Graham Packaging Co Inc.
Form 424B3
August 12, 2011
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FILED PURSUANT TO RULE 424(B)(3)

File Number 333-170321

GRAHAM PACKAGING COMPANY INC.

SUPPLEMENT NO. 18 TO

PROSPECTUS DATED DECEMBER 30, 2010

THE DATE OF THIS SUPPLEMENT IS AUGUST 12, 2011

ON AUGUST 12, 2011, GRAHAM PACKAGING COMPANY INC. FILED THE ATTACHED

QUARTERLY REPORT ON FORM 10-Q FOR THE SECOND QUARTER ENDED JUNE 30, 2011

The attached information modifies and supersedes, in part, the information in the Prospectus. Any information that is modified or superseded in the Prospectus shall not be deemed to constitute a part of the Prospectus, except as modified or superseded by this Prospectus Supplement.

This Prospectus Supplement No. 18 should be read in conjunction with the Prospectus which is required to be delivered with this Prospectus Supplement.

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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**

June 30, 2011 For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission file number: 001-34621

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 x 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 August 5, 2011, the registrant had outstanding 67,754,824 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, 2011	December 31, 2010
	(In thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 162,059	$ 152,964
Accounts receivable, net	315,769	216,368
Inventories	272,330	247,166
Deferred income taxes	30,796	14,616
Prepaid expenses and other current assets	40,545	42,363
Total current assets	821,499	673,477
Property, plant and equipment, net	1,207,593	1,203,142
Intangible assets, net	186,639	195,780
Goodwill	658,255	643,064
Other non-current assets	73,549	91,364
Total assets	$ 2,947,535	$ 2,806,827
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Current portion of long-term debt	$ 31,599	$ 34,007
Accounts payable	245,257	142,585
Accrued expenses and other current liabilities	205,897	196,432
Deferred revenue	40,294	32,471
Total current liabilities	523,047	405,495
Long-term debt	2,790,984	2,798,824
Deferred income taxes	41,214	32,428
Other non-current liabilities	113,140	100,804
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 67,754,824 and 63,311,512	678	633
Additional paid-in capital	466,373	459,422
Retained earnings (deficit)	(992,662)	(977,318)
Notes and interest receivable for ownership interests	(5,037)	(4,838)
Accumulated other comprehensive income (loss)	188	(22,508)
Graham Packaging Company Inc. stockholders equity (deficit)	(530,460)	(544,609)
Noncontrolling interests	9,610	13,885

Equity (deficit)	(520,850)	(530,724)
Total liabilities and equity (deficit)	$ 2,947,535	$ 2,806,827

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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands, except share and per share data)			
Net sales	$ 821,238	$ 652,832	$ 1,577,735	$ 1,238,408
Cost of goods sold	696,896	532,234	1,338,307	1,015,492
Gross profit	124,342	120,598	239,428	222,916
Selling, general and administrative expenses	74,738	28,414	114,238	95,941
Asset impairment charges	1,369	554	2,478	2,792
Net (gain) loss on disposal of property, plant and equipment	(795)	826	(95)	1,053
Operating income	49,030	90,804	122,807	123,130
Interest expense	53,261	41,891	106,190	87,275
Interest income	(471)	(178)	(664)	(298)
Net loss on debt extinguishment				2,664
Increase in income tax receivable obligations	7,993	3,600	12,567	4,900
Other expense (income), net	211	349	(424)	3,212
(Loss) income before income taxes	(11,964)	45,142	5,138	25,377
Income tax provision	14,640	7,342	23,644	12,088
Net (loss) income	(26,604)	37,800	(18,506)	13,289
Net income attributable to noncontrolling interests	1,835	4,264	2,849	1,974
Net (loss) income attributable to Graham Packaging Company Inc. stockholders	$ (28,439)	$ 33,536	$ (21,355)	$ 11,315
Earnings per share:				
Net (loss) income attributable to Graham Packaging Company Inc. stockholders per share:				
Basic	$ (0.43)	$ 0.54	$ (0.32)	$ 0.20
Diluted	$ (0.43)	$ 0.53	$ (0.32)	$ 0.19
Weighted average shares outstanding:				
Basic	66,457,589	62,555,962	65,873,577	57,780,042
Diluted	66,457,589	62,555,962	65,873,577	57,780,042

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, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In thousands)			
Net (loss) income	$ (26,604)	$ 37,800	$ (18,506)	$ 13,289
Other comprehensive income (loss):				
Changes in fair value of derivatives designated and accounted for as cash flow hedges (net of tax of $0 for all periods presented)	252		386	
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		4,107
Amortization of prior service costs and unrealized actuarial losses included in net periodic benefit costs for pension and post-retirement plans (net of tax provisions of $65 and $130 for the three and six months ended June 30, 2011, respectively, and $9 and $19 for the three and six months ended June 30, 2010, respectively)	396	516	726	859
Foreign currency translation adjustments (net of tax provisions of $2,354 and $2,358 for the three and six months ended June 30, 2011, respectively, and $77 for each of the three and six months ended June 30, 2010)	5,248	(22,850)	20,548	(24,537)
Total other comprehensive income (loss)	5,896	(20,316)	21,660	(19,571)
Comprehensive (loss) income	(20,708)	17,484	3,154	(6,282)
Comprehensive income attributable to noncontrolling interests	2,156	2,406	4,243	206
Comprehensive (loss) income attributable to Graham Packaging Company Inc. stockholders	$ (22,864)	$ 15,078	$ (1,089)	$ (6,488)

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, 2011	Six Months Ended June 30, 2010
	(In thousands)	
Operating activities:		
Net (loss) income	$ (18,506)	$ 13,289
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	104,723	77,645
Amortization of debt issuance fees	2,636	3,184
Accretion of senior unsecured notes	236	238
Net loss on debt extinguishment		2,664
Net (gain) loss on disposal of property, plant and equipment	(95)	1,053
Pension expense	1,500	1,577
Asset impairment charges	2,478	2,792
Unrealized (gain) loss on termination of cash flow hedge accounting	(6,502)	359
Stock compensation expense	498	656
Equity income from unconsolidated subsidiaries	(34)	(40)
Deferred tax provision	14,231	7,263
Increase in income tax receivable obligations	12,567	4,900
Foreign currency transaction (gain) loss	(300)	507
Interest receivable on loans to owners	(199)	(151)
Changes in operating assets and liabilities:		
Accounts receivable	(95,345)	(47,419)
Inventories	(22,212)	2,397
Prepaid expenses and other current assets	2,998	20,490
Other non-current assets	(12,434)	(4,769)
Accounts payable and accrued expenses	108,536	15,015
Pension contributions	(2,468)	(2,916)
Other non-current liabilities	(270)	468
Net cash provided by operating activities	92,038	99,202
Investing activities:		
Cash paid for property, plant and equipment	(80,580)	(75,937)
Proceeds from sale of property, plant and equipment	2,004	255
Cash paid for sale of business	(61)	
Net cash used in investing activities	(78,637)	(75,682)
Financing activities:		
Proceeds from issuance of long-term debt	27,072	42,518
Payment of long-term debt	(38,899)	(240,478)
Debt issuance fees	(462)	(648)
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)
Proceeds from issuance of ownership interests	6,421	
Net cash used in financing activities	(5,868)	(32,972)

Effect of exchange rate changes on cash and cash equivalents	1,562	(2,244)
Increase (decrease) in cash and cash equivalents	9,095	(11,696)
Cash and cash equivalents at beginning of period	152,964	147,808
Cash and cash equivalents at end of period	$ 162,059	$ 136,112
Supplemental disclosures:		
Cash paid for interest, net of amounts capitalized	$ 99,953	$ 74,401
Cash paid for income taxes (net of refunds)	8,349	9,686
Non-cash investing and financing activities:		
Accruals for purchases of property, plant and equipment	18,621	6,051
Accruals for debt issuance fees	1	136
Accruals related to acquisitions	676	
Accruals for fees related to the initial public offering		250

See accompanying notes to condensed consolidated financial statements.

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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 96.2% owned by GPC and for which GPC holds 100% of the general partnership interest, is referred 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, 2010, 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, 2010. The results of operations for the six months ended June 30, 2011, are not necessarily indicative of the results to be expected for the full year ending December 31, 2011.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). This pronouncement was issued to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and IFRS. ASU 2011-04 changes certain fair value measurement principles and enhances the disclosure requirements, particularly for level 3 fair value measurements. This pronouncement is effective for reporting periods beginning on or after December 15, 2011. The Company is evaluating the impact that the adoption of ASU 2011-04 will have on its financial statements, but does not expect that the adoption will have a material impact.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity and requires an entity to present the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is evaluating the impact that the adoption of ASU 2011-05 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.

GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

2. Acquisition

Purchase of Liquid Entities

On September 23, 2010, the Company acquired the Liquid Entities (as defined below) from each of the limited partners (the Liquid Limited Partners) of Liquid Container L.P. (currently known as Graham Packaging LC, L.P.) (Liquid L.P.) and each of the stockholders (the Stockholders) of (i) Liquid Container Inc. (Liquid), a Delaware corporation, (ii) CPG-L Holdings, Inc. (CPG), a Delaware corporation, and (iii) WCK-L Holdings, Inc. (WCK and, together with Liquid and CPG, the Liquid General Partners), a Delaware corporation. Liquid L.P. and the Liquid General Partners are collectively referred to as the Liquid Entities. The Company purchased all the shares from the Stockholders and all of the limited partnership units from the Liquid Limited Partners (collectively, the Liquid Acquisition) for approximately $564.3 million, subject to a potential working capital adjustment.

Under the acquisition method of accounting, the results of the acquired operation are included in the financial statements of the Company beginning on September 23, 2010. The Liquid Entities, which employ approximately 1,000 employees, have operations in 13 plants located across the United States.

The Liquid Entities are custom blow molded plastic container manufacturers based in West Chicago, Illinois, that primarily service food and household product categories. In the food product category, the Liquid Entities produce packaging for peanut butter, mayonnaise, coffee, creamer, cooking oil, nuts, instant drink mixes and other food items. The household product category consists of containers for bleach, laundry detergent, spray cleaners, automotive cleaning products, drain cleaners and other consumer-based household products. The Liquid Entities utilize high density polyethylene, polyethylene terephthalate and polypropylene resins to manufacture their containers.

The Liquid Acquisition represents a strategically important acquisition for the Company as it expanded the Company s customer reach within its existing food and consumer products end markets while providing it with additional technological capabilities and an expansion of its geographical reach. The Liquid Acquisition significantly increased the size and scope of the Company s operations, particularly in the food product category, and provides the Company with considerable opportunities to convert new products to plastic containers. The Liquid Entities have been a leader in custom blow molded plastic containers used in cold-fill applications and have new hot-fill technologies, which complement the Company s technologies, and which management believes can help drive new conversions. The Liquid Entities have a similar financial profile to that of the Company, as they use technology to serve their customer base with innovative and cost effective packaging solutions. Management believes the combined purchasing power can yield savings in freight, energy, outside services, leased equipment and miscellaneous raw materials such as packaging, pallets, shrink wrap and spare parts. Additionally, management has eliminated overlapping corporate functions and expenses.

The initial purchase price has been allocated to assets acquired and liabilities assumed based on estimated fair values. The purchase price allocation is preliminary pending a final determination of the purchase price and a final valuation of the assets and liabilities, including a final valuation of property, plant and equipment, intangible assets and the impact on taxes of any adjustments to such valuations, all necessary to account for the acquisition in accordance with FASB Accounting Standards Codification (ASC) 805, Business Combinations. For purposes of allocating the total purchase price, assets acquired and liabilities assumed are recorded at their estimated fair values. The initial allocated fair value of assets acquired and liabilities assumed, and subsequent adjustments, are summarized as follows (in thousands):

	As Originally Presented	Cumulative Adjustments	Adjusted Balance
Cash	$ 1,184	$	$ 1,184
Accounts receivable	36,858	(144)	36,714
Inventories	35,029	136	35,165
Prepaid expenses and other current assets	1,247	40	1,287

Total current assets	74,318	32	74,350
Property, plant and equipment	193,186	(11,303)	181,883
Intangible assets	156,500	(600)	155,900
Goodwill	201,437	14,140	215,577
Total assets acquired	625,441	2,269	627,710
Less liabilities assumed	61,140	2,269	63,409
Net cost of acquisition	$ 564,301	$	$ 564,301

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

The adjustments set forth above include an adjustment to goodwill of approximately $6.5 million and $12.1 million for the three and six months ended June 30, 2011, respectively, related primarily to adjustments to fixed assets and the recognition of deferred revenue. The adjustments for the three and six months ended June 30, 2011, and in the aggregate since the acquisition, did not materially impact previously reported results of operations or cash flows. As a result, prior period financial statements have not been retrospectively adjusted.

The allocation set forth above is based on management s estimate of the fair values using valuation techniques including the income, cost and market approaches. The amount allocated to intangible assets represents the estimated fair values of technologies of $58.2 million, customer relationships of $89.7 million, trade names of $5.0 million and non-compete agreement of $3.0 million. These intangible assets are being amortized on a straight-line basis over weighted-average estimated remaining lives of 11 years, 14 years, 3 years and 2 years for technologies, customer relationships, trade names and non-compete agreement, respectively, reflecting the expected future benefit periods of these intangible assets. Goodwill of $280.3 million is expected to be deductible for tax purposes. Acquired property, plant and equipment are being depreciated on a straight-line basis with estimated remaining lives up to 20 years. The initial purchase price allocations set forth above are based on all information available to the Company at the present time and are subject to change due to additional working capital adjustments and finalization of fair value calculations, and such changes could be material. The goodwill for the Liquid Entities is disclosed within the North American segment in Note 17.

The purchase agreement related to the Liquid Entities contains a stated purchase price of $568.0 million, plus cash on hand, minus certain indebtedness, resulting in a payment by the Company of $564.3 million on September 23, 2010, subject to a potential working capital adjustment. Included in this amount was a payment of $208.2 million to satisfy existing indebtedness of the Liquid Entities, including accrued interest, then outstanding. The Company and the sellers are in the process of finalizing the working capital adjustment and this adjustment could be material.

During the six months ended June 30, 2011, the Company incurred legal, professional and advisory costs directly related to the acquisition totaling $0.3 million. All such costs are included in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations (Unaudited) for the six months ended June 30, 2011. Deferred financing fees incurred in connection with issuing debt related to the acquisition totaled $13.8 million and are reflected in other non-current assets on the Condensed Consolidated Balance Sheet (Unaudited) as of June 30, 2011.

Net sales of the Liquid Entities included in the Company s consolidated results of operations totaled $201.2 million for the six months ended June 30, 2011.

Pro Forma Information

The following table sets forth unaudited pro forma results of operations, assuming that the above acquisition had taken place at January 1, 2010:

	Three Months Ended June 30, 2010	Six Months Ended June 30, 2010
	(In millions, except per share data)	
Net sales	$ 752	$ 1,429
Net income attributable to Graham Packaging Company Inc. stockholders	$ 26	$ 14
Basic net income attributable to Graham Packaging Company Inc. stockholders per share	$ 0.42	$ 0.23

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

These unaudited pro forma results of operations have been prepared for comparative purposes only and include certain adjustments, such as additional depreciation and amortization expense as a result of a step-up in the basis of fixed assets and intangible assets, increased interest expense on acquisition debt and related tax effects. They do not purport to be indicative of the results of operations which actually would have resulted had the combination been in effect at January 1, 2010, or of future results of operations of the entity.

3. Accounts Receivable, Net

Accounts receivable, net are presented net of an allowance for doubtful accounts of $1.8 million and $1.7 million as of June 30, 2011, and December 31, 2010. 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, 2011 and 2010, 64.1% and 72.2% of the Company s net sales, respectively, were generated by its top twenty customers. No customer had sales exceeding 10% of total sales for the six months ended June 30, 2011. The Company s sales to PepsiCo, Inc., the Company s largest customer, were 10.2% of total sales for the six months ended June 30, 2010. All of these sales were made in North America.

The Company had $220.1 million and $112.3 million of accounts receivable from its top twenty customers as of June 30, 2011, and December 31, 2010, respectively.

5. Inventories

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

	June 30, 2011	December 31, 2010
	(In thousands)	
Finished goods	$ 182,226	$ 162,136
Raw materials	90,104	85,030
Total	$ 272,330	$ 247,166

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, 2011	December 31, 2010
		(In thousands)	
Land		$ 53,246	$ 52,651
Buildings and improvements	7-31.5	285,035	280,222
Machinery and equipment (1)	2-15	1,514,896	1,463,614
Molds and tooling	3-5	346,630	321,254

Furniture and fixtures	7	6,668	6,574
Computer hardware and software	3-7	42,567	41,843
Construction in progress		94,005	82,439
Property, plant and equipment		2,343,047	2,248,597
Less: accumulated depreciation and amortization		1,135,454	1,045,455
Property, plant and equipment, net		$ 1,207,593	$ 1,203,142

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

(1) Includes longer-lived machinery and equipment of approximately $1,456.5 million and $1,407.0 million as of June 30, 2011, and December 31, 2010, respectively, having estimated useful lives, when purchased new, ranging from 8 to 15 years; and shorter-lived machinery and equipment of approximately $58.4 million and $56.6 million as of June 30, 2011, and December 31, 2010, 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, 2011 and 2010, was $44.7 million and $37.1 million, respectively, and for the six months ended June 30, 2011 and 2010, was $91.2 million and $73.8 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, 2011 and 2010, was $3.4 million and $2.1 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, 2011, and December 31, 2010.

7. Intangible Assets, Net

The gross carrying amount and accumulated amortization of the Company s intangible assets subject to amortization as of June 30, 2011, were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Period
		(In thousands)		
Patented technology	$ 87,765	$ (16,915)	$ 70,850	10 years
Customer relationships	125,374	(15,627)	109,747	14 years
Trade names	5,000	(1,250)	3,750	3 years
Non-compete agreements	3,511	(1,219)	2,292	2 years
Total	$ 221,650	$ (35,011)	$ 186,639	

The gross carrying amount and accumulated amortization of the Company s intangible assets subject to amortization as of December 31, 2010, were as follows:

	Gross Carrying Amount	Accumulated Amortization	Net	Weighted Average Amortization Period
		(In thousands)		
Patented technology	$ 86,783	$ (12,611)	$ 74,172	10 years
Customer relationships	124,864	(10,932)	113,932	14 years
Trade names	5,000	(417)	4,583	3 years

Non-compete agreements	3,511	(418)	3,093	2 years
Total	$ 220,158	$ (24,378)	$ 195,780	

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

Amortization expense for the three months ended June 30, 2011 and 2010, was $5.1 million and $1.2 million, respectively, and for the six months ended June 30, 2011 and 2010, was $10.3 million and $2.4 million, respectively. Remaining estimated aggregate amortization expense for 2011 is $10.2 million. The estimated aggregate amortization expense for each of the next five years ending December 31 is as follows (in thousands):

2012	$ 20,100
2013	18,400
2014	16,800
2015	16,400
2016	15,300

8. Goodwill

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

	North America Segment	Europe Segment	South America Segment	Asia Segment	Total
			(In thousands)		
Balance at January 1, 2011	$ 626,156	$ 15,449	$ 7	$ 1,452	$ 643,064
Adjustments to Liquid Entities purchase price allocation (see Note 2)	12,115				12,115
Foreign currency translation adjustments	1,718	1,320		38	3,076
Balance at June 30, 2011	$ 639,989	$ 16,769	$ 7	$ 1,490	$ 658,255

9. Asset Impairment Charges

The Company continually reviews its assets for indicators of possible impairment. In the six months ended June 30, 2011, the Company identified indicators of possible impairment of certain assets in Belgium, Brazil, France, Mexico, Poland, Spain and the United States, and in the six months ended June 30, 2010, the Company identified indicators of possible impairment of certain assets in Brazil, Mexico, the United Kingdom and the United States. 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 of $1.4 million and $2.5 million for the three and six months ended June 30, 2011, respectively, and $0.6 million and $2.8 million for the three and six months ended June 30, 2010, respectively.

10. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	June 30, 2011	December 31, 2010
	(In thousands)	

Accrued employee compensation and benefits	$ 63,830	$ 72,508
Accrued interest	51,109	41,241
Accrued sales allowance	21,188	24,294
Other	69,770	58,389
	$ 205,897	$ 196,432

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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, 2011	December 31, 2010
	(In thousands)	
Term loans (net of $7.3 million and $8.9 million unamortized net discount as of June 30, 2011, and December 31, 2010, respectively)	$ 1,926,544	$ 1,934,707
Revolver		
Foreign and other revolving credit facilities	7,066	6,126
Senior notes due 2017 (net of $2.6 million and $2.9 million unamortized discount as of June 30, 2011, and December 31, 2010, respectively)	250,759	250,523
Senior notes due 2018	250,000	250,000
Senior subordinated notes	375,000	375,000
Capital leases	962	1,514
Other	12,252	14,961
	2,822,583	2,832,831
Less amounts classified as current (net of $3.8 million unamortized net discount as of each of June 30, 2011, and December 31, 2010)	31,599	34,007
Total	$ 2,790,984	$ 2,798,824

As of June 30, 2011, the credit agreement, as amended, consisted of a senior secured term loan of $1,016.4 million ($1,027.6 million aggregate outstanding principal amount less $11.2 million unamortized discount) due April 5, 2014 (Term Loan C) and a senior secured term loan of $910.1 million ($906.2 million aggregate outstanding principal amount plus $3.9 million unamortized premium) (Term Loan D and, together with the Term Loan C, the Term Loans), to the Operating Company and GPC Capital Corp. I (CapCo I), and a $124.8 million senior secured revolving credit facility (the Revolver and, together with the Term Loans, the Credit Agreement) that will expire on October 1, 2013, and with availability of $109.1 million (as reduced by $15.7 million of outstanding letters of credit). The Term Loan D will mature on the earliest of (i) September 23, 2016, (ii) the date that is 91 days prior to the maturity of the Company s 8.25% senior notes due January 2017 if such senior notes have not been repaid or refinanced in full by such date or (iii) the date that is 91 days prior to the maturity of the Company s 9.875% senior subordinated notes due October 2014 if such senior notes have not been repaid or refinanced in full by such date. The obligations of the Operating Company and 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 $9.8 million in the remainder of 2011, $19.6 million in 2012, $19.7 million in 2013, $1,010.5 million in 2014, $9.1 million in 2015 and $865.1 million thereafter (disregarding any further mandatory or voluntary prepayments that may reduce such scheduled amortization payments).

Interest under the Credit Agreement 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% for the Term Loan C and Revolver and 1.75% for the Term Loan D, plus a margin of 4.25%); or (b) the Eurodollar Rate, subject to a floor of 2.50% for the Term Loan C and Revolver and 1.75% for the Term Loan D, plus a margin of 4.25%. A commitment fee of 0.75% is due on the unused portion of the 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 by the Operating Company to Holdings. As of June 30, 2011, the Company was in compliance with all covenants.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

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, 2011, and December 31, 2010, the Company had outstanding $250.0 million aggregate principal amount of 8.25% senior unsecured notes due 2018 (Senior Notes due 2018), $253.4 million aggregate principal amount of 8.25% senior unsecured notes due 2017 (Senior Notes due 2017 and, together with the Senior Notes due 2018, the Senior Notes) and $375.0 million aggregate principal amount of 9.875% senior subordinated notes due 2014 (Senior Subordinated Notes and, together with the Senior Notes, the Notes) co-issued by the Operating Company and CapCo I. 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), January 1, 2017 (Senior Notes due 2017), and October 1, 2018 (Senior Notes due 2018). Interest on the Senior Subordinated Notes is payable semi-annually at 9.875% per annum and interest on the Senior Notes due 2017 and the Senior Notes due 2018 is payable semi-annually at 8.25% per annum.

In the event that a party acquires beneficial ownership representing voting power in Holdings greater than the voting power represented by the interests beneficially owned by Blackstone (as defined herein) through shares of the Company s common stock, such as the contemplated merger of the Company with a subsidiary of Reynolds Group Holdings Limited (as further described in Note 24), an event of default under the Credit Agreement will be triggered. Upon the occurrence of an event of default under the Credit Agreement, the lenders will not be required to lend any additional amounts or could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be due and payable, which could result in an event of default under the Company s other debt instruments. If the Company were unable to repay those amounts, the lenders under the Credit Agreement could proceed against the collateral granted to them to secure that indebtedness. The Company has pledged a significant portion of its assets as collateral under the Credit Agreement. If the lenders under the Credit Agreement accelerate the repayment of borrowings, the Company may not have sufficient assets to repay the Credit Agreement and the Company s other indebtedness or be able to borrow sufficient funds to refinance such indebtedness. Even if the Company is able to obtain new financing, it may not be on commercially reasonable terms, or terms that are acceptable to the Company.

Under the indentures governing the Notes, upon the occurrence of specific kinds of change of control events, such as the contemplated merger of the Company with a subsidiary of Reynolds Group Holdings Limited (as further described in Note 24), the Company will be required to offer to repurchase all outstanding Notes at 101% of their principal amount plus accrued and unpaid interest, unless such Notes have been previously called for redemption. As further described in Note 25, on July 7, 2011, the Company commenced tender offers for any and all of the Notes and solicited consents of holders of each series of Notes to make certain amendments to the indentures governing the Notes, including with respect to the requirement to make a change of control offer for the Notes. On July 19, 2011, the Company announced that it had received the requisite consents from holders of the Senior Subordinated Notes to adopt the proposed amendments and accordingly, if the Merger (as defined herein) is completed, the Company will not be required to offer to repurchase the outstanding Senior Subordinated Notes as a result of the Merger; however, the Company has not received the requisite consents for the Senior Notes and therefore would be required to make a change of control offer for the Senior Notes upon the completion of the Merger, which would be funded by Reynolds Group Holdings Limited. The issuers failure to repurchase the Notes upon a change of control would cause a default under the applicable indenture and a cross default under the senior secured credit facilities and the other indentures.

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

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 $1,940.8 million (net of $7.3 million unamortized net discount) and $1,951.3 million (net of $8.9 million unamortized net discount) at June 30, 2011, and December 31, 2010, respectively. The fair value of this long-term debt, including the current portion, was approximately $1,954.1 million and $1,977.1 million at June 30, 2011, and December 31, 2010, respectively. The Company s fixed-rate debt, including $253.4 million of Senior Notes due 2017, $250.0 million of Senior Notes due 2018 and $375.0 million of Senior Subordinated Notes, totaled $881.8 million (net of $2.6 million unamortized discount) and $881.5 million (net of $2.9 million unamortized discount) at June 30, 2011, and December 31, 2010, respectively. The fair value of this long-term debt, including the current portion, was approximately $951.1 million and $915.1 million at June 30, 2011, and December 31, 2010, respectively.

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, 2011, by level within the fair value hierarchy:

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

Assets:			
Foreign currency exchange contracts	$	$ 87	$
Liabilities:			
Interest rate swap agreements	$	$ 1,310	$
Foreign currency exchange contract		30	

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GRAHAM PACKAGING COMPANY INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

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, 2010, by level within the fair value hierarchy:

	Fair Value Measurements Using		
	Level 1	Level 2	Level 3
		(In thousands)	
Liabilities:			
Interest rate swap agreements	$	$ 7,813	$
Foreign currency exchange contracts		9	

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, 2011, 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 of $1.4 million and $2.5 million for the three and six months ended June 30, 2011, respectively, for long-lived assets in Belgium, Brazil, France, Mexico, Poland, Spain and the United States whose carrying values exceeded fair values. The Company recorded impairment charges 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. 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.

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.

At June 30, 2011, and December 31, 2010, the Company had foreign currency exchange contracts outstanding for the purchase of pound sterling, euros and zloty in an aggregate amount of $3.8 million and pound sterling and U.S. dollars in an aggregate amount of $2.2 million, respectively. These foreign currency exchange contracts are accounted for as cash flow hedges and are 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-

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) continued

month increments to match the terms of its interest rate collar agreements. The Company had therefore discontinued hedge accounting for its interest rate collar and swap agreements. The amount recorded in accumulated other comprehensive income (loss) as of that date was being recognized as interest expense over the period in which the previously hedged activity continued to occur. Changes in the fair value of the interest rate collar and swap agreements from that date were also being recognized as interest expense. As a result of the refinancing of the Credit Agreement that enabled the Company to purchase the Liquid Entities on September 23, 2010, the Company wrote off the remaining unamortized amount in accumulated other comprehensive income (loss).

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, 2011	December 31, 2010
	(In thousands)	
Derivatives designated as hedges:		
Foreign currency exchange contracts	$ 3,825	$ 2,222
Total derivatives designated as hedges	$ 3,825	$ 2,222
Derivatives not designated as hedges:		
Interest rate swap agreements	$ 350,000	$ 350,000
Total derivatives not designated as hedges	$ 350,000	$ 350,000

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

	Balance Sheet Location	June 30, 2011	December 31, 2010
		(In thousands)	
Asset derivatives:			
Derivatives designated as hedges:			
Foreign currency exchange contracts	Prepaid expenses and other current assets	$ 87	$
Total derivatives designated as hedges		87	
Total asset derivatives		$ 87	$
Liability derivatives:			
Derivatives designated as hedges:			
Foreign currency exchange contracts	Accrued expenses and other current liabilities	$ 30	$ 9
Total derivatives designated as hedges		30	9
Derivatives not designated as hedges:			

Interest rate swap agreements	Accrued expenses and other current liabilities	1,310	7,813
Total derivatives not designated as hedges		1,310	7,813
Total liability derivatives		$ 1,340	$ 7,822

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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, 2011, were as follows:

	Amount of Gain or (Loss) Recognized in AOCI (a) (Effective Portion) for the Period Ended June 30, 2011		Income Statement Classification	Amount of Gain or (Loss) Reclassified from AOCI into Income (Effective Portion) for the Period Ended June 30, 2011	
	Three Months	Six Months		Three Months	Six Months
	(In thousands)			(In thousands)	
Derivatives designated as hedges:					
Cash flow hedges:					
Foreign currency exchange contracts	$ 258	$ 429	Other expense (income), net	$ 6	$ 43
Total derivatives designated as hedges	$ 258	$ 429		$ 6	$ 43

		Amount of Gain or (Loss) Recognized in Income for the Period Ended June 30, 2011	
		Three Months	Six Months
		(In thousands)	
Derivatives not designated as hedges:			
Interest rate swap agreements	Interest expense	$ (52)	$ (155)
Total derivatives not designated as hedges		$ (52)	$ (155)