

GRAPHIC PACKAGING HOLDING CO
Form 10-K/A
July 26, 2012
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K/A
(Amendment No. 1)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934
For the fiscal year ended December 31, 2011

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

COMMISSION FILE NUMBER: 001-33988
Graphic Packaging Holding Company
(Exact name of registrant as specified in its charter)
Delaware
(State of incorporation)
814 Livingston Court, Marietta, Georgia
(Address of principal executive offices)

26-0405422
(I.R.S. employer identification no.)
30067
(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
Common Stock, \$0.01 par value per share
Series A Junior Participating Preferred Stock
Purchase Rights Associated with the Common Stock
Securities registered pursuant to Section 12(g) of the Act:
None

Name of Each Exchange on Which Registered
New York Stock Exchange
New York Stock Exchange

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

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

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

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

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

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

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

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

The aggregate market value of voting and non-voting common equity held by non-affiliates at June 30, 2011 was \$713.9 million.

As of February 17, 2012 there were approximately 389,482,398 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 23, 2012 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Explanatory Note

The sole purpose of this Amendment No. 1 on Form 10-K/A to Graphic Packaging Holding Company's Annual Report on Form 10-K for the year ended December 31, 2011, filed with the Securities and Exchange Commission on February 23, 2012 (the "Form 10-K"), is to change, on the certifications filed as Exhibits 32.1 and 32.2, the date reference of the certifications from December 31, 2010 to December 31, 2011.

No other changes have been made to any of the disclosures in the Form 10-K. This Form 10-K/A speaks as of the original filing date of the Form 10-K, does not reflect events that may have occurred subsequent to the original filing date, and does not modify or update in any way disclosures made in the 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 cost savings from its continuous improvement programs, capital investment, depreciation and amortization, interest expense, debt reduction and pension plan expense and 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 in Part I, “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 board 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.

During the second quarter of 2011, the Company completed a public offering of 52.5 million shares of its common stock, par value \$0.01 per share, priced at \$4.75 per share and received net proceeds of \$237.7 million after offering expenses. The Company used \$32.9 million of the net proceeds to repurchase at \$4.75 per share and subsequently retire approximately 7.3 million shares of common stock held by the Grover C. Coors Trust. The Company also used a portion of the net proceeds to prepay \$150.0 million of its term loans. Additionally, the Company used \$51.9 million to acquire substantially all of the net assets of Sierra Pacific Packaging, Inc. (“Sierra”), a producer of folding cartons, beverage carriers and corrugated boxes for the consumer packaged goods industry.

During December 2011, the Company combined its multi-wall bag and specialty plastics packaging businesses with the kraft paper and multi-wall bag businesses of Delta Natural Kraft, LLC and Mid-America Packaging, LLC (collectively “DNK”), both wholly-owned subsidiaries of Capital Five Investments, LLC (“CVI”). Under the terms of the transaction, the Company formed a new limited liability company, Graphic Flexible Packaging, LLC (“GFP”) and contributed the net assets of its multi-wall bag and specialty plastics packaging businesses to it. CVI concurrently contributed its ownership interests in DNK to GFP. Neither party received cash consideration as part of the transaction. After the combination, the Company owns approximately 87% of GFP and consolidates its results of operations. The remaining 13% of GFP is owned by CVI. The purchase price has been preliminarily allocated to the assets acquired and liabilities assumed based on estimated fair values as of the purchase date. GFP is included in the flexible packaging segment. This transaction is herein referred to as the “DNK Transaction”.

Products

The Company reports its results in two business segments: paperboard packaging and flexible packaging. 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 16 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.

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

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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's products provide 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"), kraft paper and uncoated-recycled board ("URB"), as well as other grades of paperboard that are purchased from third-party suppliers.

Below is the production at each of the Company's mills during 2011:

Location	Product	# of Machines	2011 Net Tons Produced
West Monroe, LA	CUK	2	732,000
Macon, GA	CUK	2	609,000
Kalamazoo, MI	CRB	2	438,000
Battle Creek, MI	CRB	2	169,000
Middletown, OH	CRB	1	158,000
Santa Clara, CA	CRB	1	138,000

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Pekin, IL	URB	1	42,000
West Monroe, LA	Containerboard	1	132,000
West Monroe, LA	Kraft Paper	1	45,000
Pine Bluff, AR	Kraft Paper	1	(a)

(a) The Pine Bluff, AR kraft paper mill is part of the DNK Transaction and has an annual production of approximately 158,000 tons.

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 2011, 83% of mill production of CUK and CRB was consumed internally.

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CUK Production. The Company is the largest of three 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/Kraft Paper. The Company manufactures corrugated medium and kraft paper for sale in the open market and internal use. 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.

Flexible Packaging

The Company’s flexible packaging segment includes multi-wall bags, plastics, labels, and the Pine Bluff, AR mill.

The Company is a leading supplier of flexible packaging in North America. Products include multi-wall bags, shingle wrap, plastic bags and film for building materials (such as ready-mix concrete), retort pouches (such as meals ready to go), medical test kits, batch inclusion bags and film. Key end-markets include food and agriculture, building and industrial materials, chemicals, minerals, pet foods, and pharmaceutical products. Approximately 27% of the plastics produced are consumed internally. The Company’s 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.

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 a joint venture with Rengo Riverwood Packaging, Ltd. (in Japan) in which it holds a 50% ownership interest. The joint venture agreement covers CUK supply, use of proprietary carton designs and marketing and distribution of packaging systems.

Marketing and Distribution

The Company markets its 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 2011, the Company did not have any one customer that represented 10% or more of its net sales.

Competition

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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. Internationally, The Klabin Company in Brazil, makes similar grades of paperboard.

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 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 imported products, primarily from Asia.

The plastics and labels businesses are highly fragmented, comprised of over 100 companies operating hundreds of 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 in close proximity 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.

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.

Flexible Packaging

The multi-wall bag business uses 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 renewed annually.

The plastics business 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.

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The label business 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 9 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, 2011 or 2010.

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 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.

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, 2011, the Company had a large patent portfolio, presently owning, controlling or holding rights to more than 1,450 U.S. and foreign patents, with more than 800 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®, MicroFlex® Q, MicroRite®, Quilt Wave®, Qwik 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. The Company's ongoing efforts to build a high-performance culture and improve the manner in which work is done across the Company includes a significant focus on continuous improvement utilizing processes like Lean Sigma and Six Sigma. In 2011, 2,800 additional employees participated in over 1,000 events across the globe. This brings the total company participation to almost 65% and 8,000 employees worldwide. In 2011, the Company completed its third company-wide culture survey, in which 83% 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.

As of December 31, 2011, the Company had approximately 12,300 employees worldwide (excluding employees of the equity

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investment), of which approximately 49% were represented by labor unions and covered by collective bargaining agreements. As of December 31, 2011, approximately 1,200 of the Company's employees were working under an expired contract, which is currently being negotiated, and approximately 1,400 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 13 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.

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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.