GRAPHIC PACKAGING HOLDING CO
Form 10-Q
July 24, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2014
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 (State or other jurisdiction of incorporation or organization)	26-0405422 (I.R.S. employer identification no.)
1500 Riveredge Parkway, Suite 100 Atlanta, Georgia (Address of principal executive offices)	30328 (Zip Code)

(770) 240-7200
(Registrant’s telephone number, including area code)

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 R 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes R No 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 R Accelerated filer o Non-accelerated filer o Smaller reporting company o
(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 Exchange Act). Yes o No R

As of July 21, 2014, there were 327,020,678 shares of the registrant's Common Stock, par value $0.01 per share, outstanding.

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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 capital investment, depreciation and amortization, interest expense, debt reduction, pension plan contributions and postretirement health care benefit payments, 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, 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, the Company’s debt level, currency movements and other risks of conducting business internationally, and the impact of regulatory and litigation matters, including those that could impact 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” of the Company’s 2013 Annual Report on Form 10-K, and in other filings with the Securities and Exchange Commission.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions, except per share amounts	2014	2013	2014	2013
Net Sales	$1,116.7	$1,139.7	$2,189.4	$2,240.2
Cost of Sales	903.6	951.1	1,789.3	1,868.7
Selling, General and Administrative	94.5	97.0	195.4	196.2
Other Expense (Income), Net	0.4	(4.4)	(1.0)	(7.3)
Restructuring and Other Special Charges	171.1	8.3	178.9	9.7
(Loss) Income from Operations	(52.9)	87.7	26.8	172.9
Interest Expense, Net	(21.2)	(29.7)	(41.6)	(56.9)
Loss on Modification or Extinguishment of Debt	—	(25.9)	—	(25.9)
(Loss) Income before Income Taxes and Equity Income of Unconsolidated Entities	(74.1)	32.1	(14.8)	90.1
Income Tax Benefit (Expense)	33.2	(11.4)	8.4	(35.1)
(Loss) Income before Equity Income of Unconsolidated Entities	(40.9)	20.7	(6.4)	55.0
Equity Income of Unconsolidated Entities	0.6	0.4	0.9	0.7
Net (Loss) Income	(40.3)	21.1	(5.5)	55.7
Net Loss Attributable to Noncontrolling Interests	0.3	0.1	0.7	0.4
Net (Loss) Income Attributable to Graphic Packaging Holding Company	$(40.0)	$21.2	$(4.8)	$56.1
Net (Loss) Income Per Share Attributable to Graphic Packaging Holding Company — Basic	$(0.12)	$0.06	$(0.01)	$0.16
Net (Loss) Income Per Share Attributable to Graphic Packaging Holding Company — Diluted	$(0.12)	$0.06	$(0.01)	$0.16

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2014	2013	2014	2013
Net (Loss) Income	$(40.3)	$21.1	$(5.5)	$55.7
Other Comprehensive Income (Loss), Net of Tax:				
Derivative Instruments	(1.2)	1.3	(1.2)	3.6
Currency Translation Adjustment	4.3	(6.4)	8.7	(21.5)
Pension Benefit Plans	(0.5)	6.0	1.6	12.0
Postretirement Benefit Plans	(0.2)	(0.1)	(2.6)	(0.3)
Total Other Comprehensive Income (Loss), Net of Tax	2.4	0.8	6.5	(6.2)
Total Comprehensive (Loss) Income	(37.9)	21.9	1.0	49.5
Comprehensive Loss Attributable to Noncontrolling Interests	0.1	0.1	0.4	0.4
Comprehensive (Loss) Income Attributable to Graphic Packaging Holding Company	$(37.8)	$22.0	$1.4	$49.9

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In millions, except share and per share amounts	June 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$157.0	$ 52.2
Receivables, Net	490.1	412.8
Inventories, Net	522.7	557.1
Deferred Income Tax Assets	172.2	171.3
Other Current Assets	34.6	32.2
Assets Held for Sale	10.2	6.6
Total Current Assets	1,386.8	1,232.2
Property, Plant and Equipment, Net	1,550.4	1,678.9
Goodwill	1,191.5	1,125.4
Intangible Assets, Net	351.9	467.0
Other Assets	65.5	55.8
Total Assets	$4,546.1	$ 4,559.3
LIABILITIES		
Current Liabilities:		
Short-Term Debt and Current Portion of Long-Term Debt	$73.0	$ 77.4
Accounts Payable	407.0	428.3
Other Accrued Liabilities	187.0	205.5
Total Current Liabilities	667.0	711.2
Long-Term Debt	2,245.3	2,176.2
Deferred Income Tax Liabilities	307.2	329.9
Other Noncurrent Liabilities	264.5	268.4
Redeemable Noncontrolling Interests (Note 8)	—	11.3
SHAREHOLDERS' EQUITY		
Preferred Stock, par value $.01 per share; 100,000,000 shares authorized; no shares issued or outstanding	—	—
Common Stock, par value $.01 per share; 1,000,000,000 shares authorized; 327,020,678 and 324,746,642 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	3.3	3.2
Capital in Excess of Par Value	1,788.2	1,789.9
Accumulated Deficit	(547.4)	(542.6)
Accumulated Other Comprehensive Loss	(182.0)	(188.2)

Total Equity	1,062.1	1,062.3
Total Liabilities and Equity	$4,546.1	$ 4,559.3

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING HOLDING COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
In millions	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	$(5.5)	$55.7
Non-cash Items Included in Net (Loss) Income:		
Depreciation and Amortization	136.4	133.7
Deferred Income Taxes	(13.6)	28.0
Amount of Postretirement Expense (Less) Greater Than Funding	(9.2)	6.8
Loss on the Sale of Assets	170.4	—
Other, Net	29.3	19.2
Changes in Operating Assets and Liabilities	(154.2)	(133.5)
Net Cash Provided by Operating Activities	153.6	109.9
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital Spending	(108.9)	(84.6)
Proceeds from Government Grant	26.9	—
Acquisition of Business	(190.7)	—
Cash Acquired Related to Acquisition	16.9	—
Proceeds Received from the Sale of Assets, Net of Selling Costs	167.4	—
Other, Net	(1.6)	(1.9)
Net Cash Used in Investing Activities	(90.0)	(86.5)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Issuance or Modification of Debt	—	425.0
Retirement of Long-Term Debt	—	(425.0)
Payments on Debt	(30.8)	(29.7)
Borrowings under Revolving Credit Facilities	794.2	982.9
Payments on Revolving Credit Facilities	(699.1)	(961.8)
Redemption and Debt Issuance Costs	—	(27.4)
Repurchase of Common Stock related to Share-Based Payments	(15.8)	(11.0)
Other, Net	(8.4)	8.0
Net Cash Provided by (Used in) Financing Activities	40.1	(39.0)
Effect of Exchange Rate Changes on Cash	1.1	(2.8)
Net Increase (Decrease) in Cash and Cash Equivalents	104.8	(18.4)
Cash and Cash Equivalents at Beginning of Period	52.2	51.5
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$157.0	$33.1

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Supplemental non-cash investing activities:		
Total Consideration Received from the Sale of Assets, Net of Selling Costs	$180.7	$—
Cash Proceeds Received from the Sale of Assets, Net of Selling Costs	167.4	—
Non-cash Consideration Received from the Sale of Assets, Net of Selling Costs	$13.3	$—

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements.

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GRAPHIC PACKAGING HOLDING COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 — GENERAL INFORMATION

Nature of Business and Basis of Presentation

Graphic Packaging Holding Company ("GPHC" and, together with its subsidiaries, the "Company") is a leading provider of packaging solutions for a wide variety of products to food, beverage and other consumer products companies. 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 many of the most widely recognized companies and brands with prominent market positions in beverage, food, and other consumer products. The Company strives to provide its customers with packaging solutions designed to deliver marketing and performance benefits at a competitive cost by capitalizing on its low-cost paperboard mills and converting plants, its proprietary carton and packaging designs, and its commitment to quality and service.

GPHC and Graphic Packaging Corporation ("GPC") conduct no significant business and have no independent assets or operations other than GPHC's ownership of all of GPC's outstanding common stock, and GPC's ownership of all of the outstanding common stock of Graphic Packaging International, Inc. ("GPII").

The Company's Condensed Consolidated Financial Statements include all subsidiaries in which the Company has the ability to exercise direct or indirect control over operating and financial policies. Intercompany transactions and balances are eliminated in consolidation.

In the Company's opinion, the accompanying Condensed Consolidated Financial Statements contain all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods. The Company's year end Condensed Consolidated Balance Sheet data was derived from audited financial statements. The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with instructions to Form 10-Q and Rule 10-01 of Regulation S-X and do not include all the information required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements. Therefore, these Condensed Consolidated Financial Statements should be read in conjunction with GPHC's Form 10-K for the year ended December 31, 2013. In addition, the preparation of the Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and changes in these estimates are recorded when known.

For a summary of the Company's significant accounting policies, please refer to GPHC's Form 10-K for the year ended December 31, 2013.

Accounts Receivable and Allowances

The Company has entered into various factoring and supply chain financing arrangements, principally at the request of customers, which qualify for sale accounting in accordance with the Transfers and Servicing topic of the Financial

Accounting Standards Board ("FASB") Accounting Standards Codification ("the Codification"). For the periods ended June 30, 2014 and December 31, 2013, the Company sold receivables of approximately $125 million and $97 million, respectively, from the factoring arrangements. Amounts transferred subject to continuing involvement at June 30, 2014 and December 31, 2013 were approximately $48 million and $20 million, respectively.

Equity Secondary Offerings

During the second quarter of 2014, certain shareholders of the Company sold 43.7 million shares of common stock in a secondary public offering at $10.45 per share. The shares were sold by certain affiliates of TPG Capital, L.P. (the "TPG Entities") and certain Coors family trusts and the Adolph Coors Foundation. Following this sale, these shareholders no longer hold shares of the Company's common stock.

During the first quarter of 2014, certain shareholders of the Company sold 30 million shares of common stock in a secondary public offering at $9.85 per share. The shares were sold by TPG Entities, Clayton, Dubilier & Rice Fund V Limited Partnership (the "CD&R Fund") and Old Town, S.A. ("Old Town"). As a result of these actions, the CD&R Fund and Old Town no longer hold shares of the Company. The TPG Entities and certain Coors family trusts and the Adolph Coors Foundation held approximately 13% of shares outstanding.

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Restructuring and Other Special Charges

The following table summarizes the transactions recorded in Restructuring and Other Special Charges in the Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2014	2013	2014	2013
Loss on Sale of Assets	$164.5	$—	$170.4	$—
Charges Associated with Business Combinations	4.3	6.7	5.9	7.5
Other Special Charges	2.3	1.6	2.6	2.2
Total	$171.1	$8.3	$178.9	$9.7

In connection with the Company's strategy to focus on core assets, on June 30, 2014, the Company completed the sale of its multi-wall bag business. The financial impact of this transaction is reflected in loss on Sale of Assets in the above table. Approximately $263 million of assets were disposed of, consisting of net working capital of $75 million, fixed assets of $104 million, goodwill of $8 million and intangible assets of $76 million. In 2013, the multi-wall bag business net sales were approximately $440 million or approximately 10% of Consolidated Net Sales and are reported in the flexible packaging segment. Assets of approximately $27 million related to the facility that was previously part of the flexible packaging segment were retained by the Company.

On May 23, 2014, the Company completed its acquisition of U.K.-based Benson Group ("Benson"). Charges associated with the acquisition are reflected in Charges Associated with Business Combinations in the above table. For more information regarding the acquisition of Benson, see "Note 3-Acquisitions".

On February 3, 2014, the Company completed the sale of its labels business. The financial impact of this transaction is reflected in Loss on Sale of Assets in the above table. Approximately $47 million of goodwill and $17 million of intangible assets were written off relating to the sale. The labels business was part of the Paperboard Packaging segment and accounted for approximately 1% of Consolidated Net Sales.

Adoption of New Accounting Standards

Effective January 1, 2014, the Company adopted revised guidance on the Income Taxes topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("the FASB Codification") which requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to the deferred tax asset for a net operating loss carryforward, or similar tax loss, or a tax credit carryforward. The adoption did not have any impact on the Company's financial position, results of operations or cash flows.

Effective January 1, 2014, the Company adopted Accounting Standards Update (ASU) No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendments in the ASU change the criteria for reporting discontinued operations and requires new disclosures for discontinued operations and for significant disposals of components of an entity that do not qualify for discontinued operations reporting. The adoption impacted the presentation of the consolidated financial statements related to disposals in 2014.

New Accounting Pronouncements

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. Adoption of ASU No. 2014-09 requires that an entity recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments in this ASU are effective for the annual reporting period beginning after December 15, 2016 and early adoption is not permitted. The Company is currently evaluating the impact of adoption on the Company's financial position, results of operations and cash flows.

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NOTE 2 — INVENTORIES, NET

Inventories, Net by major class:

In millions	June 30, 2014	December 31, 2013
Finished Goods	$ 257.7	$ 288.3
Work in Progress	53.0	49.2
Raw Materials	144.1	149.7
Supplies	67.9	69.9
Total	$ 522.7	$ 557.1

NOTE 3 — ACQUISITION

On May 23, 2014, the Company acquired Benson, a leading food, retail and health care packaging company in the United Kingdom. Under the terms of the transaction, the Company paid $190.7 million in an all cash transaction funded with existing cash and borrowings under the Company's revolving line of credit. Benson operated four folding carton facilities that converted approximately 80,000 tons of paperboard annually into folding cartons for the food, beverage and healthcare products industries. The acquisition and associated goodwill are included in the paperboard packaging segment. This transaction is herein referred to as the "Benson Acquisition".

The purchase price of the Benson Acquisition has been preliminarily allocated to the assets acquired and liabilities assumed based on the estimated fair values as of the purchase date and is subject to adjustments in subsequent periods once the third party valuation is completed. Management believes that the purchase price attributable to goodwill represents the benefits expected as a result of the acquisition as the Benson Acquisition was made to continue to grow the European food and beverage business, to expand the Company's presence in store brand packaging and to further optimize the Company's supply chain footprint. The Company incurred and expensed transaction costs of $4.2 million related to the Benson Acquisition.

The Company does not expect the goodwill recorded to be deductible for tax purposes. The preliminary purchase price allocation is as follows:

In millions	
Purchase Price	$ 190.7

In millions	
Cash and Cash Equivalents	$ 16.9
Receivables, Net	44.7
Inventories	16.3
Other Current Assets	7.3
Property, Plant and Equipment, Net	25.5
Total Assets Acquired	110.7
Current Liabilities, Excluding Current Portion of Long-Term Debt	36.3
Deferred Tax Liabilities	1.5

Total Liabilities Assumed	37.8
Net Assets Acquired	72.9
Goodwill	117.8
Total Estimated Fair Value of Net Assets Acquired	$ 190.7

NOTE 4 — DEBT

On June 16, 2014, GPII entered into Amendment No. 3 to the Amended and Restated Credit Agreement with a syndicate of lenders consisting primarily of commercial banks (the "Credit Agreement"). This Amendment No. 3 increased the revolving credit facilities under which borrowings may be made in Sterling or Euro by €63.0 million (approximately $86 million). The fees of $0.2 million were deferred and will be amortized over the term of the credit facilities.

For more information regarding the Company’s debt, see “Note 5 — Debt” of the Notes to Consolidated Financial Statements of the Company’s 2013 Form 10-K.

Long-Term Debt is composed of the following:

In millions	June 30, 2014	December 31, 2013
Senior Notes with interest payable semi-annually at 7.875%, payable in 2018 ($250.0 million face amount)	$247.5	$247.3
Senior Notes with interest payable semi-annually at 4.75%, payable in 2021	425.0	425.0
Senior Secured Term Loan Facility with interest payable at various dates at floating rates (1.90% at June 30, 2014) payable through 2018	1,183.9	1,214.6
Senior Secured Revolving Facilities with interest payable at floating rates (2.00% at June 30, 2014) payable in 2018	445.6	344.3
Capital Lease Obligations	4.2	5.6
Other	12.1	16.8
Total Debt	2,318.3	2,253.6
Less: Short-Term Debt and Current Portion of Long-Term Debt	73.0	77.4
Total Long-Term Debt	$2,245.3	$2,176.2

At June 30, 2014, the Company and its U.S. and international subsidiaries had the following commitments, amounts outstanding and amounts available under revolving credit facilities:

In millions	Total Commitments	Total Outstanding	Total Available
Domestic Revolving Credit Facility [a]	$ 1,000.0	$300.0	$673.9
International Facilities	248.6	157.6	91.0
Total	$ 1,248.6	$457.6	$764.9

(a) In accordance with its debt agreements, the Company’s availability under its revolving credit facilities has been reduced by the amount of standby letters of credit issued of $26.1 million as of June 30, 2014. These letters of credit are used primarily as security against its self-insurance obligations and workers’ compensation obligations. These letters of credit expire at various dates through mid-2015 unless extended.

The Credit Agreement and the indenture governing the 7.875% Senior Notes due 2018 and the 4.75% Senior Notes due 2021 (the “Indenture”) limit the Company’s ability to incur additional indebtedness. Additional covenants contained in the Credit Agreement and the Indenture, among other things, restrict the ability of the Company to dispose of assets, incur guarantee obligations, prepay other indebtedness, make dividend and other restricted payments, create liens, make equity or debt investments, make acquisitions, modify terms of the Indenture, engage in mergers or consolidations, change the business conducted by the Company and its subsidiaries, and engage in certain transactions with affiliates. Such restrictions 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 total leverage ratio and a minimum consolidated interest coverage ratio. The Company's obligations under the Credit Agreement are secured by substantially all of the Company's domestic assets.

As of June 30, 2014, the Company was in compliance with the covenants in the Credit Agreement and the Indenture.

NOTE 5 — STOCK INCENTIVE PLANS

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As of May 21, 2014, the Company has one active equity compensation plan from which new grants may be made, the Graphic Packaging Holding Company 2014 Omnibus Stock and Incentive Compensation Plan (the “2014 Plan”). Prior to the approval of the 2014 Plan and the expiration of the Graphic Packaging Holding Company Amended and Restated 2004 Stock and Incentive Compensation Plan (the "2004 Plan"), the Company made all new grants under the 2004 Plan. Awards previously granted under the 2004 Plan generally vest and expire in accordance with terms established at the time of grant. Shares issued pursuant to awards under the 2004 Plan are from the Company’s authorized but unissued shares. Compensation costs are recognized on a straight-line basis over the requisite service period of the award.

Stock Awards, Restricted Stock and Restricted Stock Units

The Company’s 2014 and 2004 Plans permit the grant of stock awards, restricted stock and restricted stock units (“RSUs”). Generally, all RSUs vest and become payable in three years from date of grant. RSUs granted to employees generally contain performance conditions based on various financial targets and service requirements that must be met for the shares to vest. Upon vesting, RSUs are payable in shares of common stock. Stock awards granted to non-employee directors as part of their compensation for service on the Board are unrestricted on the grant date.

Data concerning RSUs granted in the first six months of 2014 is as follows:

	Shares	Weighted Average Grant Date Fair Value Per Share
RSUs — Employees	2,095,482	$10.27
Stock Awards — Board of Directors	77,139	10.50

During the six months ended June 30, 2014 and 2013, $7.9 million and $11.3 million, respectively, were charged to compensation expense for stock incentive plans.

During the six months ended June 30, 2014 and 2013, approximately 2.3 million and 3.5 million shares were issued, respectively. The shares issued were primarily related to RSUs granted during 2011 and 2010, respectively.

NOTE 6 — PENSIONS AND OTHER POSTRETIREMENT BENEFITS

The Company maintains both defined benefit pension plans and postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired employees in North America and their dependents. The Company maintains international defined benefit pension plans which are either noncontributory or contributory and are funded in accordance with applicable local laws. Pension or termination benefits are based primarily on years of service and the employees’ compensation.

Pension and Postretirement Expense

The pension and postretirement expenses related to the Company’s plans consisted of the following:

	Pension Benefits	Postretirement Health Care Benefits

In millions	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Components of Net Periodic Cost:								
Service Cost	$3.6	$4.1	$7.3	$8.1	$0.3	$0.3	$0.6	$0.7
Interest Cost	14.5	13.2	29.0	26.3	0.5	0.6	1.1	1.1
Administrative Expenses	0.1	0.1	0.3	0.3	—	—	—	—
Expected Return on Plan Assets	(20.0)	(17.1)	(40.0)	(34.1)	—	—	—	—
Amortization:								
Prior Service Cost (Credit)	0.2	0.2	0.3	0.4	—	(0.1)	(0.1)	(0.1)
Actuarial Loss (Gain)	3.0	9.4	6.0	18.8	(0.2)	(0.2)	(0.5)	(0.5)
Net Periodic Cost	$1.4	$9.9	$2.9	$19.8	$0.6	$0.6	$1.1	$1.2

Employer Contributions

The Company made contributions of $11.9 million and $13.2 million to its pension plans during the first six months of 2014 and 2013, respectively. The Company expects to make contributions of $40 to $60 million for the full year 2014. During 2013, the Company made $51.5 million of contributions to its pension plans.

The Company made postretirement health care benefit payments of $1.3 million and $1.0 million during the first six months of 2014 and 2013, respectively. The Company estimates its postretirement health care benefit payments for the full year 2014 to be approximately $3 million. During 2013, the Company made postretirement health care benefit payments of $1.8 million.

NOTE 7 — FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

The Company enters into derivative instruments for risk management purposes only, including derivatives designated as hedging instruments under the Derivatives and Hedging topic of the FASB Codification and those not designated as hedging instruments under this guidance. The Company uses interest rate swaps, natural gas swap contracts, and forward exchange contracts. These derivative instruments are designated as cash flow hedges and, to the extent they are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value are not included in current earnings but are included in Accumulated Other Comprehensive Income. These changes in fair value will subsequently be reclassified to earnings.

For more information regarding the Company's financial instruments and fair value measurement, see "Note 9 — Financial Instruments, Derivatives and Hedging Activities" and "Note 10 — Fair Value Measurement" of the Notes to Consolidated Financial Statements of the Company's 2013 Form 10-K.

Interest Rate Risk

The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The differential to be paid or received under these agreements is recognized as an adjustment to Interest Expense related to debt. At June 30, 2014 and December 31, 2013, the Company had interest rate swap agreements outstanding with a notional amount of $560.0 million. The swap agreements, under which the Company will pay fixed rates of 0.45% to 0.82% and receive one-month LIBOR rates, expire in April 2016.

Changes in fair value will subsequently be reclassified into earnings as a component of Interest Expense, Net as interest is incurred on amounts outstanding under the term loan facility. Ineffectiveness measured in the hedging relationship is recorded in earnings in the period it occurs.

During the first six months of 2014 and 2013, there were minimal amounts of ineffectiveness related to changes in the fair value of interest rate swap agreements. Additionally, there were no amounts excluded from the measure of effectiveness.

Commodity Risk

To manage risks associated with future variability in cash flows and price risk attributable to certain commodity purchases, the Company enters into natural gas swap contracts to hedge prices for a designated percentage of its expected natural gas usage. Such contracts are designated as cash flow hedges. The contracts are carried at fair value with changes in fair value recognized in Accumulated Other Comprehensive Loss, and the resulting gain or loss is reclassified into Cost of Sales concurrently with the recognition of the commodity consumed. The ineffective portion of the swap contracts' change in fair value would be recognized immediately in earnings. The Company has hedged 67% and 63% of its expected natural gas usage for 2014 and 2015, respectively.

During the first six months of 2014 and 2013, there were minimal amounts of ineffectiveness related to changes in the fair value of natural gas swap contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

Foreign Currency Risk

The Company enters into forward exchange contracts to manage risks associated with future variability in cash flows resulting from anticipated foreign currency transactions that may be adversely affected by changes in exchange rates. The contracts are carried at fair value with changes in fair value recognized in Accumulated Other Comprehensive Loss and gains/losses related to these contracts are recognized in Other Expense (Income), Net when the anticipated transaction affects income.

At June 30, 2014, multiple forward exchange contracts existed that expire on various dates through 2014. Those purchased forward exchange contracts outstanding at June 30, 2014 and December 31, 2013, when aggregated and measured in U.S. dollars at contractual rates at June 30, 2014 and December 31, 2013 had notional amounts totaling $30.1 million and $65.3 million, respectively.

No amounts were reclassified to earnings during the first six months of 2014 or during 2013 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.

Derivatives not Designated as Hedges

The Company enters into forward exchange contracts to effectively hedge substantially all of its accounts receivable resulting from sales transactions denominated in foreign currencies in order to manage risks associated with foreign currency transactions adversely affected by changes in exchange rates. At June 30, 2014 and December 31, 2013, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those foreign currency exchange contracts outstanding at June 30, 2014 and December 31, 2013, when aggregated and measured in U.S. dollars at exchange rates at June 30, 2014 and December 31, 2013, had net notional amounts totaling $47.4 million and $32.5 million, respectively. Unrealized gains and losses resulting from these contracts are recognized in Other Expense (Income), Net and approximately offset corresponding recognized but unrealized gains and losses on these accounts receivable.

Fair Value of Financial Instruments

The Company’s derivative instruments are carried at fair value. The Company has determined that the inputs to the valuation of these derivative instruments are level 2 in the fair value hierarchy. Level 2 inputs are defined as quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. The Company uses valuation techniques based on discounted cash flow analyses, which reflect the terms of the derivatives and use observable market-based inputs, including forward rates and use market price quotations obtained from independent derivatives brokers, corroborated with information obtained from independent pricing service providers.

As of June 30, 2014, the Company had a gross derivative liability of $5.5 million and a gross derivative asset of $1.2 million, respectively, primarily related to interest rate, foreign currency and commodity contracts.

As of June 30, 2014, there has not been any significant impact to the fair value of the Company’s derivative liabilities due to its own credit risk. Similarly, there has not been any significant adverse impact to the Company’s derivative assets based on evaluation of the Company’s counterparties’ credit risks.

The fair values of the Company’s other financial assets and liabilities at June 30, 2014 and December 31, 2013 approximately equal the carrying values reported on the Consolidated Balance Sheets except for Total Debt. The fair value of the Company’s Total Debt (excluding capital leases) was $2,338.4 million and $2,267.6 million as compared to the carrying amounts of $2,314.1 million and $2,248.0 million as of June 30, 2014 and December 31, 2013, respectively. The fair value of the Company’s Total Debt, including the Senior Notes, are based on quoted market prices (Level 2 inputs).

The fair value of the Company's assets held for sale at June 30, 2014 and December 31, 2013 was $10.2 million and $6.6 million, respectively. The value is recorded at the lower of book value or fair value, less costs to sell. Fair value was determined using the market approach based on the value of similar assets (Level 3 inputs).

The following is a rollforward of pre-tax Accumulated Other Comprehensive (Loss) Income.

In millions		
Balance at December 31, 2013	$	(1.3)
Reclassification to Earnings		(1.4)
Current Period Change in Fair Value		(0.7)
Balance at June 30, 2014	$	(3.4)

At June 30, 2014, the Company expects to reclassify approximately $2.4 million of loss in the next twelve months from Accumulated Other Comprehensive Loss to earnings, contemporaneously with and offsetting changes in the related hedged exposure. The actual amount that will be reclassified to future earnings may vary from this amount as a result of changes in market conditions.

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NOTE 8 — REDEEMABLE NONCONTROLLING INTERESTS

On December 8, 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 its ownership interests in multi-wall bag and specialty plastics packaging subsidiaries to it. CVI concurrently contributed its ownership interests in DNK to GFP. Neither party received cash consideration as part of the transaction. The Company owned 87% of GFP and consolidated its results of operations with the remaining 13% of GFP owned by CVI.

On May 30, 2014, the Company acquired the remaining 13% of GFP from CVI. Prior to May 30, 2014, CVI's noncontrolling interest in GFP was recorded as Redeemable Noncontrolling Interests in the Company's financial statements.

At June 30, 2014, the book value of the redeemable noncontrolling interests was determined as follows:

In millions		
Balance at December 31, 2013	$11.3	
Net Loss Attributable to Redeemable Noncontrolling Interests	(0.7	)
Other Comprehensive Income, Net of Tax	0.3	
Redemption of Noncontrolling Interest	(10.9	)
Balance at June 30, 2014	$—	

Prior to May 30, 2014, the calculation of fair value (a Level 3 measurement) of the redeemable noncontrolling interest was determined by using a discounted cash flow analysis based on the Company's forecasts discounted using a weighed average cost of capital and market indicators of terminal year cash flows based upon a multiple of earnings before interest, taxes, depreciation and amortization (“EBITDA”).

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NOTE 9 — INCOME TAXES

During the three and six months ended June 30, 2014, the Company recognized an Income Tax Benefit of $33.2 million and $8.4 million, respectively, on Loss before Income Taxes and Equity Income of Unconsolidated Entities of $74.1 million and $14.8 million. The effective tax rate for the three and six months ended June 30, 2014 was different than the statutory rate primarily due to the mix and levels between foreign and domestic earnings including losses in jurisdictions with full valuation allowances, as well as the impact of the writeoff of nondeductible goodwill in connection with the sale of the labels and multi-wall bag businesses and other discrete items of $4.3 million and $4.9 million, respectively. During the three and six months ended June 30, 2013, the Company recognized Income Tax Expense of $11.4 million and $35.1 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $32.1 million and $90.1 million, respectively. The effective tax rate for the six months ended June 30, 2013 was different than the statutory rate primarily due to the mix and levels between foreign and domestic earnings, including losses in jurisdictions with full valuation allowances, as well as the effects of certain discrete tax items. The Company has approximately $917 million of Net Operating Losses for U.S. federal income tax purposes, which are currently being used and may be used to offset future taxable income.

NOTE 10 — ENVIRONMENTAL AND LEGAL MATTERS

Environmental Matters

The Company is subject to a broad range of foreign, federal, state and local environmental, health and safety laws and regulations, including those governing discharges to air, soil and water, the management, treatment and disposal of hazardous substances, solid waste and hazardous wastes, the investigation and remediation of contamination resulting from historical site operations and releases of hazardous substances, and the health and safety of employees. Compliance initiatives could result in significant costs, which could negatively impact the Company’s consolidated financial position, results of operations or cash flows. Any failure to comply with environmental or health and safety laws and regulations or any permits and authorizations required thereunder could subject the Company to fines, corrective action or other sanctions.

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 a liability is probable and the costs are reasonably estimable. The Company believes that the amounts accrued for all of its loss contingencies, and the reasonably possible loss beyond the amounts accrued, are not material to the Company’s consolidated financial position, results of operations or cash flows. Currently, the Company expects to spend less than $10 million, in aggregate, during 2014 and 2015 to achieve compliance with the National Emission Standards for Hazardous Air Pollutants for units at major sources (known as "Boiler MACT"). The Company cannot estimate with certainty other future corrective compliance, investigation or remediation costs. Costs relating to historical usage that the Company considers to be reasonably possible of resulting in liability are not quantifiable at this time. The Company will continue to monitor environmental issues at each of its facilities, as well as regulatory developments, and will revise its accruals, estimates and disclosures relating to past, present and future operations, as additional information is obtained.

Legal Matters

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

NOTE 11 — SEGMENT INFORMATION

Through June 30, 2014, the Company reported its results in two reportable segments: paperboard packaging and flexible packaging. These segments are evaluated by the chief operating decision maker based primarily on Income from Operations as adjusted for depreciation and amortization. The Company’s reportable segments are based upon strategic business units that offer different products. The accounting policies of the reportable segments are the same as those described in GPHC’s Form 10-K for the year ended December 31, 2013.

The paperboard packaging segment is highly integrated and includes a system of mills and plants that produce a broad range of paperboard grades convertible into folding cartons. Folding cartons are used primarily to protect products, such as food, detergents, paper products, beverages, and health and beauty aids, while providing point of purchase advertising. The paperboard packaging reportable segment includes the design, manufacture and installation of packaging machinery related to the assembly of cartons, the production and sale of corrugated medium and kraft paper from paperboard mills in the U.S. As previously disclosed, the Company sold its labels business as of February 3, 2014 which was part of the paperboard packaging segment.

The flexible packaging segment produces kraft paper and converts kraft and specialty paper into products which include multi-wall bags, such as pasted valve, pinched bottom, sewn open mouth and woven polypropylene and coated paper. Coated paper products include institutional french fry packaging, barrier punch rollstock and freezer paper. Key end-markets include food and agriculture, building and industrial materials, chemicals, minerals and pet food. Flexible packaging paper is used in a wide range of consumer applications. As previously disclosed, on June 30, 2014, the Company sold its multi-wall bag business which is reported in the Flexible Packaging segment. As a result of the sale, the Company is reevaluating its business segment disclosures.

Segment information is as follows:

In millions	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
NET SALES:				
Paperboard Packaging	$987.3	$972.1	$1,929.1	$1,908.2
Flexible Packaging	129.4	167.6	260.3	332.0
Total	$1,116.7	$1,139.7	$2,189.4	$2,240.2
INCOME (LOSS) FROM OPERATIONS:				
Paperboard Packaging	$131.5	$104.4	$231.7	$207.1
Flexible Packaging [a]	(169.5)	(1.4)	(174.0)	(5.2)
Corporate	(14.9)	(15.3)	(30.9)	(29.0)
Total	$(52.9)	$87.7	$26.8	$172.9
DEPRECIATION AND AMORTIZATION:				
Paperboard Packaging	$63.1	$61.4	$124.1	$119.8
Flexible Packaging	6.0	6.4	11.4	12.8
Corporate	0.3	0.5	0.9	1.1
Total	$69.4	$68.3	$136.4	$133.7

(a) Includes Loss on Sale of Assets of multi-wall bag business of $164.5 million for the three and six month periods ended June 30, 2014.

For more information regarding the Company's business segments, see "Note 16 — Business Segment and Geographic Area Information" of the Notes to Consolidated Financial Statements of the Company's 2013 Form 10-K.

The pretax loss of the multi-wall bag business for the three and six months ended June 30, 2014 was $164.5 million and $168.4 million, respectively and for the same periods in 2013 was $10 million and $14.7 million , respectively.

NOTE 12 — EARNINGS PER SHARE

In millions, except per share data	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Net (Loss) Income Attributable to Graphic Packaging Holding Company	$(40.0)	$21.2	$(4.8)	$56.1
Weighted Average Shares:				
Basic	328.7	349.8	328.2	348.9
Dilutive Effect of RSUs and Stock Awards	—	1.7	—	2.0
Diluted	328.7	351.5	328.2	350.9

(Loss) Income Per Share — Basic	$(0.12)	$0.06	$(0.01)	$0.16
(Loss) Income Per Share — Diluted	$(0.12)	$0.06	$(0.01)	$0.16

The following are the potentially dilutive securities excluded from the above calculation because the effect would have been anti-dilutive:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Employee Stock Options	—	918,505	—	1,368,800
Restricted Stock Units	1,516,082	—	2,089,335	—

NOTE 13 — EQUITY

The following is a summary of the changes in total equity for the six months ended June 30, 2014:

In millions	Graphic Packaging Holding Company Shareholders Equity [a]
Balance at December 31, 2013	$1,062.3
Net Loss	(4.8)
Other Comprehensive Income, Net of Tax	6.2
Redemption of Noncontrolling Interest [b]	2.4
Compensation Expense Under Share-Based Plans	8.8
Issuance of Common Stock, Net of Stock Repurchased for Tax Withholdings	(12.8)
Balance at June 30, 2014	$1,062.1

[a] Excludes amounts related to contingently redeemable noncontrolling interests which are separately classified outside of permanent equity in the mezzanine section of the Condensed Consolidated Balance Sheets.

[b] On May 30, 2014, the Company redemed the remaining 13% of GFP (see "Note 8- Redeemable Noncontrolling Interest"). The redemption of the noncontrolling interest was an amount less than net book value, net of taxes.

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NOTE 14 — OTHER COMPREHENSIVE (LOSS) INCOME

The following represents changes in Accumulated Other Comprehensive (Loss) Income by each component of other comprehensive income for the six months ended June 30, 2014 [(a)]:

In millions	Derivatives Instruments	Pension Benefit Plans	Postretirement Benefit Plans	Postemployment Benefit Plans	Currency Translation Adjustment	Total
Balance at December 31, 2013	$(10.8)	$(174.1)	$12.8	$0.5	$(16.6)	$(188.2)
Other Comprehensive Income (Loss) before Reclassifications	(0.3)	(3.5)	(2.0)	—	8.7	2.9
Amounts Reclassified from Accumulated Other Comprehensive (Loss) Income [(b)]	(0.9)	4.8	(0.6)	—	—	3.3
Net Current-period Other Comprehensive Income (Loss)	(1.2)	1.3	(2.6)	—	8.7	6.2
Balance at June 30, 2014	$(12.0)	$(172.8)	$10.2	$0.5	$(7.9)	$(182.0)

[(a)] All amounts are net-of-tax.
[(b)] See following table for details about these reclassifications.

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The following represents reclassifications out of Accumulated Other Comprehensive Income for the six months ended June 30, 2014:

In millions

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line Item in the Statement Where Net Income is Presented
Derivatives Instruments:			
Commodity Contracts	$(2.8	)	Cost of Sales
Foreign Currency Contracts	(0.3	)	Other Expense (Income), Net
Interest Rate Swap Agreements	1.7		Interest Expense, Net
	(1.4	)	Total before Tax
	0.5		Tax Benefit
	$(0.9	)	Net of Tax
Amortization of Defined Benefit Pension Plans:			
Prior Service Costs	$0.3	(c)	
Actuarial Losses	6.0	(c)	
	6.3		Total before Tax
	(1.5	)	Tax Expense
	$4.8		Net of Tax
Amortization of Postretirement Benefit Plans:			
Prior Service Credits	$(0.1	) (c)	
Actuarial Gains	(0.5	) (c)	
	(0.6	)	Total before Tax
	—		Tax Expense
	$(0.6	)	Net of Tax
Total Reclassifications for the Period	$3.3		

(c) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see “Note 6 — Pensions and Other Postretirement Benefits").

NOTE 15 — GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS
This disclosure is required because certain subsidiaries are guarantors of GPII's debt securities. These consolidating financial statements reflect GPHC and GPC (collectively the "Parent”); GPII, the Subsidiary Issuer; and the Subsidiary Guarantors, which consist of all material 100% owned subsidiaries of GPII other than its foreign subsidiaries; and the nonguarantor subsidiaries (herein referred to as “Nonguarantor Subsidiaries”). The Nonguarantor Subsidiaries include all of GPII's foreign subsidiaries and the subsidiaries of GFP. Separate complete financial statements of the Subsidiary Guarantors are not presented because the guarantors are jointly and severally, fully and unconditionally liable under the guarantees. As of June 30, 2014, the assets retained from the sale of the multi-wall bag business that was

previously part of the flexible packaging segment were transferred from Combined Nonguarantor Subsidiaries to Subsidiary Issuer, see "Note 1- General Information".

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	Three Months Ended June 30, 2014					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	$—	$ 854.2	$ 0.4	$ 328.0	$ (65.9)	$ 1,116.7
Cost of Sales	—	673.2	(0.4)	296.7	(65.9)	903.6
Selling, General and Administrative	—	81.4	—	13.1	—	