent registered public accounting firm and the Company that might bear on the independence of the independent registered public accounting firm consistent with Independence Standards Board Standard No. 1 Independence Discussions with Audit Committees and discussed with the independent registered public accounting firm any relationships that may impact their objectivity and independence. The Audit Committee discussed and reviewed with the independent registered public accounting firm all communications required by standards of the Public Company Accounting Oversight Board (United States), including those described in Statement on Auditing Standards No. 114, The Auditors Communication with those Charged with Governance, SEC Rules and other professional standards. The Audit Committee reviewed and discussed with management and the independent registered public accounting firm the audited consolidated financial statements of the Company as of and for the fiscal year ended December 31, 2007 and the Company s internal control over financial reporting as of December 31, 2007.

Management of the Company is responsible for the preparation, presentation and integrity of the Company s consolidated financial statements, the Company s accounting and financial reporting principles, and internal controls designed to assure compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm is responsible for auditing the Company s consolidated financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles and for auditing the effectiveness of the Company s internal controls over financial reporting. Management has represented to the Audit Committee that the Company s consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles and in compliance with the Company s internal controls. It is not the duty of the Committee to plan or conduct audits or to determine that the Company s consolidated financial statements are complete and accurate and in accordance with U.S. generally accepted accounting principles or assess the effectiveness of the Company s internal controls. Accordingly, the Audit Committee s considerations and discussions referred to above do not assure that the audit of the Company s consolidated financial statements and internal control over financial reporting has been carried out in accordance with standards of the Public Company Accounting Oversight Board (United States) and generally accepted auditing standards, as appropriate, that the financial statements are presented in accordance with U.S. generally accepted accounting principles or that the Company s independent registered public accounting firm is in fact independent .

Based on the above-mentioned review and discussions with management and the independent registered public accounting firm, the Audit Committee recommended to the Board that the Company s audited consolidated financial statements be included in its Annual Report on Form 10-K for the fiscal year ended December 31, 2007, for filing with the SEC.

AUDIT COMMITTEE

Gary P. Coughlan (Chair)

William L. Bax

T. Kimball Brooker

Norman L. Rosenthal

James R. Wimmer

PROPOSAL 2 RATIFICATION OF THE APPOINTMENT OF

ERNST & YOUNG LLP AS THE COMPANY S

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

FOR THE FISCAL YEAR ENDING DECEMBER 31, 2007

The Audit Committee has considered the qualifications of Ernst & Young LLP and has appointed Ernst & Young LLP as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2008. The Board wishes to obtain stockholders ratification of the Audit Committee s action in such appointment. A resolution ratifying the appointment will be offered at the meeting. If the resolution is not adopted, the adverse vote will be considered as a direction to the Audit Committee to select another independent registered public accounting firm for the following year. Because of the difficulty and expense of making any substitution of an independent registered public accounting firm so long after the beginning of the current year, it is contemplated that the appointment for the year 2008 will stand unless the Board finds other good reason for making a change.

Principal Accountant Fees and Services

The following is a summary of the fees billed to the Company by Ernst & Young LLP for professional services rendered for the fiscal years ended December 31, 2007 and 2006:

	2007	**2006**
Audit Fees	$ 2,021,000	$ 1,987,000
Audit-Related Fees	495,000	555,000
Tax Fees	967,000	318,000
All Other Fees	6,000	6,000
Totals	$ 3,489,000	$ 2,866,000

Fees for audit services include fees associated with the annual audit of the Company and its subsidiaries and the effectiveness of internal control over financial reporting, the review of the Company s quarterly reports on Form 10-Q and annual report on Form 10-K, and statutory audits required internationally. Audit-related fees principally include due diligence in connection with acquisitions, audits in connection with the Company s employee benefit plans, issuance of service auditor reports (SAS 70) related to operations at one Company subsidiary and advisory work related to the Company s compliance with foreign statutory requirements. Tax fees include tax compliance, tax advice and tax planning related to federal, state and international tax matters. All other fees principally include fees for access to an online accounting and tax information database in 2007 and 2006.

All audit-related services, tax services and other services for fiscal years 2007 and 2006 were pre-approved by the Audit Committee. It is the policy of the Audit Committee to pre-approve the engagement of the independent registered public accounting firm before such accountant is engaged by the Company to render audit or other services.

A representative of Ernst & Young LLP will be present at the Annual Meeting to respond to appropriate questions and to make a statement if the representative so desires.

Ratification of the appointment of Ernst & Young LLP as the Company s independent registered public accounting firm for 2008 requires the affirmative vote of the holders of a majority of the shares of Common Stock represented at the Annual Meeting, in person or by proxy, and entitled to vote thereon.

THE BOARD AND AUDIT COMMITTEE RECOMMEND THAT YOU VOTE

FOR THE RATIFICATION OF THE APPOINTMENT OF

ERNST & YOUNG LLP AS THE COMPANY S

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2008.

PROPOSALS 3 THROUGH 6 CONSIDERATION AND APPROVAL OF

THE AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION OF THE COMPANY

In January 2008, the Board unanimously adopted, subject to stockholder approval, the Amended and Restated Certificate of Incorporation of the Company as set forth in Appendix A (the Amended and Restated Certificate of Incorporation). The proposed amendments relate to (i) the elimination of supermajority voting requirements, (ii) the phasing out of the election of directors in three separate classes (or a staggered board), which will result in the annual election of all directors to the Board beginning with the 2011 Annual Meeting of Stockholders, (iii) a provision that any amendments to Delaware law which further limit or eliminate director liability will automatically apply to the Company s directors and (iv) certain non-substantive clean-up changes that are intended to update and clarify certain provisions of the Company s current Certificate of Incorporation.

The following descriptions of proposed changes reflected in the Amended and Restated Certificate of Incorporation are summaries only and are qualified in their entirety by reference to Appendix A. Except where otherwise noted, all references to article and section numbers are to the Amended and Restated Certificate of Incorporation.

Proposal 3: Elimination of Supermajority Voting Requirements

The Board believes it is in the best interests of the Company and its stockholders to amend the Certificate of Incorporation to eliminate all supermajority voting requirements. The elimination of supermajority voting requirements will provide stockholders with greater power to influence the Company s affairs.

Proposed Changes

The following changes relating to Proposal 3 are reflected in the Amended and Restated Certificate of Incorporation:

Former Article TENTH. Former Article TENTH, which included certain supermajority voting requirements in the context of the approval of business combinations, mergers, consolidations, sales, leases, exchanges and other transactions with related parties has been deleted.

New Article TENTH. Subparagraph (C) has been modified to provide that any director may be removed, with or without cause, by the affirmative vote of the holders of a majority of the outstanding shares of voting stock (rather than by a supermajority vote as had been previously provided). In addition, the final sentence of Subparagraph (C), which had previously provided that any director could be removed with cause by the affirmative vote of the majority of directors in office, has been removed.

New Article ELEVENTH. Under the current Certificate of Incorporation, amendments to certain provisions of the Certificate of Incorporation required a supermajority vote. This supermajority vote requirement has been removed.

Vote Required

The amendment of the provisions set forth in Proposal 3 requires the affirmative vote of the holders of 80% or more of the outstanding shares of the voting stock of the Company and the affirmative vote of the holders of not less than 67% of the outstanding shares of voting stock held by stockholders other than a Related Person, which generally includes entities and persons who, together with such entity or person s affiliates and associates, beneficially own 20% or more of the outstanding voting stock of the Company.

THE BOARD RECOMMENDS THAT YOU VOTE

FOR PROPOSAL 3 RELATING TO THE ELIMINATION OF SUPERMAJORITY VOTING REQUIREMENTS IN THE AMENDED AND RESTATED CERTIFICATE

OF INCORPORATION

Proposal 4: Phase-out of Staggered Board and Implementation of Annual Election of Directors

The Board believes it is in the best interests of the Company and its stockholders to amend the Certificate of Incorporation to phase out the staggered Board structure and to provide for the annual election of all directors. The elimination of the staggered Board structure and the implementation of annual election of all directors will provide stockholders with greater control over the composition of the Board.

Proposed Changes

The following changes relating to Proposal 4 are reflected in the Amended and Restated Certificate of Incorporation:

New Article TENTH. (i) Subparagraph (A) eliminates the separation of directors into three classes and provides for the election of all directors at each annual meeting, beginning with the 2011 Annual Meeting of Stockholders. Assuming that the Amended and Restated Certificate of Incorporation is approved by stockholders at the 2008 Annual Meeting, the annual election of all directors will be phased in starting with the 2009 Annual Meeting of Stockholders as follows:

Class I Directors will stand for election at the 2009 Annual Meeting of Stockholders for a one-year term expiring at the 2010 Annual Meeting of Stockholders.

Class II Directors, along with the Class I Directors, will stand for election at the 2010 Annual Meeting of Stockholders for a one-year term expiring at the 2011 Annual Meeting of Stockholders.

Thereafter all directors will be elected each year for a one year term.

(ii) In Subparagraph (B), the current Certificate of Incorporation contains a provision which states that when a vacancy on the Board is to be filled or a new directorship is created, if the directors who are in office at that time comprise less than a majority of the entire Board size, a Delaware court could, after application of stockholders holding at least 25% of total outstanding shares, order an election to be held to fill the vacancy or newly created directorship, or to replace the directors chosen by the directors who are in office at the time. This provision is not required by Delaware law, is unlikely ever to become relevant and could cause disruption to the management of the Company s affairs if it ever were invoked; accordingly, it has been removed from the Amended and Restated Certificate of Incorporation.

Vote Required

The amendment of the provisions set forth in Proposal 4 requires the affirmative vote of the holders of 80% or more of the outstanding shares of the voting stock of the Company and the affirmative vote of the holders of not less than 67% of the outstanding shares of voting stock held by stockholders other than a Related Person, which generally includes entities and persons who, together with such entity or person s affiliates and associates, beneficially own 20% or more of the outstanding voting stock of the Company.

THE BOARD RECOMMENDS THAT YOU VOTE

FOR PROPOSAL 4 RELATING TO THE PHASE-OUT OF THE STAGGERED BOARD AND IMPLEMENTATION OF THE ANNUAL ELECTION OF DIRECTORS IN THE AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

Proposal 5: Limitation of Liability of Directors Under Delaware Law

The Board believes it is in the best interests of the Company and its stockholders to amend the Certificate of Incorporation to provide that any amendments to Delaware law that further limit or eliminate director liability will automatically apply to the Company s directors. The Board believes such a provision is consistent with current governance practices and will give the Company greater ability to attract and retain qualified and talented directors.

Proposed Changes

The following change relating to Proposal 5 is reflected in the Amended and Restated Certificate of Incorporation:

Article TWELFTH. Article TWELFTH, formerly Article THIRTEENTH, has been supplemented to provide that any amendments to Delaware law which further limit or eliminate director liability will automatically apply to the Company s directors, whether or not the Company subsequently amends its Certificate of Incorporation to reflect such Delaware law amendments.

Vote Required

The amendment of the provision set forth in Proposal 5 requires the approval of the holders of a majority of the outstanding shares of the voting stock of the Company.

THE BOARD RECOMMENDS THAT YOU VOTE

FOR PROPOSAL 5 RELATING TO LIMITATION OF LIABILITY OF DIRECTORS UNDER DELAWARE LAW IN THE AMENDED AND RESTATED CERTIFICATE

OF INCORPORATION

Proposal 6: Miscellaneous Changes to Update the Company s Current Certificate of Incorporation

The Board believes it is in the best interests of the Company and its stockholders to update the Company s current Certificate of Incorporation.

Proposed Changes

The following changes relating to Proposal 6 are reflected in the Amended and Restated Certificate of Incorporation:

Title and Preamble. Certain of the Preamble language was modified to reference the applicable provisions of Delaware law which allow for amendment and restatement of a certificate of incorporation.

Article SECOND. The name and address of the Company s registered agent in Delaware, Corporation Service Company, has been updated (Corporation Service Company is the successor in interest to the Company s previous registered agent, Prentice-Hall).

Article FOURTH. In subparagraph (B)(3), the provision under the current Certificate of Incorporation stating that stockholders do not have pre-emptive rights has been broadened slightly to make clear that it applies to all stockholders, regardless of when the stock is authorized, and to all classes of stock.

Vote Required

The amendment of the provisions set forth in Proposal 6 requires the approval of the holders of a majority of the outstanding shares of the voting stock of the Company.

THE BOARD RECOMMENDS THAT YOU VOTE

FOR PROPOSAL 6 RELATING TO CERTAIN MISCELLANEOUS CHANGES TO UPDATE THE COMPANY S CURRENT CERTIFICATE OF INCORPORATION

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The Company s executive officers, directors and 10% stockholders are required under the Exchange Act to file reports of ownership and changes in ownership with the SEC and the NYSE. Copies of these reports must also be furnished to the Company.

Based solely on a review of copies of reports furnished to the Company or filed with the SEC, or written representations that no additional reports were required, the Company believes that during 2007 its executive officers, directors and 10% stockholders complied with all filing requirements, provided however that one Form 4 filing, reporting transactions, for Douglas K. Howell was filed late.

SUBMISSION OF STOCKHOLDER PROPOSALS FOR 2009 ANNUAL MEETING

Stockholder proposals to be presented at the 2009 Annual Meeting of Stockholders must be received by the Company at its principal office on or before December 6, 2008 to be considered for inclusion in the Company s proxy materials for that meeting. With respect to any stockholder proposal to be presented at the 2009 Annual Meeting of Stockholders that is received by the Company after February 19, 2009, the proxies solicited on behalf of the Board of Directors may exercise discretionary voting power.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company or one or more of its subsidiaries may occasionally enter into transactions with certain related persons. Related persons include the Company s executive officers, directors, director nominees, beneficial owners of 5% or more of the Company s common stock, immediate family members of these persons and entities in which one of these persons has a direct or indirect material interest. Transactions with these related persons are referred to as related person transactions. The Company s legal staff is principally responsible for the development and implementation of controls to obtain information from the directors and executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether the Company or a related person has a direct or indirect material interest in the transaction. In addition the Compensation Committee reviews and approves or ratifies any related person transaction pertaining to compensation and the Audit Committee reviews and approves or ratifies any other related person transaction. The Compensation Committee or Audit Committee considers all relevant factors when determining whether to approve a related person transaction including, without limitation, whether the terms of the proposed transaction are at least as favorable to the Company as those that might be achieved with an unaffiliated third party. In accordance with the written related party transaction policy adopted by each of the Audit Committee and Compensation Committee, the appropriate committee considers each of the following, among other relevant factors:

- the size of the transaction and the amount of consideration payable to a related person;
- the nature of the interest of the applicable executive officer, director or 5% stockholder on the transaction;
- whether the transaction may involve a conflict of interest;
- whether the transaction involves the provision of goods and services to the Company that are available from unaffiliated third parties; and
- whether the proposed transaction is on terms and made under circumstances that are at least as favorable to the Company as would be available in comparable transactions with or involving unaffiliated third parties.

Each of the following related person transactions has been approved by the appropriate committee pursuant to these policies and procedures.

Certain directors and executive officers have immediate family members who are employed by the Company. The compensation of each such family member was established by the Company in accordance with its employment and compensation practices applicable to employees with equivalent qualifications and responsibilities and holding similar positions and is comparable to compensation paid to unrelated third parties for similar services. A sister of J. Patrick Gallagher, Jr. was employed by the Company in 2007 as the head of a specialty sales unit within the Company s Brokerage Segment and was paid an aggregate amount of $334,000 in salary and bonus. A brother of J. Patrick Gallagher, Jr., was employed by the Company in 2007 as a Vice President and one of six regional managers within the Company s Brokerage Segment and was paid an aggregate amount of $535,600 in salary and bonus. A brother-in-law of J. Patrick Gallagher, Jr. was employed by the Company in 2007 as a Vice President of Administration and Development within the Company s Brokerage Segment and was paid an aggregate amount of $416,600 in salary and bonus. A son of J. Patrick Gallagher, Jr. was employed by the Company in 2007 as a broker within the Company s Brokerage Segment and was paid an aggregate of $124,800 in salary and bonus. A brother of James W. Durkin, Jr. was employed by the Company in 2007 as the manager of a local sales office and was paid an aggregate amount of $342,300 in salary and bonus.

In 2007, the Company paid $436,700, to Advanced Group for certain temporary personnel related services. A brother of J. Patrick Gallagher, Jr. has an ownership interest in, and in 2007, was an Executive Vice President of, Advanced Group. The Company engaged Advanced Group in the ordinary course of business in accordance with its normal procedures for engaging service providers and on terms no less favorable than could be obtained from unaffiliated third parties.

OTHER MATTERS

The Company knows of no other matters to be presented for action at the meeting. If any other matters should properly come before the meeting or any adjournment thereof, such matters will be acted upon by the people named as proxy in the accompanying proxy card according to their best judgment in the best interests of the Company.

The Annual Report to Stockholders containing financial statements for the year ended December 31, 2007, and other information concerning the Company is being furnished to the stockholders but is not to be regarded as proxy soliciting material.

The material referred to in this proxy statement under the captions Report of the Audit Committee , and Compensation Committee Report shall not be deemed soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Exchange Act except to the extent that the Company specifically incorporates any of the material in a document filed under the Securities Act of 1933, as amended, or the Exchange Act.

Each stockholder is urged to mark, date, sign and return the enclosed proxy card in the envelope provided for that purpose. Your prompt response is helpful and your cooperation will be appreciated.

Dated: April 7, 2008

By Order of the Board

WALTER D. BAY

Secretary

APPENDIX A

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION

OF

ARTHUR J. GALLAGHER & CO.

Arthur J. Gallagher & Co. hereby certifies, by its officers, that this Amended and Restated Certificate of Incorporation (Certificate of Incorporation) was duly adopted in accordance with Section 245 of the General Corporation Law of the State of Delaware. Pursuant to Section 242 of the General Corporation Law of the State of Delaware, the amendments and restatement herein set forth have been duly adopted by the Board of Directors of Arthur J. Gallagher & Co. Pursuant to Section 245 of the General Corporation Law of the State of Delaware, this Certificate of Incorporation restates and integrates and amends the Certificate of Incorporation such that the text of the Certificate of Incorporation shall now read in its entirety as follows:

FIRST. The name of the corporation is Arthur J. Gallagher & Co.

SECOND. The address of the corporation s registered office in the State of Delaware is 2711 Centerville Road, Suite 400 in the City of Wilmington, 19808, and County of New Castle. The name of its registered agent at such address is Corporation Service Company.

THIRD. The purpose of the corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

FOURTH. (A) The aggregate number of shares which the corporation is authorized to issue is 401,000,000, of which 1,000,000 shares shall be Preferred Stock with no par value per share and 400,000,000 shares shall be Common Stock with par value of $1.00 per share.

(B) The designations, relative rights, voting rights, preferences and privileges of each class of stock of the corporation, and the restrictions or qualifications thereof shall be as follows:

1. PREFERRED STOCK

(a) The board of directors is expressly authorized at any time, and from time to time, to issue shares of Preferred Stock in one or more series, and for such consideration as the board may determine, with such voting powers, full or limited but not to exceed one vote per share, or without voting powers, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as shall be stated in the resolution or resolutions providing for the issue thereof, and as are not stated in this Certificate of Incorporation, or any amendment hereto. All shares of any one series shall be of equal rank and identical in all respects.

(b) No dividend shall be paid or declared on any particular series of Preferred Stock unless dividends shall be paid or declared pro rata on all shares of Preferred Stock at the time outstanding of each other series which ranks equally as to dividends with such particular series.

(c) Unless and except to the extent otherwise required by law or provided in the resolution or resolutions of the board of directors creating any series of Preferred Stock pursuant to this section, the holders of the Preferred Stock shall have no voting power with respect to any matter whatsoever. In no event shall the Preferred Stock be entitled to more than one vote in respect of each share of stock. Subject to the protective conditions or restrictions of any outstanding series of Preferred Stock, any amendment to this Certificate of Incorporation which shall increase or decrease the authorized capital stock of any class or classes may be adopted by the affirmative vote of the holders of a majority of the outstanding shares of the voting stock of the corporation.

(d) Shares of Preferred Stock redeemed, converted, exchanged, purchased, retired or surrendered to the corporation, or which have been issued and reacquired in any manner, shall, upon compliance with any applicable provisions of The General Corporation Law of the State of Delaware, have the status of authorized and unissued shares of Preferred Stock and may be reissued by the board of directors as part of the series of which they were originally a part or may be reclassified into and reissued as part of a new series or as a part of any other series, all subject to the protective conditions or restrictions of any outstanding series of Preferred Stock.

2. COMMON STOCK. The holders of the Common Stock shall be entitled to receive such dividends as the board of directors may declare from time to time, provided that any and all preferred dividends on the Preferred Stock for the then current quarter have been theretofore set aside or paid, and all prior quarterly dividends on the Preferred Stock have been paid in full. Upon the liquidation of the corporation the holders of the Common Stock shall receive, share and share alike, all of the net assets of the corporation remaining after the payment of the liquidation preference payable with respect to the Preferred Stock. The Common Stock shall not be subject to redemption or retirement. Each holder of the Common Stock shall be entitled to one vote for each share of such stock standing in his name on the books of the corporation. The holders of the Common Stock shall not have cumulative voting rights in the election of directors.

3. NO PRE-EMPTIVE RIGHTS. No stockholder of the corporation shall, because of his ownership of any class of stock of the corporation, have a pre-emptive or other right to purchase, subscribe for, or take any part of any class of stock of the corporation now or hereafter authorized or any part of the notes, debentures, bonds, or other securities convertible into or carrying options or warrants to purchase any class of stock of the corporation now or hereafter authorized. Any part of the capital stock and any part of the notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase stock of the corporation authorized by this Certificate of Incorporation or any amendment thereto, may at any time be issued, optioned for sale, and sold or disposed of by the corporation pursuant to resolutions of its board of directors to such persons and upon such terms as may to such board seem proper without first offering such stock or securities or any part thereof to existing stockholders.

FIFTH. The corporation is to have perpetual existence.

SIXTH. In furtherance and not in limitation of the powers conferred by statute, the board of directors is expressly authorized:

To make, alter or repeal the by-laws of the corporation.

To authorize and cause to be executed mortgages and liens upon the real and personal property of the corporation.

To set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.

By resolution passed by a majority of the whole board, to designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified

member at any meeting of the committee. The by-laws may provide that in the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, or in the by-laws of the corporation, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the corporation s property and assets, recommending to the stockholders a dissolution of the corporation or a revocation of a dissolution, or amending the by-laws of the corporation; and, unless the resolution or by-laws, expressly so provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

When and as authorized by the stockholders in accordance with statute, to sell, lease or exchange all or substantially all of the property and assets of the corporation including its goodwill, upon such terms and conditions and for such consideration, which may consist in whole or in part of money or property including shares of stock in, and/or other securities of, any other corporation or corporations, as its board of directors shall deem expedient and for the best interests of the corporation.

SEVENTH. Whenever a compromise or arrangement is proposed between this corporation and its creditors or any class of them and/or between this corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of this corporation or of any creditor or stockholder thereof, or on the application of any receiver or receivers appointed for this corporation under the provisions of Section 291 of Title 8 of the Delaware Code or on the application of trustees in dissolution or of any receiver or receivers appointed for this corporation under the provisions of Section 279 of Title 8 of the Delaware Code order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of this corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stock-holders or class of stockholders of this corporation, as the case may be, agree to any compromise or arrangement and to any reorganization of this corporation as consequence of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of this corporation, as the case may be, and also on this corporation.

EIGHTH. (a) Meetings of stockholders may be held within or without the State of Delaware, as the by-laws may provide. The books of the corporation may be kept (subject to any provision contained in the statutes) outside the State of Delaware at such place or places as may be designated from time to time by the board of directors or in the by-laws of the corporation.

(b) Any action required or permitted to be taken by the stockholders of the corporation must be taken at a duly called annual or special meeting of the stockholders of the corporation and the power of stockholders to consent in writing, without a meeting, to the taking of any action is specifically denied.

(c) Election of directors need not be by written ballot unless the by-laws of the corporation shall so provide.

NINTH. The corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation.

TENTH. A. The number of directors of the corporation shall be fixed from time to time by, or in the manner provided in, its by-laws, but in no event shall the number of directors of the corporation be less than three nor more than fifteen. At the 2009 annual meeting of stockholders, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the 2010 annual meeting of stockholders; at the 2010 annual meeting of stockholders, the successors of the directors whose terms expire at that meeting shall be elected for a term expiring at the 2011 annual meeting of stockholders; and at each annual meeting of stockholders thereafter, beginning with the 2011 annual meeting of stockholders, the directors shall be elected for terms expiring at the next annual meeting of stockholders. All directors shall continue in office until their respective successors are duly elected and qualified.

B. Vacancies on the board of directors resulting from the death, resignation or removal of a director or directors, and newly created directorships resulting from any increases in the authorized number of directors, shall be filled by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and any director so chosen shall, in the case of a director elected to fill a vacancy, hold office until the expiration of the term of the office of the director he replaces, and in the case of a director elected to fill a newly created directorship, shall hold office until the expiration of the term of the class of directors to which he was elected. If there are no directors in office, then an election of directors shall be held in the manner provided by statute.

C. A director or the entire board of directors may only be removed, with or without cause, by the affirmative vote of the holders of a majority of the outstanding shares of voting stock of this corporation.

ELEVENTH. The provisions set forth in this ARTICLE ELEVENTH and in ARTICLE TENTH may not be amended or repealed in any respect, unless such action is approved by the affirmative vote of the holders of a majority of the outstanding shares of voting stock of the corporation.

TWELFTH. No director shall be personally liable to the corporation or any stockholder for monetary damages for breach of fiduciary duty as a director, except for any matter in respect of which such director shall be liable under Section 174 of Title 8 of the Delaware Code (relating to the Delaware General Corporation Law) or any amendment thereto or successor provision thereto or shall be liable by reason that, in addition to any and all other requirements for such liability, such director (i) shall have breached the duty of loyalty to the corporation or its stockholders, (ii) shall not have acted in good faith, or in failing to act, shall not have acted in good faith, (iii) shall have acted in a manner involving intentional misconduct or a knowing violation of law or, in failing to act, shall have acted in a manner involving intentional misconduct or a knowing violation of law, or (iv) shall have derived an improper personal benefit. If the Delaware General Corporation Law is amended after approval by the stockholders of this Article TWELFTH to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Delaware General Corporation Law, as so amended. Neither the amendment nor repeal of this Article TWELFTH, nor the adoption of any provision of the Certificate of Incorporation inconsistent with this Article TWELFTH, shall eliminate or reduce the effect of this Article TWELFTH in respect of any matter occurring, or any cause of action, suit or claim that, but for this Article TWELFTH would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

IN WITNESS WHEREOF, Arthur J. Gallagher & Co. has caused this certificate to be signed by its President and attested to by its Secretary this th day of , 2008.

ARTHUR J. GALLAGHER & CO.

By: /s/ J. PATRICK GALLAGHER, JR.

J. Patrick Gallagher, Jr.
Chairman, President and Chief Executive Officer

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MR A SAMPLE
DESIGNATION (IF ANY)
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Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. X

Annual Meeting Proxy Card

Ú PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Ú

A Proposals The Board of Directors recommends a vote FOR all Class II nominees listed for a term expiring in 2011 and FOR Proposal 2, 3, 4, 5 and 6.

1. Election of Directors:

	For	Withhold		For	Withhold		For	Withhold
01 - Elbert O. Hand	¨	¨	02 - Kay W. McCurdy	¨	¨	03 - Norman L. Rosenthal	¨	¨

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	For	Against	Abstain		For	Against	Abstain
2. Ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for 2008.	¨	¨	¨	3. Elimination of supermajority voting requirements in the Amended and Restated Certificate of Incorporation.	¨	¨	¨
4. Phase-out of the staggered board and implementation of the annual election of directors in the Amended and Restated Certificate of Incorporation.	¨	¨	¨	5. Limitation of Liability of Directors Under Delaware Law.	¨	¨	¨
6. Approve certain miscellaneous changes to update the Company s current Certificate of Incorporation.	¨	¨	¨				

B Non-Voting Items

Change of Address Please print new address below.

C Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

IMPORTANT: Please sign your name exactly as it appears above. In the case of joint holders, all should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Date (mm/dd/yyyy) Please print date below.

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

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Ú PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Ú

Proxy Arthur J. Gallagher & Co.

Two Pierce Place

Itasca, Illinois 60143

This Proxy is Solicited on Behalf of the Board of Directors

The stockholder hereby appoints each of J. Patrick Gallagher, Jr. and Walter D. Bay as attorney and proxy, with the power to appoint a substitute, and hereby authorizes them to represent and to vote, as designated herein, all the shares of voting stock of Arthur J. Gallagher & Co. held of record by the stockholder on March 17, 2008, at the Annual Meeting of Stockholders to be held on May 13, 2008 or any adjournment thereof.

In their Discretion, the Proxy is authorized to vote upon such other business as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed herein by the stockholder. If no direction is made, this proxy will be voted for Proposals 1, 2, 3, 4, 5 and 6. This proxy is revocable at any time.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

(Continued and to be signed on reverse side.)

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. **X**

Annual Meeting Proxy Card

Ú PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Ú

A Proposals The Board of Directors recommends a vote FOR all Class III nominees listed for a term expiring in 2011 and FOR Proposals 2, 3, 4, 5 and 6.

1. Election of Directors:	For	Withhold		For	Withhold		For	Withhold
01 - Elbert O. Hand	¨	¨	02 - Kay W. McCurdy	¨	¨	03 - Norman L. Rosenthal	¨	¨

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	For	Against	Abstain		For	Against	Abstain
2. Ratification of the appointment of Ernst & Young LLP as the independent registered public accounting firm of the Company for 2008	¨	¨	¨	3. Elimination of supermajority voting requirements in the Amended and Restated Certificate of Incorporation.	¨	¨	¨
4. Phase-out of the staggered board and implementation of the annual election of directors in the Amended and Restated Certificate of Incorporation.	¨	¨	¨	5. Limitation of Liability of Directors Under Delaware Law.	¨	¨	¨
6. Approve certain miscellaneous changes to update the Company s current Certificate of Incorporation.	¨	¨	¨				

B Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below
IMPORTANT: Please sign your name exactly as it appears above. In the case of joint holders, all should sign. When signing as an attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a

partnership, please sign in partnership name by authorized person.

Date (mm/dd/yyyy) Please print date below. Signature 1 Please keep signature within the box. Signature 2 Please keep signature within the box.

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Ú PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. Ú

Proxy Arthur J. Gallagher & Co.

Two Pierce Place

Itasca, Illinois 60143

This Proxy is Solicited on Behalf of the Board of Directors

The stockholder hereby appoints each of J. Patrick Gallagher, Jr. and Walter D. Bay as attorney and proxy, with the power to appoint a substitute, and hereby authorizes them to represent and to vote, as designated herein, all the shares of voting stock of Arthur J. Gallagher & Co. held of record by the stockholder on March 17, 2008, at the Annual Meeting of Stockholders to be held on May 13, 2008 or any adjournment thereof.

In their Discretion, the Proxy is authorized to vote upon such other business as may properly come before the meeting.

This proxy when properly executed will be voted in the manner directed herein by the stockholder. If no direction is made, this proxy will be voted for Proposals 1, 2, 3, 4, 5 and 6. This proxy is revocable at any time.

PLEASE COMPLETE, DATE, SIGN AND MAIL THIS PROXY PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

(Continued and to be signed on reverse side.)