Graham Packaging Co Inc.
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010

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: 001-34621

GRAHAM PACKAGING COMPANY INC.

(Exact name of registrant as specified in its charter)

Delaware	**52-2076126**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2401 Pleasant Valley Road York, Pennsylvania	**17402**
(Address of principal executive offices)	**(Zip Code)**

(717) 849-8500

(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 x 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 (§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 ¨ No ¨

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 x (Do not check if a smaller reporting company)	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 ¨ No x

As of July 30, 2010, the registrant had outstanding 62,555,962 shares of common stock, par value $0.01 per share.

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GRAHAM PACKAGING COMPANY INC.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GRAHAM PACKAGING COMPANY INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2010	December 31, 2009
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 136,112	$ 147,808
Accounts receivable, net	234,210	191,685
Inventories	188,493	194,702
Deferred income taxes	3,573	3,446
Prepaid expenses and other current assets	34,087	58,297
Total current assets	596,475	595,938
Property, plant and equipment, net	992,189	1,017,778
Intangible assets, net	41,181	43,012
Goodwill	435,073	437,058
Other non-current assets	31,996	32,506
Total assets	$ 2,096,914	$ 2,126,292
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 34,638	$ 100,657
Accounts payable	136,089	111,013
Accrued expenses and other current liabilities	172,514	186,806
Deferred revenue	24,883	30,245
Total current liabilities	368,124	428,721
Long-term debt	2,206,160	2,336,206
Deferred income taxes	31,725	24,625
Other non-current liabilities	103,138	99,854
Commitments and contingent liabilities (see Notes 15 and 16)		
Equity (deficit):		
Graham Packaging Company Inc. stockholders equity (deficit):		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, 0 shares issued and outstanding		
Common stock, $0.01 par value, 500,000,000 shares authorized, shares issued and outstanding 62,555,962 and 42,998,786	626	430
Additional paid-in capital	454,580	297,470
Retained earnings (deficit)	(1,020,715)	(1,032,887)
Notes and interest receivable for ownership interests	(6,504)	(6,353)
Accumulated other comprehensive income (loss)	(46,533)	(31,123)
Graham Packaging Company Inc. stockholders equity (deficit)	(618,546)	(772,463)

Noncontrolling interests	6,313	9,349
Equity (deficit)	(612,233)	(763,114)
Total liabilities and equity (deficit)	$ 2,096,914	$ 2,126,292

See accompanying notes to condensed consolidated financial statements.

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GRAHAM PACKAGING COMPANY INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands, except share and per share data)			
Net sales	$ 652,832	$ 585,714	$ 1,238,408	$ 1,147,565
Cost of goods sold	532,234	473,021	1,015,492	941,296
Gross profit	120,598	112,693	222,916	206,269
Selling, general and administrative expenses	28,414	28,977	95,941	57,472
Asset impairment charges	554	6,459	2,792	8,035
Net loss on disposal of property, plant and equipment	826	803	1,053	2,298
Operating income	90,804	76,454	123,130	138,464
Interest expense	41,891	37,183	87,275	76,881
Interest income	(178)	(247)	(298)	(471)
Net (gain) loss on debt extinguishment		(756)	2,664	(756)
Increase in income tax receivable obligations	3,600		4,900	
Other expense (income), net	349	(977)	3,212	(1,545)
Income before income taxes	45,142	41,251	25,377	64,355
Income tax provision	7,342	6,681	12,088	12,615
Income from continuing operations	37,800	34,570	13,289	51,740
Loss from discontinued operations		(1,479)		(1,806)
Net income	37,800	33,091	13,289	49,934
Net income attributable to noncontrolling interests	4,264	5,262	1,974	8,088
Net income attributable to Graham Packaging Company Inc. stockholders	$ 33,536	$ 27,829	$ 11,315	$ 41,846
Earnings per share:				
Income from continuing operations per share:				
Basic	$ 0.54	$ 0.68	$ 0.20	$ 1.01
Diluted	$ 0.53	$ 0.68	$ 0.19	$ 1.01
Loss from discontinued operations per share:				
Basic	$	$ (0.03)	$	$ (0.04)
Diluted	$	$ (0.03)	$	$ (0.04)
Net income attributable to Graham Packaging Company Inc. stockholders per share:				
Basic	$ 0.54	$ 0.65	$ 0.20	$ 0.97
Diluted	$ 0.53	$ 0.65	$ 0.19	$ 0.97
Weighted average shares outstanding:				
Basic	62,555,962	42,975,419	57,780,042	42,975,419
Diluted	62,555,962	42,975,419	57,780,042	42,975,419

See accompanying notes to condensed consolidated financial statements.

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GRAHAM PACKAGING COMPANY INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Net income	$ 37,800	$ 33,091	$ 13,289	$ 49,934
Other comprehensive (loss) income:				
Changes in fair value of derivatives designated and accounted for as cash flow hedges (net of tax of $0 for all periods presented)		81		347
Amortization of amounts in accumulated other comprehensive income (loss) as of the date the Company discontinued hedge accounting for its interest rate collar and swap agreements (net of tax of $0 for all periods presented)	2,018	1,609	4,107	3,217
Amortization of prior service costs and unrealized actuarial losses included in net periodic benefit costs for pension and post-retirement plans (net of a tax provision of $9 and $19 for the three and six months ended June 30, 2010, respectively, and $10 and $20 for the three and six months ended June 30, 2009, respectively)	516	671	859	1,302
Foreign currency translation adjustments (net of a tax provision of $77 for each of the three and six months ended June 30, 2010, and a tax provision of $370 and a tax benefit of $6 for the three and six months ended June 30, 2009, respectively)	(22,850)	28,062	(24,537)	4,860
Total other comprehensive (loss) income	(20,316)	30,423	(19,571)	9,726
Comprehensive income (loss)	17,484	63,514	(6,282)	59,660
Comprehensive income attributable to noncontrolling interests	2,406	9,843	206	9,552
Comprehensive income (loss) attributable to Graham Packaging Company Inc. stockholders	$ 15,078	$ 53,671	$ (6,488)	$ 50,108

See accompanying notes to condensed consolidated financial statements.

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GRAHAM PACKAGING COMPANY INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30,	
	2010	2009
	(In thousands)	
Operating activities:		
Net income	$ 13,289	$ 49,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	77,645	80,012
Amortization of debt issuance fees	3,184	4,758
Accretion of senior unsecured notes	238	
Net loss (gain) on debt extinguishment	2,664	(756)
Net loss on disposal of property, plant and equipment	1,053	2,298
Pension expense	1,577	2,520
Asset impairment charges	2,792	8,035
Unrealized loss on termination of cash flow hedge accounting	359	2,262
Stock compensation expense	656	407
Equity income from unconsolidated subsidiaries	(40)	
Deferred tax provision	7,263	5,257
Increase in income tax receivable obligations	4,900	
Foreign currency transaction loss	507	80
Interest receivable on loans to owners	(151)	(63)
Changes in operating assets and liabilities:		
Accounts receivable	(47,419)	8,789
Inventories	2,397	18,999
Prepaid expenses and other current assets	20,490	18,329
Other non-current assets	(4,769)	(3,270)
Accounts payable and accrued expenses	15,015	35,152
Pension contributions	(2,916)	(14,326)
Other non-current liabilities	468	(289)
Net cash provided by operating activities	99,202	218,128
Investing activities:		
Cash paid for property, plant and equipment	(75,937)	(71,800)
Proceeds from sale of property, plant and equipment	255	580
Net cash used in investing activities	(75,682)	(71,220)
Financing activities:		
Proceeds from issuance of long-term debt	42,518	22,508
Payment of long-term debt	(240,478)	(55,668)
Debt issuance fees	(648)	(9,570)
Proceeds from the issuance of common stock, net of underwriting discount of $11.3 million	171,055	
Payment of other expenses for the issuance of common stock	(5,419)	
Purchase of ownership interests		(89)
Net cash used in financing activities	(32,972)	(42,819)

Effect of exchange rate changes on cash and cash equivalents	(2,244)	969
(Decrease) increase in cash and cash equivalents	(11,696)	105,058
Cash and cash equivalents at beginning of period	147,808	43,879
Cash and cash equivalents at end of period	$ 136,112	$ 148,937
Supplemental disclosures:		
Cash paid for interest, net of amounts capitalized	$ 74,401	$ 82,516
Cash paid for income taxes (net of refunds)	9,686	7,491
Non-cash investing and financing activities:		
Accruals for purchases of property, plant and equipment	6,051	19,035
Accruals for debt issuance fees	136	5,443
Accruals for fees related to the initial public offering	250	

See accompanying notes to condensed consolidated financial statements.

GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

The accompanying Condensed Consolidated Financial Statements (Unaudited) of Graham Packaging Company Inc. (GPC), a Delaware corporation (formerly known as BMP/Graham Holdings Corporation), have been prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles or GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and therefore do not include all of the information and footnotes required by generally accepted accounting principles for complete annual financial statements. All entities and assets owned by GPC are referred to collectively with GPC as the Company. Graham Packaging Holdings Company, a subsidiary which is 90.9% owned by GPC and for which GPC holds 100% of the general partnership interest, is refered to as Holdings. Graham Packaging Company, L.P., Holdings wholly-owned subsidiary, is referred to as the Operating Company. In the opinion of the management of the Company, all adjustments (consisting only of usual recurring adjustments considered necessary for a fair presentation) are reflected in the Condensed Consolidated Financial Statements (Unaudited). The Condensed Consolidated Balance Sheet (Unaudited) as of December 31, 2009, is derived from audited financial statements. The Condensed Consolidated Financial Statements (Unaudited) and notes included in this report should be read in conjunction with the audited consolidated financial statements and notes for the year ended December 31, 2009. The results of operations for the six months ended June 30, 2010, are not necessarily indicative of the results to be expected for the full year ending December 31, 2010.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued guidance under FASB Accounting Standards Codification (ASC) 860, Transfers and Servicing (formerly Statement of Financial Accounting Standards (SFAS) 166, Accounting for Transfers of Financial Assets, an amendment of SFAS 140). This guidance enhances the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial reports about a transfer of financial assets, the effects a transfer will have on its financial performance and cash flows and any transferor s continuing involvement in transferred financial assets. The Company adopted this guidance effective January 1, 2010, and the adoption had no impact on its financial statements.

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, Multiple Deliverable Revenue Arrangements, a consensus of the FASB Emerging Issues Task Force. This update provides amendments to the guidance provided under ASC 605, Revenue Recognition, for separating consideration in multiple-deliverable arrangements and establishes a hierarchy for determining the selling price of a deliverable. ASU 2009-13 is effective prospectively for financial statements issued for years beginning on or after June 15, 2010. The Company is evaluating the impact that the adoption of ASU 2009-13 will have on its financial statements, but does not expect that the adoption will have a material impact.

Management has determined that all other recently issued accounting pronouncements will not have a material impact on the Company s financial statements, or do not apply to the Company s operations.

Noncontrolling Interests

The Company attributes earnings and losses of Holdings to the noncontrolling interests of Holdings based on the noncontrolling interests relative unit ownership percentages. Accumulated income attributable to the noncontrolling interests is included in a separate component of equity (deficit).

Subsequent Events

The Company has evaluated subsequent events that have occurred after the balance sheet date but before the financial statements were available to be issued, which the Company considers to be the date of filing with the Securities and Exchange Commission.

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

Reclassification

A reclassification has been made to the 2009 Condensed Consolidated Statement of Cash Flows to reflect the deferred tax provision as a separate component of cash provided by operating activities. Amounts for this line item were previously included in changes in prepaid expenses and other current assets, changes in other non-current assets, changes in accounts payable and accrued expenses and changes in other non-current liabilities.

2. Discontinued Operations

On November 12, 2009, the Company sold its wholly-owned subsidiary Graham Emballages Plastiques S.A.S., located in Meaux, France, to an independent third party. The Company determined that the results of operations for this location, which had previously been reported in the Europe segment, would be reported as discontinued operations, in accordance with the guidance under ASC 205-20, Discontinued Operations. The accompanying condensed consolidated statements of operations and related notes to condensed consolidated financial statements reflect these discontinued operations. The following table summarizes the operating results for this location for the periods presented:

	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
	(In thousands)	
Net sales	$ 3,839	$ 8,392
Cost of goods sold	5,295	10,176
Selling, general and administrative expenses	11	(9)
Interest expense	12	31
Loss from discontinued operations	$ (1,479)	$ (1,806)

3. Accounts Receivable, Net

Accounts receivable, net are presented net of an allowance for doubtful accounts of $1.7 million and $2.4 million at June 30, 2010, and December 31, 2009, respectively. Management performs ongoing credit evaluations of its customers and generally does not require collateral.

4. Concentration of Credit Risk

For the six months ended June 30, 2010 and 2009, 72.2% and 71.7% of the Company s net sales, respectively, were generated by its top twenty customers. The Company s sales to PepsiCo, Inc., the Company s largest customer, were 10.2% and 11.9% of total sales for the six months ended June 30, 2010 and 2009, respectively. All of these sales were made in North America.

The Company had $144.0 million and $113.7 million of accounts receivable from its top twenty customers as of June 30, 2010, and December 31, 2009, respectively. The Company had $28.5 million and $17.5 million of accounts receivable from PepsiCo, Inc. as of June 30, 2010, and December 31, 2009, respectively.

5. Inventories

Inventories, stated at the lower of cost or market, consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Finished goods	$ 127,413	$ 130,989
Raw materials	61,080	63,713
Total	$ 188,493	$ 194,702

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

6. Property, Plant and Equipment, Net

A summary of property, plant and equipment, net is presented in the following table:

	Expected Useful Lives (in years)	June 30, 2010	December 31, 2009
		(In thousands)	
Land		$ 42,662	$ 39,063
Buildings and improvements	7-31.5	229,705	236,446
Machinery and equipment (1)	2-15	1,290,231	1,303,241
Molds and tooling	3-5	284,791	282,243
Furniture and fixtures	7	5,495	5,359
Computer hardware and software	3-7	41,309	40,930
Construction in progress		70,622	66,870
Property, plant and equipment		1,964,815	1,974,152
Less: accumulated depreciation and amortization		972,626	956,374
Property, plant and equipment, net		$ 992,189	$ 1,017,778

(1) Includes longer-lived machinery and equipment of approximately $1,228.1 million and $1,230.5 million as of June 30, 2010, and December 31, 2009, respectively, having estimated useful lives, when purchased new, ranging from 8 to 15 years; and shorter-lived machinery and equipment of approximately $62.1 million and $72.7 million as of June 30, 2010, and December 31, 2009, respectively, having estimated useful lives, when purchased new, ranging from 2 to 8 years.

Depreciation expense, including depreciation expense on assets recorded under capital leases, for the three months ended June 30, 2010 and 2009, was $37.1 million and $38.8 million, respectively, and for the six months ended June 30, 2010 and 2009, was $73.8 million and $75.3 million, respectively.

The Company capitalizes interest on borrowings during the active construction period of major capital projects. Capitalized interest is added to the cost of the underlying assets and is amortized over the useful lives of these assets. Interest capitalized for the six months ended June 30, 2010 and 2009, was $2.1 million and $1.7 million, respectively.

The Company closed its plant located in Edison, New Jersey in 2008. The land and building at this location, having a carrying value of $6.6 million, are deemed to be held for sale, and as such are reflected in prepaid expenses and other current assets on the Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2010, and December 31, 2009.

7. Intangible Assets, Net

The gross carrying amount and accumulated amortization of the Company s intangible assets subject to amortization as of June 30, 2010, were as follows:

	Gross Carrying Amount	Accumulated Amortization (In thousands)	Net	Weighted Average Amortization Period
Patented technology	$ 25,389	$ (9,715)	$ 15,674	10 years
Customer relationships	33,290	(7,783)	25,507	16 years
Total	$ 58,679	$ (17,498)	$ 41,181	

GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

The gross carrying amount and accumulated amortization of the Company s intangible assets subject to amortization as of December 31, 2009, were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Period
		(In thousands)		
Patented technology	$ 24,545	$ (8,399)	$ 16,146	10 years
Customer relationships	33,863	(6,997)	26,866	16 years
Total	$ 58,408	$ (15,396)	$ 43,012	

Amortization expense for each of the three months ended June 30, 2010 and 2009, was $1.2 million, and for the six months ended June 30, 2010 and 2009, was $2.4 million and $2.5 million, respectively. Remaining estimated aggregate amortization expense for 2010 is $2.4 million. The estimated aggregate amortization expense for each of the next five years ending December 31 is as follows (in thousands):

2011	$ 4,700
2012	4,700
2013	4,600
2014	4,200
2015	4,000

8. Goodwill

The changes in the carrying amount of goodwill were as follows:

	North America Segment	Europe Segment	South America Segment	Total
		(In thousands)		
Balance at January 1, 2010	$ 420,765	$ 16,286	$ 7	$ 437,058
Foreign currency translation adjustments	563	(2,548)		(1,985)
Balance at June 30, 2010	$ 421,328	$ 13,738	$ 7	$ 435,073

9. Asset Impairment Charges

The Company identified an indicator of possible impairment of certain assets in Brazil, Mexico, the United Kingdom and the United States for the six months ended June 30, 2010, and in Mexico and the United States for the six months ended June 30, 2009. As a result, the Company evaluated the recoverability of these assets and determined that the undiscounted future cash flows were below the carrying value of these long-lived assets. Additionally, management had no plans to redeploy the majority of these assets. Accordingly, the Company adjusted the carrying value of these long-lived assets to their estimated fair value in accordance with the guidance under ASC 360-10-35-15, Subsequent Measurement Impairment or Disposal of Long-lived Assets, resulting in impairment charges being recorded in continuing operations of $0.6 million and $2.8 million for the three and six months ended June 30, 2010, respectively, and $6.5 million and $8.0 million for the three and six

months ended June 30, 2009, respectively.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Accrued employee compensation and benefits	$ 57,929	$ 64,536
Accrued interest	29,488	20,395
Accrued sales allowance	20,921	22,917
Other	64,176	78,958
	$ 172,514	$ 186,806

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

11. Debt Arrangements

Long-term debt consisted of the following:

	June 30, 2010	December 31, 2009
	(In thousands)	
Term loans (net of $15.3 million and $19.9 million unamortized discount as of June 30, 2010, and December 31, 2009, respectively)	$ 1,585,932	$ 1,781,108
Revolver		
Foreign and other revolving credit facilities	5,037	3,381
Senior notes (net of $3.1 million and $3.3 million unamortized discount as of June 30, 2010, and December 31, 2009, respectively)	250,283	250,047
Senior subordinated notes	375,000	375,000
Capital leases	13,793	17,039
Other	10,753	10,288
	2,240,798	2,436,863
Less amounts classified as current (net of $4.6 million and $5.8 million unamortized discount as of June 30, 2010, and December 31, 2009, respectively)	34,638	100,657
Total	$ 2,206,160	$ 2,336,206

The Company s credit agreement consists of a senior secured term loan of $563.1 million due October 7, 2011 (Term Loan B), and a senior secured term loan of $1,022.8 million ($1,038.1 million aggregate outstanding principal amount less $15.3 million unamortized discount) due April 5, 2014 (Term Loan C and, together with the Term Loan B, the Term Loans), to the Operating Company as of June 30, 2010, and a $260.0 million senior secured revolving credit facility (the Revolver and, together with the Term Loans, the Credit Agreement). Availability under the Revolver as of June 30, 2010, was $249.8 million (as reduced by $10.2 million of outstanding letters of credit). The obligations of the Operating Company and GPC Capital Corp. I (CapCo I) under the Credit Agreement are guaranteed by Holdings and certain domestic subsidiaries of the Operating Company. The Term Loans are payable in quarterly installments and require payments of $8.1 million in the remainder of 2010, $570.7 million in 2011, $10.5 million in 2012, $10.5 million in 2013 and $1,001.4 million in 2014 (disregarding any further mandatory or voluntary prepayments that may reduce such scheduled amortization payments). The payments of $8.1 million in the remainder of 2010 exclude the paydowns of debt in the first half of 2010 of $114.2 million using the net proceeds from the intitial public offering (IPO) and of $14.7 million using the net proceeds from the sale of additional shares following the IPO and for an excess cash flow payment of $62.5 million due for the year ended December 31, 2009, paid in March 2010.

On May 28, 2009, certain of the lenders under the Term Loans agreed to extend the final maturity of $1,200.0 million of the Term Loans, conditioned on the refinancing in full of the senior notes due 2012. As a result of such refinancing in November 2009, $563.1 million of the Term Loans will mature on October 7, 2011, and the remaining $1,038.1 million will mature on April 5, 2014.

On May 28, 2009, certain of the Revolver lenders agreed to extend their commitments, with respect to $112.8 million of the total commitment (Extending Revolver), conditioned on the refinancing in full of the senior notes due 2012. As a result of such refinancing in November 2009, $135.2 million of commitments under the Revolver will expire on October 7, 2010 (Non-Extending Revolver), and the remainder of the commitments will

GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

expire on October 1, 2013. In conjunction with the extension of these revolving commitments, the Company also voluntarily reduced the amount of total revolving commitments available to it under the Credit Agreement from $250.0 million to $248.0 million. Subsequent to the IPO, the Company received a $12.0 million increase to its Extending Revolver.

Interest under the Term Loan B and the Non-Extending Revolver is payable at (a) the Alternate Base Rate (ABR) (the higher of the Prime Rate or the Federal Funds Rate plus 0.50%) plus a margin ranging from 1.00% to 1.75%; or (b) the Eurodollar Rate (the applicable interest rate offered to banks in the London interbank eurocurrency market) plus a margin ranging from 2.00% to 2.75%. Interest under the Term Loan C and the Extending Revolver is payable at (a) the Adjusted Alternate Base Rate (the higher of (x) the Prime Rate plus a margin of 3.25%; (y) the Federal Funds Rate plus a margin of 3.75%; or (z) the one-month Eurodollar Rate, subject to a floor of 2.50%, plus a margin of 4.25%); or (b) the Eurodollar Rate, subject to a floor of 2.50%, plus a margin of 4.25%. A commitment fee of 0.50% is due on the unused portion of the Non-Extending Revolver. A commitment fee of 0.75% is due on the unused portion of the Extending Revolver.

The Credit Agreement contains certain affirmative and negative covenants as to the operations and financial condition of the Company, as well as certain restrictions on the payment of dividends and other distributions to Holdings. As of June 30, 2010, the Company was in compliance with all covenants.

Substantially all domestic tangible and intangible assets of the Company are pledged as collateral pursuant to the terms of the Credit Agreement.

As of June 30, 2010, and December 31, 2009, the Company had outstanding $253.4 million aggregate principal amount of 8.25% senior unsecured notes due 2017 (Senior Notes) and $375.0 million in senior subordinated notes due 2014 (Senior Subordinated Notes) co-issued by the Operating Company and CapCo I (collectively with the Senior Notes, the Notes). The Notes are unconditionally guaranteed, jointly and severally, by Holdings and certain domestic subsidiaries of the Operating Company and mature on October 7, 2014 (Senior Subordinated Notes), and January 1, 2017 (Senior Notes). Interest on the Senior Subordinated Notes is payable semi-annually at 9.875% per annum and interest on the Senior Notes is payable semi-annually at 8.25% per annum.

12. Fair Value Measurement

The following methods and assumptions were used to estimate the fair values of each class of financial instruments:

Cash and Cash Equivalents, Accounts Receivable and Accounts Payable

The fair values of these financial instruments approximate their carrying amounts.

Long-Term Debt

The Company s long-term debt consists of both variable-rate and fixed-rate debt. The fair values of the Company s long-term debt were based on market price information. The Company s variable-rate debt, including the Company s Credit Agreement, totaled $1,598.2 million (net of $15.3 million unamortized discount) and $1,790.1 million (net of $19.9 million unamortized discount) at June 30, 2010, and December 31, 2009, respectively. The fair value of this long-term debt, including the current portion, was approximately $1,612.4 million and $1,809.8 million at June 30, 2010, and December 31, 2009, respectively. The Company s fixed-rate debt, including $253.4 million of Senior Notes and $375.0 million of Senior Subordinated Notes, totaled $642.6 million (net of $3.1 million unamortized discount) and $646.8 million (net of $3.3 million unamortized discount) at June 30, 2010, and December 31, 2009, respectively. The fair value of this long-term debt, including the current portion, was approximately $650.4 million and $652.8 million at June 30, 2010, and December 31, 2009, respectively.

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Derivatives

The Company established the following fair value hierarchy that prioritizes the inputs used to measure fair value, in accordance with the guidance under ASC 820-10, Fair Value Measurements and Disclosures :

Level 1: Inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Inputs include the following:

a) Quoted prices in active markets for similar assets or liabilities.

b) Quoted prices in markets that are not active for identical or similar assets or liabilities.

c) Inputs other than quoted prices that are observable for the asset or liability.

d) Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3: Inputs are unobservable inputs for the asset or liability.

Recurring Fair Value Measurements

The following table presents the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2010, by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	**Level 2**	**Level 3**
		(In thousands)	
Liabilities:			
Foreign currency exchange contract	$	$ 7	$
Interest rate swap agreements		13,008	

The following table presents the Company s financial assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2009, by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	**Level 2**	**Level 3**
		(In thousands)	

Liabilities:			
Interest rate collar agreements	$	$ 68	$
Interest rate swap agreements		16,688	
Foreign currency exchange contract		27	

The fair values of the Company s derivative financial instruments are observable at commonly quoted intervals for the full term of the derivatives and therefore considered level 2 inputs.

Non-recurring Fair Value Measurements

The Company has real estate located in Edison, New Jersey that is held for sale. The aggregate carrying value of these assets at June 30, 2010, was $6.6 million, which is less than the fair value of these assets and therefore resulted in no impairment charge for these assets. The determination of fair value included certain unobservable inputs, which reflect the Company s assumptions regarding how market participants would price these assets in the marketplace, and therefore are considered level 3 inputs. The fair value of this real estate was based on offers received from potential buyers.

The Company recorded impairment charges in continuing operations of $0.6 million and $2.8 million for the three and six months ended June 30, 2010, respectively, for long-lived assets in Brazil, Mexico, the United Kingdom and the United States whose carrying values exceeded fair values. The Company recorded impairment charges in continuing operations of $6.5 million and $8.0 million for the three and six months ended June 30, 2009, respectively, for long-lived assets in Mexico and the United States whose carrying values exceeded fair values. Fair values for these assets were based on projected future cash flows, discounted using either a risk-free rate or a risk-adjusted rate, which the Company considers level 3 inputs.

GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

13. Derivative Financial Instruments

The Company s business and activities expose it to a variety of market risks, including risks related to changes in interest rates, foreign currency exchange rates and commodity prices. These financial exposures are monitored and managed by the Company as an integral part of its market risk management program. This program recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects that market volatility could have on operating results. As part of its market risk management strategy, the Company uses derivative instruments to protect cash flows from fluctuations caused by volatility in interest rates, foreign currency exchange rates and commodity prices.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains and losses on derivatives representing hedge ineffectiveness, if any, are recognized in current earnings.

During 2009, the Company entered into a $1.2 million foreign currency exchange contract to hedge the exchange rate exposure on a transaction that is denominated in pound sterling. The contract was renewed in the third quarter of 2009 for another six months and increased to $1.5 million. The contract was renewed again in the first quarter of 2010 for another six months. This foreign currency exchange contract is accounted for as a cash flow hedge and is highly effective as defined by ASC 815, Derivatives and Hedging.

The maximum term over which the Company is hedging exposures to the variability of cash flows (for all forecasted transactions, excluding interest payments on variable-rate debt) is 12 months.

Derivatives Not Designated as Hedging Instruments

During the first quarter of 2009, the Company elected to roll over its senior secured term loan in one-month increments to reduce its cash interest, as opposed to continuing to roll over its senior secured term loan in three-month increments to match the terms of its interest rate collar agreements. The Company has therefore discontinued hedge accounting for its interest rate collar and swap agreements. As a result, no change in fair value was recorded in other comprehensive income for the six months ended June 30, 2010 and 2009. Of the amount recorded within accumulated other comprehensive income (loss) as of June 30, 2010, 91% is expected to be recognized in interest expense in the next twelve months.

In 2009, the Company entered into foreign currency exchange contracts to hedge the effects of fluctuations in exchange rates on an anticipated euro-denominated purchase of equipment. The gains or losses on the derivatives were recognized in current earnings.

Financial instruments are not held by the Company for trading purposes.

The notional amounts of the Company s derivative instruments outstanding were as follows:

	June 30, 2010	December 31, 2009
	(In thousands)	
Derivatives designated as hedges:		
Foreign currency exchange contract	$ 1,414	$ 1,544
Total derivatives designated as hedges	$ 1,414	$ 1,544

Derivatives not designated as hedges:		
Interest rate collar agreements	$	$ 385,000
Interest rate swap agreements	350,000	350,000
Total derivatives not designated as hedges	$ 350,000	$ 735,000

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

The fair values of the Company s derivative instruments outstanding were as follows:

	Balance Sheet Location	June 30, 2010	December 31, 2009
		(In thousands)	
Liability derivatives:			
Derivatives designated as hedges:			
Foreign currency exchange contract	Accrued expenses and other current liabilities	$ 7	$ 27
Total derivatives designated as hedges		7	27
Derivatives not designated as hedges:			
Interest rate collar agreements	Accrued expenses and other current liabilities		68
Interest rate swap agreements	Accrued expenses and other current liabilities	11,840	10,466
Interest rate swap agreements	Other non-current liabilities	1,168	6,222
Total derivatives not designated as hedges		13,008	16,756
Total liability derivatives		$ 13,015	$ 16,783

The gains and losses on the Company s derivative instruments during the three and six months ended June 30, 2010, were as follows:

	Amount of Gain or (Loss) Recognized in AOCI (a) (Effective Portion) for the Period Ended June 30, 2010		Income Statement Classification	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) for the Period Ended June 30, 2010	
	Three Months	Six Months		Three Months	Six Months
	(In thousands)			(In thousands)	
Derivatives designated as hedges:					
Cash flow hedges:					
Foreign currency exchange contract	$ (21)	$ (110)	Other expense (income), net	$ (21)	$ (110)
Total derivatives designated as hedges	$ (21)	$ (110)		$ (21)	$ (110)

Amount of Gain or (Loss) Recognized in Income for the

		Period Ended June 30, 2010	
		Three Months	Six Months
		(In thousands)	
Derivatives not designated as hedges:			
Interest rate collar agreements	Interest expense	$	$ (86)
Interest rate swap agreements	Interest expense	(2,499)	(7,027)
Total derivatives not designated as hedges		$ (2,499)	$ (7,113)

(a) Accumulated other comprehensive income (loss) (AOCI).

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

The gains and losses on the Company s derivative instruments during the three and six months ended June 30, 2009, were as follows:

	Amount of Gain or (Loss) Recognized in AOCI (a) (Effective Portion) for the Period Ended June 30, 2009		Income Statement Classification	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) for the Period Ended June 30, 2009	
	Three Months	Six Months		Three Months	Six Months
	(In thousands)			(In thousands)	
Derivatives designated as hedges:					
Cash flow hedges:					
Foreign currency exchange contract	$ 174	$ 151	Other expense (income), net	$ 174	$ 151
Natural gas swap agreements	(11)	(161)	Cost of goods sold	(108)	(273)
Total derivatives designated as hedges	$ 163	$ (10)		$ 66	$ (122)

		Amount of Gain or (Loss) Recognized in Income for the Period Ended June 30, 2009	
		Three Months	Six Months
		(In thousands)	
Derivatives not designated as hedges:			
Interest rate collar agreements	Interest expense	$ (2,554)	$ (4,203)
Interest rate swap agreements	Interest expense	666	(1,069)
Foreign currency exchange contracts	Other expense (income), net	27	84
Total derivatives not designated as hedges		$ (1,861)	$ (5,188)

14. Income Taxes

The Company accounts for income taxes in accordance with ASC 740, Accounting for Income Taxes. In recording the income tax provision for the six months ended June 30, 2010, the Company separately considered one-time contract termination fees paid to affiliates, bonuses paid and other costs incurred in connection with the IPO, and a foreign exchange loss related to the application of hyper-inflationary accounting for our Venezuelan subsidiary and the devaluation of the Venezuelan bolivar.

Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates. The Company previously established a valuation allowance with respect to certain deferred income tax assets. During the six months ended June 30, 2010, the valuation allowance decreased by $20.0 million, primarily as a result of changes in deferred income tax assets associated with current year utilization of net operating losses.

The Company had $56.6 million of Unrecognized Tax Benefits (UTB), exclusive of interest and penalties, as of June 30, 2010. For the six months ended June 30, 2010, the Company recorded a net increase in UTB of $5.9 million, exclusive of interest and penalties. Offsetting long-term deferred income tax assets at June 30, 2010, were $14.7 million. As of June 30, 2010, the Company had recorded additional UTB of $4.9 million related to interest and penalties. The Company does not expect a significant change in the UTB balance in the next twelve months. Approximately $7.3 million of UTB at June 30, 2010, if recognized, would impact the Company s effective tax rate.

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15. Commitments

The Company is a party to various capital and operating leases involving real property and equipment. Total rent expense for operating leases was $11.8 million and $24.9 million for the three and six months ended June 30, 2010, respectively, and $12.6 million and $24.7 million for the three and six months ended June 30, 2009, respectively.

Under the Fifth Amended and Restated Limited Partnership Agreement and the Amended and Restated Monitoring Agreement (the Monitoring Agreement), the Company was obligated to make annual payments of $2.0 million and $3.0 million to affiliates of the Graham Family (defined as Graham Capital Company, GPC Investments LLC and Graham Alternative Investment Partners I or affiliates thereof or other entities controlled by Donald C. Graham and his family) and Blackstone (defined as Blackstone Capital Partners III Merchant Banking Fund L.P., Blackstone Offshore Capital Partners III L.P. and Blackstone Family Investment Partnership III L.P. or affiliates thereof), respectively. The Company has terminated the Monitoring Agreement and is no longer obligated to make payments. As a result, as of February 10, 2010, the Company is only obligated to make annual payments of $1.0 million to affiliates of the Graham Family for ongoing management and advisory services. See Note 19 for further discussion of the Company s obligations under these agreements.

In connection with the IPO, on February 10, 2010, GPC entered into separate Income Tax Receivable Agreements (ITRs) with its pre-IPO stockholders (e.g. Blackstone, management and other stockholders) and with GPC Holdings, L.P., an affiliate of the Graham Family. The agreements provide for the payment by GPC of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that is actually realized (or is deemed to be realized in the case of an early termination or change in control as further described in the ITRs) as a result of the utilization of net operating losses attributable to periods prior to the IPO, and any increase to the tax basis of the assets of the Company related to (1) the 1998 acquisition of Holdings and (2) current and future exchanges by the Graham Family of their limited partnership units for common stock of GPC pursuant to the Exchange Agreement, and of certain other tax benefits related to GPC s entering into the ITRs, including tax benefits attributable to payments under the ITRs. Payments under the ITRs are not conditioned upon these parties continued ownership of the Company or Holdings.

The Company expects that future payments under the ITRs will aggregate to between $200.0 million and $230.0 million with potential additional payments for tax basis step-ups relating to future exchanges by the Graham Family of their limited partnership units in Holdings for GPC common stock depending on the timing and value of such exchanges. This range is based on the Company s assumptions using various items, including valuation analysis and historical tax basis amounts. This range also includes step-ups related to the Graham Family s exchange of 1,324,900 limited partnership units through February 18, 2010. The Company will recognize obligations based on the amount of recorded net deferred income tax assets recognized, and subject to the ITRs. Changes in the recorded net deferred income tax assets will result in changes in the ITRs obligations, and such changes will be recorded as other income or expense. As of June 30, 2010, the value of the ITRs obligations was $11.4 million. Because GPC is a holding company with no operations of its own, its ability to make payments under the ITRs is dependent on Holdings ability to make distributions. Upon the effective date of the respective ITRs, the Company recorded an initial obligation of $6.5 million, which is recognized as a reduction of additional paid-in capital. Additionally, the Company recorded $3.6 million and $4.9 million in expense related to the increase in the ITRs obligations for the three and six months ended June 30, 2010, respectively. For the six months ended June 30, 2010, no payments have been made under the ITRs.

16. Contingencies and Legal Proceedings

On November 3, 2006, the Company filed a complaint with the Supreme Court of the State of New York, New York County, against Owens-Illinois, Inc. and OI Plastic Products FTS, Inc. (collectively, OI). The complaint alleges certain misrepresentations by OI in connection with the Company s 2004 purchase of the blow molded plastic container business of Owens-Illinois, Inc. and seeks damages in excess of $30 million. In December 2006, OI filed an Answer and Counterclaim, seeking to rescind a Settlement Agreement entered into between OI and

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the Company in April 2005, and disgorgement of more than $39 million paid by OI to the Company in compliance with that Settlement Agreement. The Company filed a Motion to Dismiss the Counterclaim in July 2007, which was granted by the Court in October 2007. On August 1, 2007, the Company filed an Amended Complaint to add additional claims seeking indemnification from OI for claims made against the Company by former OI employees pertaining to their pension benefits. These claims arise from an arbitration between the Company and Glass, Molders, Pottery, Plastic & Allied Workers, Local #171 (the Union) that resulted in an award on April 23, 2007, in favor of the Union. The Arbitrator ruled that the Company had failed to honor certain pension obligations for past years of service to former employees of OI, whose seven Union-represented plants were acquired by the Company in October 2004. In the Amended Complaint, the Company maintains that under Section 8.2 of the Stock Purchase Agreement between the Company and OI, OI is obligated to indemnify the Company for any losses associated with differences in the two companies pension plans including any losses incurred in connection with the Arbitration award. The litigation is proceeding.

On April 10, 2009, OnTech Operations, Inc. (OnTech) initiated an arbitration proceeding against the Company, in which OnTech alleges that the Company breached a bottle purchase agreement dated April 28, 2008, and an equipment lease dated June 1, 2008. In its statement of claims, OnTech alleges, among other things, that the Company s failure to produce bottles as required by the bottle purchase agreement resulted in the failure of OnTech s business. As a result, OnTech is seeking to recover the value of its business, which it alleges is between $80 million and $150 million, which is in excess of 10% of the Company s current assets. The arbitration is currently scheduled to be heard by a three arbitrator panel from August 2, 2010, to August 6, 2010. The Company believes that OnTech s claims are without legal, contractual or factual merit. The Company is vigorously defending against these claims and feels that the likelihood of it not prevailing is remote. Accordingly, the Company has not accrued a loss on this claim.

The Company is a party to various other litigation matters arising in the ordinary course of business. The ultimate legal and financial liability of the Company with respect to such litigation cannot be estimated with certainty, but management believes, based on its examination of these matters, experience to date and discussions with counsel, that ultimate liability from the Company s various litigation matters will not be material to the business, financial condition, results of operations or cash flows of the Company.

17. Segment Information

The Company is organized and managed on a geographical basis in three operating segments: North America, Europe and South America. Segment information for the three and six months ended June 30, 2010 and 2009, and as of June 30, 2010, and December 31, 2009, representing the reportable segments currently utilized by the chief operating decision makers, was as follows:

		North America	Europe	South America	Eliminations (a)	Total
				(In thousands)		
Net sales (b) (c)	Three months ended June 30, 2010	$ 574,136	$ 54,527	$ 24,413	$ (244)	$ 652,832
	Three months ended June 30, 2009	509,263	53,984	22,484	(17)	585,714
	Six months ended June 30, 2010	1,079,290	112,791	46,861	(534)	1,238,408
	Six months ended June 30, 2009	997,760	110,364	39,633	(192)	1,147,565
Operating income (loss)	Three months ended June 30, 2010	$ 83,844	$ 5,693	$ 1,267	$	$ 90,804
	Three months ended June 30, 2009	71,746	5,762	(1,054)		76,454
	Six months ended June 30, 2010	106,507	13,043	3,580		123,130
	Six months ended June 30, 2009	125,548	15,745	(2,829)		138,464
Depreciation and amortization	Three months ended June 30, 2010	$ 33,555	$ 4,109	$ 1,408	$	$ 39,072
	Three months ended June 30, 2009	34,676	4,984	1,007		40,667
	Six months ended June 30, 2010	66,669	8,440	2,536		77,645
	Six months ended June 30, 2009	67,512	9,441	2,133		79,086
Asset impairment charges	Three months ended June 30, 2010	$ 515	$	$ 39	$	$ 554

Three months ended June 30, 2009	6,459			6,459
Six months ended June 30, 2010	2,414	322	56	2,792
Six months ended June 30, 2009	8,035			8,035

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Interest expense, net	Three months ended June 30, 2010	$ 40,654	$ 307	$ 752	$	$ 41,713
	Three months ended June 30, 2009	35,989	187	760		36,936
	Six months ended June 30, 2010	85,123	638	1,216		86,977
	Six months ended June 30, 2009	74,577	558	1,275		76,410
Other (income) expense, net	Three months ended June 30, 2010	$ (1,309)	$ 1,829	$ (171)(d)	$	$ 349
	Three months ended June 30, 2009	(3,181)	960	(1,636)	2,880	(977)
	Six months ended June 30, 2010	(2,651)	3,352	2,511(d)		3,212
	Six months ended June 30, 2009	(1,951)	785	(3,259)	2,880	(1,545)
Income tax provision (benefit)	Three months ended June 30, 2010	$ 5,606	$ 1,764	$ (28)	$	$ 7,342
	Three months ended June 30, 2009	3,721	1,264	1,696		6,681
	Six months ended June 30, 2010	8,784	3,098	206		12,088
	Six months ended June 30, 2009	7,091	4,399	1,125		12,615
Identifiable assets (b) (c) (e)	As of June 30, 2010	$ 811,149	$ 117,978	$ 63,062	$	$ 992,189
	As of December 31, 2009	830,897	138,053	48,828		1,017,778
Goodwill	As of June 30, 2010	$ 421,328	$ 13,738	$ 7	$	$ 435,073
	As of December 31, 2009	420,765	16,286	7		437,058
Cash paid for property, plant and equipment	Six months ended June 30, 2010	$ 50,269	$ 8,323	$ 17,345	$	$ 75,937
	Six months ended June 30, 2009	58,335	5,688	7,777		71,800

(a) To eliminate intercompany transactions.

(b) The Company s net sales for Europe include countries having significant sales as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In millions)			
Poland	$ 12.6	$ 10.5	$ 26.5	$ 22.7
Belgium	12.6	12.7	26.8	26.7
Spain	6.9	8.3	14.2	17.5
France	7.0	5.4	14.7	11.0

The Company s identifiable assets for Europe include countries having significant identifiable assets as follows:

	June 30, 2010	December 31, 2009
	(In millions)	
Poland	$ 31.0	$ 36.6
Belgium	27.9	31.9
Spain	19.6	23.6
France	14.3	15.1

(c)

The Company s net sales for North America include sales in Mexico which totaled $47.0 million and $39.2 million for the three months ended June 30, 2010 and 2009, respectively, and $86.6 million and $69.5 million for the six months ended June 30, 2010 and 2009, respectively. Identifiable assets in Mexico totaled $64.4 million and $58.8 million as of June 30, 2010, and December 31, 2009, respectively. Substantially all of the North America reportable segment s remaining net sales and identifiable assets are in the United States.

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(d) Beginning January 1, 2010, Venezuela s economy is considered to be highly inflationary for accounting purposes. Accordingly, the Company has adopted the U.S. dollar as the functional currency for its Venezuelan operations. All bolivar-denominated transactions, as well as monetary assets and liabilities, are remeasured into U.S. dollars. As a result of the application of hyper-inflationary accounting requiring the revaluation of monetary assets and liabilities, the Company recorded a $0.3 million gain and a $2.5 million loss in other expense for the three and six months ended June 30, 2010, respectively. Net sales for Venezuela were $1.5 million and $3.0 million for the three and six months ended June 30, 2010, respectively, and net assets for Venezuela were less than 1.0% of the Company s total net assets as of June 30, 2010, and December 31, 2009. As the Venezuelan operations are not significant to the overall operations of the Company, future rate changes in the bolivar would not have a significant impact on the Company s financial statements.

(e) Represents property, plant and equipment, net.

Product Net Sales Information

The following is supplemental information on net sales by product category:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Food and Beverage	$ 407,819	$ 360,844	$ 769,752	$ 713,582
Household	111,084	105,626	218,008	207,153
Personal Care/Specialty	40,935	42,066	82,505	85,818
Automotive Lubricants	92,994	77,178	168,143	141,012
Total Net Sales	$ 652,832	$ 585,714	$ 1,238,408	$ 1,147,565

18. Pension Plans

The components of net periodic pension cost for the Company s defined benefit pension plans consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
	(In thousands)			
Components of net periodic pension cost:				
Service cost	$ 546	$ 564	$ 1,094	$ 1,136
Interest cost	1,585	1,505	3,176	2,996
Expected return on plan assets	(1,740)	(1,433)	(3,483)	(2,852)
Net amortization and deferral of prior service costs	396	582	790	1,173
Curtailment/special charges		104		104
Employee contributions		(19)		(37)
Net periodic pension cost	$ 787	$ 1,303	$ 1,577	$ 2,520

The Company previously disclosed in its financial statements for the year ended December 31, 2009, that it expected to contribute $7.3 million to its pension plans in 2010. As of June 30, 2010, $2.9 million of required contributions to its pension plans has been made and the Company expects to make an additional $4.4 million of contributions in the remainder of 2010.

The Company closed its plants located in Bristol, PA and Vicksburg, MS during the fourth quarter of 2009. As a result of these closings, in January 2010, the Company made an additional $0.5 million contribution to the Bristol, PA plan, and in June 2010, an additional $0.1 million contribution to the Vicksburg, MS plan, to fully fund both plans.

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The Company recognized $1.9 million of expense for its 401(k) plans in each of the second quarters of 2010 and 2009, and $3.7 million of expense for its 401(k) plans in each of the first halves of 2010 and 2009.

19. Transactions with Related Parties

The Company had transactions with entities affiliated through common ownership. The Company made payments to Graham Engineering Company for equipment and related services of $0.4 million and $0.5 million for the three months ended June 30, 2010 and 2009, respectively, and $1.4 million and $0.8 million for the six months ended June 30, 2010 and 2009, respectively.

Affiliates of both of the Graham Family and Blackstone have supplied management and advisory services to Holdings since 1998. The Company has recorded $0.3 million and $1.2 million of expense for these services for the three months ended June 30, 2010 and 2009, respectively, and $1.0 million and $2.5 million for the six months ended June 30, 2010 and 2009, respectively. Under the Fifth Amended and Restated Limited Partnership Agreement and the Monitoring Agreement, Holdings was obligated to make annual payments of $2.0 million and $3.0 million to affiliates of the Graham Family and Blackstone, respectively. In exchange for a one-time payment of $26.3 million to Blackstone Management Partners III L.L.C. and $8.8 million to Graham Alternative Investment Partners I, the parties of the Monitoring Agreement agreed to terminate such agreement. These amounts paid to terminate the Monitoring Agreement are reflected in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations (Unaudited) for the six months ended June 30, 2010. As a result of the termination, Blackstone, the Graham Family and their affiliates have no further obligation to provide monitoring services to Holdings, and Holdings has no further obligation to make annual payments of $4.0 million, under the Monitoring Agreement. As a result, as of February 10, 2010, the Company is only obligated to make annual payments of $1.0 million to affiliates of the Graham Family for ongoing management and advisory services under the Fifth Amended and Restated Limited Partnership Agreement, until such time that the Graham Family sells more than two thirds of its original investment, and such services would then cease.

At June 30, 2010, the Company had loans outstanding to certain former management employees of the Company for the purchase of shares of GPC. These loans were made in connection with the capital call payments made on September 29, 2000, and March 29, 2001, pursuant to a capital call agreement dated as of August 13, 1998. The proceeds from the loans were used to fund management s share of the capital call payments. The loans mature on September 28, 2012, and March 30, 2013, respectively, and accrue interest at a rate of 6.22%. The loans are secured by a pledge of the stock purchased by the loans. The loans and related interest, totaling $1.9 million and $1.8 million as of June 30, 2010, and December 31, 2009, respectively, are reflected in equity (deficit) on the Condensed Consolidated Balance Sheets (Unaudited).

As discussed in Note 15, in connection with the IPO, on February 10, 2010, GPC entered into separate ITRs with its pre-IPO stockholders (e.g. Blackstone, management and other stockholders) and with GPC Holdings, L.P., an affiliate of the Graham Family. The agreements provide for the payment by GPC of 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax that is actually realized (or is deemed to be realized in the case of an early termination or change in control as further described in the ITRs) as a result of the utilization of net operating losses attributable to periods prior to the IPO, and any increase to the tax basis of the assets of the Company related to (1) the 1998 acquisition of Holdings and (2) current and future exchanges by the Graham Family of their limited partnership units for common stock of GPC pursuant to the Exchange Agreement, and of certain tax benefits related to GPC s entering into the ITRs, including tax benefits attributable to payments under the ITRs.

20. Environmental Matters

As a result of the Company closing its plant located in Edison, New Jersey, the Company is subject to New Jersey s Industrial Site Recovery Act (ISRA). The Company acquired this facility from Owens-Illinois, Inc. in 2004. ISRA is an environmental law that specifies a process of reporting to the New Jersey Department of Environmental Protection (NJDEP) and, in some situations, investigating, cleaning up and/or taking other measures with respect to environmental conditions that may exist at an industrial establishment that has been shut down or is being transferred. The Company is in the process of evaluating and implementing its obligations under ISRA regarding this facility. The Company has recorded a preliminary reserve of $0.4 million for this obligation. This amount may change based on results of additional investigation expected to be undertaken for NJDEP.

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

21. Earnings Per Share

The following are reconciliations of income from continuing operations, loss from discontinued operations and net income attributable to GPC stockholders used to calculate basic and diluted earnings per share.

The following summarizes earnings per share for the three months ended June 30, 2010 (in thousands except share and per share data):

	As Reported	Attributable to Noncontrolling Interests (1)	Attributable to GPC Stockholders for Computation of Basic Earnings Per Share	Adjustment for Potentially Dilutive Options to Purchase Partnership Units (2)	Adjusted for Computation of Diluted Earnings Per Share
Numerator:					
Net income	$ 37,800	$ (4,264)	$ 33,536	$ (671)	$ 32,865
Denominator:					
Weighted average number of GPC shares outstanding (3)			62,555,962		62,555,962
			Basic		**Diluted**
Earnings per share:					
Net income attributable to GPC stockholders			$ 0.54		$ 0.53

The following summarizes earnings per share for the three months ended June 30, 2009 (in thousands except share and per share data):

	As Reported	Attributable to Noncontrolling Interests (1)	Attributable to GPC Stockholders for Computation of Basic Earnings Per Share	Adjustment for Potentially Dilutive Options to Purchase Partnership Units (2)	Adjusted for Computation of Diluted Earnings Per Share
Numerator:					
Income from continuing operations	$ 34,570	$ (5,485)	$ 29,085	$	$ 29,085
Loss from discontinued operations	(1,479)	223	(1,256)		(1,256)
Net income	$ 33,091	$ (5,262)	$ 27,829	$	$ 27,829

Denominator:		
Weighted average number of GPC shares outstanding (4)	42,975,419	42,975,419
	Basic	**Diluted**
Earnings per share:		
Income from continuing operations	$ 0.68	$ 0.68
Loss from discontinued operations	(0.03)	(0.03)
Net income attributable to GPC stockholders	$ 0.65	$ 0.65