Sage Therapeutics, Inc.
Form 424B4
April 15, 2015
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Filed Pursuant to Rule 424(b)(4)
Registration File No. 333-203273

Prospectus

2,285,714 Shares

Common Stock

We are offering 2,285,714 shares of our common stock. Our common stock is listed on The NASDAQ Global Market under the symbol SAGE . The closing price of our common stock on The NASDAQ Global Market on April 14, 2015 was $53.69 per share.

We are an emerging growth company as that term is used in the Jumpstart Our Business Startups Act of 2012, and, as such, we have elected to take advantage of certain reduced reporting requirements for this prospectus and may elect to comply with certain reduced public company reporting requirements for future filings.

	Per Share	Total
Public offering price	$ 52.50	$ 119,999,985
Underwriting discounts and commissions(1)	$ 3.15	$ 7,199,999
Proceeds to Sage Therapeutics, Inc. before expenses	$ 49.35	$ 112,799,986

(1) See Underwriting beginning on page 157 for additional information regarding underwriting compensation.
We have granted the underwriters an option to purchase up to 342,857 additional shares of common stock.

Investing in our common stock involves a high degree of risk. See Risk Factors beginning on page 11.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on or about April 20, 2015.

J.P. Morgan **Goldman, Sachs & Co.**

Leerink Partners **Cowen & Company**

Prospectus dated April 14, 2015

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We and the underwriters have not authorized anyone to provide any information other than that contained in this prospectus or in any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. We and the underwriters are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

For investors outside of the United States: We have not, and the underwriters have not, done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than the United States. Persons outside of the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of the shares of common stock and the distribution of this prospectus outside of the United States.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes included elsewhere in this prospectus. You should also consider, among other things, the matters described under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, in each case appearing elsewhere in this prospectus. Unless otherwise stated, all references to us, our, SAGE, we, the Company and similar designations refer to Sage Therapeutics, Inc. and its subsidiary.

Overview

We are a biopharmaceutical company committed to developing and commercializing novel medicines to treat life-threatening, rare central nervous system, or CNS, disorders, where there are inadequate or no approved existing therapies. We are targeting CNS indications where patient populations are easily identified, acute treatment is typically initiated in the hospital setting, clinical endpoints are well-defined and development pathways are feasible.

Our initial product candidates, which are summarized in the table below, are aimed at treating different stages of status epilepticus, or SE, a life-threatening condition in which the brain is in a state of persistent seizure, as well as other seizure and non-seizure disorders. The lead product candidate in our SE program, SAGE-547, is an intravenous, or IV, agent entering Phase 3 clinical development as an adjunctive therapy, a therapy combined with current therapeutic approaches, for the treatment of super-refractory SE, or SRSE. The current standard of care for SRSE is empiric, and there are no therapies at present that have been specifically approved for this indication. Over the course of 2014, the U.S. Food and Drug Administration, or FDA, granted us orphan drug designation and Fast Track designation for our investigational new drug application for SAGE-547 as a treatment for SRSE. On April 2, 2015, we announced that at a recent End-of-Phase 2 meeting with the FDA, general agreement was reached on the design and key elements for our planned Phase 3 clinical program for SAGE-547 for the treatment of SRSE. Subject to submission and review by the FDA of a final protocol for the planned Phase 3 clinical trial and updated chemistry, manufacturing and controls information, we expect to initiate the Phase 3 trial in mid-2015. If successful, we believe the results from this Phase 3 clinical trial, together with other clinical data obtained from the SAGE-547 development program, could form the basis of a New Drug Application, or NDA, submission for SAGE-547.

We continue to use SAGE-547 to explore additional potential uses of $GABA_A$ receptor modulators in clinical trials for essential tremor, a debilitating neurological disorder that causes involuntary, rhythmic shaking with no known cause with over 10 million people in the United States with essential tremor, and severe post-partum depression, a distinct and readily identified form of major depressive disorder estimated to affect up to 20% of women following childbirth. If these exploratory trials are successful, we plan to use the data from them to help guide the design of second-generation $GABA_A$ receptor modulators for the chronic treatment of these diseases.

Our next-generation product candidates, SAGE-689 and SAGE-217, utilize similar mechanistic pathways as SAGE-547 and are designed to have pharmaceutical properties which optimize both their non-clinical profiles and potential clinical profiles for the treatment of different stages of SE, as well as other seizure and non-seizure disorders.

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Status Epilepticus

SE is diagnosed when a patient has a seizure lasting longer than five minutes, and is associated with substantial morbidity and mortality. We estimate that in the United States each year there are up to 150,000 cases of SE, of which 30,000 SE patients die. We estimate that there are 35,000 patients with SE in the United States that are hospitalized in the intensive care unit, or ICU, each year. This results in an overall inpatient cost of $3.8 billion to $7.0 billion per year in the United States. An SE patient is first treated with benzodiazepines, or BDZs, and if no response then treated with other, second-line, anti-seizure drugs. If the seizure persists after second-line therapy the patient is diagnosed as having refractory SE, or RSE, admitted to the ICU and placed into a medically induced coma. Currently, there are no therapies that have been specifically approved for RSE; however, physicians typically use anesthetic agents to induce the coma and stop the seizure immediately. After a period of 24 hours, an attempt is made to wean the patient from the anesthetic agents to evaluate whether or not the seizure condition has resolved. Unfortunately, not all patients respond to weaning attempts, in which case the patient must be maintained in the medically induced coma. At this point, the patient is diagnosed as having SRSE.

SAGE-547 Clinical Development Programs

Super Refractory Status Epilepticus (SRSE) Program Summary and Recent Developments

Prior to the start of our Phase 1/2 clinical trial of SAGE-547, we began to collect data in emergency-use cases of SAGE-547 that we believe supports the safety and activity of SAGE-547 for treatment of SRSE. This emergency-use program continues in parallel with our ongoing Phase 1/2 clinical trial. As of January 9, 2015, ten patients were treated with SAGE-547 by independent centers under emergency-use Investigational New Drug applications, or INDs. Each individual case of SRSE arose from a variety of underlying etiologies, the patients were of varying ages, and all patients had been placed in a long-duration medically induced coma prior to the administration of SAGE 547. We

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experienced an overall response rate of 78% in seven of the nine evaluable patients.

In January 2014, we commenced our Phase 1/2 clinical trial to study safety, tolerability and efficacy of SAGE-547 in adult patients with SRSE. This clinical trial is designed as an open-label trial in at least ten patients diagnosed with SRSE. In October 2014, the FDA approved a protocol amendment for our Phase 1/2 trial that enables us to treat pediatric patients as young as two years old, increase the dose of SAGE-547 being administered to patients and increase treatment duration. As of February 28, 2015, there were 17 active trial sites in the United States. We are continuing to enroll patients as an expansion cohort in this trial and we anticipate reporting final clinical data from this Phase 1/2 trial at the Antiepileptic Drug and Device Trials XIII Conference, which is taking place May 13-15, 2015.

On January 9, 2015, we reported results from our Phase 1/2 clinical trial. Consistent with topline data announced in November 2014, the primary endpoint of safety and tolerability, was achieved in all patients. Of the 20 patients enrolled in the Phase 1/2 clinical trial, 17 patients were evaluable for efficacy. 71% of evaluable patients met the key efficacy endpoint of being successfully weaned off their anesthetic agents while SAGE-547 was being administered. In addition, 71% of evaluable patients were successfully weaned off SAGE-547 without recurrence of SRSE. SAGE-547 was generally well-tolerated and no drug-related serious adverse events, as determined by the Safety Review Committee, were reported in treated patients. In the 20 patients treated with SAGE-547, the mean exposure level of SAGE-547 was approximately 200nM. Of the first 12 treated patients, patients who responded to SAGE-547 generally demonstrated rapid improvement over the first five days following treatment as measured by the Glasgow Coma Scale.

On April 2, 2015, we announced that at a recent End-of-Phase 2 meeting with the FDA, general agreement was reached on the design and key elements for our planned Phase 3 clinical program for SAGE-547 for the treatment of SRSE. Subject to submission and review by the FDA of a final protocol for the planned Phase 3 clinical trial and updated chemistry, manufacturing and controls information, we expect to initiate the Phase 3 trial in mid-2015. If successful, we believe the results from this Phase 3 clinical trial, together with other clinical data obtained from the SAGE-547 development program, could form the basis of an NDA submission for SAGE-547.

Additional SAGE 547 Exploratory Development Programs

We continue to use SAGE-547 to explore additional potential uses of $GABA_A$ receptor modulators in clinical trials for additional indications. In October 2014 we began patient enrollment in an exploratory Phase 2a clinical trial of SAGE-547 in patients with essential tremor. This trial is designed to evaluate the safety, tolerability, pharmacokinetics and activity of SAGE-547 in patients with essential tremor. In January 2015, we initiated a Phase 2a clinical trial of SAGE-547 in women with severe postpartum depression, or PPD. This trial is designed to evaluate the safety, tolerability, pharmacokinetics and efficacy of SAGE-547 for the treatment of severe PPD. We plan to report data from these trials in mid-2015. We plan to use the data from these exploratory trials to help guide the design of second-generation $GABA_A$ receptor modulators for the chronic treatment of these diseases.

Follow-On Product Candidates

SAGE-689 and SAGE-217 are two additional product candidates in our pipeline, which are currently in IND-enabling toxicology and safety pharmacology testing. SAGE-689 is being developed

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as an adjunctive second-line therapy for the treatment of SE. We are currently conducting IND-enabling studies of SAGE-689, with a plan to file an IND in late 2015 and to begin a Phase 1 clinical trial thereafter. SAGE-217 is being developed as an oral monotherapy for orphan epilepsies, such as Dravet syndrome and Rett syndrome. The chemical characteristics of SAGE-217 potentially allow formulation as both an intravenous and oral medication. In addition, we believe related molecules from our portfolio may be useful in the treatment of a variety of neurological and psychiatric disorders, including, for example, fragile X syndrome, anxiety and tremor. We are currently conducting IND-enabling studies of SAGE-217 with a plan to file an IND by late 2015 and to begin a Phase 1 clinical trial thereafter.

Understanding the Foundations of Our Approach

Neurotransmission

The CNS is composed of a vast and complex network of different structures and cell types, most of which serve directly or indirectly to provide a means for the nervous system to signal or communicate with other nerve cells in order to regulate and control all brain function. The cell type responsible for this signaling is called a neuron. Chemical or electrical signals can exert their effects on neurons by traveling across a physical gap located between two neurons, called a synapse. Presynaptic neurons transmit signals, whereas postsynaptic neurons react to the signals.

Neurotransmission is the process by which signaling molecules, called neurotransmitters, are released by a presynaptic neuron, travel over the synaptic space and bind to and interact with receptors on a postsynaptic neuron. Synaptic receptors are primarily located inside the synaptic cleft, or the space where the neurons communicate, and have been historically considered to be the most important part of the neuron. However, recent understanding of neurotransmission and brain function has shown there are many extrasynaptic receptors that also respond to neurotransmitters to exert their effects.

Allosteric modulation

We are focused on developing drugs based on selective allosteric modulation of key CNS synaptic and extrasynaptic receptors. Molecules that function directly on synaptic or extrasynaptic receptors at the site where the native, or natural, molecule binds to inhibit or activate them are known as orthosteric. Alternatively, allosteric modulators are a class of small molecules very different from classical orthosteric drugs, as they interact at a site different from the native site and allow for fine-tuning of neuronal signals. As a result, our drugs under development are capable of varying degrees of desired activity rather than complete activation or inhibition of the receptor as typically observed with orthosteric drugs. We believe this greater selectivity and modulatory control at extrasynaptic $GABA_A$ receptors may allow us to develop CNS drugs that offer significant therapeutic and safety advantages over orthosteric drugs.

Allosteric modulation of extrasynaptic $GABA_A$ receptors to treat SE

Our current near-term product candidates are allosteric modulators of both synaptic and extrasynaptic, or existing outside of the synapse, $GABA_A$ receptors, a characteristic important in distinguishing our approach from current therapies. While altering the level of synaptic $GABA_A$ receptor activity can be beneficial in stopping seizures, this approach has limitations for the treatment of SE. As SE progresses in many patients, select synaptic $GABA_A$ receptors are down-regulated, or removed from the neuronal synaptic surface. As a result, drugs that target down-regulated receptors, such as

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BDZs, often are not effective in stopping SE. In contrast, our product candidates work at both the synaptic and extrasynaptic $GABA_A$ receptors. Non-clinical studies suggest that these extrasynaptic $GABA_A$ receptors remain fully active during SE, offering the potential for drugs that impact GABA via the extrasynaptic $GABA_A$ receptor to alter $GABA_A$ activity and abate seizure. We believe that by creating compounds that target both these receptors, we may be successful in treating seizures that do not respond to BDZ therapy.

Allosteric modulation of $GABA_A$ and NMDA receptors to address other CNS conditions

Now and in the foreseeable future, our product development pipeline will be focused on allosteric modulation of two important receptor systems in the brain $GABA_A$ and NMDA. These receptor systems regulate inhibitory and excitatory neurotransmission, respectively, and are broadly accepted as impacting many psychiatric and neurological disorders. $GABA_A$ and NMDA receptor systems are widely regarded as validated drug targets for a variety of CNS disorders, with decades of research and multiple approved drugs targeting these receptor systems. Drugs approved to modulate these receptor systems have had safety and efficacy limitations related to their poor pharmaceutical properties and adverse side effects. We believe that we will have the opportunity to develop molecules from our internal portfolio to more effectively address many of these disorders in the future.

Our proprietary chemistry platform

Our ability to identify and develop such novel CNS therapies is enabled by our proprietary chemistry platform that is centered on a scaffold of chemically modified endogenous neuroactive steroid compounds. We believe our know-how around the chemistry and activity of allosteric modulators allows us to efficiently design molecules with different characteristics by enabling us to control important properties such as half-life, brain penetration and the types of receptors with which our drugs interact. Therefore, we believe our product candidates will have the potential to bind with targets in the brain with more precision, increased safety and tolerability, and fewer off-target side effects than either current CNS therapies or previous therapies, which have often failed in development.

Our Strategy

Our goal is to become a leading biopharmaceutical company focused on development and commercialization of novel proprietary therapies for the treatment of life-threatening, rare CNS disorders. Key elements of our strategy are to:

- Rapidly advance SAGE-547 as a treatment for SRSE.
- Utilize SAGE-547 in exploratory trials to help guide the development of second-generation $GABA_A$ receptor modulators for the applicable diseases.
- Develop our next generation product candidates, SAGE-689 and SAGE-217, in parallel with SAGE-547.
- Enhance the probability of success in treating SE by developing unique assets with differentiated features.
- Grow our pipeline more broadly utilizing the strengths of our proprietary chemistry platform and scientific know-how, to lessen our long-term reliance on a single franchise and facilitate long-term growth.
- Focus our internal development activities on CNS indications where we can make well-informed, rapid go/no-go decisions.

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Build a commercial capability to bring our CNS therapeutics to physicians and patients for rare target indications.

Selectively partner our programs to enhance our value.

Risk Factors

Our business is subject to many risks and uncertainties of which you should be aware before you decide to invest in our common stock. These risks are discussed more fully under Risk Factors in this prospectus. Some of these risks include:

We depend heavily on the success of the product candidates within our seizure programs, of which SAGE-547 is entering Phase 3 clinical development and SAGE-689 and SAGE-217 are in non-clinical development. We cannot be certain that we will be able to obtain regulatory approval for, or successfully commercialize, any of our product candidates.

Prior to commencing enrollment in our planned Phase 3 clinical trial of SAGE-547, we must provide to the FDA additional information. If the additional information we provide is not satisfactory to the FDA, it could delay the start of, or change the design of, our planned Phase 3 clinical trial.

The number of patients suffering from SE, RSE or SRSE is small and has not been established with precision. If the actual number of patients with SE, RSE or SRSE is smaller than we anticipate, we may encounter difficulties in enrolling patients in our clinical trials, thereby delaying or preventing development of our product candidates, and if any of our product candidates are approved, we believe our revenue and ability to achieve profitability would be materially adversely affected.

Positive results from early non-clinical studies and clinical trials of our product candidates are not necessarily predictive of the results of later non-clinical studies and clinical trials of our product candidates. If we cannot replicate the positive results from our earlier non-clinical studies and clinical trials of our product candidates in our later non-clinical studies and clinical trials, we may be unable to successfully develop, obtain regulatory approval for and commercialize our product candidates.

If serious adverse events or other undesirable side effects are identified during the use of SAGE-547 in emergency-use cases, investigator sponsored trials or exploratory clinical trials of SAGE-547, our development of SAGE-547 for SRSE may be adversely effected.

Failures or delays in the commencement or completion of our planned clinical trials of our product candidates could result in increased costs to us and could delay, prevent or limit our ability to generate revenue and continue our business.

Even though we have obtained orphan drug designation for SAGE-547 as a treatment for SE, there may be limitations to the exclusivity afforded by such designation.

We rely, and expect that we will continue to rely, on third parties to conduct any clinical trials for our product candidates. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates and our business could be substantially harmed.

We are dependent on licensed intellectual property. If we were to lose our rights to licensed intellectual property, we may not be able to continue developing or commercializing our product candidates, if approved.

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If we are unable to adequately protect our proprietary technology, or to obtain and maintain issued patents that are sufficient to protect our product candidates, others could compete against us more directly, which would have a material adverse impact on our business, results of operations, financial condition and prospects.

Our future success depends on our ability to retain our President and Chief Executive Officer and to attract, retain and motivate qualified personnel.

Implications of being an emerging growth company

We qualify as an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. As an emerging growth company, we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

reduced disclosure about our executive compensation arrangements;

no non-binding advisory votes on executive compensation or golden parachute arrangements; and

exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We may take advantage of these exemptions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company on the date that is the earliest of (i) the last day of the fiscal year in which we have total annual gross revenues of $1 billion or more; (ii) the last day of our fiscal year following the fifth anniversary of the date of the completion of our initial public offering; (iii) the date on which we have issued more than $1 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the Securities and Exchange Commission, or SEC, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th. We may choose to take advantage of some but not all of these exemptions. We have taken advantage of reduced reporting requirements in this prospectus. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock. Also, we have irrevocably elected to opt out of the exemption for the delayed adoption of certain accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

Corporate History and Information

We were incorporated under the laws of the state of Delaware in April 2010. Our principal executive office is located at 215 First Avenue, Cambridge, Massachusetts, and our telephone number is (617) 299-8380. Our website address is www.sagerx.com. We do not incorporate the information on or accessible through our website into this prospectus, and you should not consider any information on, or that can be accessed through, our website as part of this prospectus.

We own various U.S. federal trademark registrations and applications and unregistered trademarks, including our corporate logo. All other trademarks or trade names referred to in this prospectus are the property of their respective owners. Solely for convenience, the trademarks and trade names in this prospectus may be referred to without the ® and symbols, but such references should not be construed as any indicator that their respective owners will not assert, to the fullest extent under applicable law, their rights thereto.

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THE OFFERING

Common stock offered by us	2,285,714 shares
Common stock to be outstanding after this offering	28,094,402 shares
Underwriters option to purchase additional shares	We have granted the underwriters an option to purchase a maximum of 342,857 additional shares of common stock. The underwriters can exercise this option at any time within 30 days from the date of this prospectus.
Use of proceeds	We estimate that we will receive net proceeds from the sale of shares of our common stock in this offering of approximately $112.3 million, or $129.2 million if the underwriters fully exercise their option to purchase additional shares, based on a public offering price of $52.50 per share, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We intend to use the net proceeds from this offering (i) to fund the planned Phase 3 development of SAGE-547 for SRSE and costs associated with initial NDA preparatory work, (ii) to fund Phase 1 development activities for SAGE-217, and the remaining proceeds to fund new and ongoing research and development activities, early planning and pre-launch investments in commercial infrastructure, working capital and other general corporate purposes. See Use of Proceeds for additional information.
Risk factors	You should read carefully Risk Factors beginning on page 11 and other information included in this prospectus for a discussion of factors that you should consider before deciding to invest in shares of our common stock.
The NASDAQ Global Market symbol	SAGE

The number of shares of common stock to be outstanding after this offering is based on 25,808,688 shares of common stock outstanding as of February 28, 2015, and includes 148,715 shares that are subject to repurchase by us and are not considered outstanding for accounting purposes until vested, and excludes:

- 2,841,775 shares of common stock issuable upon exercise of outstanding options as of February 28, 2015 at a weighted average exercise price of $16.58 per share;
- 1,421,807 shares of common stock reserved for future issuance under our 2014 Stock Option and Incentive Plan as of February 28, 2015; and
- 282,000 shares of common stock reserved for future issuance under our 2014 Employee Stock Purchase Plan as of February 28, 2015.

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Except as otherwise indicated, all information in this prospectus assumes or gives effect to:

- no exercise of the outstanding options described above; and
- no exercise by the underwriters of their option to purchase up to an additional 342,857 shares of our common stock in this offering.

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SUMMARY CONSOLIDATED FINANCIAL DATA

You should read the following summary consolidated financial data together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations sections of this prospectus. We have derived the consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of results that should be expected in the future.

	Year Ended December 31,		
	2014	2013	2012
	(in thousands, except for per share amounts)		
Consolidated statements of operations data:			
Operating expenses:			
Research and development	$ 24,100	$ 14,357	$ 7,229
General and administrative	9,710	3,922	2,402
Total operating expenses	33,810	18,279	9,631
Loss from operations	(33,810)	(18,279)	(9,631)
Interest income (expense), net	8	1	
Other income (expense), net	(9)	(3)	(1)
Net loss and comprehensive loss	(33,811)	(18,281)	(9,632)
Accretion of redeemable convertible preferred stock to redemption value	(2,294)	(7)	(4)
Net loss attributable to common stockholders	$ (36,105)	$ (18,288)	$ (9,636)
Net loss per share attributable to common stockholders basic and diluted[1]	$ (1.67)	$ (12.26)	$ (8.62)
Weighted average common shares outstanding basic and diluted[1]	21,574	1,492	1,118

	As of December 31, 2014	
	Actual	As Adjusted[3]
	(in thousands)	
Consolidated balance sheet data:		
Cash and cash equivalents	$ 127,766	$ 240,066
Working capital[2]	121,065	233,365
Total assets	129,665	241,965
Total stockholders equity (deficit)	121,885	234,185

(1) See Note 8 to our consolidated financial statements for further details on the calculation of basic and diluted net loss per share attributable to common stockholders.

(2) We define working capital as current assets less current liabilities.

(3) As adjusted consolidated balance sheet data gives effect to the sale by us of 2,285,714 shares of our common stock in this offering at the public offering price of $52.50 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

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RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risks and uncertainties, together with all other information in this prospectus, including our consolidated financial statements and related notes, before investing in our common stock. Any of the risk factors we describe below could adversely affect our business, financial condition or results of operations. The market price of our common stock could decline if one or more of these risks or uncertainties actually occur, causing you to lose all or part of the money you paid to buy our common stock. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business. Certain statements below are forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements in this prospectus.

Risks Related to Product Development, Regulatory Approval and Commercialization

We depend heavily on the success of the product candidates within our seizure programs, of which SAGE-547 is entering Phase 3 clinical development and SAGE-689 and SAGE-217 are in non-clinical development. We cannot be certain that we will be able to obtain regulatory approval for, or successfully commercialize, any of our product candidates.

We currently have no drug products for sale and may never be able to develop marketable drug products. Our business depends heavily on the successful non-clinical and clinical development, regulatory approval and commercialization of the product candidates in our lead program in status epilepticus, or SE, of which only one product candidate, SAGE-547, is entering Phase 3 clinical development for the treatment of super-refractory SE, or SRSE, and our other product candidates, SAGE-689 and SAGE-217, are in non-clinical development. SAGE-547 will require substantial additional clinical development, testing and regulatory approval before we are permitted to commence its commercialization. The non-clinical studies and clinical trials of our product candidates are, and the manufacturing and marketing of our product candidates will be, subject to extensive and rigorous review and regulation by numerous government authorities in the United States and in other countries where we intend to test and, if approved, market any product candidate. Before obtaining regulatory approvals for the commercial sale of any product candidate, we must demonstrate through non-clinical studies and clinical trials that the product candidate is safe and effective for use in each target indication. Drug development is a long, expensive and uncertain process, and delay or failure can occur at any stage of any of our clinical trials. This process can take many years and may include post-marketing studies and surveillance, which will require the expenditure of substantial resources beyond the proceeds we raise in this offering. Of the large number of drugs in development in the United States, only a small percentage will successfully complete the U.S. Food and Drug Administration, or FDA, regulatory approval process and will be commercialized. Accordingly, even if we are able to obtain the requisite financing to continue to fund our development and non-clinical studies and clinical trials, we cannot assure you that any of our product candidates will be successfully developed or commercialized.

Both SAGE-689 and SAGE-217 are in non-clinical development and have yet to begin the clinical development process. We plan to file Investigational New Drug Applications, or INDs, for both SAGE-689 and SAGE-217 late in 2015 and to begin a Phase 1 clinical trial for each of SAGE-689 and SAGE-217 thereafter.

We are not permitted to market our product candidates in the United States until we receive approval of a New Drug Application, or an NDA, from the FDA, or in any foreign countries until we receive the requisite approval from such countries. Obtaining approval of an NDA is a complex, lengthy, expensive and uncertain process, and the FDA may delay, limit or deny approval of any of our product candidates for many reasons, including, among others:

- we may not be able to demonstrate that our product candidates are safe and effective in treating SE, refractory SE, or RSE, or SRSE, as applicable, to the satisfaction of the FDA;

the results of our non-clinical studies and clinical trials may not meet the level of statistical or clinical significance required by the FDA for marketing approval;

the FDA may disagree with the number, design, size, conduct, implementation of or differing drug formulations used in our non-clinical studies and clinical trials;

the FDA may require that we conduct additional non-clinical studies and clinical trials;

the FDA or the applicable foreign regulatory agency may not approve the formulation, labeling or specifications of any of our product candidates;

the contract research organizations, or CROs, that we retain to conduct our non-clinical studies and clinical trials may take actions outside of our control that materially adversely impact our non-clinical studies and clinical trials;

the FDA may find the data from non-clinical studies and clinical trials insufficient to demonstrate that our product candidates clinical and other benefits outweigh their safety risks;

the FDA may disagree with our interpretation of data from our non-clinical studies and clinical trials;

the FDA may not accept data generated at our non-clinical studies and clinical trial sites;

if our NDA, if and when submitted, is reviewed by an advisory committee, the FDA may have difficulties scheduling an advisory committee meeting in a timely manner or the advisory committee may recommend against approval of our application or may recommend that the FDA require, as a condition of approval, additional non-clinical studies or clinical trials, limitations on approved labeling or distribution and use restrictions;

the FDA may require development of a Risk Evaluation and Mitigation Strategy, or REMS, as a condition of approval or post-approval;

the FDA or the applicable foreign regulatory agency may determine that the manufacturing processes or facilities of third-party contract manufacturers with which we contract do not conform to applicable requirements, including current Good Manufacturing Practices, or cGMPs; or

the FDA or applicable foreign regulatory agency may change its approval policies or adopt new regulations.

Any of these factors, many of which are beyond our control, could jeopardize our ability to obtain regulatory approval for and successfully market our product candidates. Any such setback in our pursuit of regulatory approval would have a material adverse effect on our business and prospects.

We cannot be certain that our planned Phase 3 clinical trial of SAGE-547 will be sufficient to support the submission of an NDA for this product candidate, and in any event we must obtain additional clinical and non-clinical data before an NDA may be submitted.

In general, the FDA requires two pivotal trials to support approval of an NDA, but in certain circumstances, will approve an NDA based on only one pivotal trial. If successful, we believe the results from our planned Phase 3 clinical trial of SAGE-547, together with other safety and efficacy data from the SAGE-547 development program, could form the basis of an NDA submission for SAGE-547. However, depending upon the outcome of the current program, the FDA may require that we conduct additional pivotal trials before we can submit an NDA for SAGE-547. To allow dosing in patients below the age of two we would need to either conduct additional clinical trial(s) or amend the protocol for our planned Phase 3 clinical trial.

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Furthermore, we will need to complete several other clinical studies prior to submitting an NDA to the FDA, including an absorption, metabolism, and excretion pharmacokinetics study in healthy volunteers, studies to test the effect of SAGE-547 on exposure to phenytoin and in patients with severe renal impairment and patients with hepatic impairment, as well as a study to test the abuse potential of SAGE-547. If the result of these additional clinical studies are not positive or yield unanticipated results, it may delay or prevent the submission or approval of an NDA for SAGE-547.

While we believe we and the FDA are in general agreement on the design and key elements of our planned Phase 3 clinical trial for SAGE-547, before beginning the trial, the FDA must review the final protocol for the trial, along with additional information supporting the proposed trial design. Concurrent with starting the Phase 3 clinical trial, the FDA will review certain updated chemistry, manufacturing and controls, or CMC, information, that we are required to submit. We also plan to share with the FDA the results of our long-term toxicity studies in two animal species, the first segment of which we submitted to the FDA in the second quarter of 2014. Additional long-term toxicity studies, required for an NDA submission, are ongoing. If the FDA does not approve the protocol for the planned trial in the form we submit it, or if the FDA is not satisfied with the additional CMC information we plan to provide, the start or continuation of the planned Phase 3 trial may be delayed or the design of the trial may change. The FDA may require that we conduct additional toxicity studies and other non-clinical studies before submitting an NDA for SAGE-547.

A Fast Track designation by the FDA may not actually lead to a faster development or regulatory review or approval process.

We have received Fast Track designation for our investigational new drug application, or IND, for SAGE-547 for the treatment of SRSE, and in the future we may seek Fast Track designation for other product candidates as well. If a product is intended for the treatment of a serious or life-threatening condition and the product demonstrates the potential to address unmet medical needs for this condition, the sponsor may apply for the FDA Fast Track designation. Fast Track designation does not necessarily lead to a faster development pathway or regulatory review process and does increase the likelihood of regulatory approval. The FDA may withdraw Fast Track designation if it believes that the designation is no longer supported by data from our clinical development programs.

The number of patients suffering from SE, RSE and SRSE is small or has not been established with precision. If the actual number of patients with SE, RSE and SRSE is smaller than we anticipate, we may encounter difficulties in enrolling patients in our clinical trials, thereby delaying or preventing development of our product candidates, and if any of our product candidates are approved, we believe our revenue and ability to achieve profitability would be materially adversely affected.

There is no precise method of establishing actual number of patients with SE, RSE or SRSE in any geography over any time period. Moreover, SE, RSE and SRSE are acute episode conditions. If we are not able to identify patients at the time of SE, RSE or SRSE onset, we will have difficulty completing our clinical trials. We estimate that the annual incidence of SE, RSE and SRSE in the United States is up to 150,000, 35,000 and 25,000 patients, respectively. If the actual number of patients with SE, RSE or SRSE is lower than we believe, we may experience difficulty in enrolling patients in our clinical trials, thereby delaying development of our product candidates. Further, if any of our product candidates are approved, the markets for our product candidates for these indications would be smaller than we anticipate which could limit our ability to achieve profitability.

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Favorable results from the emergency-use cases of SAGE-547 do not ensure that clinical trials will be successful and the results in any future emergency-use cases may not be positive and could adversely impact our clinical development plans.

SAGE-547 has been administered to a small number of patients as part of emergency-use cases, which permitted the administration of SAGE-547 outside of clinical trials. No assurance can be given that positive results observed to date in these emergency-use cases are attributable to SAGE-547, as they were not carried out in the controlled environment of a clinical trial. Further, no assurance can be provided that administration of SAGE-547 to other patients in any future emergency-use cases or otherwise will have positive results. Emergency use is a term that is used to refer to the use of an investigational drug outside of a clinical trial to treat a patient with a serious or immediately life-threatening disease or condition and who has no comparable or satisfactory alternative treatment options. Regulators often allow emergency use on a case-by-case basis for an individual patient or for defined groups of patients with similar treatment needs. In the event there are negative results in future emergency-use cases, it could adversely affect or delay our clinical development of SAGE-547.

If serious adverse events or other undesirable side effects are identified during the use of SAGE-547 in emergency-use cases, investigator sponsored trials or exploratory clinical trials of SAGE-547, it may adversely effect our development of SAGE-547 for SRSE.

In addition to use in emergency cases as described above, SAGE-547 is currently being tested in an investigator sponsored clinical trial for the treatment of traumatic brain injury, or TBI, by one of our collaborators and may be subjected to testing for other indications in additional investigator sponsored trials. Currently, we are also testing SAGE-547 in a proof of concept trial in patients with essential tremor and a proof of concept trial in patients with severe postpartum depression, or PPD. If serious adverse events or other undesirable side effects, or unexpected characteristics of SAGE-547 are observed in emergency-use cases or in investigator sponsored clinical trials of SAGE-547 or our exploratory clinical trials, it may adversely affect or delay our clinical development of SAGE-547, or we may need to abandon its development for SRSE entirely, and the occurrence of these events would have a material adverse effect on our business.

Positive results from early non-clinical studies and clinical trials of our product candidates are not necessarily predictive of the results of later non-clinical studies and clinical trials of our product candidates. If we cannot replicate the positive results from our earlier non-clinical studies and clinical trials of our product candidates in our later non-clinical studies and clinical trials, we may be unable to successfully develop, obtain regulatory approval for and commercialize our product candidates.

Positive results from our non-clinical studies of our product candidates, and any positive results we may obtain from our early clinical trials of our product candidates, may not necessarily be predictive of the results from required later non-clinical studies and clinical trials. Similarly, even if we are able to complete our planned non-clinical studies or clinical trials of our product candidates according to our current development timeline, the positive results from our non-clinical studies and clinical trials of our product candidates may not be replicated in subsequent non-clinical studies or clinical trial results. For example, although 12 of the first 17 patients treated with SAGE-547 and evaluable for efficacy in our Phase 1/2 clinical trial met the key efficacy endpoint and none of the 20 patients enrolled in the study have yet experienced any severe adverse events related to SAGE-547, future patients enrolled and treated with SAGE-547 in our Phase 1/2 clinical trial or in later-stage clinical trials may not have the same outcome. Also, our later-stage clinical trials will differ in important ways from our ongoing Phase 1/2 clinical trial of SAGE-547, which could cause the outcome of these later-stage trials to differ from our earlier stage clinical trials. For example, our planned Phase 3 clinical trial of SAGE-547 will be a placebo-controlled trial, while our Phase 1/2 clinical trial was open-label, and an intent-to-treat statistical analysis, which is a more rigorous statistical analysis, will be employed in evaluating the data in our planned

Phase 3 clinical trial. In addition, the formulation of SAGE-547 we intend to use in our planned Phase 3 trial is somewhat different than the formulation used in the Phase 1/2 trial. We do not believe the change will negatively affect trial results, but we cannot be sure. Many companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in late-stage clinical trials after achieving positive results in early-stage development, and we cannot be certain that we will not face similar setbacks. These setbacks have been caused by, among other things, non-clinical findings made while clinical trials were underway or safety or efficacy observations made in non-clinical studies and clinical trials, including previously unreported adverse events. Moreover, non-clinical and clinical data are often susceptible to varying interpretations and analyses, and many companies that believed their product candidates performed satisfactorily in non-clinical studies and clinical trials nonetheless failed to obtain FDA approval. We have not completed any clinical trials for our product candidates yet, and if we fail to produce positive results in our planned non-clinical studies or clinical trials of any of our product candidates, the development timeline and regulatory approval and commercialization prospects for our product candidates, and, correspondingly, our business and financial prospects, would be materially adversely affected.

Failures or delays in the commencement or completion of our planned clinical trials of our product candidates could result in increased costs to us and could delay, prevent or limit our ability to generate revenue and continue our business.

We have an ongoing Phase 1/2 clinical trial of SAGE-547 as a treatment for SRSE and ongoing proof of concept studies of SAGE-547 for patients with essential tremor and severe PPD. We will need to complete at least one additional trial prior to the submission of an NDA for SAGE-547 as a treatment for SRSE. Successful completion of our clinical trials is a prerequisite to submitting an NDA to the FDA and, consequently, the ultimate approval and commercial marketing of SAGE-547 for SRSE and our other product candidates. We do not know whether any of our clinical trials will begin or be completed on schedule, if at all, as the commencement and completion of clinical trials can be delayed or prevented for a number of reasons, including, among others:

- the FDA may deny permission to proceed with our planned clinical trials or any other clinical trials we may initiate, or may place a clinical trial on hold;
- delays in filing or receiving approvals of additional INDs that may be required;
- negative results from our ongoing non-clinical studies;
- delays in reaching or failing to reach agreement on acceptable terms with prospective CROs and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- inadequate quantity or quality of a product candidate or other materials necessary to conduct clinical trials, for example delays in the manufacturing of sufficient supply of finished drug product;
- difficulties obtaining Institutional Review Board, or IRB, approval to conduct a clinical trial at a prospective site or sites;
- challenges in recruiting and enrolling patients to participate in clinical trials, including the small size of the patient population, acute nature of SRSE, the proximity of patients to trial sites;
- eligibility criteria for the clinical trial, the nature of the clinical trial protocol, the availability of approved effective treatments for the relevant disease and competition from other clinical trial programs for similar indications;
- severe or unexpected drug-related side effects experienced by patients in a clinical trial;

delays in validating any endpoints utilized in a clinical trial;

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- the FDA may disagree with our clinical trial design and our interpretation of data from clinical trials, or may change the requirements for approval even after it has reviewed and commented on the design for our clinical trials;

- our inability to satisfy the CMC requirements of the FDA or file amendments to our IND as requested by the FDA prior to the initiation of a clinical trial;

- reports from non-clinical or clinical testing of other CNS therapies that raise safety or efficacy concerns; and

- difficulties retaining patients who have enrolled in a clinical trial but may be prone to withdraw due to rigors of the clinical trials, lack of efficacy, side effects, personal issues or loss of interest.

Clinical trials may also be delayed or terminated as a result of ambiguous or negative interim results. In addition, a clinical trial may be suspended or terminated by us, the FDA, the IRBs at the sites where the IRBs are overseeing a clinical trial, a data and safety monitoring board, or DSMB, overseeing the clinical trial at issue or other regulatory authorities due to a number of factors, including, among others:

- failure to conduct the clinical trial in accordance with regulatory requirements or our clinical protocols;

- inspection of the clinical trial operations or trial sites by the FDA or other regulatory authorities that reveals deficiencies or violations that require us to undertake corrective action, including the imposition of a clinical hold;

- unforeseen safety issues, including any that could be identified in our ongoing non-clinical carcinogenicity studies, adverse side effects or lack of effectiveness;

- changes in government regulations or administrative actions;

- problems with clinical supply materials; and

- lack of adequate funding to continue clinical trials.

Changes in regulatory requirements, FDA guidance or unanticipated events during our non-clinical studies and clinical trials of our product candidates may occur, which may result in changes to non-clinical studies and clinical trial protocols or additional non-clinical studies and clinical trial requirements, which could result in increased costs to us and could delay our development timeline.

Changes in regulatory requirements, FDA guidance or unanticipated events during our non-clinical studies and clinical trials may force us to amend non-clinical studies and clinical trial protocols or the FDA may impose additional non-clinical studies and clinical trial requirements. Amendments or changes to our clinical trial protocols would require resubmission to the FDA and IRBs for review and approval, which may adversely impact the cost, timing or successful completion of clinical trials. Similarly, amendments to our non-clinical studies may adversely impact the cost, timing, or successful completion of those non-clinical studies. For example, we intend to seek a waiver from the need to perform a study of SAGE-547 on certain cardiac measures. If the FDA does not grant the waiver, we will be required to conduct such a study, the results of which could delay the filing of an NDA for SAGE-547. If we experience delays completing, or if we terminate, any of our non-clinical studies or clinical trials, or if we are required to conduct additional non-clinical studies or clinical trials, the commercial prospects for our product candidates may be harmed and our ability to generate product revenue will be delayed.

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We rely, and expect that we will continue to rely, on third parties to conduct any clinical trials for our product candidates. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, we may not be able to obtain regulatory approval for or commercialize our product candidates and our business could be substantially harmed.

We do not have the ability to independently conduct clinical trials. We rely on medical institutions, clinical investigators, contract laboratories and other third parties, such as CROs, to conduct clinical trials on our product candidates. We enter into agreements with third-party CROs to provide monitors for and to manage data for our ongoing clinical trials. We rely heavily on these parties for execution of clinical trials for our product candidates and control only certain aspects of their activities. As a result, we have less direct control over the conduct, timing and completion of these clinical trials and the management of data developed through clinical trials than would be the case if we were relying entirely upon our own staff. Communicating with outside parties can also be challenging, potentially leading to mistakes as well as difficulties in coordinating activities. Outside parties may:

- have staffing difficulties;
- fail to comply with contractual obligations;
- experience regulatory compliance issues;
- undergo changes in priorities or become financially distressed; or
- form relationships with other entities, some of which may be our competitors.

These factors may materially adversely affect the willingness or ability of third parties to conduct our clinical trials and may subject us to unexpected cost increases that are beyond our control. Nevertheless, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific requirements and standards, and our reliance on CROs does not relieve us of our regulatory responsibilities. We and our CROs are required to comply with regulations and guidelines, including current Good Clinical Practices, or cGCPs, for conducting, monitoring, recording and reporting the results of clinical trials to ensure that the data and results are scientifically credible and accurate, and that the trial patients are adequately informed of the potential risks of participating in clinical trials. These regulations are enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area and comparable foreign regulatory authorities for any products in clinical development. The FDA enforces cGCP regulations through periodic inspections of clinical trial sponsors, principal investigators and trial sites. If we or our CROs fail to comply with applicable cGCPs, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that, upon inspection, the FDA will determine that any of our clinical trials comply with cGCPs. In addition, our clinical trials must be conducted with product candidates produced under cGMPs regulations and will require a large number of test patients. Our failure or the failure of our CROs to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process and could also subject us to enforcement action up to and including civil and criminal penalties.

Although we design our clinical trials for our product candidates, CROs conduct all of the clinical trials. As a result, many important aspects of our drug development programs are outside of our direct control. In addition, the CROs may not perform all of their obligations under arrangements with us or in compliance with regulatory requirements, but we remain responsible and are subject to enforcement action that may include civil penalties up to and including criminal prosecution for any violations of FDA laws and regulations during the conduct of our clinical trials. If the CROs do not perform clinical trials in a satisfactory manner, breach their obligations to us or fail to comply with regulatory requirements, the development and commercialization of our product candidates may be delayed or our development

program materially and irreversibly harmed. We cannot control the amount and timing of resources these CROs devote to our program or our clinical products. If we are unable to rely on clinical data collected by our CROs, we could be required to repeat, extend the duration of, or increase the size of our clinical trials and this could significantly delay commercialization and require significantly greater expenditures.

If any of our relationships with these third-party CROs terminate, we may not be able to enter into arrangements with alternative CROs. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines, if they need to be replaced or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for other reasons, any clinical trials such CROs are associated with may be extended, delayed or terminated, and we may not be able to obtain regulatory approval for or successfully commercialize our product candidates. As a result, we believe that our financial results and the commercial prospects for our product candidates in the subject indication would be harmed, our costs could increase and our ability to generate revenue could be delayed.

We rely completely on third-party suppliers to manufacture our clinical drug supplies for our product candidates, and we intend to rely on third parties to produce non-clinical, clinical and commercial supplies of any future product candidate.

We do not currently have, nor do we plan to acquire, the infrastructure or capability to internally manufacture our clinical drug supply of our product candidates, or any future product candidates, for use in the conduct of our non-clinical studies and clinical trials, and we lack the internal resources and the capability to manufacture any product candidates on a clinical or commercial scale. For example, SAGE-547 used in the emergency-use cases was manufactured at an academic site, the active pharmaceutical ingredient for SAGE-547 for our Phase 1/2 clinical trial was manufactured at an academic site and SAGE-547 as formulated for our Phase 1/2 clinical trial was manufactured at a third-party contract manufacturer s site. The facilities used by our contract manufacturers to manufacture the active pharmaceutical ingredient and final drug product must complete a pre-approval inspection by the FDA and other comparable foreign regulatory agencies to assess compliance with applicable requirements, including cGMPs, after we submit our NDA or relevant foreign regulatory submission to the applicable regulatory agency.

We do not control the manufacturing process of, and are completely dependent on, our contract manufacturers to comply with cGMPs for manufacture of both active drug substances and finished drug products. If our contract manufacturers cannot successfully manufacture material that conforms to our specifications and the strict regulatory requirements of the FDA or applicable foreign regulatory agencies, they will not be able to secure and/or maintain regulatory approval for their manufacturing facilities. In addition, we have no direct control over our contract manufacturers ability to maintain adequate quality control, quality assurance and qualified personnel. Furthermore, all of our contract manufacturers are engaged with other companies to supply and/or manufacture materials or products for such companies, which exposes our third-party contract manufacturers to regulatory risks for the production of such materials and products. As a result, failure to satisfy the regulatory requirements for the production of those materials and products may affect the regulatory clearance of our contract manufacturers facilities generally. If the FDA or an applicable foreign regulatory agency determines now or in the future that these facilities for the manufacture of our product candidates are noncompliant, we may need to find alternative manufacturing facilities, which would adversely impact our ability to develop, obtain regulatory approval for or market our product candidates. Our reliance on contract manufacturers also exposes us to the possibility that they, or third parties with access to their facilities, will have access to and may appropriate our trade secrets or other proprietary information.

We do not have long-term supply agreements in place with our contract manufacturers and each batch of our product candidates is individually contracted under a quality and supply agreement. If we

engage new contract manufacturers, such contractors must complete an inspection by the FDA and other applicable foreign regulatory agencies. We plan to continue to rely upon contract manufacturers and, potentially, collaboration partners to manufacture commercial quantities of our product candidates, if approved. Our current scale of manufacturing is adequate to support all of our needs for non-clinical studies and clinical trial supplies.

Even if we receive marketing approval for our product candidates in the United States, we may never receive regulatory approval to market our product candidates outside of the United States.

We have not yet selected any markets outside of the United States where we intend to seek regulatory approval to market our product candidates. In order to market any product outside of the United States, however, we must establish and comply with the numerous and varying safety, efficacy and other regulatory requirements of other countries. Approval procedures vary among countries and can involve additional product candidate testing and additional administrative review periods. The time required to obtain approvals in other countries might differ from that required to obtain FDA approval. The marketing approval processes in other countries may implicate all of the risks detailed above regarding FDA approval in the United States as well as other risks. In particular, in many countries outside of the United States, products must receive pricing and reimbursement approval before the product can be commercialized. Obtaining this approval can result in substantial delays in bringing products to market in such countries. Marketing approval in one country does not ensure marketing approval in another, but a failure or delay in obtaining marketing approval in one country may have a negative effect on the regulatory process in others. Failure to obtain marketing approval in other countries or any delay or other setback in obtaining such approval would impair our ability to market our product candidates in such foreign markets. Any such impairment would reduce the size of our potential market, which could have a material adverse impact on our business, results of operations and prospects.

If we are unable to establish sales and marketing capabilities or enter into agreements with third parties to market and sell our product candidates, we may not be able to generate any revenue.

We do not currently have an infrastructure for the sales, marketing and distribution of pharmaceutical products. In order to market our product candidates, if approved by the FDA or any other regulatory body, we must build our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, or if we are unable to do so on commercially reasonable terms, our business, results of operations, financial condition and prospects will be materially adversely affected.

Even if we receive marketing approval for our product candidates, our product candidates may not achieve broad market acceptance, which would limit the revenue that we generate from their sales.

The commercial success of our product candidates, if approved by the FDA or other applicable regulatory authorities, will depend upon the awareness and acceptance of our product candidates among the medical community, including physicians, patients and healthcare payors. Market acceptance of our product candidates, if approved, will depend on a number of factors, including, among others:

- the efficacy of our product candidates as demonstrated in clinical trials, and, if required by any applicable regulatory authority in connection with the approval for the applicable indications, to provide patients with incremental health benefits, as compared with other available CNS therapies;

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limitations or warnings contained in the labeling approved for our product candidates by the FDA or other applicable regulatory authorities;

the clinical indications for which our product candidates are approved;

availability of alternative treatments already approved or expected to be commercially launched in the near future;

the potential and perceived advantages of our product candidates over current treatment options or alternative treatments, including future alternative treatments;

the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;

the strength of marketing and distribution support and timing of market introduction of competitive products;

publicity concerning our products or competing products and treatments;

pricing and cost effectiveness;

the effectiveness of our sales and marketing strategies;

our ability to increase awareness of our product candidates through marketing efforts;

our ability to obtain sufficient third-party coverage or reimbursement; or

the willingness of patients to pay out-of-pocket in the absence of third-party coverage.

If our product candidates are approved but do not achieve an adequate level of acceptance by patients, physicians and payors, we may not generate sufficient revenue from our product candidates to become or remain profitable. Before granting reimbursement approval, healthcare payors may require us to demonstrate that our product candidates, in addition to treating these target indications, also provide incremental health benefits to patients. Our efforts to educate the medical community and third-party payors about the benefits of our product candidates may require significant resources and may never be successful.

Our product candidates may cause undesirable side effects that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following marketing approval, if any.

Undesirable side effects caused by our product candidates could cause us or regulatory authorities to interrupt, delay or halt non-clinical studies and clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other regulatory authorities.

Further, clinical trials by their nature utilize a sample of the potential patient population. With a limited number of patients and limited duration of exposure, rare and severe side effects of our product candidates may only be uncovered with a significantly larger number of patients exposed to the product candidate. If our product candidates receive marketing approval and we or others identify undesirable side effects caused by such product candidates (or any other similar products) after such approval, a number of potentially significant negative consequences could result,

including:

regulatory authorities may withdraw or limit their approval of such product candidates;

regulatory authorities may require the addition of labeling statements, such as a boxed warning or a contraindication;

we may be required to change the way such product candidates are distributed or administered, conduct additional clinical trials or change the labeling of the product candidates;

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- we may be subject to regulatory investigations and government enforcement actions;
- we may decide to remove such product candidates from the marketplace;
- we could be sued and held liable for injury caused to individuals exposed to or taking our product candidates; and
- our reputation may suffer.

We believe that any of these events could prevent us from achieving or maintaining market acceptance of the affected product candidates and could substantially increase the costs of commercializing our product candidates and significantly impact our ability to successfully commercialize our product candidates and generate revenues.

Even if we receive marketing approval for our product candidates, we may still face future development and regulatory difficulties.

Even if we receive marketing approval for our product candidates, regulatory authorities may still impose significant restrictions on our product candidates, indicated uses or marketing or impose ongoing requirements for potentially costly post-approval studies. For example, prior to product launch, the U.S. Drug Enforcement Agency, or DEA, needs to determine the controlled substance schedule of SAGE-547, taking into account the recommendation of the FDA**.** Our product candidates will also be subject to ongoing FDA requirements governing the labeling, packaging, storage and promotion of the product and record keeping and submission of safety and other post-market information. The FDA has significant post-marketing authority, including, for example, the authority to require labeling changes based on new safety information and to require post-marketing studies or clinical trials to evaluate serious safety risks related to the use of a drug. The FDA also has the authority to require, as part of an NDA or post-approval, the submission of a REMS. Any REMS required by the FDA may lead to increased costs to assure compliance with new post-approval regulatory requirements and potential requirements or restrictions on the sale of approved products, all of which could lead to lower sales volume and revenue.

Manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with cGMPs and other regulations. If we or a regulatory agency discover problems with our product candidates, such as adverse events of unanticipated severity or frequency, or problems with the facility where our product candidates are manufactured, a regulatory agency may impose restrictions on our product candidates, the manufacturer or us, including requiring withdrawal of our product candidates from the market or suspension of manufacturing. If we, our product candidates or the manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may, among other things:

- issue warning letters or untitled letters;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw marketing approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications submitted by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or

seize or detain products, refuse to permit the import or export of products, or require that we initiate a product recall.

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Competing therapies could emerge adversely affecting our opportunity to generate revenue from the sale of our product candidates.

The biopharmaceuticals industry is highly competitive. There are many public and private biopharmaceutical companies, universities, governmental agencies and other research organizations actively engaged in the research and development of products that may be similar to our product candidates or address similar markets. It is probable that the number of companies seeking to develop products and therapies similar to our products will increase.

Currently, there are no therapies specifically approved for RSE or SRSE. However, many products approved for other indications, general anesthetics and anti-seizure drugs, are used off-label for various stages of SE therapy. Additionally, though not indicated, acupuncture, hypothermia, and electroconvulsive therapy are sometimes used prior to withdrawal of care for patients with SRSE.

In the field of neuroactive steroids focused on modulation of $GABA_A$ or NMDA receptors, our principal competitor is Marinus Pharmaceuticals, Inc., which is developing a reformulated form of Ganaxolone, a known $GABA_A$ positive allosteric modulator neuroactive steroid, for potential treatment of drug-resistant partial complex seizures and fragile X syndrome.

Many of our potential competitors, alone or with their strategic partners, have substantially greater financial, technical and human resources than we do and significantly greater experience in the discovery and development of product candidates, obtaining FDA and other regulatory approvals of treatments and the commercialization of those treatments. Mergers and acquisitions in the biotechnology and pharmaceutical industries may result in even more resources being concentrated among a smaller number of our competitors. Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe side effects, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

We may seek to establish collaborations, and, if we are not able to establish them on commercially reasonable terms, we may have to alter our development and commercialization plans.

Our drug development programs and the potential commercialization of our product candidates will require substantial additional cash to fund expenses. For some of our product candidates, we may decide to collaborate with pharmaceutical and biotechnology companies for the development and potential commercialization of those product candidates.

We face significant competition in seeking appropriate collaborators. Whether we reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the collaborator s resources and expertise, the terms and conditions of the proposed collaboration and the proposed collaborator s evaluation of a number of factors. Those factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge and industry and market conditions generally. The collaborator may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such collaboration could be more attractive than the one with us for our product candidate. The terms of any collaboration or other arrangements that we may establish may not be favorable to us.

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We may also be restricted under existing collaboration agreements from entering into future agreements on certain terms with potential collaborators. Collaborations are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future collaborators.

We may not be able to negotiate collaborations on a timely basis, on acceptable terms, or at all. If we are unable to do so, we may have to curtail the development of the product candidate for which we are seeking to collaborate, reduce or delay its development program or one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to increase our expenditures to fund development or commercialization activities on our own, we may need to obtain additional capital, which may not be available to us on acceptable terms or at all. If we do not have sufficient funds, we may not be able to further develop our product candidates or bring them to market and generate product revenue.

In addition, any future collaborations that we enter into may not be successful. The success of our collaboration arrangements will depend heavily on the efforts and activities of our collaborators. Collaborators generally have significant discretion in determining the efforts and resources that they will apply to these collaborations. Disagreements between parties to a collaboration arrangement regarding clinical development and commercialization matters can lead to delays in the development process or commercializing the applicable product candidate and, in some cases, termination of the collaboration arrangement. These disagreements can be difficult to resolve if neither of the parties has final decision-making authority. Collaborations with pharmaceutical or biotechnology companies and other third parties often are terminated or allowed to expire by the other party. Any such termination or expiration would adversely affect us financially and could harm our business reputation.

We may not be successful in our efforts to identify or discover additional product candidates or we may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

The success of our business depends primarily upon our ability to identify, develop and commercialize products based on our proprietary chemistry platform. Although some of our product candidates are in non-clinical and clinical development, our research programs may fail to identify other potential product candidates for clinical development for a number of reasons. Our research methodology may be unsuccessful in identifying potential product candidates or our potential product candidates may be shown to have harmful side effects or may have other characteristics that may make the products unmarketable or unlikely to receive marketing approval.

Because we have limited financial and management resources, we focus on a limited number of research programs and product candidates and are currently focused on our SE program. As a result, we may forego or delay pursuit of opportunities with other product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial drugs or profitable market opportunities. Our spending on current and future research and development programs and product candidates for specific indications may not yield any commercially viable drugs. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through future collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights to such product candidate.

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If any of these events occur, we may be forced to abandon our development efforts for a program or programs, which would have a material adverse effect on our business and could potentially cause us to cease operations. Research programs to identify new product candidates require substantial technical, financial and human resources. We may focus our efforts and resources on potential programs or product candidates that ultimately prove to be unsuccessful.

We are subject to healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm and diminished profits and future earnings.

Although we do not currently have any products on the market, once we begin commercializing our products, we may be subject to additional healthcare statutory and regulatory requirements and enforcement by the federal government and the states and foreign governments in which we conduct our business. Healthcare providers, physicians and others will play a primary role in the recommendation and prescription of our product candidates, if approved. Our future arrangements with third-party payors will expose us to broadly applicable fraud and abuse and other healthcare laws and regulations that may constrain the business or financial arrangements and relationships through which we market, sell and distribute our product candidates, if we obtain marketing approval. Restrictions under applicable federal and state healthcare laws and regulations include the following:

The federal anti-kickback statute prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, any good or service, for which payment may be made under federal healthcare programs such as Medicare and Medicaid.

The federal False Claims Act imposes criminal and civil penalties, including those from civil whistleblower or qui tam actions, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government, claims for payment that are false or fraudulent or making a false statement to avoid, decrease, or conceal an obligation to pay money to the federal government.

The federal Health Insurance Portability and Accountability Act of 1996, as amended by the Health Information Technology for Economic and Clinical Health Act, imposes criminal and civil liability for executing a scheme to defraud any healthcare benefit program and also imposes obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information.

The federal false statements statute prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services.

The federal transparency requirements, sometimes referred to as the Sunshine Act, under the Patient Protection and Affordable Care Act, require manufacturers of drugs, devices, biologics and medical supplies that are reimbursable under Medicare, Medicaid, or the Children s Health Insurance Program to report to the Department of Health and Human Services information related to physician payments and other transfers of value and physician ownership and investment interests.

Analogous state laws and regulations, such as state anti-kickback and false claims laws and transparency laws, may apply to sales or marketing arrangements and claims involving healthcare items or services reimbursed by non-governmental third-party payors, including private insurers, and some state laws require pharmaceutical companies to comply with the pharmaceutical industry s voluntary compliance guidelines and the relevant compliance.

Guidance promulgated by the federal government in addition to requiring drug manufacturers to report information related to payments to physicians and other healthcare providers or marketing expenditures and drug pricing.

Ensuring that our future business arrangements with third parties comply with applicable healthcare laws and regulations could be costly. It is possible that governmental authorities will conclude that our business practices do not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations, including anticipated activities to be conducted by our sales team, were found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, damages, fines and exclusion from government funded healthcare programs, such as Medicare and Medicaid, any of which could substantially disrupt our operations. If any of the physicians or other providers or entities with whom we expect to do business is found not to be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs.

The FDA and other regulatory agencies actively enforce the laws and regulations prohibiting the promotion of off-label uses. If we are found to have improperly promoted off-label uses, we may become subject to significant liability.

The FDA and other regulatory agencies strictly regulate the promotional claims that may be made about prescription products, such as SAGE-547, SAGE-689, and SAGE-217, if approved. In particular, a product may not be promoted for uses that are not approved by the FDA or such other regulatory agencies as reflected in the product s approved labeling. For example, if we receive marketing approval for SAGE-547 as a treatment for SRSE, physicians may nevertheless prescribe SAGE-547 to their patients in a manner that is inconsistent with the approved label. If we are found to have promoted such off-label uses, we may become subject to significant liability. The federal government has levied large civil and criminal fines against companies for alleged improper promotion and has enjoined several companies from engaging in off-label promotion. The FDA has also requested that companies enter into consent decrees or permanent injunctions under which specified promotional conduct is changed or curtailed. If we cannot successfully manage the promotion of our product candidates, if approved, we could become subject to significant liability, which would materially adversely affect our business and financial condition.

SAGE-547 will, and our other product candidates may, contain controlled substances, the manufacture, use, sale, importation, exportation, prescribing and distribution of which are subject to regulation by the DEA.

Before we can commercialize SAGE-547, and potentially our other product candidates, the DEA will need to determine the controlled substance schedule, taking into account the recommendation of the FDA. This may be a lengthy process that could delay our marketing of a product candidate and could potentially diminish any regulatory exclusivity periods for which we may be eligible. SAGE-547 will, and our other product candidates may, if approved, be regulated as controlled substances as defined in the Controlled Substances Act of 1970, or CSA, and the implementing regulations of the DEA, which establish registration, security, recordkeeping, reporting, storage, distribution, importation, exportation, inventory, quota and other requirements administered by the DEA. These requirements are applicable to us, to our third-party manufacturers and to distributors, prescribers and dispensers of our product candidates. The DEA regulates the handling of controlled substances through a closed chain of distribution. This control extends to the equipment and raw materials used in their manufacture and packaging, in order to prevent loss and diversion into illicit channels of commerce. A number of states and foreign countries also independently regulate these drugs as controlled substances.

The DEA regulates controlled substances as Schedule I, II, III, IV or V substances. Schedule I substances by definition have no established medicinal use, and may not be marketed or sold in the United States. A pharmaceutical product may be listed as Schedule II, III, IV or V, with Schedule II substances considered to present the highest risk of abuse and Schedule V substances the lowest relative risk of abuse among such substances.

We expect that SAGE-547 will, and our other product candidates may, be listed by the DEA as Schedule IV controlled substances under the CSA. Consequently, the manufacturing, shipping, storing, selling and using of the products will be subject to a high degree of regulation. Also, distribution, prescribing and dispensing of these drugs are highly regulated.

Annual registration is required for any facility that manufactures, distributes, dispenses, imports or exports any controlled substance. The registration is specific to the particular location, activity and controlled substance schedule.

Because of their restrictive nature, these laws and regulations could limit commercialization of our product candidates containing controlled substances. Failure to comply with these laws and regulations could also result in withdrawal of our DEA registrations, disruption in manufacturing and distribution activities, consent decrees, criminal and civil penalties and state actions, among other consequences.

Even if approved, reimbursement policies could limit our ability to sell our product candidates.

Market acceptance and sales of our product candidates will depend on reimbursement policies and may be affected by healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which medications they will pay for and establish reimbursement levels for those medications. Cost containment is a primary concern in the U.S. healthcare industry and elsewhere. Government authorities and these third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. We cannot be sure that reimbursement will be available for our product candidates and, if reimbursement is available, the level of such reimbursement. Reimbursement may impact the demand for, or the price of, our product candidates. If reimbursement is not available or is available only at limited levels, we may not be able to successfully commercialize our product candidates.

In some foreign countries, particularly in Canada and European countries, the pricing of prescription pharmaceuticals is subject to strict governmental control. In these countries, pricing negotiations with governmental authorities can take six months or longer after the receipt of regulatory approval and product launch. To obtain favorable reimbursement for the indications sought or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidates with other available therapies. If reimbursement for our product candidates is unavailable in any country in which we seek reimbursement, if it is limited in scope or amount, if it is conditioned upon our completion of additional clinical trials, or if pricing is set at unsatisfactory levels, our operating results could be materially adversely affected.

Even though we have obtained orphan drug designation for SAGE-547 as a treatment for SE, there may be limits to the regulatory exclusivity afforded by such designation.

Even though we have obtained orphan drug designation for SAGE-547 for treatment of SE from the FDA, there are limitations to exclusivity afforded by such designation. In the United States, the company that first obtains FDA approval for a designated orphan drug for the specified rare disease or condition receives orphan drug marketing exclusivity for that drug for a period of seven years. This orphan drug exclusivity prevents the FDA from approving another application, including a full NDA to

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market the same drug for the same orphan indication, except in very limited circumstances, including when the FDA concludes that the later drug is safer, more effective or makes a major contribution to patient care. For purposes of small molecule drugs, the FDA defines same drug as a drug that contains the same active moiety and is intended for the same use as the drug in question. To obtain orphan drug exclusivity for a drug that shares the same active moiety as an already approved drug, it must be demonstrated to the FDA that the drug is safer or more effective than the approved orphan designated drug, or that it makes a major contribution to patient care. In addition, a designated orphan drug may not receive orphan drug exclusivity if it is approved for a use that is broader than the indication for which it received orphan designation. In addition, orphan drug exclusive marketing rights in the United States may be lost if the FDA later determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the drug to meet the needs of patients with the rare disease or condition or if another drug with the same active moiety is determined to be safer, more effective, or represents a major contribution to patient care.

Our future growth may depend, in part, on our ability to penetrate foreign markets, where we would be subject to additional regulatory burdens and other risks and uncertainties.

Our future profitability may depend, in part, on our ability to commercialize our product candidates in foreign markets for which we may rely on collaboration with third parties. If we commercialize our product candidates in foreign markets, we would be subject to additional risks and uncertainties, including:

- our customers ability to obtain reimbursement for our product candidates in foreign markets;
- our inability to directly control commercial activities because we are relying on third parties;
- the burden of complying with complex and changing foreign regulatory, tax, accounting and legal requirements;
- different medical practices and customs in foreign countries affecting acceptance in the marketplace;
- import or export licensing requirements;
- longer accounts receivable collection times;
- longer lead times for shipping;
- language barriers for technical training;
- reduced protection of intellectual property rights in some foreign countries;
- the existence of additional potentially relevant third party intellectual property rights;
- foreign currency exchange rate fluctuations; and

the interpretation of contractual provisions governed by foreign laws in the event of a contract dispute.
Foreign sales of our product candidates could also be adversely affected by the imposition of governmental controls,
political="font-family:inherit;font-size:10pt;">$5.42

During the three months ended March 31, 2012 and 2011, $9.8 million and $8.6 million, respectively, were charged to compensation expense for stock incentive plans.

During the three months ended March 31, 2012, 4.9 million shares which had a fair value of $26.4 million were issued upon vesting of the RSUs granted during 2009.

NOTE 5 — PENSIONS AND OTHER POSTRETIREMENT BENEFITS

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

Currently, the North American defined benefit plans are closed to newly-hired salaried and non-union hourly employees. Effective July 1, 2011, the North American defined benefit plans were frozen for most salaried and non-union hourly employees and replaced with a defined contribution plan. The U.K. and Canada defined benefit plans were frozen effective March 31, 2001 and December 31, 2009, respectively, and replaced with defined contribution plans.

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Pension and Postretirement Expense

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

	Pension Benefits		Postretirement Health Care Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
In millions	2012	2011	2012	2011
Components of Net Periodic Cost:				
Service Cost	$4.6	$4.8	$0.3	$0.3
Interest Cost	12.7	13.1	0.6	0.7
Expected Return on Plan Assets	(14.5)	(14.3)	—	—
Amortization:				
Prior Service Cost	0.1	0.1	—	—
Actuarial Loss (Gain)	7.5	3.0	(0.3)	(0.2)
Net Periodic Cost	$10.4	$6.7	$0.6	$0.8

Employer Contributions

The Company made contributions of $6.9 million and $10.2 million to its pension plans during the first three months of 2012 and 2011, respectively. The Company expects to make contributions of $40 to $70 million for the full year 2012. During 2011, the Company made $64.5 million of contributions to its pension plans.

The Company made postretirement health care benefit payments of $0.5 million and $0.3 million during the first three months of 2012 and 2011, respectively. The Company estimates its postretirement health care benefit payments for the full year 2012 to be approximately $3 million. During 2011, the Company made postretirement health care benefit payments of $2.6 million.

NOTE 6 — FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENT

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

Interest Rate Risk

The Company uses interest rate swaps to manage interest rate risks on future interest payments caused by interest rate changes on its variable rate term loan facility. The differential to be paid or received under these agreements is recognized as an adjustment to Interest Expense related to debt. At March 31, 2012, the Company had interest rate swap agreements with a notional amount of $920 million, including $400 million in forward starting interest rate swaps. At December 31, 2011, the Company had interest rate swap agreements with a notional amount of $920 million. The outstanding swap agreements, under which the Company will pay fixed rates of 0.25% to 3.84% and receive either one-month or three-month LIBOR rates, expire on various dates in 2012.

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

As of March 16, 2012, in conjunction with the amendment to the Credit Agreement, interest rate swaps with a notional amount of $520 million were de-designated as effective cash flow hedges. The amount included in Accumulated Other Comprehensive Loss will be reclassified into earnings over the remaining life of the swaps, which expire in April 2012. The amount recorded in earnings due to this de-designation was immaterial.

During the first three months of 2012 and 2011, there were no other amounts of ineffectiveness related to changes in the fair value of interest rate swap agreements. Additionally, there were no other amounts excluded from the measure of effectiveness.

Commodity Risk

To manage risks associated with future variability in cash flows and price risk attributable to certain commodity purchases, the Company enters into natural gas swap contracts to hedge prices for a designated percentage of its expected natural gas usage. The Company has

entered into natural gas swap contracts to hedge pricing for approximately 30% of its expected natural gas usage for the remainder of 2012, with a weighted average contractual rate of $2.90 per one million British Thermal Units ("MMBTUs"). Such contracts are designated as cash flow hedges. The contracts are carried at fair value with changes in fair value recognized in Accumulated Other Comprehensive Loss, and the resulting gain or loss is reclassified into Cost of Sales concurrently with the recognition of the commodity consumed. The ineffective portion of the swap contracts' change in fair value would be recognized immediately in earnings.

During the first three months of 2012 and 2011, there were minimal amounts of ineffectiveness related to changes in the fair value of natural gas swap contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

Foreign Currency Risk

The Company enters into forward exchange contracts to manage risks associated with future variability in cash flows resulting from anticipated foreign currency transactions that may be adversely affected by changes in exchange rates. Such contracts are designated as cash flow hedges. The contracts are carried at fair value with changes in fair value recognized in Accumulated Other Comprehensive Loss, and gains/losses related to these contracts are recognized in Other (Income) Expense, Net when the anticipated transaction affects income. At March 31, 2012, multiple forward exchange contracts existed that expire on various dates through 2012. Those purchased forward exchange contracts outstanding at March 31, 2012 and December 31, 2011, when aggregated and measured in U.S. dollars at contractual rates at March 31, 2012 and December 31, 2011 had notional amounts totaling $59.4 million and $79.8 million, respectively.

No amounts were reclassified to earnings during the first three months of 2012 or during 2011 in connection with forecasted transactions that were no longer considered probable of occurring, and there was no amount of ineffectiveness related to changes in the fair value of foreign currency forward contracts. Additionally, there were no amounts excluded from the measure of effectiveness.

Derivatives not Designated as Hedges

The Company enters into forward exchange contracts to effectively hedge substantially all of its accounts receivable resulting from sales transactions denominated in foreign currencies in order to manage risks associated with foreign currency transactions adversely affected by changes in exchange rates. At March 31, 2012 and December 31, 2011, multiple foreign currency forward exchange contracts existed, with maturities ranging up to three months. Those foreign currency exchange contracts outstanding at March 31, 2012 and December 31, 2011, when aggregated and measured in U.S. dollars at exchange rates at March 31, 2012 and December 31, 2011, had net notional amounts totaling $17.6 million and $19.5 million, respectively. Unrealized gains and losses resulting from these contracts are recognized in Other (Income) Expense, Net and approximately offset corresponding recognized but unrealized gains and losses on these accounts receivable.

Fair Value of Financial Instruments

The Company's derivative instruments are carried at fair value. The Company has determined that the inputs to the valuation of these derivative instruments are level 2 in the fair value hierarchy. Level 2 inputs are defined as quoted

prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. The Company uses valuation techniques based on discounted cash flow analyses, which reflects the terms of the derivatives and uses observable market-based inputs, including forward rates and uses market price quotations obtained from independent derivatives brokers, corroborated with information obtained from independent pricing service providers.

As of March 31, 2012, there has not been any significant impact to the fair value of the Company's derivative liabilities due to its own credit risk. Similarly, there has not been any significant adverse impact to the Company's derivative assets based on evaluation of the Company's counterparties' credit risks.

The fair value of the Company's derivative instruments is as follows:

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	Derivative Assets			Derivative Liabilities		
In millions	Balance Sheet Location	March 31, 2012	December 31, 2011	Balance Sheet Location	March 31, 2012	December 31, 2011
Derivative Contracts Designated as Hedging Instruments						
Commodity Contracts	Other Current Assets	$—	$—	Other Accrued Liabilities	$1.1	$1.3
Foreign Currency Contracts	Other Current Assets	1.8	1.3	Other Accrued Liabilities	0.3	0.3
Interest Rate Swap Agreements	Other Current Assets	—	—	Other Accrued Liabilities and Interest Payable	3.0	8.3
Derivative Contracts Not Designated as Hedging Instruments						
Foreign Currency Contracts	Other Current Assets	0.3	0.5	Other Accrued Liabilities	—	—
Total Derivative Contracts		$2.1	$1.8		$4.4	$9.9

The fair values of the Company’s other financial assets and liabilities at March 31, 2012 and December 31, 2011 approximately equal the carrying values reported on the Consolidated Balance Sheets except for Long-Term Debt. The fair value of the Company’s Long-Term Debt was $2,225.4 million and $2,411.1 million as compared to the carrying amounts of $2,145.8 million and $2,358.5 million as of March 31, 2012 and December 31, 2011, respectively. The fair value of the Company's Senior Notes is based on quoted market prices (Level 1 inputs) and the remainder of the Company's Long-Term Debt is based on Level 2 inputs. Level 2 valuation techniques for Long-Term Debt are based on quotations obtained from independent pricing service providers.

Effect of Derivative Instruments

The pre-tax effect of derivative instruments in cash flow hedging relationships on the Company’s Consolidated Statements of Operations is as follows:

	Amount of Loss (Gain) Recognized in Accumulated Other Comprehensive Loss		Location in Statement of Operations (Effective Portion)	Amount of Loss Recognized in Statement of Operations (Effective Portion)		Location in Statement of Operations (Effective Portion)	Amount Recognized in Statement of Operations (Ineffective Portion)	
	Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,	
In millions	2012	2011		2012	2011		2012	2011
Commodity Contracts	$1.7	$0.9	Cost of Sales	$2.3	$1.7	Cost of Sales	$—	$—
	(0.7)	0.7		0.4	0.4		—	—

Foreign Currency Contracts			Other (Income) Expense, Net			Other (Income) Expense, Net		
Interest Rate Swap Agreements	—	0.8	Interest Expense, Net	3.1	7.7	Interest Expense, Net	—	—
Total	$1.0	$2.4		$5.8	$9.8		$—	$—

The effect of derivative instruments not designated as hedging instruments on the Company's Condensed Consolidated Statements of Operations is as follows:

		Three Months Ended March 31,	
In millions		2012	2011
Foreign Currency Contracts	Other (Income) Expense, Net	$(0.2)	$0.7

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Accumulated Derivative Instruments (Loss) Income

The following is a rollforward of Accumulated Derivative Instruments (Loss) Income which is included in the Company's Condensed Consolidated Balance Sheets:

In millions	
Balance at December 31, 2011	$(4.7)
Reclassification to earnings	5.8
Current period change in fair value	(1.0)
Balance at March 31, 2012	$0.1

At March 31, 2012, the Company expects to reclassify approximately $0.1 million of pre-tax income in the next twelve months from Accumulated Other Comprehensive Loss to earnings, contemporaneously with and offsetting changes in the related hedged exposure. The actual amount that will be reclassified to future earnings may vary from this amount as a result of changes in market conditions.

Assets Held for Sale

As of March 31, 2012, the Company has assets held for sale of $9.8 million which are recorded at the lower of book value or fair value less cost to sell. Fair value was determined using a market approach based on values of similar assets. These valuation approaches are based on Level 3 inputs in the fair value hierarchy.

NOTE 7 — REDEEMABLE NONCONTROLLING INTERESTS

On December 8, 2011, the Company combined its multi-wall bag and specialty plastics packaging businesses with the kraft paper and multi-wall bag businesses of Delta Natural Kraft, LLC and Mid-America Packaging, LLC (collectively "DNK"), both wholly owned subsidiaries of Capital Five Investments, LLC ("CVI"). Under the terms of the transaction, the Company formed a new limited liability company, Graphic Flexible Packaging, LLC ("GFP") and contributed its ownership interests in multi-wall bag and specialty plastics packaging subsidiaries to it. CVI concurrently contributed its ownership interests in DNK to GFP. Neither party received cash consideration as part of the transaction. After the combination, the Company owns approximately 87% of GFP and consolidates its results of operations. The remaining 13% of GFP is owned by CVI. CVI's noncontrolling interest in GFP is recorded as Redeemable Noncontrolling Interests in the Company's financial statements. GFP is included in the flexible segment. This transaction is herein referred to as the "DNK Transaction". The purchase consideration was preliminarily allocated to the assets and liabilities based on estimated fair values and the excess of the consideration over the aggregate fair value of identifiable net assets of $12.9 million was allocated to goodwill. The Company is in the process of obtaining an independent third party valuation and anticipates finalizing the allocation during the second quarter of 2012.

CVI has the right, at certain times, to require the Company to acquire their ownership interests in GFP at fair value based on third-party valuations. Since it is probable that the noncontrolling interests will become redeemable in the future, based on the passage of time, the noncontrolling interests subject to the put options are adjusted to their estimated redemption amounts each reporting period with a corresponding adjustment to Capital in Excess of Par Value. The adjustment to the carrying amount will be determined after attribution of net income of the redeemable

noncontrolling interests. The adjustment to the carrying amount will not impact net income or comprehensive income in the Company's Condensed Consolidated Financial Statements and will not impact earnings per share since the shares of the redeemable noncontrolling interests are redeemable at fair value. For accounting purposes, the redemption value at which the redeemable noncontrolling interests is recorded on the Condensed Consolidated Balance Sheets cannot be less than the initial amount plus attribution of net income of the noncontrolling interest. At March 31, 2012, the book value of the redeemable noncontrolling interests was determined as follows:

In millions	
Balance at December 31, 2011	$ 14.8
Initial noncontrolling interests and adjustments related to acquisition	(0.4)
Net income attributable to redeemable noncontrolling interests	0.3
Change in fair value of redeemable securities (a Level 3 measurement)	—
Balance at March 31, 2012	$ 14.7

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NOTE 8 — INCOME TAXES

During the first three months of 2012, the Company recognized an Income Tax Expense of $13.0 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $30.0 million. The effective tax rate for the three months ended March 31, 2012 was different than the statutory rate primarily due to the mix and levels between foreign and domestic earnings including losses in jurisdictions with full valuation allowances, as well as the effects of certain discrete tax items. During the first three months of 2011, the Company recognized Income Tax Expense of $2.9 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $29.3 million. Income Tax Expense for the first three months of 2011 primarily relates to the non-cash expense of $5.6 million associated with the amortization of goodwill for tax purposes. During the fourth quarter of 2011, the Company released its U.S. federal and a substantial portion of its state deferred tax valuation allowance. The Company has approximately $1.1 billion of NOLs for U.S. federal income tax purposes, which is currently being used and may be used to offset future taxable income.

NOTE 9 — ENVIRONMENTAL AND LEGAL MATTERS

Environmental Matters

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

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

The Company has established reserves for those facilities or issues where liability is probable and the costs are reasonably estimable. The Company believes that the amounts accrued for all of its loss contingencies, and the reasonably possible loss beyond the amounts accrued, are not material to the Company’s consolidated financial position, results of operations or cash flows. The Company cannot estimate with certainty other future corrective compliance, investigation or remediation costs. Costs relating to historical usage that the Company considers to be reasonably possible of resulting in liability are not quantifiable at this time. The Company will continue to monitor environmental issues at each of its facilities, as well as regulatory developments, and will revise its accruals, estimates and disclosures relating to past, present and future operations, as additional information is obtained.

Legal Matters

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

NOTE 10 — RELATED PARTY TRANSACTIONS

On March 23, 2012, the Company completed the disposition of its real property and facility in Golden, Colorado to CoorsTek, Inc. (“CoorsTek”) for $10.0 million. Under the terms of the transaction, the Company will lease certain space in the facility from CoorsTek for a period of three years. CoorsTek is affiliated with Jeffrey H. Coors, a member of the Board of Directors of the Company. The Audit Committee of the Board of Directors has approved and ratified the transaction pursuant to the Company's Policy Regarding Related Party Transactions.

NOTE 11 — SEGMENT INFORMATION

The Company reports its results in two reportable segments: paperboard packaging and flexible packaging. These segments are evaluated by the chief operating decision maker based primarily on Income from Operations as adjusted for depreciation and amortization. The Company’s reportable segments are based upon strategic business units that offer different products. As a result of changes in the Company's internal reporting structure, the Company's Labels business is now a part of the paperboard packaging segment. The Company's 2011 segment results including certain corporate allocations have been reclassified to be consistent with the current year presentation. The accounting policies of the reportable segments are the same as those described in GPHC’s Annual Report on Form 10-K for the year ended December 31, 2011.

The paperboard packaging segment is highly integrated and includes a system of mills and plants that produces a broad range of paperboard grades convertible into folding cartons. Folding cartons are used primarily to protect products, such as food, detergents, paper products, beverages, and health and beauty aids, while providing point of purchase advertising. The paperboard packaging reportable segment includes the design, manufacture and installation of packaging machinery related to the assembly of cartons, the production and sale of corrugated medium and kraft paper from paperboard mills in the U.S, and produces paper and heat transfer labels.

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The flexible packaging segment produced kraft paper and converts kraft and specialty paper into multi-wall bags, consumer and specialty retail bags and produces flexible packaging and laminations. The multi-wall bags are designed to ship and protect a wide range of industrial and consumer products including fertilizers, chemicals, concrete, and pet and food products. The flexible packaging and laminations are converted from a wide variety of technologically advanced films for use in the food, pharmaceutical and industrial end-markets. Flexible packaging paper is used in a wide range of consumer applications.

Segment information is as follows:

	Three Months Ended March 31,	
In millions	2012	2011
NET SALES:		
Paperboard Packaging	$883.3	$844.5
Flexible Packaging	183.9	156.1
Total	$1,067.2	$1,000.6
INCOME (LOSS) FROM OPERATIONS:		
Paperboard Packaging	$88.2	$80.5
Flexible Packaging	(1.4)	2.1
Corporate	(15.8)	(14.0)
Total	$71.0	$68.6
DEPRECIATION AND AMORTIZATION:		
Paperboard Packaging	$60.1	$62.6
Flexible Packaging	7.2	7.6
Corporate	0.6	0.8
Total	$67.9	$71.0

NOTE 12 — EARNINGS PER SHARE

	Three Months Ended March 31,	
In millions, except per share data	2012	2011
Net Income Attributable to Graphic Packaging Holding Company	$17.2	$26.7
Weighted Average Shares:		
Basic	392.5	344.2
Dilutive Effect of Stock Awards	4.0	5.6
Diluted	396.5	349.8
Earnings Per Share — Basic	$0.04	$0.08
Earnings Per Share — Diluted	$0.04	$0.08

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

	Three Months Ended March 31,	
	2012	2011
Employee Stock Options	4,477,572	4,504,572

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NOTE 13 — GUARANTOR CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
These consolidating financial statements reflect GPHC and GPC (collectively “the Parent”); GPII, the issuer of the Company's Senior Notes (the "Subsidiary Issuer"); and the Subsidiary Guarantors, which consist of all material 100% owned subsidiaries of GPII other than its foreign subsidiaries; and the nonguarantor subsidiaries are herein referred to as “Nonguarantor Subsidiaries.” The Nonguarantor Subsidiaries include all of GPII's foreign subsidiaries and the subsidiaries of GFP. The consolidating financial statements as of and for the period end March 31, 2011 have been reclassified to include the subsidiaries of GFP contributed by GPII as Nonguarantor Subsidiaries, which were previously included as Subsidiary Guarantors. Separate complete financial statements of the Subsidiary Guarantors are not presented because the guarantors are jointly and severally, fully and unconditionally liable under the guarantees.

	Three Months Ended March 31, 2012					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	$—	$830.1	$17.3	$282.9	($63.1)	$1,067.2
Cost of Sales	—	687.4	12.6	260.7	(63.1)	897.6
Selling, General and Administrative	—	73.6	1.8	20.9	—	96.3
Other (Income) Expense, Net	—	(1.6)	(0.1)	0.5	—	(1.2)
Goodwill Impairment, Restructuring and Other Special Charges	—	3.5	—	—	—	3.5
Income from Operations	—	67.2	3.0	0.8	—	71.0
Interest Expense, Net	—	(30.0)	—	(2.1)	—	(32.1)
Loss on Modification or Extinguishment of Debt	—	(8.9)	—	—	—	(8.9)
Income (Loss) before Income Taxes and Equity Income of Unconsolidated Entities	—	28.3	3.0	(1.3)	—	30.0
Income Tax Expense	—	(11.9)	—	(1.1)	—	(13.0)
Income (Loss) before Equity Income of Unconsolidated Entities	—	16.4	3.0	(2.4)	—	17.0
Equity Income of Unconsolidated Entities	—	—	—	0.3	—	0.3
Equity in Net Earnings of Subsidiaries	17.3	0.9	(1.9)	—	(16.3)	—
Net Income (Loss)	17.3	17.3	1.1	(2.1)	(16.3)	17.3
Net Loss Attributable to Noncontrolling Interests	(0.1)	(0.1)	—	(0.1)	0.2	(0.1)
Net Income (Loss) Attributable to Graphic Packaging Holding Company	$17.2	$17.2	$1.1	($2.2)	($16.1)	$17.2
Comprehensive Income Attributable to Graphic Packaging Holding Company	$25.8	$25.8	$4.4	$7.6	($37.8)	$25.8

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	Three Months Ended March 31, 2011					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
Net Sales	$—	$787.8	$14.3	$253.6	($55.1)	$1,000.6
Cost of Sales	—	660.7	10.3	226.5	(55.1)	842.4
Selling, General and Administrative	—	71.7	1.7	16.1	—	89.5
Other (Income) Expense, Net	—	(0.1)	—	0.2	—	0.1
Income from Operations	—	55.5	2.3	10.8	—	68.6
Interest Expense, Net	—	(39.0)	—	(0.3)	—	(39.3)
Income before Income Taxes and Equity Income of Unconsolidated Entities	—	16.5	2.3	10.5	—	29.3
Income Tax Expense	—	(2.8)	—	(0.1)	—	(2.9)
Income before Equity Income of Unconsolidated Entities	—	13.7	2.3	10.4	—	26.4
Equity Income of Unconsolidated Entities	—	—	—	0.3	—	0.3
Equity in Net Earnings of Subsidiaries	26.7	13.0	(0.1)	—	(39.6)	—
Net Income	26.7	26.7	2.2	10.7	(39.6)	26.7
Net Loss Attributable to Noncontrolling Interests	—	—	—	—	—	—
Net Income Attributable to Graphic Packaging Holding Company	$26.7	$26.7	$2.2	$10.7	($39.6)	$26.7
Comprehensive Income Attributable to Graphic Packaging Holding Company	$42.5	$42.5	$4.7	$15.6	($62.8)	$42.5

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	March 31, 2012					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$—	$1.8	$—	$28.4	$—	$30.2
Receivables, Net	—	296.4	7.8	145.3	—	449.5
Inventories, Net	—	348.2	5.6	162.1	—	515.9
Intercompany	24.4	586.1	(62.6)	(547.9)	—	—
Other Current Assets	—	136.8	0.1	5.6	—	142.5
Total Current Assets	24.4	1,369.3	(49.1)	(206.5)	—	1,138.1
Property, Plant and Equipment, Net	—	1,417.1	16.5	178.4	(0.2)	1,611.8
Investment in Consolidated Subsidiaries	1,177.2	(0.1)	10.7	—	(1,187.8)	—
Goodwill	—	1,046.6	47.2	40.3	—	1,134.1
Other Assets	—	443.9	19.7	112.0	—	575.6
Total Assets	$1,201.6	$4,276.8	$45.0	$124.2	($1,188.0)	$4,459.6
LIABILITIES						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	$—	$38.3	$—	$11.5	$—	$49.8
Accounts Payable	—	296.8	6.4	106.7	—	409.9
Interest Payable	—	26.5	—	0.2	—	26.7
Other Accrued Liabilities	—	152.4	1.6	25.5	—	179.5
Total Current Liabilities	—	514.0	8.0	143.9	—	665.9
Long-Term Debt	—	2,101.6	—	1.1	—	2,102.7
Deferred Income Tax Liabilities	—	60.3	—	3.0	—	63.3
Other Noncurrent Liabilities	—	410.4	—	15.7	—	426.1
Redeemable Noncontrolling Interests	14.7	14.7	—	14.7	(29.4)	14.7
EQUITY						
Total Graphic Packaging Holding Company Shareholders' Equity	1,188.3	1,177.2	37.0	(52.8)	(1,161.4)	1,188.3
Noncontrolling Interests	(1.4)	(1.4)	—	(1.4)	2.8	(1.4)
Total Equity	1,186.9	1,175.8	37.0	(54.2)	(1,158.6)	1,186.9
Total Liabilities and Equity	$1,201.6	$4,276.8	$45.0	$124.2	($1,188.0)	$4,459.6

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(Unaudited)

	December 31, 2011					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$—	$228.9	$—	$42.9	$—	$271.8
Receivables, Net	—	255.4	4.9	141.6	—	401.9
Inventories, Net	—	337.2	4.2	137.7	—	479.1
Intercompany	30.1	526.1	(43.3)	(512.9)	—	—
Other Current Assets	—	156.0	0.1	5.2	—	161.3
Total Current Assets	30.1	1,503.6	(34.1)	(185.5)	—	1,314.1
Property, Plant and Equipment, Net	—	1,425.1	17.1	180.1	(0.2)	1,622.1
Investment in Consolidated Subsidiaries	1,151.4	6.3	9.4	—	(1,167.1)	—
Goodwill	—	1,048.8	47.2	39.7	—	1,135.7
Other Assets	—	462.6	0.1	115.1	—	577.8
Total Assets	$1,181.5	$4,446.4	$39.7	$149.4	($1,167.3)	$4,649.7
LIABILITIES						
Current Liabilities:						
Short-Term Debt and Current Portion of Long-Term Debt	$—	$19.3	$—	$10.8	$—	$30.1
Accounts Payable	—	288.8	5.3	117.3	—	411.4
Interest Payable	—	23.0	—	—	—	23.0
Other Accrued Liabilities	—	148.2	1.6	31.2	—	181.0
Total Current Liabilities	—	479.3	6.9	159.3	—	645.5
Long-Term Debt	—	2,334.2	—	1.5	—	2,335.7
Deferred Income Tax Liabilities	—	60.3	—	2.7	—	63.0
Other Noncurrent Liabilities	—	407.6	—	16.4	—	424.0
Redeemable Noncontrolling Interests	14.8	14.8	—	14.8	(29.6)	14.8
EQUITY						
Total Graphic Packaging Holding Company Shareholders' Equity	1,167.9	1,151.4	32.8	(44.1)	(1,140.1)	1,167.9
Noncontrolling Interests	(1.2)	(1.2)	—	(1.2)	2.4	(1.2)
Total Equity	1,166.7	1,150.2	32.8	(45.3)	(1,137.7)	1,166.7
Total Liabilities and Equity	$1,181.5	$4,446.4	$39.7	$149.4	($1,167.3)	$4,649.7

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	Three Months Ended March 31, 2012					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Income (Loss)	$17.3	$17.3	$1.1	($2.1)	($16.3)	$17.3
Non-cash Items Included in Net Income (Loss):						
Depreciation and Amortization	—	58.5	1.0	8.4	—	67.9
Deferred Income Taxes	—	10.4	—	0.5	—	10.9
Amount of Postretirement Expense (Less) Greater Than Funding	—	4.0	0.1	(0.4)	—	3.7
Equity in Net Earnings of Subsidiaries	(17.3)	(0.9)	1.9	—	16.3	—
Other, Net	—	20.2	—	1.4	—	21.6
Changes in Operating Assets and Liabilities	—	(63.8)	(3.5)	(21.6)	—	(88.9)
Net Cash Provided by (Used in) Operating Activities	—	45.7	0.6	(13.8)	—	32.5
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital Spending	—	(38.4)	(0.6)	(2.7)	—	(41.7)
Proceeds from Sale of Assets	—	2.8	—	—	—	2.8
Other, Net	—	(0.7)	—	—	—	(0.7)
Net Cash Used in Investing Activities	—	(36.3)	(0.6)	(2.7)	—	(39.6)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Proceeds from Issuance or Modification of Debt	—	1,000.0	—	—	—	1,000.0
Payments on Debt	—	(1,678.4)	—	—	—	(1,678.4)
Borrowings under Revolving Credit Facilities	—	525.0	—	11.3	—	536.3
Payments on Revolving Credit Facilities	—	(60.0)	—	(10.3)	—	(70.3)
Redemption and Debt Issuance Costs	—	(22.8)	—	—	—	(22.8)
Repurchase of Common Stock related to Share-Based Payments	—	(9.2)	—	—	—	(9.2)
Other, Net	—	8.9	—	—	—	8.9
Net Cash Used in Financing Activities	—	(236.5)	—	1.0	—	(235.5)
Effect of Exchange Rate Changes on Cash	—	—	—	1.0	—	1.0
Net Decrease in Cash and Cash Equivalents	—	(227.1)	—	(14.5)	—	(241.6)

Cash and Cash Equivalents at Beginning of Period	—	228.9	—	42.9	—	271.8
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$—	$1.8	$—	$28.4	$—	$30.2

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	Three Months Ended March 31, 2011					
In millions	Parent	Subsidiary Issuer	Combined Guarantor Subsidiaries	Combined Nonguarantor Subsidiaries	Consolidating Eliminations	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net Income	$26.7	$26.7	$2.2	$10.7	($39.6)	$26.7
Non-cash Items Included in Net Income:						
Depreciation and Amortization	—	64.0	0.7	6.3	—	71.0
Deferred Income Taxes	—	5.6	(2.8)	—	—	2.8
Amount of Postretirement Expense Less Than Funding	—	(2.2)	—	(0.8)	—	(3.0)
Equity in Net Earnings of Subsidiaries	(26.7)	(13.0)	0.1	—	39.6	—
Other, Net	—	6.6	(0.5)	1.6	—	7.7
Changes in Operating Assets and Liabilities	—	(86.2)	0.5	(13.4)	—	(99.1)
Net Cash Provided by Operating Activities	—	1.5	0.2	4.4	—	6.1
CASH FLOWS FROM INVESTING ACTIVITIES:						
Capital Spending	—	(33.4)	(0.2)	(3.2)	—	(36.8)
Other, Net	—	(0.8)	—	—	—	(0.8)
Net Cash Used in Investing Activities	—	(34.2)	(0.2)	(3.2)	—	(37.6)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Borrowings under Revolving Credit Facilities	—	—	—	11.2	—	11.2
Payments on Revolving Credit Facilities	—	—	—	(10.6)	—	(10.6)
Other, Net	—	0.1	—	—	—	0.1
Net Cash Provided by Financing Activities	—	0.1	—	0.6	—	0.7
Effect of Exchange Rate Changes on Cash	—	—	—	1.2	—	1.2
Net (Decrease) Increase in Cash and Cash Equivalents	—	(32.6)	—	3.0	—	(29.6)
Cash and Cash Equivalents at Beginning of Period	—	107.1	—	31.6	—	138.7
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$—	$74.5	$—	$34.6	$—	$109.1

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

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

ØOverview of Business

ØOverview of 2012 Results

ØResults of Operations

ØFinancial Condition, Liquidity and Capital Resources

ØCritical Accounting Policies

ØNew Accounting Standards

ØBusiness Outlook

OVERVIEW OF BUSINESS

The Company's objective is to strengthen its position as a leading provider of packaging solutions. To achieve this objective, the Company offers customers its paperboard, cartons and packaging machines, either as an integrated solution or separately. Cartons and carriers are designed to protect and contain products. Product offerings include a variety of laminated, coated and printed packaging structures that are produced from the Company's coated unbleached kraft ("CUK"), coated-recycled board ("CRB") and uncoated-recycled board("URB"), as well as other grades of paperboard that are purchased from third party suppliers. Innovative designs and combinations of paperboard, films, foils, metallization, holographics and embossing are customized to the individual needs of the customers. The Company's label business focuses on two product lines: heat transfer labels and lithographic labels.

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

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

Significant Factors That Impact The Company's Business

Impact of Inflation. The Company's cost of sales consists primarily of energy (including natural gas, fuel oil and electricity), pine pulpwood, chemicals, recycled fibers, purchased paperboard, paper, aluminum foil, ink, plastic films and resins, depreciation expense and labor. Inflation increased costs in the first three months of 2012 by $30.7 million, compared to the first three months of 2011. The higher costs in 2012 are primarily related to chemical-based inputs ($15.6 million); labor and related benefits ($8.8 million); freight ($6.2 million); externally purchased paper ($4.8 million); wood costs ($3.9 million); and externally purchased board ($1.6 million). These higher costs were partially offset by lower secondary fiber ($6.1 million); energy costs ($3.5 million), due primarily to the price of natural gas and electricity; and other costs ($0.6 million).

The Company has entered into contracts designed to manage risks associated with future variability in cash flows caused by changes in the price of natural gas. The Company has entered into natural gas swap contracts to hedge pricing for approximately 30% of its expected natural gas usage for the remainder of 2012, with a weighted average contractual rate of $2.90 per one million British Thermal Units ("MMBTUs"). Since negotiated sales contracts and the market largely determine the pricing for its products, the Company is at times limited in its ability to raise prices and pass through to its customers any inflationary or other cost increases that the Company may incur.

Substantial Debt Obligations. The Company had $2,152.5 million of outstanding debt obligations as of March 31, 2012. This debt can have significant consequences for the Company, as it requires a significant portion of cash flow from operations to be used for the payment of principal and interest, exposes the Company to the risk of increased interest rates and restricts the Company's ability to obtain additional financing. On March 16, 2012, the Company entered into an amended and restated credit agreement with a syndicate of lenders consisting primarily of commercial banks (the "Credit Agreement"). Covenants in the the Credit Agreement and the indentures governing its 9.5% Senior Notes due 2017 and the 7.875% Senior Notes due 2018 (the "Indentures") also prohibit or restrict, among other things, the disposal of assets, the incurrence of additional indebtedness (including guarantees), payment of dividends, loans or advances and certain other types of transactions. These restrictions could limit the Company's flexibility to respond to changing market conditions and competitive pressures. The substantial debt and the restrictions under the Credit Agreement and the Indentures could also leave the Company more vulnerable to a downturn in general economic conditions or its business, or unable to carry out capital expenditures that are necessary or important to its growth strategy and productivity improvement programs. The Credit Agreement also requires compliance with a maximum

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Consolidated Total Leverage Ratio and a minimum Consolidated Interest Coverage Ratio. The Company's ability to comply in future periods with these financial covenants will depend on its ongoing financial and operating performance, which in turn will be subject to many other factors, many of which are beyond the Company's control. See "Financial Condition, Liquidity and Capital Resources — Liquidity and Capital Resources" for additional information regarding the Company's debt obligations.

Commitment to Cost Reduction. In light of increasing margin pressure throughout the packaging industry, the Company has programs in place that are designed to reduce costs, improve productivity and increase profitability. The Company utilizes a global continuous improvement initiative that uses statistical process control to help design and manage many types of activities, including production and maintenance. This includes a Six Sigma process focused on reducing variable and fixed manufacturing and administrative costs. The Company expanded the continuous improvement initiative to include the deployment of Lean Sigma principles into manufacturing and supply chain services. As the Company strengthens the systems approach to continuous improvement, Lean Sigma supports the efforts to build a high performing culture. During the first three months of 2012, the Company achieved approximately $18 million in incremental cost savings as compared to the first three months of 2011, through its continuous improvement programs and manufacturing initiatives.

The Company's ability to continue to successfully implement its business strategies and to realize anticipated savings and operating efficiencies is subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control. If the Company cannot successfully implement the strategic cost reductions or other cost savings plans it may not be able to continue to compete successfully against other manufacturers. In addition, any failure to generate the anticipated efficiencies and savings could adversely affect the Company's financial results.

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

In addition, the Company's sales historically are driven by consumer buying habits in the markets its customers serve. Increases in the costs of living, the poor condition of the residential real estate market, high unemployment rates, reduced access to credit markets, as well as other macroeconomic factors, may significantly negatively affect consumer spending behavior, which could have a material adverse effect on demand for the Company's products. New product introductions and promotional activity by the Company's customers and the Company's introduction of new packaging products also impact its sales. The Company's containerboard business is subject to conditions in the cyclical worldwide commodity paperboard markets, which have a significant impact on containerboard sales.

OVERVIEW OF 2012 RESULTS

This management's discussion and analysis contains an analysis of Net Sales, Income from Operations and other information relevant to an understanding of results of operations.

- Net Sales for the first three months of 2012 increased by $66.6 million, or 6.7%, to $1,067.2 million from $1,000.6 million for the first three months of 2011 primarily due to higher volume and pricing for all segments. The higher volume was primarily due to the impact of acquisitions, new consumer products business, and increased demand for packaging machines, partially offset by lower organic volume in flexible packaging due to continued general market softness and lower open market CUK and CRB sales. The higher pricing was primarily due to negotiated inflationary pass throughs.

- Income from Operations for the first three months of 2012 increased by $2.4 million, or 2.0%, to $71.0 million from $68.6 million for the first three months of 2011. The change is primarily due to the higher volume, improved performance due to cost savings through continuous improvement programs and other strategic initiatives, and the higher pricing. These increases were partially offset by higher inflation and higher costs associated with business development and integration activities.

RESULTS OF OPERATIONS

Segment Information

The Company reports its results in two reportable segments: paperboard packaging and flexible packaging. As a result of changes in the Company's internal reporting structure, the Company's Labels business is now a part of the paperboard packaging segment. The Company's 2011 segment results including certain corporate allocations have been reclassified to be consistent with the current year presentation.

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In millions	Three Months Ended March 31, 2012	2011
NET SALES:		
Paperboard Packaging	$883.3	$844.5
Flexible Packaging	183.9	156.1
Total	$1,067.2	$1,000.6
INCOME (LOSS) FROM OPERATIONS:		
Paperboard Packaging	$88.2	$80.5
Flexible Packaging	(1.4)	2.1
Corporate	(15.8)	(14.0)
Total	$71.0	$68.6

FIRST QUARTER 2012 COMPARED WITH FIRST QUARTER 2011

Net Sales

In millions	Three Months Ended March 31, 2012	2011	Increase	Percent Change	
Paperboard Packaging	$883.3	$844.5	$38.8	4.6	%
Flexible Packaging	183.9	156.1	27.8	17.8	%
Total	$1,067.2	$1,000.6	$66.6	6.7	%

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

	Three Months Ended March 31,	Variances				
In millions	2011	Price	Volume/Mix	Exchange	Total	2012
Paperboard Packaging	$844.5	$8.1	$31.1	($0.4)	$38.8	$883.3
Flexible Packaging	156.1	4.9	22.9	—	27.8	183.9
Total	$1,000.6	$13.0	$54.0	($0.4)	$66.6	$1,067.2

Paperboard Packaging

The Company’s Net Sales from paperboard packaging for the three months ended March 31, 2012 increased by $38.8 million, or 4.6%, to $883.3 million from $844.5 million for the same period in 2011 as a result of higher volume/mix and pricing. The higher volume/mix was primarily due to the impact of a business acquisition, new consumer products business, and an increase in soft drink and packaging machinery demand. The higher pricing was primarily due to inflationary cost pass throughs. Additionally, in the prior year, shipments were interrupted by storms in the Midwestern United States which led to lost sales in consumer products. These increases were partially offset by lower volume for containerboard and open market CUK and CRB sales.

Flexible Packaging

The Company’s Net Sales from flexible packaging for the three months ended March 31, 2012 increased by $27.8 million or 17.8%, to $183.9 million from $156.1 million for the same period in 2011 primarily due to the impact of the business acquisition and higher pricing primarily due to negotiated inflationary pass throughs. The increases were partially offset by lower volume as a result of the weather related demand decreases in certain agriculture sectors and continued overall market softness.

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Income (Loss) from Operations

	Three Months Ended March 31,			
In millions	2012	2011	Increase(Decrease)	Percent Change
Paperboard Packaging	$88.2	$80.5	$7.7	9.6%
Flexible Packaging	(1.4)	2.1	(3.5)	N.M [(a)]
Corporate	(15.8)	(14.0)	(1.8)	N.M [(a)]
Total	$71.0	$68.6	$2.4	3.5%

(a) Percentage is not meaningful.

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

	Three Months Ended March 31,							
		Variances						
In millions	2011	Price	Volume/Mix	Inflation	Exchange	Other	Total	2012
Paperboard Packaging	$80.5	$8.1	$7.8	($20.3)	($1.0)	$13.1	$7.7	$88.2
Flexible Packaging	2.1	4.9	(0.3)	(10.0)	—	1.9	(3.5)	(1.4)
Corporate	(14.0)	—	—	(0.4)	0.8	(2.2)	(1.8)	(15.8)
Total	$68.6	$13.0	$7.5	($30.7)	($0.2)	$12.8	$2.4	$71.0

Paperboard Packaging

The Company’s Income from Operations from paperboard packaging for the three months ended March 31, 2012 increased $7.7 million, or 9.6%, to $88.2 million from $80.5 million for the same period in 2011 as a result of cost savings through continuous improvement programs, the higher pricing and volume/mix. These increases were partially offset by inflation, which increased costs in the first three months of 2012 by $20.3 million. The higher costs in 2012 are primarily related to higher chemical-based inputs ($13.0 million); labor and related benefits ($6.5 million); freight ($5.8 million); wood ($3.9 million); and externally purchased board ($1.6 million). These higher costs were partially offset by lower secondary fiber ($6.1 million); energy costs ($3.5 million), mainly due to the price of gas and electricity; and other costs ($0.9 million). Additionally, the Company incurred a loss due to the sale of a small contract packaging facility and start-up costs related to new and relocated business.

Flexible Packaging

The Company’s Loss from Operations from flexible packaging for the three months ended March 31, 2012 was $1.4 million compared to Income from Operations of $2.1 million for the same period in 2011. The decrease was a result of higher inflation, higher costs associated with integration activities and the lower organic volume. The higher inflation was primarily due to externally purchased paper ($4.8 million); chemical-based inputs, primarily resin ($2.6 million); labor and related benefits ($1.9 million); freight ($0.4 million); and other costs ($0.3 million). These decreases were partially offset by the higher pricing, improved performance due to cost saving programs, and the impact of the business acquisition.

Corporate

The Company’s Loss from Operations from corporate for the first three months ended March 31, 2012 was $15.8 million compared to $14.0 million for the same period in 2011. The change was primarily due to higher outside consulting fees and higher general corporate costs. These higher costs were partially offset by the favorable impact of the foreign exchange rates on the Company's derivative instruments.

INTEREST EXPENSE, NET AND INCOME TAX EXPENSE

Interest Expense, Net

Interest Expense, Net was $32.1 million and $39.3 million for the first three months of 2012 and 2011, respectively. Interest Expense, Net decreased due to lower debt levels and lower average interest rates on the Company’s debt. As of March 31, 2012, approximately 44% of the Company’s total debt was subject to floating interest rates.

Income Tax Expense

During the first three months of 2012, the Company recognized an Income Tax Expense of $13.0 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $30.0 million. The effective tax rate for the three months ended March 31, 2012 was different than the statutory rate primarily due to the mix and levels between foreign and domestic earnings, including losses in jurisdictions with full valuation allowances, as well as the effects of certain discrete tax items. During the first three months of 2011, the Company

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recognized Income Tax Expense of $2.9 million on Income before Income Taxes and Equity Income of Unconsolidated Entities of $29.3 million. Income Tax Expense for the first three months of 2011 primarily relates to the non-cash expense of $5.6 million associated with the amortization of goodwill for tax purposes. During the fourth quarter of 2011, the Company released its U.S. federal and a substantial portion of its state deferred tax valuation allowance. The Company has approximately $1.1 billion of NOLs for U.S. federal income tax purposes, which is currently being used and may be used to offset future taxable income.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company broadly defines liquidity as its ability to generate sufficient funds from both internal and external sources to meet its obligations and commitments. In addition, liquidity includes the ability to obtain appropriate debt and equity financing and to convert into cash those assets that are no longer required to meet existing strategic and financial objectives. Therefore, liquidity cannot be considered separately from capital resources that consist of current or potentially available funds for use in achieving long-range business objectives and meeting debt service commitments.

Cash Flows

	Three Months Ended March 31,	
In millions	2012	2011
Net Cash Provided by Operating Activities	$32.5	$6.1
Net Cash Used in Investing Activities	(39.6)	(37.6)
Net Cash (Used in) Provided by Financing Activities	(235.5)	0.7

Net cash provided by operating activities for the first three months of 2012 totaled $32.5 million, compared to $6.1 million for the same period in 2011. The increase was primarily due to lower working capital requirements resulting from a smaller inventory build in the first quarter of 2012, and a higher accounts payable balance due to improved payment terms. These increases were partially offset by higher accounts receivable due to increased sales. Pension contributions for the first three months of 2012 and 2011 were $6.9 million and $10.2 million, respectively.

Net cash used in investing activities for the first three months of 2012 totaled $39.6 million, compared to $37.6 million for the same period in 2011. This year over year change was due primarily to an increase in capital spending of $4.9 million as a result of investments in capital projects to improve process capabilities and reduce costs, including the previously announced biomass boiler project in Macon, GA, partially offset by proceeds from the sale of assets of $2.8 million.

Net cash used in financing activities for the first three months of 2012 totaled $235.5 million compared to net cash provided by financing activities of $0.7 million for the same period in 2011. On March 16, 2012, the Company entered into an amended and restated Credit Agreement, and approximately $1.53 billion was drawn at closing which, when combined with cash on hand, was used to repay the outstanding term loans due in May 2014 which totaled $1.68 billion. The Company paid $70.3 million on revolving credit and incurred approximately $22.8 million in fees and expenses related to the refinancing activities during the first quarter of 2012. Additionally, the Company withheld $9.2 million of restricted stock units to satisfy tax withholding requirements related to the payout of these restricted stock units.

Liquidity and Capital Resources

The Company's liquidity needs arise primarily from debt service on its indebtedness and from the funding of its capital expenditures, ongoing operating costs and working capital. Principal and interest payments under the term loan facility and the revolving credit facility, together with principal and interest payments on the Company's 9.5% Senior Notes due 2017 and the 7.875% Senior Notes due 2018 (“Notes”), represent significant liquidity requirements for the Company. Based upon current levels of operations, anticipated cost savings and expectations as to future growth, the Company believes that cash generated from operations, together with amounts available under its revolving credit facility and other available financing sources, will be adequate to permit the Company to meet its debt service obligations, necessary capital expenditure program requirements and ongoing operating costs and working capital needs, although no assurance can be given in this regard. The Company's future financial and operating performance, ability to service or refinance its debt and ability to comply with the covenants and restrictions contained in its debt agreements (see “Covenant Restrictions”) will be subject to future economic conditions, including conditions in the credit markets, and to financial, business and other factors, many of which are beyond the Company's control, and will be substantially dependent on the selling prices and demand for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business and profitability strategies.

Covenant Restrictions

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

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Under the terms of the Credit Agreement, the Company must comply with a maximum Consolidated Total Leverage Ratio covenant and a minimum Consolidated Interest Expense Ratio covenant. The Amended and Restated Credit Agreement which contains the definitions of these covenants, was filed on Form 8-K on March 22, 2012. The Company must maintain a maximum Consolidated Total Leverage Ratio of less than the following:

Fiscal Quarter	Consolidated Total Leverage Ratio
March 31, 2012 - December 31, 2012	4.75 to 1.00
March 31, 2013 - December 31, 2013	4.50 to 1.00
March 31, 2014 and thereafter	4.25 to 1.00

The Company must also comply with a minimum consolidated interest expense ratio of the following:
Minimum Consolidated Interest Expense Ratio: 3.00 to 1.00

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

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

The calculations of the components of the Consolidated Total Leverage Ratio and Consolidated Interest Expense Ratio for and as of the period ended March 31, 2012 are listed below:

In millions	Twelve Months Ended March 31, 2012
Net Income	$267.5
Income Tax Expense	(219.7)
Interest Expense, Net	130.9
Depreciation and Amortization including Debt Issuance Costs	282.1
Equity Income of Unconsolidated Entities, Net of Dividends	(0.7)
Other Non-Cash Charges	44.9
Losses Associated with Sale/Write-Down of Assets	5.3
Other Non-Recurring/Extraordinary/Unusual Items	121.8
Credit Agreement EBITDA	$632.1

In millions	As of March 31, 2012
Short-Term Debt	$49.8
Long-Term Debt	2,102.7
Total Debt	$2,152.5
Less Cash and Cash Equivalents	30.2
Consolidated Indebtedness	$2,122.3

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In millions	Twelve Months Ended March 31, 2012
Interest Expense, Net	$137.7
Less Amortization of Financing Costs	6.8
Consolidated Interest Expense	$130.9

At March 31, 2012, the Company was in compliance the Consolidated Total Leverage Ratio covenant in the Credit Agreement and the ratio was as follows:

Consolidated Total Leverage Ratio - 3.36 to 1.00

At March 31, 2012, the Company was in compliance with the minimum Consolidated Interest Expense Ratio covenant in the Credit Agreement and the ratio was as follows:

Consolidated Interest Expense Ratio - 4.83 to 1.00

The Company's credit rating was upgraded to BB+ by Standard & Poor's and remained at Ba3 by Moody's Investor Services during the first quarter of 2012. At March 31, 2012, Standard & Poor's rating on the Company included a stable outlook, while Moody's Investor Services' rating on the Company increased to a positive outlook.

If inflationary pressures on key inputs continue, or depressed selling prices, lower sales volumes, increased operating costs or other factors have a negative impact on the Company's ability to increase its profitability, the Company may not be able to maintain its compliance with the financial covenants in its Credit Agreement. The Company's ability to comply in future periods with the financial covenants in the Credit Agreement will depend on its ongoing financial and operating performance, which in turn will be subject to economic conditions and to financial, business and other factors, many of which are beyond the Company's control, and will be substantially dependent on the selling prices for the Company's products, raw material and energy costs, and the Company's ability to successfully implement its overall business strategies, and meet its profitability objective. If a violation of the financial covenants or any of the other covenants occurred, the Company would attempt to obtain a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Credit Agreement and the Indentures governing the Notes have certain cross-default or cross-acceleration provisions; failure to comply with these covenants in any agreement could result in a violation of such agreement which could, in turn, lead to violations of other agreements pursuant to such cross-default or cross-acceleration provisions. If an event of default occurs, the lenders are entitled to declare all amounts owed to be due and payable immediately. The Credit Agreement is collateralized by substantially all of the Company's domestic assets.

Capital Investment

The Company’s capital investment in the first three months of 2012 was $41.7 million compared to $36.8 million in the first three months of 2011. During the first three months of 2012, the Company had capital spending of $31.9 million for improving process capabilities, $5.0 million for capital spares and $4.8 million for manufacturing packaging machinery.

Environmental Matters

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

For further discussion of the Company's environmental matters, see Note 9 in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from these estimates, and changes in these estimates are recorded when known. The critical accounting policies used by management in the preparation of the Company's condensed consolidated financial statements are those that are important both to the presentation of the Company's financial condition and results of operations and require significant judgments by management with regard to estimates used.

The Company's most critical accounting policies which require significant judgment or involve complex estimations are described in GPHC's Annual Report on Form 10-K for the year ended December 31, 2011.

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NEW ACCOUNTING STANDARDS

For a discussion of recent accounting pronouncements impacting the Company, see Note 1 in Part I, Item 1, Notes to Condensed Consolidated Financial Statements.

BUSINESS OUTLOOK

The Company expects to realize between $60 million and $80 million of year over year operating cost savings from its continuous improvement programs, including Lean Sigma manufacturing projects.

Total capital investment for 2012 is expected to be between $190 million and $210 million and is expected to relate principally to the Company's process capability improvements (approximately $165 million), acquiring capital spares (approximately $20 million), and producing packaging machinery (approximately $15 million).

The Company also expects the following in 2012:

- Depreciation and amortization between $260 million and $280 million.
- Interest expense of $115 million to $130 million, including approximately $5 million to $10 million of non-cash interest expense associated with amortization of debt issuance costs.
- Net debt reduction of approximately $200 million.
- Pension plan contributions of $40 million to $70 million.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

For a discussion of certain market risks related to the Company, see Part II, “Item 7A, Quantitative and Qualitative Disclosure about Market Risk”, in GPHC’s Annual Report on Form 10-K for the year ended December 31, 2011. There have been no significant developments with respect to derivatives or exposure to market risk during the first three months of 2012. For a discussion of the Company’s Financial Instruments, Derivatives and Hedging Activities, see GPHC’s Annual Report on Form 10-K for the year ended December 31, 2011 and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition, Liquidity and Capital Resources.”

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company’s management has carried out an evaluation, with the participation of its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended. Based upon such evaluation, management has concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2012.

Changes in Internal Control over Financial Reporting

There was no change in the Company’s internal control over financial reporting that occurred during the fiscal quarter ended March 31, 2012 that has materially affected, or is likely to materially affect, the Company’s internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to a number of lawsuits arising in the ordinary conduct of its business. Although the timing and outcome of these lawsuits cannot be predicted with certainty, the Company does not believe that disposition of these lawsuits will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows. For more information see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Environmental Matters."

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in GPHC's Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 4. MINE SAFETY DISCLOSURES

None.

ITEM 6. EXHIBITS

Exhibit Number	Description
10.1	$2,000,000,000 Amended and Restated Credit Agreement dated as of March 16, 2012 among Bank of America, N.A., as Administrative Agent, Swing Line Lender, L/C Issuer and Alternative Currency Funding Fronting Lender, and JP Morgan Chase Bank, N.A., Citibank, N.A., Goldman Sachs Bank USA and SunTrust Bank, as Co-Syndication Agents, and the several Lenders from time to time party thereto. Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 22, 2012 and incorporated herein by reference.
10.2	Employment Agreement dated as of April 1, 2012 by and among Graphic Packaging International, Inc., the Registrant and Stephen Scherger. Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 5, 2012 and incorporated herein by reference.
31.1	Certification required by Rule 13a-14(a).
31.2	Certification required by Rule 13a-14(a).
32.1	Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2	Certification required by Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema

101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GRAPHIC PACKAGING HOLDING COMPANY
(Registrant)

/s/ STEPHEN A. HELLRUNG Stephen A. Hellrung	Senior Vice President, General Counsel and Secretary	April 26, 2012
/s/ DANIEL J. BLOUNT Daniel J. Blount	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	April 26, 2012
/s/ DEBORAH R. FRANK Deborah R. Frank	Vice President and Chief Accounting Officer (Principal Accounting Officer)	April 26, 2012