Resolute Energy Corp
Form 424B3
March 17, 2011

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-167894

PROSPECTUS SUPPLEMENT NO. 4
TO THE PROSPECTUS DATED JULY 21, 2010
Resolute Energy Corporation

This Prospectus Supplement No. 4 updates, amends and supplements our Prospectus dated July 21, 2010, as previously supplemented by Prospectus Supplement No. 1 dated August 17, 2010, Prospectus Supplement No. 2 dated November 18, 2010 and Prospectus Supplement No. 3 dated March 8, 2011.

We have attached to this Prospectus Supplement No. 4 the Annual Report on Form 10-K, as filed with the Securities and Exchange Commission on March 14, 2011. The attached information updates, amends and supplements our Prospectus dated July 21, 2010, as previously supplemented.

This Prospectus Supplement No. 4 should be read in conjunction with the Prospectus, as previously supplemented. To the extent information in this Prospectus Supplement No. 4 differs from, updates or conflicts with information contained in the Prospectus, as previously supplemented, the information in this Prospectus Supplement No. 4 is the more current information.

Investing in our common stock involves a high degree of risk. You should review carefully the Risk Factors beginning on page 11 of the Prospectus dated July 21, 2010 and on page 28 of the Annual Report on Form 10-K for the year ended December 31, 2010 for a discussion of certain risks that you should consider.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is March 17, 2011.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

Commission File No. 001-34464

RESOLUTE ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware	**27-0659371**
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
1675 Broadway, Suite 1950 Denver, CO	**80202**
(Address of Principal Executive Offices)	(Zip Code)

(303) 534-4600

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, par value $0.0001 per share	New York Stock Exchange
Warrants, each exercisable for one share of Common Stock	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 of the Exchange Act Yes o No þ

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark if delinquent filers pursuant to item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant s knowledge, indefinite proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of registrant s common stock held by non-affiliates on June 30, 2010, computed by reference to the price at which the common stock was last sold as posted on the New York Stock Exchange, was $405.2 million.

As of March 10, 2011, 56,345,041 shares of the Registrant s $0.0001 par value Common Stock were outstanding.

The following documents are incorporated by reference herein: Portions of the definitive Proxy Statement of Resolute Energy Corporation to be filed pursuant to Regulation 14A of the general rules and regulations under the Securities Exchange Act of 1934, as amended, for the 2011 annual meeting of stockholders (Proxy Statement) are incorporated by reference into Part III of this Form 10-K.

Table of Contents

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The use of any statements containing the words anticipate, intend, believe, estimate, project, expect, plan, should or similar expressions are intended to identify such statements. Forward-l statements included in this report relate to, among other things, expected future production, expenses and cash flows in 2011 and beyond, the nature, timing and results of capital expenditure projects, amounts of future capital expenditures, our plans with respect to future acquisitions, our future debt levels and liquidity, future derivative activities and future compliance with covenants under our revolving credit facility. Although we believe that the expectations reflected in such forward-looking statements are reasonable, those expectations may prove to be incorrect. Disclosure of important factors that could cause actual results to differ materially from our expectations, or cautionary statements, are included under the heading Risk Factors in this report. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law, we undertake no obligation to update any forward-looking statement. Factors that could cause actual results to differ materially from our expectations include, among others, those factors referenced in the Risk Factors section of this report and such things as:

- volatility of oil and gas prices, including reductions in prices that would adversely affect our revenue, income, cash flow from operations, liquidity and reserves;
- inaccuracy in reserve estimates and expected production rates;
- discovery and development of, and our ability to replace oil and gas reserves;
- our future cash flow, liquidity and financial position;
- the success of our business and financial strategy, derivative strategies and plans;
- the amount, nature and timing of our capital expenditures, including future development costs;
- Availability of capital and financing;
- the effectiveness and results of our CO_2 flood program;
- the success of the development plan and production from our oil and gas properties and particularly the Aneth Field Properties;
- the timing and amount of future production of oil and gas;
- the completion and success of exploratory drilling in the Bakken trend of the Williston Basin;
- availability of drilling, completion and production equipment;
- our operating costs and other expenses;
- the success in marketing oil and gas;

competition in the oil and gas industry;

operational problems, or uninsured or underinsured losses affecting our operations;

the impact and costs related to compliance with or changes in laws or regulations governing our oil and gas operations;

our relationship with the Navajo Nation, the local Navajo community in the area where we operate and Navajo Nation Oil and Gas Company, as well as the timing of when certain purchase rights held by Navajo Nation Oil and Gas Company become exercisable;

the impact of weather and the occurrence of disasters, such as fires, floods and other events and natural disasters;

environmental liabilities;

Table of Contents

anticipated CO_2 supply which is currently sourced exclusively from Kinder Morgan CO_2 Company, L.P. (Kinder Morgan);

risks related to our level of indebtedness;

developments in oil and gas-producing countries;

loss of senior management or technical personnel;

acquisitions and other business opportunities (or the lack thereof) that may be presented to and pursued by us;

risk factors discussed or referenced in this report; and

other factors, many of which are beyond our control.

TABLE OF CONTENTS

PART I --		
Item 1. and 2.	Business and Properties	1
Item 1A.	Risk Factors	28
Item 3.	Legal Proceedings	44
Item 4.	Reserved	44
PART II --		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	45
Item 6.	Selected Financial Data	47
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	48
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	60
Item 8.	Financial Statements and Supplementary Data	61
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	61
Item 9A.	Controls and Procedures	61
Item 9B.	Other Information	62
PART III --		
Item 10.	Directors, Executive Officers and Corporate Governance	62
Item 11.	Executive Compensation	62
Item 12.	Security Ownership of Certain Beneficial Owners and Mangement and Related Stockholder Matters	62
Item 13.	Certain Relationships and Related Transactions and Director Independence	62
Item 14.	Principal Accounting Fees and Services	62
PART IV --		
Item 15.	Exhibits, Financial Statement Schedules	63

Table of Contents

PART I

Item 1. and 2. BUSINESS AND PROPERTIES

RESOLUTE S BUSINESS

Resolute Energy Corporation (Resolute or the Company), a Delaware corporation incorporated on July 28, 2009, was formed to consummate a business combination with Hicks Acquisition Company I, Inc. (HACI), a Delaware corporation incorporated on February 26, 2007. HACI was a blank check company that was formed to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination, one or more businesses or assets. HACI s initial public offering (the Offering) was consummated on October 3, 2007. HACI had not engaged in any operations or generated any operating revenue prior to the business combination with Resolute.

On September 25, 2009 (the Acquisition Date), HACI consummated a business combination under the terms of a Purchase and IPO Reorganization Agreement (Acquisition Agreement) with Resolute and Resolute Holdings Sub, LLC (Sub), whereby, through a series of transactions, HACI s stockholders collectively acquired a majority of the outstanding shares of Resolute common stock (the Resolute Transaction). As a result of the Resolute Transaction, Resolute owned, directly or indirectly, 100% of the equity interests of Resolute Natural Resources Company, LLC (Resources), WYNR, LLC (WYNR), BWNR, LLC (BWNR), RNRC Holdings, Inc. (RNRC), and Resolute Wyom Inc. (RWI) (formerly known as Primary Natural Resources, Inc. (PNR)), and owned a 99.996% equity interest in Resolute Aneth, LLC (Aneth), (collectively Predecessor Resolute). The entities comprising Predecessor Resolute prior to the Resolute Transaction were wholly owned by Sub (except for Aneth, which was 99.996% owned by Sub), which in turn is a wholly-owned subsidiary of Resolute Holdings, LLC (Holdings). Under accounting principles generally accepted in the United States (GAAP), HACI was the accounting acquirer. Effective December 31, 2010, Aneth became a wholly-owned subsidiary of the Company.

Resolute is an independent oil and gas company engaged in the exploration, exploitation and development of its oil and gas properties located in Utah, Wyoming, North Dakota and, to a lesser extent, properties in Alabama and Oklahoma. Approximately 88% of Resolute s revenue is generated from the sale of oil production. Resolute s main focus is on increasing reserves and production from its properties located in Utah (its Aneth Field Properties), North Dakota (its Bakken Properties) and Wyoming and Oklahoma (its Wyoming Properties), while improving efficiency and controlling operational costs.

Resolute has completed a number of exploitation projects that have increased its proved developed reserve base, and it has plans for additional expansion and enhancement projects. Resolute plans to further expand its reserve base through a focused acquisition strategy by looking to acquire properties that have upside potential through development drilling and exploitation projects and through the acquisition, exploration and exploitation of acreage that appears to contain relatively low risk and repeatable drilling opportunities. Also, Resolute seeks to reduce the effect of short-term commodity price fluctuations on its cash flow through the use of various derivative instruments.

Resolute s largest asset, constituting 92% of its proved reserves, is its ownership of working interests in Greater Aneth Field (Aneth Field), a mature, long-lived oil producing field located in the Paradox Basin on the Navajo Reservation in southeast Utah. Resolute owns a majority of the working interests in, and is the operator of, three federal production units covering approximately 43,000 gross acres. These are the Aneth Unit, in which Resolute owns a 62% working interest, the McElmo Creek Unit, in which Resolute owns a 75% working interest, and the Ratherford Unit, in which Resolute owns a 59% working interest. Resolute believes that significantly more oil can be recovered from its Aneth Field Properties through industry standard secondary and tertiary recovery techniques. As of December 31, 2010, Resolute had interests in, and operated 397 gross (260 net) active producing wells and 334 gross (218 net) active

water and CO_2 injection wells in its Aneth Field Properties. The crude oil produced from the Aneth Field Properties is generally characterized as light, sweet crude oil that is highly desired as a refinery blending feedstock.

Table of Contents

Resolute s Wyoming Properties are largely located in the Powder River Basin of Wyoming and constitute approximately 7% of Resolute s net proved reserves. Hilight Field, anchoring the Wyoming production and reserves, produces oil and gas from the Muddy formation as well as shallow coalbed methane (CBM). Resolute also owns properties in eastern Wyoming and Oklahoma that produce oil and gas. As of December 31, 2010, the Wyoming Properties consisted of 465 gross (418 net) active producing wells and 8 gross (6 net) active water injection wells and Resolute operates all but 6 gross (1 net) wells. In addition, Resolute holds exploration leasehold rights in Wyoming s Big Horn Basin.

As of December 31, 2010, Resolute had acquired interests in approximately 83,452 gross (29,465 net leasehold) acres in Williams and McKenzie Counties, North Dakota. These leaseholds are located within the Bakken shale trend of the Williston Basin. Although the Middle Bakken formation is the primary objective of the Company s exploration activities, secondary objectives include the Three Forks, Madison and Red River formations. During 2010, the Company acquired an interest in one completed well and participated in drilling and completing one horizontal well. Additionally, Resolute is party to a contract with Marathon Oil Corporation (Marathon), under which it has earned an additional 3,870 net acres as of January 16, 2011. As of December 31, 2010, Resolute had interests in, but was not the operator of 2 gross (0.5 net) active wells. The Company participated in drilling activities on five additional wells during 2010 which are expected to be completed during 2011, and anticipates participating in drilling and completing between fourteen to sixteen new wells in 2011.

As of December 31, 2010, Resolute s estimated net proved reserves were approximately 64.7 million equivalent barrels of oil (MMBoe), of which approximately 39% were proved developed producing reserves and approximately 78% were oil. The pre-tax PV-10 of Resolute s net proved reserves at December 31, 2010, was $848 million and the standardized measure of its estimated net proved reserves as of December 31, 2010, was $587.0 million. For additional information about the calculation of Resolutes s PV-10 and its standardized measure, please read *Business and Properties Estimated Net Proved Reserves*.

The following table sets forth summary information attributable to Resolute s estimated net proved reserves that is derived from its December 31, 2010, reserve report which was developed by Resolute and audited by Netherland, Sewell & Associates, Inc. (NSAI), independent petroleum engineers.

	Estimated Net Proved Reserves as of December 31, 2010						Average Net Daily Production (Boe per day) (1)
	Proved Developed Producing	Proved Developed Non-Producing	Proved Undeveloped CO_2	Proved Undeveloped Drilling	Proved Undeveloped Total	Total Proved	
Aneth Field Properties (MMBoe)	22.1	8.3	29.0	0.4	29.4	59.8	5,682
Wyoming Properties (MMBoe)	2.8	1.0		1.0	1.0	4.8	1,787
Bakken Properties (MMBoe)	0.1					0.1	9
Total (MMBoe)	25.0	9.3	29.0	1.4	30.4	64.7	7,478
Future operating costs ($/Boe)(2)	$ 28.71	$ 11.75	$ 8.34	$ 8.52	$ 8.35	$ 16.72	
	$ 10.13	$ 9.09	$ 8.48	$ 6.37	$ 8.38	$ 9.16	

Future production taxes ($/Boe)(3)			
Future PUD development costs (millions)(4)	$ 375.6	$ 22.9	$ 398.6
Future PUD development costs ($/Boe)(5)	$ 12.96	$ 16.69	$ 13.13

1) For the year ended December 31, 2010.

2) Determined by dividing Resolute s estimated future operating costs as of December 31, 2010, by total estimated net proved reserves as of December 31, 2010, for each reserve category.

3) Determined by dividing Resolute s estimated future production taxes as of December 31, 2010, by total estimated net proved reserves as of December 31, 2010, for each reserve category.

4) Future development costs include costs incurred in connection with the initiation, extension and expansion of CO_2 flood projects, including CO_2 purchases, drilling of development wells, upgrades to field infrastructure, workovers of producing wells and recompletion of existing wells into new producing zones.

5) Determined by dividing Resolute s estimated total future development costs related to reserves classified as proved undeveloped by total estimated net proved undeveloped reserves as of December 31, 2010.

Table of Contents

Resolute s Business Strategies

Bring Proved Developed Non-Producing and Proved Undeveloped Reserves into Production. At December 31, 2010, Resolute had estimated net proved reserves of approximately 39.7 MMBoe that were classified as proved developed non-producing and proved undeveloped. An estimated 37.4 MMBoe, or 94% of those reserves, are attributable to recoveries associated with expansions, extensions and processing of the tertiary recovery CO_2 floods that are currently in operation on Resolute s Aneth Field Properties. Resolute incurred approximately $37.3 million of capital expenditures related to the Aneth Field Properties during 2010, and Resolute expects to incur an additional $446.7 million of capital expenditures over the next 29 years (including purchases of CO_2), in connection with bringing those incremental reserves attributable to Resolute s CO_2 flood projects into production. Resolute s current plan anticipates approximately $198.4 million of these future capital expenditures will be incurred from 2011 through 2013.

Increase Production and Improve Efficiency of Operations on Resolute s Existing Properties. Resolute s management team has experience in managing operationally intensive oil and gas properties. As the operator of the Aneth Field Properties, Resolute has the ability to directly manage its costs, control the timing of its exploitation activities and effectively implement programs to increase production and improve the efficiency of its operations. For example, Predecessor Resolute initiated a program to actively work with vendors to reduce labor and material costs. Predecessor Resolute also conducted a proprietary 3-D seismic survey of the Aneth Unit in 2007, which is the first 3-D seismic survey covering Aneth Field. Resolute expects that the data obtained from this seismic survey will provide information to enable it to more efficiently develop and improve the recovery from its Aneth Field Properties. In addition, soon after Predecessor Resolute acquired properties from Chevron and ExxonMobil and became the operator of the Aneth, McElmo Creek and Ratherford Units, Predecessor Resolute undertook a program of repair and maintenance of those producing assets. As a result of these efforts, Resolute has seen a reduction in well workover costs. Also, because Resolute is the operator of three federal units in Aneth Field, it has been able to assemble a critical mass of employees and projects and allocate its resources across a broader area in a more efficient manner than was previously the case when each unit had a different operator.

Pursue Acquisitions of Properties with Development Potential. From inception, Predecessor Resolute s goal was to grow its reserve base through a focused acquisition strategy. It completed three significant acquisitions, two in Utah and one in Wyoming. Substantially all of its Aneth Field Properties were acquired through significant purchases in November 2004 and April 2006. Predecessor Resolute then acquired its Wyoming Properties in July 2008. Resolute will continue to look to acquire similar producing properties in the continental United States that have upside potential through relatively low-risk development drilling and exploitation projects. It believes its knowledge of various operating areas, strong management and staff and solid industry relationships will allow it to find, capitalize on and integrate strategic acquisition opportunities in various areas.

Acquire and Explore Properties in Oil Prone Areas. Resolute has acquired leasehold interests in the Williston Basin that are prospective for oil production in the Middle Bakken formation as well as other formations. Resolute intends to explore these properties and to acquire, explore and develop other properties in areas of the United States that are prospective for production of oil or natural gas liquids (NGL).

Reduce Commodity Price Risk through Derivatives. Resolute seeks to reduce the effect of short-term commodity price fluctuations and achieve less volatile and more predictable cash flows through the use of various derivative instruments such as swaps, puts, calls and collars. Resolute expects to continue to use these financial arrangements to reduce its commodity price risk. As of December 31, 2010, Resolute had in place oil swaps covering approximately 60% of its anticipated 2011 oil production at a weighted average price of $68.26 per Bbl, oil collars covering approximately 5% of its anticipated 2011 oil production with a floor of $80.00 per Bbl and a ceiling of $90.00 per

Bbl, gas swaps covering approximately 47% of its anticipated 2011 gas production at a weighted average price of $9.32 per MMBtu, and gas basis derivatives at a weighted average price of $1.40 per MMBtu covering approximately 57% of its anticipated 2011 gas production. Additional instruments are also in place for future years. See *Item 7A Quantitative and Qualitative Disclosures about Market Risk* for additional information.

Competitive Strengths

A High Quality Base of Long-Lived Oil Producing Properties. The Aneth Field Properties have several characteristics that Resolute believes will provide a stable production platform with which to fund its development and growth activities:

The properties are expected to have a long productive life. As of December 31, 2010, the proved developed producing reserves had a reserves-to-production ratio of approximately 11 years and the total proved reserves had a reserves-to-production ratio of 29 years.

The light, sweet crude oil produced from its Aneth Field Properties is more attractive to refineries than the heavy or sour crude oil found in many areas, including the Permian Basin.

Properties with Significant Low-Risk and Low-Cost Development Opportunities. As of December 31, 2010, approximately 39.7 MMBoe, or 61% of Resolute s estimated net proved reserves, were classified as proved developed non-producing or proved undeveloped. An estimated 37.4 MMBoe, or 94% of those reserves, are attributable to recoveries associated with expansions, extensions and processing of the tertiary recovery CO_2 floods that are currently in operation on Resolute s Aneth Field Properties. Resolute s current development plan for its Aneth Field Properties indicates that in five years the daily production rate, on a Boe basis, should be 84% higher than the average production rate achieved during the twelve months ended December 31, 2010. After that, Resolute expects the production rate to remain relatively stable for approximately five years and then begin a natural decline. Resolute believes these development projects, particularly its planned CO_2 flood projects, are relatively low risk compared to other conventional drilling-focused exploration and production activities, in large part because of the successful results of the McElmo Creek Unit CO_2 flood program that has been in operation since 1985 and because of the observed response from the CO_2 flood expansion Resolute has undertaken in the Aneth Unit. Following the initiation of the CO_2 flood project in the McElmo Creek Unit in 1985, oil production from the unit increased by approximately 30% over a thirteen year period (approximately 22% as a result of the CO_2 flood project and approximately 8% as a result of 24 newly drilled wells). Production then returned to a state of natural decline in 1998. Because of similar geological characteristics across Resolute s Aneth Field Properties, Resolute expects to achieve analogous incremental reserves in Aneth Unit as were seen in McElmo Creek Unit, but at accelerated production rates, due to the higher rate of CO_2 injection in Resolute s Aneth Unit project.

Operating Control Over the Resolute Properties. Resolute is the operator of the Aneth, McElmo Creek and Ratherford Units. As a result of having a critical mass of employees, projects, and operating control across the three federal units encompassing approximately 43,000 acres, it has the ability to utilize its employees on a prioritized basis. Because Resolute is the operator of all of its Aneth Field Properties, it believes it can attract contract services, materials and equipment from a broader market and negotiate more favorable terms than would otherwise be available. Resolute also has the ability to control the timing, scope and costs of development projects undertaken in its Aneth Field Properties. Resolute also operates Hilight Field and most of its other Wyoming Properties.

Experienced Management Team with Operational, Transactional and Financial Experience in the Energy Industry. With an average industry work experience of more than 25 years, the senior management team of Resolute has considerable experience in acquiring, exploring, exploiting, developing and operating oil and gas properties, particularly in operationally intensive oil and gas fields. Three members of its senior management who formed Holdings in 2004 previously worked together as part of the senior management team of HS Resources, Inc., an independent oil and gas company that was listed on the New York Stock Exchange and primarily operated in the Denver-Julesburg Basin in northeast Colorado. HS Resources conducted resource development programs, managed and enhanced a gas gathering and processing system and built a hydrocarbon physical marketing and transportation business. Its development activities included drilling new wells, deepening wells and recompleting and refracturing

existing wells to add reserves and enhance production. HS Resources also had an active program of acquiring producing properties and properties with development potential. HS Resources was acquired by Kerr-McGee Corporation in 2001.

Table of Contents

Aneth Field

Aneth Field, located in San Juan County, Utah, was discovered by Texaco in 1956 and was subsequently developed by several large integrated oil companies. It is the largest oil field in the Paradox Basin. Resolute s Aneth Field Properties cover approximately 43,000 acres and during the twelve months ended December 31, 2010, gross production from the Aneth Field Properties averaged 9,690 barrels of oil per day.

The primary producing horizon in Aneth Field is the Pennsylvanian-age Desert Creek formation, which is a carbonate algal-mound formation with an average depth of approximately 5,525 feet. While there is some reservoir heterogeneity in Aneth Field, development of the reserves generally has been accomplished with well-tested methodologies, including drilling and infilling vertical wells, horizontal drilling, waterflood activities and CO_2 flooding. For administrative, organizational and operational reasons, in 1961 Aneth Field was divided into four separate federal production units to facilitate efficient development of the field and recovery of reserves. The three units that Resolute operates, the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit, which constitute Resolute s Aneth Field Properties, possess substantially similar geologic and operating characteristics.

Predecessor Resolute acquired its Aneth Field Properties primarily through two significant acquisitions. In November 2004, it acquired a 53% operating working interest in the Aneth Unit, a 15% non-operating working interest in the McElmo Creek Unit and a 3% non-operating working interest in the Ratherford Unit (Chevron Properties). In the April 2006 acquisition, it acquired an additional 7.5% non-operating working interest in the Aneth Unit, a 60% operating working interest in the McElmo Creek Unit and a 56% operating working interest in the Ratherford Unit (ExxonMobil Properties).

Predecessor Resolute acquired its Aneth Field Properties in connection with its strategic alliance with Navajo Nation Oil and Gas Company, Inc. (NNOG), an oil and gas company owned by the Navajo Nation. NNOG maintains a minority interest in each of the Chevron Properties and the ExxonMobil Properties and possesses options to purchase additional minority interests in those properties from Resolute under certain circumstances. Please read *Resolute s Business Relationship with the Navajo Nation*.

Aneth Unit. During the twelve months ended December 31, 2010, Aneth Unit production averaged approximately 3,613 barrels of oil per day (gross) from 161 gross (99 net) active producing wells. Additionally, Resolute operates 150 gross (93 net) active injection wells in the Aneth Unit. Since the discovery of oil at the site in 1956, the Aneth Unit has produced a total of approximately 154 MMBbl of oil. Aneth Unit was originally developed with vertical wells drilled on 80-acre spacing and was infill drilled to 40-acre spacing in the 1970s. Since unitization in 1961, the unit has been under waterflood. Between 1994 and 1998, an affiliate of Texaco operated the Aneth Unit and drilled 43 multi-lateral horizontal wells (23 producers and 20 injectors). Most of these horizontal wells were utilized to create a horizontal waterflood pattern on the eastern side of the unit. In 1998, the injectors in two square miles of the Aneth Unit were converted to a water-alternating-gas CO_2 pilot project to assess the possibility of a field-wide CO_2 injection flood program. The multi-lateral horizontal wells and the pilot CO_2 program were successful in increasing production rate and adding reserves, however, the pilot CO_2 program was never expanded into a unit-wide program. Predecessor Resolute became operator of the Aneth Unit on December 1, 2004, and has been successful in reducing the decline rate such that the average daily gross oil production from the Aneth Unit as a whole has remained relatively constant since the time of acquisition.

McElmo Creek Unit. During the twelve months ended December 31, 2010, McElmo Creek Unit production averaged approximately 3,925 barrels of oil per day (gross) from 139 gross (104 net) active producing wells. Resolute operates 107 gross (80 net) active injection wells on the McElmo Creek Unit. Since its discovery, the McElmo Creek Unit has produced a total of approximately 164 MMBbl of oil. The McElmo Creek Unit has been under waterflood since the early 1960s and prior operators commenced infill drilling to 40-acre spacing during the 1970s. A stabilized oil

production decline trend was established for the waterflood over approximately seven years prior to the initiation of a CO_2 flood program in 1985. Following the initiation of the CO_2 flood project in the McElmo Creek Unit in 1985, oil production from the unit increased by approximately 30% over a 13 year period (approximately 22% as a result of the CO_2 flood project and approximately 8% as a result of 24 newly drilled wells). Production then returned to a state of natural decline in 1998. Prior to Predecessor Resolute s acquisition of the ExxonMobil Properties, the McElmo Creek Unit was operated by ExxonMobil. Predecessor Resolute became operator of the McElmo Creek Unit on June 1, 2006, and was successful in increasing the average daily

Table of Contents

gross production rate. This was due to a number of factors, including its efforts to return wells to operation, improve artificial lift capacity at producing wells, improve compressor run times, increase production from new horizontal drilling, reduce freeze problems in the winter months and increase CO_2 injection.

Ratherford Unit. During the twelve months ended December 31, 2010, Ratherford Unit production averaged approximately 2,152 barrels of oil per day (gross) from 97 gross (57 net) active producing wells. Resolute operates 77 gross (45 net) active injection wells on the Ratherford Unit. Since discovery, the Ratherford Unit has produced a total of approximately 103 MMBbl of oil. The core of the Ratherford Unit has been developed with horizontal wells, while the edges of the unit have been developed with vertical wells. Predecessor Resolute became operator of the Ratherford Unit on June 1, 2006, and was successful in increasing the average daily gross production rate. This increase in production resulted from a number of factors, including its efforts to improve artificial lift capacity at producing wells, increase production from new horizontal drillings, return wells to operation and increase water injection resulting from injection well cleanouts.

Wyoming Properties

Resolute s Wyoming Properties consist of three units in Hilight Field, minor non-unitized Muddy formation production in the Hilight area, non-unitized CBM production in the Hilight area and twelve other small fields in Wyoming. Resolute also owns interests in two small fields in Oklahoma. All but one of the Wyoming Properties are operated by Resolute.

Hilight Field consists of the Jayson Unit, the Grady Unit, the Central Hilight Unit and the South Hilight Unit. Resolute has an 82.7% working interest in the Jayson Unit, an 82.5% working interest in the Grady Unit and a 98.5% working interest in Central Hilight Unit. The Jayson, Grady and Central Hilight Units cover an area of almost 50,000 acres, and are operated by Resolute. Hilight Field was discovered by Inexco Oil Company in 1969, was developed on 160-acre spacing, unitized in 1971-1972 and underwent waterflood between 1972 and the mid-1990s. As of December 31, 2010, there were 145 gross (137 net) active producing wells, and cumulative production through December 31, 2010 from Resolute s three operated units was 68 MMBbl of oil and 150 Bcf of gas. Average daily gross production for the twelve months ending December 31, 2010 was 217 Bbl of oil and 9,651 Mcf of gas per day. Net proved reserves assigned to these properties as of December 31, 2010 were 4.8 MMBoe. Muddy formation sandstones form the main reservoir in the field. Average depth to the Muddy formation is approximately 9,100 ft. Minor production also comes from the Upper Cretaceous Niobrara, Upper Cretaceous Turner and Pennsylvanian Minnelusa reservoirs. Recent activity includes 21 infill wells, including three horizontal laterals drilled by the prior operator in 2006 and 2007, and seven Muddy re-stimulation, or refrac projects performed in 2010. The Company anticipates performing 19 to 21 Muddy refracs between 2011 and 2013. Future activity may include the continuation of the infill and refrac programs, new drilling to extend the field boundaries, and exploration for unconventional oil from the overlying Niobrara Carbonate and Mowry shales. The Company recompleted two Mowry wells in 2010 and anticipates recompleting an additional six Mowry wells in 2011.

Resolute s CBM production in the Hilight area comes from 262 gross (241 net) producing wells, of which 175 gross (162 net) were shut-in as of December 31, 2010. Average daily gross production for the twelve months ending December 31, 2010, was 1,923 Mcf per day. Although it varies from well to well, Resolute has an average of approximately 91% working interest in its Hilight area CBM properties. No net proved reserves were attributable to these wells as of December 31, 2010. The Wyodak-Anderson coals of the Paleocene Fort Union formation are the reservoir for this shallow gas reserve. Average depth of the reservoir is less than 500 feet. Recent activity by the prior operator includes seventeen wells that were drilled to extend the central portion of the field to the east. Since Predecessor Resolute took over operations, the CBM field has undergone downsizing and reconfiguration in an attempt to find the most economic balance between lease operating expenses and production.

Resolute also has working interests in twelve small fields in Wyoming and two in Oklahoma. Currently, Resolute operates wells in Campbell, Carbon, Natrona and Crook counties, Wyoming, and Dewey and Woodward counties, Oklahoma. During the twelve months ending December 31, 2010, these properties produced an average of approximately 256 barrels of oil per day from 58 gross (40 net) active producing wells. In addition,

---

there are 5 gross (3 net) active water injection wells. Net proved reserves assigned to these properties as of December 31, 2010 were 1.7 MBoe.

Williston Basin Properties

As of December 31, 2010, Resolute has acquired interests in approximately 83,452 gross (29,465 net leasehold) acres in Williams and McKenzie Counties, North Dakota, the majority of which is undeveloped. This acreage is located within the Bakken shale trend of the Williston Basin. Although the Middle Bakken formation is the primary objective of the Company s exploration activities, secondary objectives include the Three Forks, Madison and Red River formations. Additionally, Resolute is party to a contract with Marathon Oil Corporation (Marathon) under which it has earned an additional 3,870 net acres as of January 16, 2011. For 2011, Resolute has allocated approximately $42 million for acreage acquisition, drilling and completion activities in this area, and expects to participate in drilling and completing between fourteen to sixteen horizontal wells during 2011.

Exploration Properties

Big Horn Basin Properties. Predecessor Resolute developed a grassroots exploration concept in early 2005 to target an unconventional oil resource in the Mowry shale of the Big Horn Basin in northwest Wyoming. Since that time, the Mowry shale has become an emerging oil play over a larger area in northern Wyoming and southern Montana. Predecessor Resolute entered into an area of mutual interest agreement effective November 1, 2006, with Fidelity Exploration and Production Company (Fidelity) covering acreage in the southeast part of the basin where 22,644 gross acres were jointly acquired on a 50-50 basis. That agreement has expired, but the acreage remains subject to a joint operating agreement for its remaining term. In addition, both Resolute and Fidelity independently control additional leaseholds in the adjacent areas. The emerging Mowry shale oil resource play is the primary reservoir target; and the Frontier and Phosphoria formations are secondary reservoir targets. A well to test the Mowry is tentatively planned for 2011. Resolute has not yet commenced development of this asset. As of December 31, 2010, Resolute holds 80,353 gross (69,731 net) acres in the play with all of its leased properties having at least five years remaining on the lease term.

Black Warrior Basin Properties. In mid-2005, Predecessor Resolute initiated an exploration program in the Black Warrior Basin of northwest Alabama that targeted unconventional gas resources in the Devonian Chattanooga shale, the Mississippian Floyd shale, and the Pennsylvanian Pottsville coals. Approximately 32,754 net acres are currently leased. Predecessor Resolute drilled a vertical well in April 2007 that penetrated all three objectives and was cased without a completion attempt. It later entered into a participation agreement with Huber Energy LLC (Huber), effective June 26, 2008, under which Huber can earn an interest in the acreage by incurring all costs on specific development activities. Huber re-entered Resolute s vertical well and completed the Chattanooga shale and recovered gas, but at uneconomic rates. The well is currently shut-in. Huber acquired proprietary 2-D seismic data in July 2009 for risk reduction on potential future operational activities targeting the Chattanooga and Floyd shales. Huber has re-entered four CBM wells and drilled one new well to date; but has not yet completed these wells. The Pottsville formation has been producing CBM from adjacent areas since the early 1980s.

Oil Recovery Overview

When an oil field is first produced, the oil typically is recovered as a result of natural pressure within the producing formation. The only natural force present to move the crude oil through the reservoir rock to the wellbore is the pressure differential between the higher pressure in the rock formation and the lower pressure in the wellbore. Various types of pumps are often used to reduce pressure in the wellbore, increasing the pressure differential. At the same time, there are many factors that act to impede the flow of crude oil, depending on the nature of the formation and fluid properties, such as pressure, porosity, permeability, viscosity and water saturation. This stage of production,

referred to as primary recovery, recovers only a small fraction of the crude oil originally in place in a producing formation.

Many, but not all, oil fields are amenable to assistance from a waterflood, a form of secondary recovery, which is used to maintain reservoir pressure and to help sweep oil to the wellbore. In a waterflood, some of the wells are used to inject water into the reservoir while other wells are used to produce the fluid. As the waterflood

---

Table of Contents

matures, the fluid produced contains increasing amounts of water and decreasing amounts of oil. Surface equipment is used to separate the oil from the water, with the oil going to pipelines or holding tanks for sale and the water being recycled to the injection facilities. Primary recovery followed by secondary recovery usually produces between 15% and 40% of the crude oil originally in place in a producing formation.

A third stage of oil recovery is called tertiary recovery or enhanced oil recovery (EOR). In addition to maintaining reservoir pressure, this type of recovery seeks to alter the properties of the oil in ways that facilitate production. The three major types of tertiary recovery are chemical flooding, thermal recovery (such as a steamflood) and miscible displacement involving CO_2 or hydrocarbon injection.

In a CO_2 flood, CO_2 is liquefied under high pressure and injected into the reservoir. The CO_2 then mixes with the oil in a way that increases the mobilization of bypassed oil while also reducing the oil s viscosity. The lighter components of the oil vaporize into the CO_2 while the CO_2 also condenses into the oil. In this manner, the two fluids become miscible, mixing to form a homogeneous fluid that is mobile and has lower viscosity and lower interfacial tension, thus facilitating the migration of oil and gas to the producer wells.

Miscible CO_2 flooding was first commercially successful with Chevron s 1972 miscible CO_2 flood in the SACROC field in Scurry County, Texas. According to the Oil & Gas Journal s 2010 Worldwide EOR Survey, there were 109 miscible CO_2 projects in the United States that produced an estimated 272,000 barrels of oil per day during 2010. In addition to Resolute s projects in its Aneth Field Properties, CO_2 projects are located in Texas, Oklahoma, New Mexico, Colorado, Wyoming, Michigan, Louisiana and Mississippi. Six companies, Occidental Petroleum, Kinder Morgan, Amerada Hess, Chevron, Anadarko Petroleum and Denbury Resources are responsible for the majority of the estimated daily production from these CO_2 projects.

Planned Operating and Development Activities

Resolute has prepared a development program for its Aneth Field Properties that includes CO_2 flooding, field infrastructure enhancements, recompletions, workovers of producing and injection wells, infill drilling and waterflood enhancement. The application of each of these activities and technologies has been successfully established in various locations within the Aneth Field Properties, and the development plans have been designed to enhance or extend projects that were tested or initiated by the previous operators but were never fully completed due to such factors as lack of fieldwide operatorship and lower commodity prices. Resolute believes that its close working relationship with NNOG and the Navajo Nation will enhance its ability to advance development of its Aneth Field Properties.

CO_2 Floods. A major component of planned activity over the next several years involves extensions and expansions of the CO_2 floods initiated by the major oil companies, first in the McElmo Creek Unit in 1985 and then in the Aneth Unit in 1998. The McElmo Creek Unit CO_2 flood is virtually unit-wide, whereas the Aneth Unit CO_2 flood was limited to a pilot project covering approximately two square miles in the northeast corner of that unit.

Aneth Field Gas Processing. Currently there are two types of gas production in Aneth Field, saleable gas and contaminated gas. The saleable gas stream has low levels of CO_2 while the contaminated gas stream has high levels of CO_2 which prevents it from being sold. This contaminated gas stream currently is compressed and re-injected into the reservoir. As Resolute continues its CO_2 injection and expansion plans, the volume of contaminated gas will significantly increase. This contaminated stream is rich in NGL, which represents a valuable product.

The Aneth and McElmo Creek Units exhibit similar geologic characteristics. As a result, Resolute expects its Aneth Unit CO_2 flood to achieve results analogous to those achieved in the McElmo Creek CO_2 flood program, adjusted for operational and timing differences. Therefore, Resolute has modeled its estimate of increased incremental proved developed non-producing and proved undeveloped reserves based upon the results achieved in the McElmo Creek

Unit CO_2 flood. It also has modeled its projection of increased rate of oil production based upon the oil production response of the McElmo Creek Unit as a function of the rate of CO_2 injection. The oil production rate response is related to the rate at which CO_2 is injected. The McElmo Creek CO_2 project was initiated in 1985 with a relatively low rate of CO_2 injection, and therefore experienced an oil production rate response that was lower than what might have been achieved had CO_2 been injected at a higher rate. Resolute

Table of Contents

estimates that the rate of oil production will increase faster at the Aneth Unit than the production response experienced at the McElmo Creek Unit because of Resolute s plan to inject CO_2 volumes at a greater rate at the Aneth Unit than at the McElmo Creek Unit.

Aneth Unit. Oil response continues to increase in Aneth Unit Phase 1, 2 and 3 of the CO_2 expansion project and the Company anticipates completing the Aneth Central Gas Plant rebuild which will process all recycled gas from the expansion project, by the end of the second quarter of 2011. Initially the new plant will dehydrate and recover valuable condensate from the recycled gas stream. Eventually, the plant will be expanded to strip CO_2 and hydrocarbon gas from the stream. The hydrocarbon gas and condensate will be sold adding income streams to the field economics and the CO_2 will be reinjected into the producing zone. Phase 4 of the CO_2 expansion project began during the fourth quarter of 2010 and will continue through 2011.

McElmo Creek Unit. Beginning in early 2010, Resolute began recompleting a subzone of the Desert Creek formation in McElmo Creek Unit, with notable increases to production. This recompletion program is expected to carry on through 2013, with further increases in production expected. Reservoir properties collected from these recompletions, such as fluid deliverability, oil cut and reservoir pressure, are being used to refine and optimize the plan to develop and flood the zone with CO_2, which will involve construction and rebuilding of infrastructure to accommodate the incremental production.

Ratherford Unit. The Ratherford Unit is still producing under water flood. Resolute continues to evaluate the incremental value of this property, including potential CO_2 flooding, infill drilling and recompletions of unswept reserves. In 2011, the Company plans to drill two wells in the Desert Creek formation to analyze the best method to extract these reserves.

The following table sets forth, as of December 31, 2010, Resolute s estimate of the future capital expenditures, net to its interest, for construction, well work and other costs and for purchases of CO_2 required to implement its CO_2 flood projects in two of the units of its Aneth Field Properties through 2039. The following table also sets forth the estimated net proved developed non-producing and proved undeveloped reserves included in Resolute s reserve report as of December 31, 2010, which Resolute anticipates will be produced as a result of these projects. Resolute incurred $37.3 million of capital expenditures related to the Aneth Field Properties during 2010, and Resolute expects to incur an additional $446.7 million of capital expenditures over the next 29 years (including purchases of CO_2), in connection with bringing into production those incremental proved developed non-producing and proved undeveloped reserves attributable to its CO_2 flood project. Resolute has entered into a CO_2 purchase contract with Kinder Morgan CO_2 Company, L.P. (Kinder Morgan) for a substantial portion of the CO_2 it expects to use in connection with its CO_2 flood projects. In order to further these CO_2 flood projects, Resolute expects to incur approximately $198.4 million of these future capital expenditures from 2011 through 2013.

	Estimated Future Capital Expenditures	**Estimated Future CO_2 Purchases**	**Estimated Future Total Capital Expenditures**	**Estimated Reserves (MMBoe)**	**Estimated Future Development Cost ($/Boe)**
	(in millions, except as otherwise indicated)				
Aneth Unit Phase 1, 2 and 3	$ 7.7	$ 60.9	$ 68.6	8.3	$ 8.32
Aneth Unit Phase 4 and Plant	77.8	136.0	213.8	17.0	12.54
McElmo Creek Unit DC IIC and Plant	86.6	77.7	164.3	12.1	13.58

Total	$	172.1	$	274.6	$	446.7	37.4	$	11.94

As Resolute advances its CO_2 projects, the injected CO_2 will displace an increasing portion of the water currently being injected in the waterflood operation. Resolute needs to safely dispose of that water, and, to that end, has drilled a water disposal well with four horizontal laterals. Engineering studies have indicated that this initial well should be able to handle most of the incremental water production. To protect against the possibility that the first water disposal well might become incapable of handling all volumes of water to be disposed of, Resolute is presently in the process of securing permits to drill a second water disposal well to handle any excess water disposal needs. The Company anticipates drilling this well sometime in 2012.

Table of Contents

The success of Resolute s CO_2 projects also depends on acquiring adequate amounts of CO_2. The CO_2 purchase contract with Kinder Morgan provides a significant portion of the anticipated CO_2 required through 2020 to pursue CO_2 projects and to continue its existing CO_2 floods. The contract runs through December 31, 2020 and has a variable schedule of committed contract quantities intended to make available the expected requirements of Phase 1, 2, 3 and 4 of Resolute s Aneth Unit CO_2 project as well as the requirements of its expansion project in the McElmo Creek Unit. The Kinder Morgan contract maximum daily quantities range from a high of approximately 60,000 Mcf per day in 2012, declining to approximately 11,500 Mcf per day during 2020, the last year of the contract.

Resolute is required to take, or pay for if not taken, 75% of the total of the maximum daily quantities for each month during the term of the Kinder Morgan contract. There are make-up provisions allowing any take-or-pay payments it makes to be applied against future purchases for specified periods of time. Resolute does not have the right to resell CO_2 required to be purchased under the Kinder Morgan contract. As of December 31, 2010, Resolute had made no payments under this contract for CO_2 volumes for which it had not yet taken delivery.

The CO_2 that Resolute purchases for its use is delivered to it through the McElmo Creek Pipeline. This pipeline is approximately 25 miles in length and runs directly from McElmo Dome Field to Resolute s McElmo Creek Unit. Pipelines within the Aneth Field Properties are used to distribute the CO_2 to the Aneth Unit. Resolute owns a 75% interest in, and is the operator of, the McElmo Creek Pipeline. The current pipeline capacity is 70,000 Mcf per day.

Wyoming Properties. Resolute has prepared a multi-year development plan for the Wyoming Properties. At Hilight Field, the previous operator was successful in adding new reserves by stimulating the Muddy formation. Resolute has continued this program with seven refracs completed during 2010 and 19 to 21 refracs scheduled to be completed between 2011 and 2013. The repair and maintenance program will continue, and the reconfiguration of certain water discharge facilities is scheduled to be completed in 2011. In addition to this program, Resolute plans to test and develop the Mowry oil shale. The Company recompleted two Mowry wells in 2010 and plans to recomplete six additional wells in 2011. At the Hilight area CBM property, no new operational activities will be planned until after the results of the field reconfiguration, which was implemented on a trial basis beginning in April 2009, are fully analyzed. Additionally, the Company plans to drill between 19 and 21 proved undeveloped reserve locations between 2012 and 2013.

Estimated Net Proved Reserves

Reserve estimates as of December 31, 2010, were prepared by Resolute and audited by NSAI, Resolute s independent petroleum engineers. Please read *Risk Factors Risks Related to Resolute s Business, Operations and Industry* and *Management s Discussion and Analysis of Financial Condition and Results of Operations of Resolute* in evaluating the material presented below.

Resolute s reserve report was prepared under the direct supervision of Resolute s Vice President of Reservoir Engineering, who is a qualified reserve estimator and auditor. The report was based upon a review of property interests being appraised, production from such properties, current costs of operation and development, current prices for production, agreements relating to current and future operations and sale of production, geoscience and engineering data, and other information as prescribed by the SEC. The reserve estimates were reviewed internally by senior management. An audit of the reserve estimates was performed by NSAI.

The professional qualifications of Resolute s Vice President of Reservoir Engineering meet or exceed the qualifications of reserve estimators and auditors set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. His qualifications include: Bachelor of Science degree in Petroleum Engineering from the Colorado School of Mines, 1982; registered professional engineer with the State of Colorado since 1987; member of Society of Petroleum Engineers since 1980;

more than 28 years of practical petroleum engineering experience; more than 28 years of practical experience in estimating and evaluating reserves information with at least six of these years being in charge of estimating and evaluating reserves.

The reserves estimates shown herein have been independently audited by NSAI, a worldwide leader in petroleum property analysis for industry, financial organizations and government agencies. NSAI was founded in

Table of Contents

1961 and is registered to perform consulting petroleum engineering services by the Texas Board of Professional Engineers Registration. Within NSAI, the technical person primarily responsible for the NSAI audit is David Miller. Mr. Miller has been practicing consulting petroleum engineering at NSAI since 1997. He is a Registered Professional Engineer in the State of Texas and has more than 29 years of practical experience in petroleum engineering, with more than 13 years experience in the estimation and evaluation of reserves. He graduated from the University of Kentucky in 1981 with a Bachelor of Science degree in Civil Engineering and from Southern Methodist University in 1994 with a Master of Business Administration degree. Mr. Miller meets or exceeds the education, training, and experience requirements set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers; he is proficient in judiciously applying industry standard practices to engineering and geoscience evaluations as well as applying SEC and other industry reserves definitions and guidelines.

A report of NSAI regarding its audit of the estimates of proved reserves at December 31, 2010, has been filed as Exhibit 99.1 to this report and is incorporated herein.

The following table presents Resolute s estimated net proved oil, gas and NGL reserves and the present value of its estimated net proved reserves as of December 31, 2010, all according to standards set by the Securities and Exchange Commission (SEC). The standardized measure shown in the table below is not intended to represent the current market value of Resolute s estimated oil and gas reserves. Resolute s estimates of net proved reserves have not been filed with or included in reports to any federal authority or agency other than the SEC.

	Utah	Wyoming	North Dakota	Total
Estimated net proved developed reserves:				
Oil (MBbl)	30,026	741	51	30,818
Gas (MMcf)	1,232	12,690	46	13,968
NGL (MBbl)	200	965		1,165
MBoe	30,432	3,821	59	34,312
Estimated net proved undeveloped reserves:				
Oil (MBbl)	19,235	165	14	19,414
Gas (MMcf)	21,698	3,406	26	25,130
NGL (MBbl)	6,493	261		6,754
MBoe	29,345	993	19	30,357
Estimated net proved reserves:				
Oil (MBbl)	49,261	906	65	50,232
Gas (MMcf)	22,930	16,096	72	39,098
NGL (MBbl)	6,693	1,226		7,919
MBoe	59,777	4,815	77	64,669
PV-10 ($ in millions)(1)(3)				$ 848
Discounted future income taxes				(261)
Standardized measure ($ in millions)(1)(2)				$ 587

1) In accordance with SEC and Financial Accounting Standards Board (FASB) requirements, Resolute s estimated net proved reserves and standardized measure at December 31, 2010, were determined utilizing prices equal to the 2010 twelve-month unweighted arithmetic average of first day of the month prices, such prices deemed to be current by the SEC and FASB, resulting in an average NYMEX oil price of $79.43 per Bbl of oil and an average Henry Hub spot market gas price of $4.38 per MMBtu.

2) Standardized measure is the present value of estimated future net revenue to be generated from the production of proved reserves, determined in accordance with the rules and regulations of the SEC and FASB, less future development, production and income tax expenses, and discounted at 10% per annum to reflect the timing of future net revenue. Calculation of standardized measure does not give effect to derivatives transactions. For a description of Resolute s derivatives transactions, please read *Management s Discussion and Analysis of Financial Condition and Results of Operations of Resolute Quantitative and Qualitative Disclosures About Market Risk.*

Table of Contents

3) PV-10 is a non-GAAP measure and incorporates all elements of the standardized measure, but excludes the effect of income taxes. Management believes that pre-tax cash flow amounts are useful for evaluative purposes since future income taxes, which are affected by a company s unique tax position and strategies, can make after-tax amounts less comparable.

Proved developed reserves are reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Proved undeveloped reserves are proved reserves that are expected to be recovered from new wells drilled within five years from known reservoirs on undrilled acreage for which the existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells on which a relatively major expenditure is required to establish production. The Company developed 0.6 MMBoe of proved undeveloped reserves during 2010. Facility construction and well development activities began on two large CO_2 flood projects in 2010 and will continue over the next few years. These projects comprise approximately 58% of our proved undeveloped reserves.

The data in the above table represent estimates only. Oil and gas reserve engineering is inherently a subjective process of estimating underground accumulations of oil and gas that cannot be measured in an exact way. The accuracy of any reserves estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Accordingly, reserves estimates may vary, perhaps significantly, from the quantities of oil and gas that are ultimately recovered. Please read *Risk Factors Risks Related to Resolute s Business, Operations and Industry*.

Future prices received for production and costs may vary, perhaps significantly, from the prices and costs assumed for purposes of these estimates. The 10% discount factor used to calculate present value, which is required by SEC and FASB pronouncements, is not necessarily the most appropriate discount rate. The present value, no matter what discount rate is used, is materially affected by assumptions as to timing of future production, which may prove to be inaccurate.

Producing oil and gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Therefore, without reserve additions in excess of production through successful exploitation and development activities or acquisitions, Resolute s reserves and production will ultimately decline over time. Please read *Risk Factors Risks Related to Resolute s Business, Operations and Industry* and *Note 15 Supplemental Oil and Gas Information (unaudited)* to the audited consolidated financial statements of Resolute for a discussion of the risks inherent in oil and gas estimates and for certain additional information concerning Resolute s estimated proved reserves.

At December 31, 2010, no proved undeveloped reserves have remained undeveloped for more than five years.

Proved reserves reported by Resolute of 64.7 MMBoe at December 31, 2010, represent a 1% increase over the 64.4 MMBoe reported at December 31, 2009. Production during 2010 reduced proved reserves by 2.7 MMBoe, while revisions of previous estimates increased proved reserves by 2.8 MMBoe. Commodity pricing was the principal factor leading to the revisions in proved reserves. In accordance with SEC requirements, the reserves at December 31, 2010, utilized prices of $79.43 per barrel of oil and $4.38 per MMBtu, as compared to prices of $61.18 per barrel of oil and $3.87 per MMBtu of gas at December 31, 2009.

Resolute incurred development costs of $48 million in 2010 as compared to the $23 million incurred in 2009 (including Predecessor Resolute), primarily due to increased activity and capital spending related to the CO_2 expansion project in 2010.

The following table sets forth Resolute s net proved reserves at December 31, 2010, based on SEC requirements as identified below in the footnotes to the table.

	SEC Case
Proved oil and NGL reserves (MMBbl)	58.2
Proved gas reserves (Bcf)	39.1
Proved equivalents (MMBoe)	64.7
PV-10 (millions)	$848

Table of Contents

The SEC Case utilized prices equal to the twelve-month unweighted arithmetic average of first day of the month prices, resulting in an average NYMEX oil price of $79.43 per Bbl of oil and an average Henry Hub spot market gas price of $4.38 per MMBtu of gas.

Production and Price History

The table below summarizes Resolute and Predecessor Resolute s operating data for 2010, 2009 and 2008.

	Resolute		Predecessor Resolute	
	Year Ended December 31,		For the 267 day period ended September 24,	Year Ended December 31,
	2010	2009	2009	2008
Production Sales Data:				
Oil (MBbl)	2,089	543	1,444	2,049
Gas and NGL (MMcfe)	3,843	958	3,400	4,645
Combined volumes (MBoe)	2,730	703	2,011	2,823
Daily combined volumes (Boe per day)	7,478	7,172	7,530	7,712
Average Realized Prices (excluding derivative settlements):				
Oil ($/Bbl)	$ 73.22	$ 69.11	$ 50.32	$ 94.47
Gas and NGL ($/Mcfe)	5.32	5.10	3.73	7.59
Average Production Costs ($/Boe):				
Lease operating expense	$ 18.91	$ 23.03	$ 16.84	$ 20.04
Production and ad valorem taxes	8.85	8.26	6.42	10.42

Productive Wells

The following table sets forth information as of December 31, 2010, relating to the productive wells in which Resolute owns a working interest. Productive wells consist of producing wells and wells capable of producing, including wells awaiting connection to production facilities. Gross wells are the total number of producing wells in which Resolute has a working interest, and net wells are the sum of Resolute s working interests owned in gross wells. In addition to the wells set forth below, as of December 31, 2010, Resolute had interests in and operated 334 gross (218 net) active water and CO_2 injection wells on the Aneth Field Properties, and 8 gross (6 net) active water injection wells associated with the Wyoming Properties.

	Producing Wells	
Area	**Gross**	**Net**
Aneth Field Properties	397	260
Wyoming Properties	465	418
Bakken Properties	2	1

Total	864	679

Table of Contents

Acreage

All of Resolute s leasehold acreage is categorized as developed or undeveloped. The following table sets forth information as of December 31, 2010, relating to the Company s leasehold acreage:

	Developed Acreage (1)		
Area	**Gross (2)**	**Net (3)**	**Average Net Revenue Interest (4)**
Aneth Field Unit acreage (UT)	43,218	28,122	56%
Hilight Field Unit acreage (WY)	49,608	45,421	77%
Hilight area non-unit acreage (WY)	3,482	3,308	85%
Other non-unit acreage (WY and OK)	7,024	4,525	61%
North Dakota acreage	720	344	38%
Total	104,052	81,720	

	Undeveloped Acreage (5)		
Area	**Gross (2)**	**Net (3)**	**Average Net Revenue Interest (4)**
South Hilight deep rights (WY)	1,640	1,600	80%
Big Horn Basin acreage (WY)	80,353	69,731	86%
Black Warrior Basin acreage (AL)	40,109	32,754	82%
Other non-unit acreage (WY, OK and UT)	2,639	2,543	81%
North Dakota acreage	82,732	29,121	38%
Total	207,473	135,749	

Approximately 16,685 net acres of undeveloped acreage expires in 2011 and approximately 3,817 and 24,182 net acres expire in 2012 and 2013, respectively. Approximately 14,000 net acres that expire in 2011 relate to acreage in the Black Warrior Basin in Alabama.

1) Developed acreage is acreage attributable to wells that are capable of producing oil or gas.

2) The number of gross acres is the total number of acres in which Resolute owns a working interest and/or unitized interest.

3) Net acres are calculated as the sum of Resolute s working interests in gross acres.

4) The net revenue interest is the percentage of total production to which Resolute is entitled after reductions for burdens on production such as royalties and overriding royalties.

5) Undeveloped acreage includes leases either within their primary term or held by production.

Drilling Results

Resolute drilled 1 productive gross (0.5 net) well in 2010. Resolute did not engage in drilling exploratory or developmental wells during 2009. Predecessor Resolute did not engage in drilling in 2009 and 2008.

Relationship with the Navajo Nation

The purchase of Resolute s Aneth Field Properties was facilitated by Predecessor Resolute s strategic alliance with NNOG and, through NNOG, the Navajo Nation. The Navajo Nation formed NNOG, a wholly-owned corporate entity, under Section 17 of the Indian Reorganization Act. Resolute supplies NNOG with acquisition, operational and financial expertise and NNOG helps Resolute communicate and interact with the Navajo Nation agencies.

Resolute s strategic alliance with NNOG is embodied in a Cooperative Agreement that Predecessor Resolute entered into with NNOG in 2004 to facilitate Resolute and NNOG s joint acquisition of the Chevron Properties.

Table of Contents

The agreement was amended subsequently to facilitate the joint acquisition of the ExxonMobil Properties. Among other things, this agreement provides that:

Resolute and NNOG will cooperate on the acquisition and subsequent development of their respective properties in Aneth Field.

NNOG will assist Resolute in dealing with the Navajo Nation and its various agencies, and Resolute will assist NNOG in expanding its financial expertise and its operating capabilities. Since Predecessor Resolute and NNOG acquired the Aneth Field Properties, NNOG has helped facilitate interaction between Resolute and the Navajo Nation Minerals Department and other agencies of the Navajo Nation.

NNOG has a right of first negotiation in the event of a proposed sale or change of control of Resolute or a sale by Resolute of all or substantially all of its Chevron Properties or ExxonMobil Properties. This right is separate from and in addition to the statutory preferential purchase right held by the Navajo Nation.

In addition to the above provisions, Predecessor Resolute granted NNOG three separate but substantially similar purchase options. Each purchase option entitles NNOG to purchase from Resolute up to 10% of the undivided working interests that Resolute acquired from Chevron or ExxonMobil, as applicable, as to each unit in the Aneth Field Properties. Each purchase option entitles NNOG to purchase at fair market value, for a limited period of time, the applicable portion of the undivided working interest Resolute acquired. The fair market value is to be determined without giving effect to the existence of the Navajo Nation statutory preferential purchase right or the fact that the properties are located on the Navajo Reservation. Each option becomes exercisable based upon Resolute s achieving payout multiples of the relevant acquisition costs, subsequent capital costs and ongoing operating costs attributable to the applicable working interests. Revenue applicable to the determination of payout includes the effect of Resolute s derivative program. The multiples of payout that trigger the exercisability of the purchase options with respect to each of the Chevron Properties and the ExxonMobil Properties are 100%, 150% and 200%. The options are not exercisable prior to four years from the relevant acquisition except in the case of a sale of such assets by, or a change of control of, Resolute. In that case, the first option for 10% would be accelerated and the other options would terminate.

As of December 31, 2010, the payout balance on the Chevron Properties was approximately $48.9 million and the payout balance on the ExxonMobil Properties was approximately $78.9 million. Assuming the purchase options are not accelerated due to a change of control of Resolute, and assuming Resolute continues to develop its Aneth Field Properties in accordance with its plans, Resolute expects that the initial payout associated with the purchase options would not occur for a number of years.

The following table demonstrates the maximum net undivided working interest in each of the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit that NNOG could acquire from Resolute upon exercising each of its purchase options under the Cooperative Agreement. The exercise by NNOG of its purchase options in full would not give it the right to remove Resolute as operator of any of Resolute s Aneth Field Properties.

	Aneth Unit	**McElmo Creek Unit**	**Ratherford Unit**
Chevron Properties:			
Option 1 (100% Payout)	5.30%	1.50%	0.30%
Option 2 (150% Payout)	5.30%	1.50%	0.30%
Option 3 (200% Payout)	5.30%	1.50%	0.30%

Total	15.90%	4.50%	0.90%
ExxonMobil Properties:			
Option 1 (100% Payout)	0.75%	6.00%	5.60%
Option 2 (150% Payout)	0.75%	6.00%	5.60%
Option 3 (200% Payout)	0.75%	6.00%	5.60%
Total	2.25%	18.00%	16.80%

Marketing and Customers

Aneth Field. Resolute currently sells all of its crude from its Aneth Field Properties to a single customer, Western Refining Southwest, Inc. (Western), a subsidiary of Western Refining, Inc. under a contract with a primary term that ended on August 31, 2010. This contract which was effective September 1, 2009, provides for a fixed differential to the NYMEX price for crude oil of $6.25 per Bbl. This contract continues month-to-month after August 31, 2010, with either party having the right to terminate upon ninety days notice. The contract may also be terminated by Western upon sixty days notice, if Western s right of way agreements with the Navajo Nation are declared invalid and either Western is prevented from using such rights-of way or the Navajo Nation declares Western to be in trespass with respect to such rights-of-way. Resolute is currently negotiating a long term contract with Western, but we cannot give any assurance that we will be able to reach an agreement with Western that incorporates favorable terms or at all on such a contract.

Western refines Resolute s crude oil at Western s 26,000 barrel per day refinery in Gallup, New Mexico. Resolute s production is transported to the refinery via the Running Horse crude oil pipeline owned by NNOG to a terminal known as Bisti, approximately 20 miles south of Farmington, New Mexico, that serves the refinery. The Resolute and NNOG oil has been jointly marketed to Western. The combined Resolute and NNOG volumes are approximately 8,000 barrels of oil per day.

Resolute s Aneth Field crude oil is a sweet, light crude oil that is particularly well suited to be refined in Western s refinery. Although Resolute has sold all of its crude oil production to Western since Predecessor Resolute acquired the Chevron Properties in November 2004, and despite the value of Resolute s crude oil production to Western, Resolute cannot be certain that the commercial relationship with Western will continue for the indefinite future, and Resolute cannot be certain that the refinery will not suffer significant down-time or be closed. If for any reason Western is unable or unwilling to purchase Resolute s crude oil production, Resolute has other alternatives for marketing its crude oil production. Resolute has been working with NNOG to establish alternative transportation and markets for Resolute s crude oil. NNOG completed construction of a high volume truck loading facility located at the terminal end of NNOG s Running Horse Pipeline that will be operative and capable of loading all of Resolute and NNOG s production. Crude oil can be trucked a relatively short distance from the loading facility to rail loading sites near and south of Gallup, New Mexico, or longer distances to refineries or oil pipelines in southern New Mexico and west Texas. Resolute can also transport its crude oil by various combinations of truck, pipeline and rail from its Aneth Field Properties to markets north in Utah, Colorado and Wyoming. The cost of selling Resolute s crude oil to alternative markets in the short term would result in a greater differential to the NYMEX price for crude oil than Resolute currently receives. If Resolute chooses or is forced to sell to these alternative markets for a longer period of time, these costs could be lowered significantly. Under long term arrangements, which may require the investment of capital, Resolute believes it would realize a NYMEX differential substantially equivalent to the current differential realized in the price received from Western.

Resolute s gas production is minimally processed in the field and then sent via pipeline to the San Juan River Gas Plant for further processing. Resolute sells its gas at daily market prices to numerous purchasers at the tailgate of the plant, and it receives a contractually specified percentage of the proceeds from the sale of NGL and plant products.

Wyoming. Resolute sells the majority of its crude oil in Wyoming to Enterprise Crude Oil LLC and minor amounts to other purchasers in a competitive market. The price it receives relative to the NYMEX price varies depending on supply and demand differentials in the relevant geographic areas in which Resolute s wells are located and the quality of Resolute s crude oil. Resolute s conventional gas in Wyoming comes from Hilight Field and is sold to Anadarko Petroleum Corporation Fort Union Gas Plant. Resolute receives a percentage of proceeds for the liquids sold by the plant, and Resolute can either take its residue gas in kind or market it through Anadarko. Resolute is currently selling its gas through Anadarko. Resolute s CBM gas also comes from the Hilight area and is minimally conditioned at the

Fort Union Gas Plant and is sold through Anadarko. Resolute receives the Colorado Interstate Gas Company index price for all the gas it sells.

Derivatives. Resolute enters into derivative transactions from time to time with unaffiliated third parties for portions of its crude oil and gas production to achieve more predictable cash flows and to reduce exposure to

short-term fluctuations in oil and gas prices. For more a detailed discussion, please read *Resolute s Business Strategies Pursue Acquisitions of Properties with Low-Risk Development Potential, Management s Discussion and Analysis of Financial Condition and Results of Operations of Resolute Overview and Quantitative and Qualitative Disclosures About Market Risk.*

Other Factors. The market for Resolute s production depends on factors beyond its control, including domestic and foreign political conditions, the overall level of supply of and demand for oil and gas, the price of imports of oil and gas, weather conditions, the price and availability of alternative fuels, the proximity and capacity of transportation facilities and overall economic conditions. The oil and gas industry as a whole also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual consumers.

Aneth Gas Processing Plant

Resolute has an interest in gas gathering and compression facilities located within and adjacent to its Aneth Field Properties. Collectively called the Aneth Gas Processing Plant, the facility comprises: a) an active gas compression operation currently operated by Resolute and b) a larger complex of inactive, decommissioned and partially dismantled gas processing plant facilities for which Chevron remains the operator of record. In 2006, Chevron began the process of demolishing the inactive portions of the Aneth Gas Processing Plant. It continues to manage the project, and it retains a 39% interest in all demolition and environmental clean-up expenses. Resolute acquired ExxonMobil s 25% interest in the decommissioned plant and is responsible for that portion of decommissioning and cleanup costs. Activities performed to date include removal of asbestos-containing building and insulation materials, partial dismantling of inactive gas plant buildings and facilities, and limited remediation of hydrocarbon-affected soil.

As of December 31, 2010, Resolute estimates the total cost to fully decommission the inactive portion of the Aneth Gas Processing Plant site to be $24.4 million, of which approximately $20.9 million had already been incurred and paid for. The remaining demolition liability net to Resolute s interest is $0.9 million. Demolition activities are scheduled to be concluded in 2011. These costs do not include any costs for clean-up or remediation of the subsurface. The Aneth Gas Processing Plant site was previously evaluated by the Environmental Protection Agency (EPA) for possible listing on the National Priorities List (NPL), of sites contaminated with hazardous substances with the highest priority for clean-up under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA). Based on its investigation, the EPA concluded no further investigation was warranted and that the site was not required to be listed on the NPL. The Navajo Environmental Protection Agency now has primary jurisdiction over the Aneth Gas Processing Plant site. Resolute cannot predict whether it will require further investigation and possible clean-up, and the ultimate clean-up liability may be affected by the Navajo Nation s recent enactment of a Navajo CERCLA. The Navajo CERCLA, in some cases, imposes broader obligations and liabilities than the federal CERCLA. Resolute has been advised by Chevron that a significant portion of the subsurface clean-up or remediation costs, if any, would be covered by an indemnity from the prior owner of the plant, and Chevron has provided Resolute with a copy of the pertinent purchase agreement that appears to support its position. Resolute cannot predict, however, whether any subsurface remediation will be required or what the cost of this clean-up or remediation could be. Additionally, it cannot be certain whether any of such costs will be reimbursable to it pursuant to the indemnity of the prior owner. Please read also *Resolute s Business Environmental, Health and Safety Matters and Regulation Waste Handling*.

Title to Properties

In connection with Predecessor Resolute s acquisition of the Chevron Properties and the ExxonMobil Properties, it obtained attorneys title opinions showing good and defensible title in the seller to at least 80% of the proved reserves of the acquired properties as shown in the relevant reserve reports presented by the sellers. Predecessor Resolute also reviewed land files and public and private records on substantially all of the acquired properties containing proved

reserves. It performed similar title and land file reviews prior to acquiring the Wyoming Properties; however, the prior title opinions available for it to review and update constituted 62% of the proved reserves of the acquired properties and only the public records for these properties were reviewed. Resolute believes it has satisfactory title to all of its material proved properties in accordance with standards

generally accepted in the industry. Prior to completing an acquisition of proved hydrocarbon leases in the future, it intends to perform title reviews on the most significant leases, and, depending on the materiality of properties, it may obtain a new title opinion or review previously obtained title opinions.

The Aneth Field Properties are subject to a statutory preferential purchase right for the benefit of the Navajo Nation to purchase at the offered price any Navajo Nation oil and gas lease or working interest in such a lease at the time a proposal is made to transfer the lease or interest. This could make it more difficult to sell Resolute s oil and gas leases and, therefore, could reduce the value of the Aneth Field leases if it were to attempt to sell them.

Resolute s properties are also subject to certain other encumbrances, such as customary interests generally retained in connection with the acquisition of real property, customary royalty interests and contract terms and restrictions, liens under operating agreements, liens for current taxes and other burdens, easements, restrictions and minor encumbrances customary in the oil and gas industry. It believes that none of these liens, restrictions, easements, burdens and encumbrances will materially detract from the value of these properties or from its interest in these properties or will materially interfere with the intended operation of its business.

Competition

Competition is intense in all areas of the oil and gas industry. Major and independent oil and gas companies actively bid for desirable properties, as well as for the equipment and labor required to operate and develop such properties. Many of Resolute s competitors have financial and personnel resources that are substantially greater than its own, and such companies may be able to pay more for productive properties and to define, evaluate, bid for and purchase a greater number of properties than Resolute s financial or human resources permit. Resolute s ability to acquire additional properties and to discover reserves in the future will depend on its ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment.

Seasonality

Resolute s operations have not historically been subject to seasonality in any material respect.

Environmental, Health and Safety Matters and Regulation

General. Resolute is subject to various stringent and complex federal, tribal, state and local laws and regulations governing environmental protection, including the discharge of materials into the environment, and protection of human health and safety. These laws and regulations may, among other things:

- require the acquisition of various permits before drilling commences or other operations are undertaken;
- require the installation of expensive pollution control equipment;
- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with oil and gas drilling, production, transportation and processing activities;
- suspend, limit or prohibit construction, drilling and other activities in certain lands lying within wilderness, wetlands and other protected areas;
- require remedial measures to mitigate pollution from historical and ongoing operations, such as the closure of pits and plugging of abandoned wells and remediation of releases of crude oil or other substances; and

require preparation of an Environmental Assessment and/or an Environmental Impact Statement.

These laws and regulations may also restrict the rate of oil and gas production to a level below the rate that would otherwise be possible. The regulatory burden on the oil and gas industry increases the cost of doing business in the industry and consequently affects profitability.

Governmental authorities have the power to enforce compliance with environmental laws, regulations and permits, and violations are subject to injunctive action, as well as administrative, civil and criminal penalties. The effects of these laws and regulations, as well as other laws or regulations that may be adopted in the future, could have a material adverse impact on Resolute s business, financial condition and results of operations.

Table of Contents

Resolute believes its operations are in substantial compliance with all existing environmental, health and safety laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on its financial condition and results of operations. Spills or releases may occur, however, in the course of its operations. There can be no assurance that Resolute will not incur substantial costs and liabilities as a result of such spills or releases, including those relating to claims for damage to property, persons and the environment, nor can there be any assurance that the passage of more stringent laws or regulations in the future will not have a negative effect on Resolute s business, financial condition, or results of operations.

The following is a summary of the more significant existing environmental, health and safety laws and regulations to which oil and gas business operations are generally subject and with which compliance may have a material adverse effect on Resolute s capital expenditures, earnings or competitive position, as well as a discussion of certain matters that specifically affect its operations.

Comprehensive Environmental Response, Compensation, and Liability Act. CERCLA, also known as the Superfund law, and comparable tribal and state laws may impose strict, joint and several liability, without regard to fault, on classes of persons who are considered to be responsible for the release of CERCLA hazardous substances into the environment. These persons include the owner or operator of the site where a release occurred, and anyone who disposed or arranged for the disposal of a hazardous substance released at the site. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources and for the costs of certain health studies. In addition, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. Such claims may be filed under CERCLA, as well as state common law theories or state laws that are modeled after CERCLA. In the course of its operations, Resolute generates waste that may fall within the definition of hazardous substances under CERCLA, as well as under the recently adopted Navajo Nation CERCLA which, unlike the federal CERCLA, defines hazardous substances to include crude oil and other hydrocarbons, thereby subjecting Resolute to potential liability under CERCLA, tribal and state law equivalents to CERCLA and common law. Therefore, governmental agencies or third parties could seek to hold Resolute responsible for all or part of the costs to clean up a site at which such hazardous substances may have been released or deposited, or other damages resulting from a release.

Waste Handling. The Resource Conservation and Recovery Act (RCRA) and comparable tribal and state statutes, regulate the generation, transportation, treatment, storage, disposal and cleanup of hazardous and non-hazardous wastes. Under the auspices of the federal EPA, the individual states administer some or all of the provisions of RCRA, sometimes in conjunction with their own, more stringent requirements. Drilling fluids, produced waters and many of the other wastes associated with the exploration, development and production of crude oil or gas are currently exempt under federal law from regulation as hazardous wastes and instead are regulated under RCRA s non-hazardous waste provisions. It is possible, however, that oil and gas exploration and production wastes now classified federally as non-hazardous could be classified as hazardous wastes in the future. Any such change could result in an increase in Resolute s operating expenses, which could have a material adverse effect on the results of operations and financial position. Also, in the course of operations, Resolute generates some amounts of industrial solid wastes, such as paint wastes, waste solvents, and waste oils, that may be regulated as hazardous wastes under RCRA, tribal and state laws and regulations.

Resolute has an interest in the Aneth Gas Processing Plant located in the Aneth Unit. This gas plant consists of a non-operational portion of the plant that is in the process of being decommissioned and removed by Chevron and an operational portion dedicated to compression. Resolute is responsible for a portion of the costs of decommissioning and removal and clean-up of the non-operational portion of the plant and any restoration and other costs related to the operational processing facilities. For additional information related to Resolute s obligations related to this plant, please read *Business and Properties Aneth Gas Processing Plant.*

Air Emissions. The federal Clean Air Act and comparable tribal and state laws regulate emissions of various air pollutants through air emissions permitting programs and the imposition of other requirements. These regulatory programs may require Resolute to install expensive emissions control equipment, modify its operational practices and obtain permits for existing operations, and before commencing construction on a new or modified source of air emissions such laws may require Resolute to reduce its emissions at existing facilities. As a result, Resolute

Table of Contents

may be required to incur increased capital and operating costs. Federal, tribal and state regulatory agencies can impose administrative, civil and criminal penalties for non-compliance with air permits or other requirements of the federal Clean Air Act and associated tribal and state laws and regulations.

In June 2005, the EPA and ExxonMobil entered into a consent decree settling various alleged violations of the federal Clean Air Act associated with ExxonMobil s prior operation of the McElmo Creek Unit. In response, ExxonMobil submitted amended Title V and Prevention of Significant Deterioration (PSD) permit applications for the McElmo Creek Unit main flare and other sources, and also paid a civil penalty and costs associated with a Supplemental Environmental Project, or SEP. Pursuant to the consent decree, upgrades to the main flare were completed in May 2006 by ExxonMobil, and all of the remaining material compliance measures of the consent decree have been met by Resolute. The EPA is processing the Title V and PSD permit applications. Resolute remains subject to the consent decree, including stipulated penalties for violations of emissions limits and compliance measures set forth in the consent decree. Resolute expects the consent decree to be terminated in 2011.

Actual air emissions reported for these facilities are in material compliance with emission limits contained in the draft permits and the consent decree when emissions associated with qualified equipment malfunctions are taken into account.

Water Discharges. The federal Water Pollution Control Act, or the Clean Water Act, and analogous tribal and state laws, impose restrictions and strict controls with respect to the discharge of pollutants, including spills and leaks of oil and other substances, into waters of the United States, including wetlands. The discharge of pollutants into regulated waters is prohibited by the Clean Water Act, except in accordance with the terms of a permit issued by the EPA or an authorized tribal or state agency. Federal, tribal and state regulatory agencies can impose administrative, civil and criminal penalties for unauthorized discharges or non- compliance with discharge permits or other requirements of the Clean Water Act and analogous tribal and state laws and regulations.

In addition, the Oil Pollution Act of 1990, or OPA, augments the Clean Water Act and imposes strict liability for owners and operators of facilities that are the source of a release of oil into waters of the United States. OPA and its associated regulations impose a variety of requirements on responsible parties related to the prevention of oil spills and liability for damages resulting from such spills. For example, operators of oil and gas facilities must develop, implement, and maintain facility response plans, conduct annual spill training for employees and provide varying degrees of financial assurance to cover costs that could be incurred in responding to oil spills. In addition, owners and operators of oil and gas facilities may be subject to liability for cleanup costs and natural resource damages as well as a variety of public and private damages that may result from oil spills.

In August 2004, the EPA and ExxonMobil entered into a consent decree settling alleged violations of the federal Clean Water Act related to past spills of produced water and crude oil from the McElmo Creek and Ratherford Units and failure to prepare and implement Spill Prevention, Control and Countermeasure Plans. ExxonMobil paid a civil penalty and costs to implement a SEP, and made improvements to the production and injection systems. The consent decree was terminated by the EPA in 2009.

In November 2001, the EPA issued an administrative order to ExxonMobil for removal and remediation of crude oil and hydrocarbon affected ground water released as a result of a shallow casing leak at the McElmo Creek P-20 well in January 2001. In response, ExxonMobil performed various site assessment activities and began recovering crude oil from the ground water. Resolute is obligated to complete the ground water monitoring and remedial activities required under the administrative order, at an estimated cost of approximately $100,000 per year, with anticipated closure to occur in 2012.

Underground Injection Control. Resolute s underground injection operations are subject to the federal Safe Drinking Water Act, as well as analogous tribal and state laws and regulations. Under Part C of the Safe Drinking Water Act, the EPA established the Underground Injection Control program, which established the minimum program requirements for tribal and state programs regulating underground injection activities. The Underground Injection Control program includes requirements for permitting, testing, monitoring, recordkeeping and reporting of injection well activities, as well as a prohibition against the migration of fluid containing any contaminant into underground sources of drinking water. Federal, tribal and state regulations require Resolute to obtain a permit from applicable regulatory agencies to operate its underground injection wells. Resolute believes it has obtained

the necessary permits from these agencies for its underground injection wells and that it is in substantial compliance with permit conditions and applicable federal, tribal and state rules. Nevertheless, these regulatory agencies have the general authority to suspend or modify one or more of these permits if continued operation of one of the underground injection wells is likely to result in pollution of freshwater, the substantial violation of permit conditions or applicable rules, or leaks to the environment. Although Resolute monitors the injection process of its wells, any leakage from the subsurface portions of the injection wells could cause degradation of fresh groundwater resources, potentially resulting in cancellation of operations of a well, issuance of fines and penalties from governmental agencies, incurrence of expenditures for remediation of the affected resource and imposition of liability by third parties for property damages and personal injuries.

Pipeline Integrity, Safety, and Maintenance. Resolute s ownership interest in the McElmo Creek Pipeline has caused it to be subject to regulation by the federal Department of Transportation, or the DOT, under the Hazardous Liquid Pipeline Safety Act and comparable state statutes, which relate to the design, installation, testing, construction, operation, replacement and management of hazardous liquid pipeline facilities. Any entity that owns or operates such pipeline facilities must comply with such regulations, permit access to and copying of records, and file reports and provide required information. The DOT may assess fines and penalties for violations of these and other requirements imposed by its regulations. Resolute believes it is in material compliance with all regulations imposed by the DOT pursuant to the Hazardous Liquid Pipeline Safety Act. Pursuant to the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006, the DOT was required to issue new regulations by December 31, 2007, setting forth specific integrity management program requirements applicable to low stress hazardous liquid pipelines. Resolute believes that these new regulations, which have yet to be issued, will not have a material adverse effect on its financial condition or results of operations.

Environmental Impact Assessments. Significant federal decisions, such as the issuance of federal permits or authorizations for many oil and gas exploration and production activities are subject to the National Environmental Policy Act (NEPA). NEPA requires federal agencies, including the Department of Interior, to evaluate major federal agency actions having the potential to significantly impact the environment. In the course of such evaluations, an agency will prepare an environmental assessment that assesses the potential direct, indirect and cumulative impacts of a proposed project and, if necessary, will prepare a more detailed Environmental Impact Statement that may be made available for public review and comment. All of Resolute s current exploration and production activities, as well as proposed exploration and development plans on federal lands, require governmental permits that are subject to the requirements of NEPA. This process has the potential to delay any oil and gas development projects.

Other Laws and Regulations

Climate Change. Recent scientific studies have suggested that emissions of gases commonly referred to as greenhouse gases or GHG , including CO_2, nitrogen dioxide and methane, may be contributing to warming of the Earth s atmosphere. Other nations have already agreed to regulate emissions of GHG pursuant to the United Nations Framework Convention on Climate Change, (UNFCCC) and the Kyoto Protocol, an international treaty (not including the United States) pursuant to which many UNFCCC member countries have agreed to reduce their emissions of GHG to below 1990 levels by 2012. In response to such studies and international action, the U.S. Congress is now considering legislation to reduce emissions of GHG, and the EPA has promulgated a mandatory GHG reporting rule that took effect January 1, 2010. As finalized, the mandatory reporting rule (MRR) does not require reporting by Resolute for its operations in Aneth Field. However, on March 23, 2010, EPA proposed several amendments to the MRR that would trigger reporting requirements for the Company. Among the proposed amendments are provisions that would apply to operators that inject CO_2 for enhanced oil recovery and geologic sequestration, regardless of the magnitude of associated CO_2 emissions, and also to operators of oil and natural gas systems that emit more than 25,000 metric tons of CO_2-equivalent GHG across an entire producing basin, based on the aggregated GHG emissions of all facilities in a basin under common control of an operator. On June 26, 2009, the House of Representatives

passed H.R. 2454, the Waxman-Markey American Clean Energy and Security Act of 2009, which would require 17% reduction in GHG emission by covered entities by 2020, relative to 2005 GHG emission levels, and create an elaborate system of allocated and tradable emission allowances and offsets to achieve mandated reductions of up to 80% by the year 2050. Companion legislation is being considered in the Senate, and a consensus bill could be developed later in

2010. Prior to this legislative action on climate change by the U.S. Congress, a number of states chose not to wait for Congress to develop and implement climate control legislation and have already taken legal measures to reduce emissions of GHG, primarily through the planned development of GHG emission inventories and/or regional cap and trade programs. For example, on August 22, 2007, the Western Climate Initiative, which is comprised of a number of Western states and Canadian provinces, including the State of Utah, issued a GHG reduction goal statement seeking to collectively reduce regional GHG emissions to 15% below 2005 levels by 2020. Also, as a result of the U.S. Supreme Court s decision on April 2, 2007, in *Massachusetts, et al. v. EPA*, the EPA may be required to regulate GHG emissions from mobile sources (e.g., cars and trucks) even if Congress does not adopt new legislation specifically addressing emissions of GHG. The Court s holding in *Massachusetts v. EPA* that GHG fall under the federal Clean Air Act s definition of air pollutant also may result in future regulation of GHG emissions from stationary sources under Clean Air Act programs, due to EPA s recent endangerment finding that links global warming to man-caused emissions of GHG and concludes there is an endangerment to public health and the environment that requires regulatory action. The passage or adoption of new legislation or regulations that restrict emissions of GHG or require reporting of such emissions in areas where Resolute conducts business could adversely affect its operations.

Department of Homeland Security. The Department of Homeland Security Appropriations Act of 2007 requires the Department of Homeland Security (DHS), to issue regulations establishing risk-based performance standards for the security at chemical and industrial facilities, including oil and gas facilities that are deemed to present high levels of security risk. The DHS is in the process of adopting regulations that will determine whether some of Resolute s facilities or operations will be subject to additional DHS-mandated security requirements. Presently, it is not possible to accurately estimate the costs Resolute could incur to comply with any such facility security laws or regulations, but such expenditures could be substantial.

Occupational Safety and Health Act. Resolute is subject to the requirements of the federal Occupational Safety and Health Act (OSHA) and comparable state statutes that strictly govern protection of the health and safety of workers. The Occupational Safety and Health Administration s hazard communication standard, the Emergency Planning and Community Right-to-Know Act, and similar state statutes require that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities, and the public. Resolute believes that it is in substantial compliance with these applicable requirements and with other OSHA and comparable requirements.

Laws and Regulations Pertaining to Oil and Gas Operations on Navajo Nation Lands

General. Laws and regulations pertaining to oil and gas operations on Navajo Nation lands derive from both Navajo law and federal law, including federal statutes, regulations and court decisions, generally referred to as federal Indian law.

The Federal Trust Responsibility. The federal government has a general trust responsibility to Indian tribes regarding lands and resources that are held in trust for such tribes. The trust responsibility may be a consideration in courts resolution of disputes regarding Indian trust lands and development of oil and gas resources on Indian reservations. Courts may consider the compliance of the Secretary of the U.S. Department of the Interior, or the Interior Secretary, with trust duties in determining whether leases, rights-of-way, or contracts relative to tribal land are valid and enforceable.

Tribal Sovereignty and Dependent Status. The United States Constitution vests in Congress the power to regulate the affairs of Indian tribes. Indian tribes hold a sovereign status that allows them to manage their internal affairs, subject to the ultimate legislative power of Congress. Tribes are therefore often described as domestic dependent nations, retaining all attributes of sovereignty that have not been taken away by Congress. Retained sovereignty includes the authority and power to enact laws and safeguard the health and welfare of the tribe and its members and the ability to

regulate commerce on the reservation. In many instances, tribes have the inherent power to levy taxes and have been delegated authority by the United States to administer certain federal health, welfare and environmental programs.

Because of their sovereign status, Indian tribes also enjoy sovereign immunity from suit and may not be sued in their own courts or in any other court absent Congressional abrogation or a valid tribal waiver of such

---

Table of Contents

immunity. The United States Supreme Court has ruled that for an Indian tribe to waive its sovereign immunity from suit, such waiver must be clear, explicit and unambiguous.

NNOG is a federally chartered corporation incorporated under Section 17 of the Indian Reorganization Act and is wholly owned by the Navajo Nation. Section 17 corporations generally have broad powers to sue and be sued. Courts will review and construe the charter of a Section 17 corporation to determine whether the tribe has either universally waived the corporation s sovereign immunity, or has delegated that power to the Section 17 corporation.

The NNOG federal charter of incorporation provides that NNOG shares in the immunities of the Navajo Nation, but empowers NNOG to waive such immunities in accordance with processes identified in the charter. NNOG has contractually waived its sovereign immunity, and certain other immunities and rights it may have regarding disputes with Resolute relating to certain of the Aneth Field Properties, in the manner specified in its charter. Although the NNOG waivers are similar to waivers that courts have upheld, if challenged, only a court of competent jurisdiction may make that determination based on the facts and circumstances of a case in controversy.

Tribal sovereignty also means that in some cases a tribal court is the only court that has jurisdiction to adjudicate a dispute involving a tribe, tribal lands or resources or business conducted on tribal lands or with tribes. Although language similar to that used in Resolute s agreements with NNOG that provide for alternative dispute resolution and federal or state court jurisdiction has been upheld in other cases, there is no guarantee that a court would enforce these dispute resolution provisions in a future case.

Federal Approvals of Certain Transactions Regarding Tribal Lands. Under current federal law, the Interior Secretary (or the Interior Secretary s appropriate designee) must approve any contract with an Indian tribe that encumbers, or could encumber, for a period of seven years or more, (1) lands owned in trust by the United States for the benefit of an Indian tribe or (2) tribal lands that are subject to a federal restriction against alienation, or collectively Tribal Lands. Failure to obtain such approval, when required, renders the contract void.

Except for Resolute s oil and gas leases, rights-of-way and operating agreements with the Navajo Nation, Resolute s agreements do not by their terms specifically encumber Tribal Lands, and it believes that no Interior Secretarial approval was required to enter into those agreements. With respect to its oil and gas leases and unit operating agreements, these and all assignments to Resolute have been approved by the Interior Secretary. In the case of rights-of-way and assignments of these to Resolute, some of these have been approved by the Interior Secretary and others are in various stages of applications for renewal and approval. It is common for these approvals to take an extended period of time, but such approvals are routine and Resolute believes that all required approvals will be obtained in due course.

Federal Management and Oversight. Reflecting the federal trust relationship with tribes, the Bureau of Indian Affairs, or the BIA, exercises oversight of matters on the Navajo Nation reservation pertaining to health, welfare and trust assets of the Navajo Nation. Of relevance to Resolute, the BIA must approve all leases, rights-of-way, applications for permits to drill, seismic permits, CO_2 pipeline permits and other permits and agreements relating to development of oil and gas resources held in trust for the Navajo Nation. While NNOG has been successful in facilitating timely approvals from the BIA, such timeliness is not guaranteed and obtaining such approvals may cause delays in developing the Aneth Field Properties.

Resources Committee of the Navajo Nation Council. The Resources Committee is a standing committee of the Navajo Nation Tribal Council, and has oversight and regulatory authority over all lands and resources of the Navajo Nation. The Resources Committee reviews, negotiates and recommends to the Navajo Nation Tribal Council actions involving the approval of energy development agreements and mineral agreements; gives final approvals of rights of way, surface easements, geophysical permits, geological prospecting permits, and other surface rights for infrastructure;

oversees and regulates all activities within the Navajo Nation involving natural resources and surface disturbance; sets policy for natural resource development and oversees the enforcement of federal and Navajo law in the development and utilization of resources, including issuing cease and desist orders and assessing fines for violation of its regulations and orders. The Resources Committee also has oversight authority over, among other agencies and matters, the Navajo Nation Environmental Protection Agency and Navajo Nation environmental laws, the Navajo Nation Minerals Department and Navajo Nation oil and gas

laws and the Navajo Nation Land Department and Navajo Nation land use laws. While NNOG has been successful thus far in facilitating timely approvals from the Resources Committee for Resolute s operations, such timeliness is not guaranteed and obtaining future approvals may cause delays in developing the Aneth Field Properties. Furthermore, the Navajo Nation Tribal Council was recently reorganized and reduced in size from 88 members to 24 members. The Company does not yet know what effect this will have on the operation of the Tribal Council or the Resources Committee and their impact on Resolute s operations.

Navajo Nation Minerals Department of the Division of Natural Resources. The day-to-day operation of the Navajo Nation minerals program, including the initial negotiation of agreements, applications for approval of assignments, exercise of tribal preferential rights and most other permits and licenses relating to oil and gas development, is managed by the professional staff of the Navajo Nation Minerals Department, located within the Division of Natural Resources and subject to the oversight of the Resources Committee. The Resources Committee and the Navajo Nation Council typically defer to the Minerals Department in decisions to approve all leases and other agreements relating to oil and gas resources held in trust for the Navajo Nation. While NNOG has been successful thus far in facilitating timely action and favorable recommendations from the Minerals Department for Resolute s operations, such timeliness is not guaranteed and obtaining future approvals may cause delays in developing the Aneth Field Properties.

Taxation Within the Navajo Nation. In certain instances, federal, state and tribal taxes may be applicable to the same event or transaction, such as severance taxes. State taxes are rarely applicable within the Navajo Nation Reservation except as authorized by Congress or when the application of such taxes does not adversely affect the interests of the Navajo Nation. Federal taxes of general application are applicable within the Navajo Nation, unless specifically exempted by federal law. Resolute currently pays the following taxes to the Navajo Nation:

Oil and Gas Severance Tax. Resolute pays severance tax to the Navajo Nation. The severance tax is payable monthly and is 4% of its gross proceeds from the sale of oil and gas. Approximately 84% of the Aneth Unit is subject to the Navajo Nation severance tax. The other 16% of the Aneth Unit is exempt because it is either located off of the reservation or it is incremental enhanced oil recovery production, which is not subject to the severance tax. Presently all of the McElmo Creek and Ratherford Units are subject to the severance tax.

Possessory Interest Tax. Resolute pays a possessory interest tax to the Navajo Nation. The possessory interest tax applies to all property rights under a lease within the Navajo Nation boundaries, including natural resources.

Sales Tax. Resolute pays the Navajo Nation a 4% sales tax in lieu of the Navajo Business Activity Tax. All goods and services purchased for use on the Navajo Nation reservation are subject to the sales tax. The sale of oil and gas is exempt from the sales tax.

Royalties from Production on Navajo Nation Lands. Under Resolute s agreements and leases with the Navajo Nation, it pays royalties to the Navajo Nation. The Navajo Nation is entitled to take its royalties in kind, which it currently does for its oil royalties but not its gas royalties. The Minerals Management Service of the United States Department of the Interior has the responsibility for managing and overseeing royalty payments to the Navajo Nation as well as the right to audit royalty payments.

Navajo Preference in Employment Act. The Navajo Nation has enacted the Navajo Preference in Employment Act, or the Employment Act, requiring preferential hiring of Navajos by non-governmental employers operating within the boundaries of the Navajo Nation. The Employment Act requires that any Navajo candidate meeting job description requirements receives a preference in hiring. The Employment Act also provides that Navajo employees can only be terminated, penalized, or disciplined for just cause, requires a written affirmative action plan that must be filed with the Navajo Nation, establishes the Navajo Labor Commission as a forum to resolve employment disputes and provides

authority for the Navajo Labor Commission to establish wage rates on construction projects. The restrictions imposed by the Employment Act and its recent broad interpretations by the Navajo Supreme Court may limit Resolute s pool of qualified candidates for employment.

Navajo Business Opportunity Act. Navajo Nation law requires companies doing business in the Navajo Nation to provide preference priorities to certified Navajo-owned businesses by giving them a first opportunity and

Table of Contents

contracting preference for all contracts within the Navajo Nation. While this law does not apply to the granting of mineral leases, subleases, permits, licenses and transactions governed by other applicable Navajo and federal law, Resolute treats this law as applicable to its material non-mineral contracts and procurement relating to its general business activities within the Navajo Nation.

Navajo Environmental Laws. The Navajo Nation has enacted various environmental laws that may be applicable to Resolute s Aneth Field Properties. As a practical matter, these laws are patterned after similar federal laws, and the EPA currently enforces these laws in conjunction with the Navajo EPA. The current practice does not preclude the Navajo Nation from taking a more active role in enforcement or from changing direction in the future. Some of the Navajo Nation environmental laws not only provide for civil, criminal and administrative penalties, but also provide for third-party suits brought by Navajo Nation tribal members directly against an alleged violator, with specified jurisdiction in the Navajo Nation District Court in Window Rock. A recent example of this relates to the March 2008 adoption by the Navajo Nation of the Navajo Comprehensive Environmental Response, Compensation, and Liability Act (Navajo CERCLA), which gives the Navajo EPA broad authority over environmental assessment and remediation of facilities contaminated with hazardous substances. Navajo CERCLA is patterned after federal CERCLA with the important exception that, unlike federal CERCLA, Navajo CERCLA considers crude oil and other hydrocarbons to be hazardous substances subject to CERCLA response actions and damages. Navajo CERCLA also imposes a tariff on the transportation of hazardous substances, including petroleum and petroleum products, across Navajo lands. Resolute is negotiating with representatives of the Navajo Nation Council, Navajo Department of Justice, Navajo Environmental Protection Agency, NNOG, an industry group headed by the New Mexico Oil and Gas Association and Colorado Oil and Gas Association, (the NMOGA Group), and others, to mitigate Navajo CERCLA s potential impact on oilfield operations on Navajo lands. The NMOGA Group in particular has challenged the validity of the law and has entered into a tolling agreement with Navajo EPA that should forestall material implementation of Navajo CERCLA at oil and gas facilities while appropriate rules and guidelines are developed with input from the oil and gas sector. The tolling agreement was renewed in June 2010 and expires in August 2011. Negotiations among Navajo EPA, Resolute and the NMOGA Group remain ongoing.

Thirty-Two Point Agreement. An explosion at an ExxonMobil facility in Aneth Field in December 1997 prompted protests by local tribal members and temporary shutdown of the field. The protesters asserted concerns about environmental degradation, health problems, employment opportunities and renegotiating leases. The protest was settled among the local residents, ExxonMobil and the Navajo Nation by the Thirty-Two Point Agreement that provided, among other things, for ExxonMobil to pay partial salaries for two Navajo public liaison specialists, follow Navajo hiring practices, and settle further issues addressed in the Thirty-Two Point Agreement in the Navajo Nation s peacemaker courts, which follow a community-level conflict resolution format. After the Thirty-Two Point Agreement was executed, Aneth Field resumed normal operations. While Resolute did not formally assume the obligations of ExxonMobil under the Thirty-Two Point Agreement when it acquired the ExxonMobil Properties in 2006, it has been Resolute s policy to voluntarily comply with this agreement. While we believe that our relations with the Navajo Nation are satisfactory, it is possible that employee relations or community relations degrade to a point where protests and shutdown occur in the future.

Moratorium on Future Oil and Gas Development Agreements and Exploration. In February 1994, the Navajo Nation issued a moratorium on future oil and gas development agreements and exploration on lands situated within the Aneth Chapter on the Navajo Reservation. All of the Aneth Unit and a significant portion of the McElmo Creek Unit are located within the Aneth Chapter. The Navajo Nation has recently taken the position that the term of the moratorium is indefinite. Given that Resolute s operations within the Aneth Chapter are based on existing agreements and that Resolute currently does not contemplate new exploration in this mature field, the moratorium has had and is expected to continue to have minor impact to Resolute operations.

Other Regulation of the Oil and Gas Industry

The oil and gas industry is extensively regulated by numerous federal, state and local authorities, including Native American tribes. Legislation affecting the oil and gas industry is under constant review for amendment or expansion, frequently increasing the regulatory burden. Also, numerous departments and agencies, both federal and state and Native American tribes, are authorized by statute to issue rules and regulations binding on the oil

and gas industry and individual companies, some of which carry substantial penalties for failure to comply. Although the regulatory burden on the oil and gas industry increases Resolute s cost of doing business and, consequently, affects profitability, these burdens generally do not affect Resolute any differently or to any greater or lesser extent than they affect other companies in the industry with similar types, quantities and locations of production.

Drilling and Production. Resolute s operations are subject to various types of regulation at federal, state, local and Navajo Nation levels. These types of regulation include requiring permits for the drilling of wells, drilling bonds and reports concerning operations. Most states, and some counties, municipalities, the Navajo Nation and other Native American tribes also regulate one or more of the following:

- the location of wells;
- the method of drilling and casing wells;
- the rates of production or allowables ;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandoning of wells; and
- notice to surface owners and other third-parties.

On state, federal and Indian lands, the Bureau of Land Management laws and regulations regulate the size and shape of drilling and spacing units or proration units governing the pooling of oil and gas properties. Some states allow forced pooling or integration of tracts to facilitate exploration while other states rely on voluntary pooling of lands and leases. In some instances, forced pooling or unitization may be implemented by third-parties and may reduce Resolute s interest in the unitized properties. In addition, state conservation laws establish maximum rates of production from oil and gas wells, generally prohibit or limit the venting or flaring of gas and impose requirements regarding the ratability of production. These laws and regulations may limit the amount of oil and gas that Resolute can produce from its wells or limit the number of wells or the locations where it can drill. Moreover, each state generally imposes a production or severance tax with respect to the production and sale of oil and gas within its jurisdiction.

Gas Sales and Transportation. Historically, federal legislation and regulatory controls have affected the price of gas and the manner in which Resolute s production is marketed. Federal Energy Regulatory Commission (FERC) has jurisdiction over the transportation and sale for resale of gas in interstate commerce by gas companies under the Natural Gas Act of 1938 and the Natural Gas Policy Act of 1978. Since 1978, various federal laws have been enacted which have resulted in the complete removal of all price and non-price controls for sales of domestic gas sold in first sales, which include all of Resolute sales of its own production.

FERC also regulates interstate gas transportation rates and service conditions, which affects the marketing of gas that Resolute produces, as well as the revenue Resolute receives for sales of its gas. Commencing in 1985, FERC promulgated a series of orders, regulations and rule makings that significantly fostered competition in the business of transporting and marketing gas. Today, interstate pipeline companies are required to provide nondiscriminatory transportation services to producers, marketers and other shippers, regardless of whether such shippers are affiliated with an interstate pipeline company. FERC s initiatives have led to the development of a competitive, unregulated, open access market for gas purchases and sales that permits all purchasers of gas to buy gas directly from third-party sellers other than pipelines. However, the gas industry historically has been very heavily regulated; therefore, Resolute cannot guarantee that the less stringent regulatory approach recently pursued by FERC and Congress will continue

indefinitely into the future nor can it determine what effect, if any, future regulatory changes might have on gas related activities.

Under FERC s current regulatory regime, transmission services must be provided on an open-access, non-discriminatory basis at cost-based rates or at market-based rates if the transportation market at issue is sufficiently competitive. Gathering service, which occurs upstream of jurisdictional transmission services, is regulated by the states on-shore and instate waters. Although its policy is still in flux, FERC recently has reclassified certain jurisdictional transmission facilities as non-jurisdictional gathering facilities, which has the tendency to increase Resolute s costs of getting gas to point-of-sale locations.

Table of Contents

Employees

As of December 31, 2010, Resolute had 160 full-time employees and two part-time employees, including 38 geologists, geophysicists, petroleum engineers and land and regulatory professionals. Approximately 39 of Resolute s field level employees are represented by the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union, or USW labor union, and are covered by a collective bargaining agreement. Resolute believes that it has a satisfactory relationship with its employees.

Offices

Resolute currently leases approximately 29,000 square feet of office space in Denver, Colorado at 1675 Broadway, Suite 1950, Denver, Colorado 80202, where its principal offices are located. In addition, Resolute owns and maintains field offices in Cortez, Colorado, Montezuma Creek, Utah, and Gillette, Wyoming and leases other, less significant, office space in locations where staff are located. Resolute believes that its office facilities are adequate for its current needs and that additional office space can be obtained if necessary.

Available Information

The Company maintains a link to investor relations information on its website, *www.resoluteenergy.com*, where it makes available, free of charge, the Company s filings with the SEC, including its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, (Exchange Act), as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. The Company also makes available on its website copies of the charters of the audit, compensation and corporate governance/nominating committees of the Company s Board of Directors, its code of business conduct and ethics, audit committee whistleblower policy, stockholder and interested parties communication policy and corporate governance guidelines. Stockholders may request a printed copy of these governance materials or any exhibit to this report by writing to the Secretary, Resolute Energy Corporation, 1675 Broadway, Suite 1950, Denver, Colorado 80202. You may also read and copy any materials the Company files with the SEC at the SEC s Public Reference Room, which is located at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Information regarding the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at *www.sec.gov* that contains the documents the Company files with the SEC. The Company s website and the information contained on or connected to its website is not incorporated by reference herein and its web address is included as an inactive textual reference only.

ITEM 1A. RISK FACTORS

You should consider carefully the following risk factors, as well as the other information set forth in this Form 10-K.

Risks Related to Resolute s Business, Operations and Industry

The risk factors set forth below are not the only risks that may affect Resolute s business. Resolute s business could also be affected by additional risks not currently known to it or that it currently deems to be immaterial. If any of the following risks were actually to occur, Resolute s business, financial condition or results of operations could be materially adversely affected.

Resolute s oil production from its Aneth Field Properties is presently connected by pipeline to only one customer, and such sales are dependent on gathering systems and transportation facilities that Resolute does not control. With only one pipeline connected customer, when these facilities or systems are unavailable, Resolute s operations can be interrupted and its revenue reduced.

The marketability of Resolute s oil and gas production depends in part upon the availability, proximity and capacity of pipelines, gas gathering systems, and processing facilities owned by third parties. In general, Resolute does not control these facilities and its access to them may be limited or denied due to circumstances beyond its control. A significant disruption in the availability of these facilities could adversely impact Resolute s ability to deliver to market the oil and gas Resolute produces, and thereby cause a significant interruption in its operations. In some cases, Resolute s ability to deliver to market its oil and gas is dependent upon coordination among third parties who own pipelines, transportation and processing facilities that Resolute uses, and any inability or unwillingness of those parties to coordinate efficiently could also interrupt Resolute s operations. These are risks for which Resolute generally does not maintain insurance.

With respect to oil produced at its Aneth Field Properties, Resolute operates in a remote part of southeastern Utah, and currently Resolute sells all of its crude oil production to a single customer, Western. Resolute and Western, with the consent of NNOG, entered into a contract covering the joint crude oil volumes of Resolute and NNOG from Aneth Field with a primary term that ended on August 31, 2010, and continues month-to-month thereafter, with either party having the right to terminate upon ninety days notice. The contract may also be terminated by Western upon sixty days notice, if Western s right-of-way agreements with the Navajo Nation are declared invalid and either Western is prevented from using such rights-of way or the Navajo Nation declares Western to be in trespass with respect to such rights-of-way. Resolute is currently negotiating a long term contract with Western, but we cannot give any assurance that we will be able to reach an agreement with Western that incorporates favorable terms or at all on such a contract. Western refines Resolute s crude oil at Western s 26,000 barrel per day Gallup refinery in Gallup, New Mexico. Resolute s production is transported to the refinery via the Running Horse crude oil pipeline owned by NNOG to a terminal known as Bisti, approximately 20 miles south of Farmington, New Mexico, that serves the refinery. The Resolute and NNOG oil has been jointly marketed to Western. The combined Resolute and NNOG volumes are approximately 8,000 barrels of oil per day. See *Business and Properties Marketing and Customers Aneth Field*. There are presently no pipelines in service that run the entire distance from Resolute s Aneth Field Properties to any alternative markets. If Western did not purchase Resolute s crude oil, Resolute would have to transport its crude oil to other markets by a combination of the NNOG pipeline, truck and rail, which would result, in the short term, in a lower price relative to the NYMEX price than it currently receives. Resolute may in the future receive prices with a greater differential to NYMEX than it currently receives, which if not offset by increases in the NYMEX price for crude oil could result in a material adverse effect on Resolute s financial results.

Resolute would also have to find alternative markets if Western s refining capacity in the region is temporarily or permanently shut down for any reason or if NNOG s pipeline to Western s refineries is temporarily or permanently

shut-in for any reason. Resolute does not have any control over Western s decisions with respect to its refineries. Resolute would also not have control over similar decisions by any replacement customers.

Resolute customarily ships crude oil to Western daily and receives payment on the twentieth day of the month following the month of production. As a result, at any given time, Western owes Resolute between 20 and

Table of Contents

50 days of production revenue. Based upon average production from Aneth Field during the twelve months ended December 31, 2010, and a NYMEX oil price of $97.30 per barrel, Western could owe Resolute between $14.5 million and $36.2 million. If Western defaults on its obligation to pay Resolute for the crude oil it has delivered, Resolute s income would be materially and negatively affected. Both Moody s Investor Services and Standard & Poor s have assigned credit ratings to Western s long-term debt that are below investment grade and Moody s Investor Services has assigned Western a negative outlook.

With respect to its Wyoming operations, Resolute does not have any long-term supply or similar agreements with entities for which it acts as a producer and currently sells most of its Wyoming oil production under a purchase agreement with a single purchaser. Resolute is therefore dependent upon its ability to sell oil and gas at the prevailing wellhead market price. There can be no assurance that purchasers will be available or that the prices they are willing to pay will remain stable and not decline.

Financial conditions may have effects on Resolute s business and financial condition that Resolute cannot predict.

Turmoil in the global financial system may have an impact on Resolute s business and financial condition. Resolute s ability to access the capital markets due to financial turmoil may be restricted in the future when Resolute would like, or need, to raise capital. Financial turmoil may also limit the number of prospects for Resolute s development and acquisition, or make such transactions uneconomic or difficult to consummate, and make it more difficult for Resolute to develop its reserves. Financial turmoil could also adversely affect the collectability of Resolute s trade receivables and cause Resolute s commodity derivative arrangements, if any, to be ineffective if Resolute s counterparties are unable to perform their obligations or seek bankruptcy protection. It may also adversely affect any of Resolute s partners ability to fulfill their obligations under operating agreements and Resolute may be required to fund these expenditures from other sources or reduce Resolute s planned activities. Additionally, turmoil could lead to reduced demand for oil and gas, lower product prices or product price volatility which may a negative effect on Resolute s revenue.

Inadequate liquidity could materially and adversely affect Resolute s business operations in the future.

Resolute s ability to generate cash flow depends upon numerous factors related to its business that may be beyond its control, including:

- the amount of oil and gas it produces;
- the price at which it sells its oil and gas production and the costs it incurs to market its production;
- the effectiveness of its commodity price derivative strategy;
- the development of proved undeveloped properties and the success of its enhanced oil recovery activities;
- the level of its operating and general and administrative costs;
- its ability to replace produced reserves;
- prevailing economic conditions;
- government regulation and taxation;

the level of its capital expenditures required to implement its development projects and make acquisitions of additional reserves;

its ability to borrow under its revolving credit facility or future debt agreements;

its debt service requirements contained in its revolving credit facility or future debt agreements;

fluctuations in its working capital needs; and

timing and collectability of receivables.

Table of Contents

Resolute s planned operations, as well as replacement of its production and reserves, will require additional capital that may not be available.

Resolute s business is capital intensive, and requires substantial expenditures to maintain currently producing wells, to make the acquisitions of additional reserves and/or conduct its exploration, exploitation and development program necessary to replace its reserves, to pay expenses and to satisfy its other obligations, which will require cash flow from operations, additional borrowings or proceeds from the issuance of additional equity, or some combination thereof, which may not be available to Resolute.

For example, Resolute expects to spend an additional $446.7 million of capital expenditures (including CO_2 purchases) over the next 29 years to implement and complete its proved developed non-producing and proved undeveloped CO_2 flood projects. Resolute expects to incur approximately $198.4 million of these future capital expenditures between 2011 and 2013 based on its year-end 2010 SEC case reserve report. To the extent Resolute s production and reserves decline faster than it anticipates, Resolute will require a greater amount of capital to maintain its production. Resolute s ability to obtain bank financing or to access the capital markets for future equity or debt offerings may be limited by its financial condition at the time of any such financing or offering, the covenants in its revolving credit facility or future debt agreements, adverse market conditions or other contingencies and uncertainties that are beyond its control. Resolute s failure to obtain the funds necessary for future activities could materially affect its business, results of operations and financial condition. Even if Resolute is successful in obtaining the necessary funds, the terms of such financings could limit Resolute s activities and its ability to pay dividends. In addition, incurring additional debt may significantly increase Resolute s interest expense and financial leverage, and issuing additional equity may result in significant equity holder dilution.

A significant part of Resolute s development plan involves the implementation of its CO_2 projects. The supply of CO_2 and efficacy of the planned projects is uncertain, and other resources may not be available or may be more expensive than expected, which could adversely impact production, revenue and earnings, and may require a write-down of reserves.

Producing oil and gas reservoirs are depleting assets generally characterized by declining production rates that vary depending upon factors such as reservoir characteristics. A significant part of Resolute s business strategy depends on its ability to successfully implement CO_2 floods and other development projects it has planned for its Aneth Field Properties in order to counter the natural decline in production from the field. As of December 31, 2010, approximately 61% of Resolute s estimated net proved reserves were classified as proved developed non-producing and proved undeveloped, meaning Resolute must undertake additional development activities before it can produce those reserves. These development activities involve numerous risks, including insufficient quantities of CO_2, project execution risks and cost overruns, insufficient capital to allocate to these projects, and inability to obtain equipment and materials that are necessary to successfully implement these projects.

A critical part of Resolute s development strategy depends upon its ability to purchase CO_2. Resolute has entered into a contract to purchase CO_2 from Kinder Morgan. The contract with Kinder Morgan expires in 2020. All of the CO_2 Resolute has under contract comes from McElmo Dome Field. If Resolute is unable to purchase sufficient CO_2 under this contract, either because Kinder Morgan is unable or is unwilling to supply the contracted volumes, Resolute would have to purchase CO_2 from other owners of CO_2 in McElmo Dome Field or elsewhere. In such an event, Resolute may not be able to locate substitute supplies of CO_2 at acceptable prices or at all. In addition, certain suppliers of CO_2, such as Kinder Morgan, use CO_2 in their own tertiary recovery projects. As a result, if Resolute needs to purchase additional volumes of CO_2, these suppliers may not be willing to sell a portion of their supply of CO_2 to Resolute if their own demand for CO_2 exceeds their supply. Additionally, even if adequate supplies are available for delivery from the McElmo Dome field, Resolute could experience temporary or permanent shut-ins of

Resolute s pipeline that delivers CO_2 from that field to its Aneth Field Properties. If Resolute is unable to obtain the CO_2 it requires and is unable to undertake its development projects or if Resolute s development projects are significantly delayed, Resolute s recoverable reserves may not be as much as it currently anticipates, it will not realize its expected incremental production, and its expected decline in the rate of production from its Aneth Field Properties will be accelerated. If Resolute s requirements for CO_2 were to decrease, it could be required to incur costs for CO_2 that it has not purchased or to purchase more CO_2 than it could use effectively. For more information about Resolute s CO_2 development program and minimum financial

30

Table of Contents

obligations under the Kinder Morgan contract, please read *Resolute s Business Planned Operating and Development Activities*.

In addition, Resolute s estimate of future development costs, including with respect to its planned CO_2 development projects, is based on Resolute s current expectation of prices and other costs of CO_2, equipment and personnel Resolute will need in the future to implement such projects. Resolute s actual future development costs may be significantly higher than Resolute currently estimates, and delays in executing its development projects could result in higher labor and other costs associated with these projects. If costs become too high, Resolute s future development projects may not provide economic results and Resolute may be forced to abandon its development projects.

Furthermore, the results Resolute obtains from its CO_2 flood projects may not be the same as it expected when preparing its estimate of net proved reserves. Lower than expected production results or delays in when Resolute first realizes additional production as a result of its CO_2 flood projects will reduce the value of its reserves, which could reduce its ability to incur indebtedness, require Resolute to use cash to repay indebtedness or to satisfy its derivative obligations, and require Resolute to write-down the value of its reserves. Therefore, Resolute s future reserves, production and future cash flow are highly dependent on Resolute s success in efficiently developing and exploiting its current estimated net proved undeveloped reserves.

Resolute is a party to a contract that requires it to pay for a minimum quantity of CO_2. This contract limits Resolute s ability to curtail costs if its requirements for CO_2 decrease.

Resolute s contract with Kinder Morgan requires Resolute to take, or pay for if not taken, a minimum volume of CO_2 on a monthly basis. The take-or-pay obligations result in minimum financial obligations through 2020. The take-or-pay provisions in this contract allow Resolute to subsequently apply take-or-pay payments made to volumes subsequently taken, but these provisions have limitations and Resolute may not be able to utilize all such amounts paid if the limitations apply or if Resolute does not subsequently take sufficient volumes to utilize the amounts previously paid.

Oil and gas prices are volatile and change for reasons that are beyond Resolute s control. Decreases in the price Resolute receives for its oil and gas production can adversely affect its business, financial condition, results of operations and liquidity and impede its growth.

The oil and gas markets are highly volatile, and Resolute cannot predict future prices. Resolute s revenue, profitability and cash flow depend upon the prices and demand for oil, natural gas and NGL . The markets for these commodities are very volatile and even relatively modest drops in prices can significantly affect Resolute s financial results and impede its growth. Prices for oil, gas and NGL may fluctuate widely in response to relatively minor changes in the supply of and demand for the commodities, market uncertainty and a variety of additional factors that are beyond Resolute s control, such as:

- domestic and foreign supply of and demand for oil and gas, including as a result of technological advances affecting energy consumption and supply;
- weather conditions;
- overall domestic and global political and economic conditions;
- actions of the Organization of Petroleum Exporting Countries and other state-controlled oil companies relating to oil price and production controls;

the price of foreign imports;

political and economic conditions in oil producing countries, including the Middle East and South America;

technological advances affecting energy consumption;

variations between product prices at sales points and applicable index prices;

domestic, tribal and foreign governmental regulations and taxation;

- the impact of energy conservation efforts;
- the capacity, cost and availability of oil and gas pipelines and other transportation and gathering facilities, and the proximity of these facilities to its wells;
- the availability of refining and processing capability;
- factors specific to the local and regional markets where Resolute s production occurs; and
- the price and availability of alternative fuels.

In the past, the price of crude oil has been extremely volatile, and Resolute expects this volatility to continue. For example, during the twelve months ended December 31, 2010, the NYMEX price for light sweet crude oil ranged from a high of $91.49 per Bbl to a low of $65.96 per Bbl. For calendar year 2009, the range was from a high of $81.04 per Bbl to a low of $33.98 per Bbl, and for the five years ended December 31, 2010, the price ranged from a high of $145.28 per Bbl to a low of $31.41 per Bbl.

A decline in oil and gas prices can significantly affect many aspects of Resolute s business, including financial condition, revenue, results of operations, liquidity, rate of growth and the carrying value of Resolute s oil and gas properties, all of which depend primarily or in part upon those prices. For example, declines in the prices Resolute receives for its oil and gas adversely affect its ability to finance capital expenditures, make acquisitions, raise capital and satisfy its financial obligations. In addition, declines in prices reduce the amount of oil and gas that Resolute can produce economically and, as a result, adversely affect its quantities of proved reserves. Among other things, a reduction in its reserves can limit the capital available to Resolute, as the maximum amount of available borrowing under its revolving credit facility is, and the availability of other sources of capital likely will be, based to a significant degree on the estimated quantities of those reserves.

Resolute s estimated proved reserves are based on many assumptions that may turn out to be inaccurate. Any significant inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities of Resolute s proved reserves.

Resolute s estimate of proved reserves for the period ended December 31, 2010, is based on the quantities of oil and gas that engineering and geological analyses demonstrate with reasonable certainty to be recoverable from established reservoirs in the future under current operating and economic parameters. Netherland, Sewell & Associates, Inc., independent petroleum engineers, audited reserve and economic evaluations of all properties that were prepared by Resolute on a well-by-well basis. Oil and gas reserve engineering is not exact; it relies on subjective interpretations of data that may be inaccurate or incomplete and requires predictions and assumptions of future reservoir behavior and economic conditions. Estimates of economically recoverable oil and gas reserves and of future net cash flows depend upon a number of variable factors and assumptions, including:

- the assumed accuracy of field measurements and other reservoir data;
- assumptions regarding expected reservoir performance relative to historical analog reservoir performance;
- the assumed effects of regulations by governmental agencies;
- assumptions concerning future oil and gas prices; and

- assumptions concerning future operating costs, severance and excise taxes, development costs and workover and remedial costs.

Because all reserve estimates are to some degree subjective, each of the following items may differ materially from those assumed in estimating reserves:

- the quantities of oil and gas that are ultimately recovered;
- the timing of the recovery of oil and gas reserves;
- the production and operating costs incurred; and
- the amount and timing of future development expenditures.

Table of Contents

Furthermore, different reserve engineers may make different estimates of reserves and cash flows based on the same available data. As a result of all these factors, Resolute may make material changes to reserves estimates to take into account changes in its assumptions and the results of its development activities and actual drilling and production.

If these assumptions prove to be incorrect, Resolute s estimates of reserves, the economically recoverable quantities of oil and gas attributable to any particular group of properties, the classifications of reserves based on risk of recovery and Resolute s estimates of the future net cash flows from its reserves could change significantly. In addition, if declines in oil and gas prices result in its having to make substantial downward adjustments to its estimated proved reserves, or if its estimates of development costs increase, production data factors change or drilling results deteriorate, accounting rules may require Resolute to make downward adjustments, as a non-cash impairment charge to earnings, to the carrying value of Resolute s oil and gas properties. If Resolute incurs impairment charges in the future, Resolute could have a material adverse effect on its results of operations in the period incurred and on its ability to borrow funds under its credit facility.

The standardized measure of future net cash flows from Resolute s net proved reserves is based on many assumptions that may prove to be inaccurate. Any material inaccuracies in Resolute s reserve estimates or underlying assumptions will materially affect the quantities and present value of its proved reserves.

Actual future net cash flows from Resolute s oil and gas properties will be determined by the actual prices Resolute receives for oil and gas, its actual operating costs in producing oil and gas, the amount and timing of actual production, the amount and timing of Resolute s capital expenditures, supply of and demand for oil and gas and changes in governmental regulations or taxation, which may differ from the assumptions used in creating estimates of future cash flows.

The timing of both Resolute s production and its incurrence of expenses in connection with the development and production of oil and gas properties will affect the timing of actual future net cash flows from proved reserves, and thus their actual present value. In addition, the 10% discount factor Resolute uses when calculating discounted future net cash flows in compliance with guidance from the FASB may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with Resolute or the oil and gas industry in general.

Currently, substantially all of Resolute s oil producing properties are located on the Navajo Reservation, making Resolute vulnerable to risks associated with laws and regulations pertaining to the operation of oil and gas properties on Native American tribal lands.

Substantially all of Resolute s Aneth Field Properties, which represent approximately 92% of Resolute s total proved reserves and approximately 76% of Resolute s production (on an equivalent barrel basis) at December 31, 2010, are located on the Navajo Reservation in southeastern Utah. Operation of oil and gas interests on Indian lands presents unique considerations and complexities. These arise from the fact that Indian tribes are dependent sovereign nations located within states, but are subject only to tribal laws and treaties with, and the laws and Constitution of, the United States. This creates a potential overlay of three jurisdictional regimes Indian, federal and state. These considerations and complexities could affect various aspects of Resolute s operations, including real property considerations, employment practices, environmental matters and taxes.

For example, Resolute is subject to the Navajo Preference in Employment Act. This law requires that it give preference in hiring to members of the Navajo Nation, or in some cases other Native American tribes, if such a person is qualified for the position, rather than hiring the most qualified person. A further regulatory requirement is imposed by the Navajo Nation Business Opportunity Act which requires Resolute to give preference to businesses owned by Navajo persons when it is hiring contractors. These regulatory restrictions can negatively affect Resolute s ability to

recruit and retain the most highly qualified personnel or to utilize the most experienced and economical contractors for its projects.

Furthermore, because tribal property is considered to be held in trust by the federal government, before Resolute can take actions such as drilling, pipeline installation or similar actions, it is required to obtain approvals

from various federal agencies that are in addition to customary regulatory approvals required of oil and gas producers operating on non-Indian property. Resolute also is required to obtain approvals from the Resources Committee, which is a standing committee of the Navajo Nation Tribal Council, before Resolute can take similar actions with respect to its Aneth Field Properties. These approvals could result in delays in its implementation of, or otherwise prevent it from implementing, its development program. These approvals, even if ultimately obtained, could result in delays in Resolute s ability to implement its development program.

In addition, under the Native American laws and regulations, Resolute could be held liable for personal injuries, property damage (including site clean-up and restoration costs) and other damages. Failure to comply with these laws and regulations may also result in the suspension or termination of Resolute s operations and subject it to administrative, civil and criminal penalties, including the assessment of natural resource damages.

Thirty-Two Point Agreement. An explosion at an ExxonMobil facility in Aneth Field in December 1997 prompted protests by local tribal members and temporary shutdown of the field. The protesters asserted concerns about environmental degradation, health problems, employment opportunities and renegotiating leases. The protest was settled among the local residents, ExxonMobil and the Navajo Nation by the Thirty-Two Point Agreement that provided, among other things, for ExxonMobil to pay partial salaries for two Navajo public liaison specialists, follow Navajo hiring practices, and settle further issues addressed in the Thirty-Two Point Agreement in the Navajo Nation s peacemaker courts, which follow a community-level conflict resolution format. After the Thirty-Two Point Agreement was executed, Aneth Field resumed normal operations. While Resolute did not formally assume the obligations of ExxonMobil under the Thirty-Two Point Agreement when it acquired the ExxonMobil Properties in 2006, it has been Resolute s policy to voluntarily comply with this agreement. While the Company believes that its relations with the Navajo Nation are satisfactory, it is possible that employee relations or community relations degrade to a point where protests and shutdown occur in the future.

For additional information about the legal complexities and considerations associated with operating on the Navajo Reservation, please read *Resolute s Business Laws and Regulations Pertaining to Oil and Gas Operations on Navajo Nation Lands*.

NNOG has options to purchase a portion of Resolute s Aneth Field Properties.

NNOG has a total of six options to purchase for cash at fair market value, in the aggregate, up to 30.0% of Resolute s interest in the Chevron Properties and 30.0% of its interest in the ExxonMobil Properties. These options become exercisable over a period of time if financial hurdles related to recovery by Resolute of its investments are met. If NNOG exercises its purchase options in full, it could acquire from Resolute undivided working interests representing an 18.15% working interest in the Aneth Unit, a 22.5% working interest in the McElmo Creek Unit and a 17.7% working interest in the Ratherford Unit. If NNOG were to exercise any of these options, Resolute might not be able to effectively redeploy the cash received from NNOG. For additional information about NNOG s purchase right, please read *Resolute s Business Relationship with the Navajo Nation.*

The statutory preferential purchase right held by the Navajo Nation to acquire transferred Navajo Nation oil and gas leases and NNOG s right of first negotiation could diminish the value Resolute may be able to receive in a sale of its properties.

Nearly all of Resolute s Aneth Field Properties are located on the Navajo Reservation. The Navajo Nation has a statutory preferential right to purchase at the offered price any Navajo Nation oil and gas lease or working interest in such a lease at the time a proposal is made to transfer the lease or interest. The existence of this right can make it more difficult to sell a Navajo Nation oil and gas lease because this right may discourage third parties from purchasing such a lease and, therefore, could reduce the value of Resolute s leases if it were to attempt to sell them. In addition, under

the terms of Resolute s Cooperative Agreement with NNOG, Resolute is obligated to first negotiate with NNOG to sell its Aneth Field Properties before it may offer to sell such properties to any other third party. This contractual right could make it more difficult for Resolute to sell its Aneth Field Properties. For additional information about the right of first negotiation for the benefit of NNOG, please read *Resolute s Business Relationship with the Navajo Nation*.

Table of Contents

Resolute s producing properties are primarily located in two geographic areas, making it vulnerable to risks associated with lack of geographic diversification.

A substantial amount of Resolute s sales of oil and gas and 92% of its total proved reserves at December 31, 2010, are currently located in its Aneth Field Properties in the southeast Utah portion of the Paradox Basin in the Four Corners area of the southwestern United States. Essentially all of the remainder of Resolute s sales of oil and gas and 7% of its total proved reserves are predominantly located in Hilight Field in the Powder River Basin in northeastern Wyoming and southeastern Montana. As a result of Resolute s lack of diversification in asset type and location, any delays or interruptions of production from these wells caused by such factors as governmental regulation, transportation capacity constraints, curtailment of production or interruption of transportation of oil produced from the wells in these fields, price fluctuations, natural disasters or shutdowns of the pipelines connecting its Aneth Field production to refineries would have a significantly greater impact on Resolute s results of operations than if Resolute possessed more diverse assets and locations.

Lack of geographic diversification also affects the prices to be received for Resolute s oil and gas production from its properties, since prices are determined to a significant extent by factors affecting the regional supply of and demand for oil and gas, including the adequacy of the pipeline and processing infrastructure in the region to transport or process Resolute s production and that of other producers. Those factors result in basis differentials between the published indices generally used to establish the price received for regional oil and gas production and the actual (frequently lower) price Resolute may receive for its production.

Developing and producing oil and gas are costly and high-risk activities with many uncertainties that could adversely affect Resolute s financial condition or results of operations, and insurance may not be available or may not fully cover losses.

There are numerous risks associated with developing, completing and operating a well, and cost factors can adversely affect the economics of a well. Resolute s development and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

- high costs, shortages or delivery delays of rigs, equipment, labor or other services;
- unexpected operational events and/or conditions;
- reductions in oil or gas prices or increases in the differential between index oil or gas prices and prices received by Resolute;
- increases in severance taxes;
- limitations on Resolute s ability to sell its crude oil or gas production;
- adverse weather conditions and natural disasters;
- facility or equipment malfunctions, and equipment failures or accidents;
- pipe or cement failures and casing collapses;
- compliance with environmental and other governmental requirements;
- environmental hazards, such as leaks, oil spills, pipeline ruptures and discharges of toxic gases;

lost or damaged oilfield development and service tools;

unusual or unexpected geological formations, and pressure or irregularities in formations;

fires, blowouts, surface craterings and explosions;

shortages or delivery delays of equipment and services;

title problems;

objections from surface owners and nearby surface owners in the areas where Resolute operates; and

uncontrollable flows of oil, gas or well fluids.

Any of these or other similar occurrences could reduce Resolute s cash from operations or result in the disruption of Resolute s operations, substantial repair costs, significant damage to property, environmental pollution and impairment of its operations. The occurrence of these events could also affect third parties, including persons living near Resolute s operations, Resolute s employees and employees of Resolute s contractors, leading to injuries or death.

Insurance against all operational risk is not available to Resolute, and pollution and environmental risks generally are not fully insurable. Additionally, Resolute may elect not to obtain insurance if it believes that the cost of available insurance is excessive relative to the perceived risks presented. Resolute does not maintain business interruption insurance. Losses could, therefore, occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. Moreover, insurance may not be available in the future at commercially reasonable costs and on commercially reasonable terms. Changes in the insurance markets subsequent to the terrorist attacks on September 11, 2001, have made it more difficult for Resolute to obtain coverage for terrorist attacks and related risks. Resolute may not be able to obtain the levels or types of insurance it would otherwise have obtained prior to these market changes, and any insurance coverage Resolute does obtain may contain large deductibles or it may not cover all hazards or potential losses. Losses and liabilities from uninsured and underinsured events or a delay in the payment of insurance proceeds could adversely affect Resolute s business, financial condition and results of operations.

Exploration and development drilling may not result in commercially productive reserves.

Resolute may not encounter commercially productive reservoirs through its drilling operations. In 2011, Resolute expects to incur approximately $42 million of capital expenditures for acreage acquisition, exploration and development drilling in the Williston Basin properties in North Dakota. Additionally, the Company has allocated $15 million for exploration and development projects in its Wyoming Properties and Big Horn Basin acreage. The new wells Resolute drills or participates in may not be productive and the Company may not recover all or any portion of its investment in such wells. The seismic data and other technologies Resolute uses do not allow it to know conclusively prior to drilling whether it will find oil or gas or, if found, that the hydrocarbons will be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Resolute s efforts will be unprofitable if it drills dry wells or wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs. Further, Resolute s drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

- increases in the cost of, or shortages or delays in the availability of, drilling rigs and equipment;
- unexpected drilling conditions;
- title problems;
- pressure or irregularities in formations;
- equipment failures or accidents;
- adverse weather conditions; and
- compliance with environmental and other governmental requirements.

If Resolute does not make acquisitions of reserves on economically acceptable terms, Resolute s future growth and ability to maintain production will be limited to only the growth it intends to achieve through the development of its proved developed non-producing and proved undeveloped reserves.

Producing oil and gas reservoirs are generally characterized by declining production rates that vary depending upon reservoir characteristics and other factors. The rate of decline will change if production from Resolute s existing wells declines in a different manner than Resolute has estimated and can change under other circumstances. Resolute s future oil and gas reserves and production and, therefore, Resolute s cash flow and income are highly dependent upon its success in efficiently developing and exploiting its current reserves and economically finding or acquiring additional recoverable reserves.

Table of Contents

Resolute intends to grow by bringing its proved developed non-producing reserves into production, developing its proved undeveloped reserves and exploring for and finding additional reserves on its non-proved properties. Resolute s ability to further grow depends in part on its ability to make acquisitions, particularly in the event NNOG exercises its options to increase its working interest in the Aneth Field Properties. Resolute may be unable to make such acquisitions because it is:

- unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with the seller;
- unable to obtain financing for these acquisitions on economically acceptable terms; or
- outbid by competitors.

If Resolute is unable to acquire properties containing proved reserves at acceptable costs, Resolute s total level of proved reserves and associated future production will decline as a result of its ongoing production of its reserves.

Any acquisitions Resolute completes are subject to substantial risks that could negatively affect its financial condition and results of operations.

Even if Resolute does make acquisitions that it believes will enhance its growth, financial condition or results of operations, any acquisition involves potential risks, including, among other things:

- the validity of Resolute s assumptions about the acquired properties or company s reserves, future production, the future prices of oil and gas, infrastructure requirements, environmental and other liabilities, revenue and costs;
- an inability to integrate successfully the properties and businesses Resolute acquires;
- a decrease in Resolute s liquidity to the extent it uses a significant portion of its available cash or borrowing capacity to finance acquisitions or operations of the acquired properties;
- a significant increase in its interest expense or financial leverage if Resolute incurs debt to finance acquisitions or operations of the acquired properties;
- the assumption of unknown liabilities, losses or costs for which Resolute is not indemnified or for which Resolute s indemnity is inadequate;
- the diversion of management s attention from other business concerns;
- an inability to hire, train or retain qualified personnel to manage and operate Resolute s growing business and assets;
- unforeseen difficulties encountered in operating in new geographic areas; and
- customer or key employee losses at the acquired businesses.

Resolute s decision to acquire a property or business will depend in part on the evaluation of data obtained from production reports and engineering studies, geophysical and geological analyses and seismic and other information, the results of which are often inconclusive and subject to various interpretations.

Also, Resolute s reviews of acquired properties are inherently incomplete because it generally is not feasible to perform an in-depth review of the individual properties involved in each acquisition. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential problems. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. The potential risks in making acquisitions could adversely affect Resolute s ability to achieve anticipated levels of cash flows from the acquired businesses or realize other anticipated benefits of those acquisitions.

Table of Contents

Resolute s future debt levels may limit its flexibility to obtain additional financing and pursue other business opportunities.

Resolute expects to have the ability to incur additional debt under its revolving credit facility, subject to borrowing base limitations. Resolute s increased level of indebtedness could have important consequences to Resolute, including:

- Resolute s ability to obtain additional financing, if necessary, for working capital, capital expenditures, acquisitions or other purposes may be impaired or such financing may not be available on favorable terms;
- covenants contained in Resolute s existing and future credit and debt arrangements will require it to meet financial tests that may affect its flexibility in planning for and reacting to changes in its business, including possible acquisition opportunities;
- Resolute will need a substantial portion of its cash flow to make principal and interest payments on its indebtedness, reducing the funds that would otherwise be available for operations and future business opportunities; and
- Resolute s debt level will make it more vulnerable than its competitors with less debt to competitive pressures or a downturn in its business or the economy generally.

Resolute s ability to service its indebtedness will depend upon, among other things, its future financial and operating performance, which will be affected by prevailing economic conditions and financial, business, regulatory and other factors, some of which are beyond Resolute s control. If Resolute s operating results are not sufficient to service its current or future indebtedness, it will be forced to take actions such as reducing or delaying business activities, acquisitions, investments and/or capital expenditures, selling assets, restructuring or refinancing Resolute s indebtedness, or seeking additional equity capital or bankruptcy protection. Resolute may not be able to effect any of these remedies on satisfactory terms or at all.

Resolute s revolving credit facility has substantial financial and operating covenants that restrict Resolute s business and financing activities and prohibit Resolute from paying dividends. Future borrowing agreements would likely include similar restrictions.

The operating and financial covenants in Resolute s senior secured revolving credit facility restrict Resolute s ability to finance future operations or capital needs or to engage, expand or pursue its business activities. Resolute s revolving credit facility currently restricts, and it anticipates that any amendment to such facility would restrict, its ability to:

- incur indebtedness;
- grant liens;
- make acquisitions and investments;
- lease equipment;
- redeem or prepay other debt;
- pay dividends to shareholders or repurchase shares;
- enter into transactions with affiliates; and

enter into a merger, consolidation or sale of assets.

The revolving credit agreement matures in March 2014, unless extended, and is secured by all of Resolute s oil and gas properties as well as a pledge of all ownership interests in operating subsidiaries. The revolving credit agreement has a borrowing base (currently $260 million) determined by the lenders based on their evaluation of the value of the collateral. Resolute is required to maintain a consolidated current ratio of at least 1.0 to 1.0 at the end of any fiscal quarter; and may not permit its Maximum Leverage Ratio (consolidated indebtedness to

consolidated EBITDA as defined in the credit agreement) to exceed 4.0 to 1.0 at the end of each fiscal quarter. Resolute s revolving credit facility does not permit it to pay dividends to shareholders.

Resolute may enter into additional borrowing agreements which would likely include additional operating and financial covenants.

Shortages of qualified personnel or field equipment and services could affect Resolute s ability to execute its plans on a timely basis, reduce its cash flow and adversely affect its results of operations.

The demand for qualified and experienced geologists, geophysicists, engineers, field operations specialists, landmen, financial experts and other personnel in the oil and gas industry can fluctuate significantly, often in correlation with oil and gas prices, causing periodic shortages. From time to time, there also have been shortages of drilling rigs and other field equipment, as demand for rigs and equipment has increased along with the number of wells being drilled. These factors can also result in significant increases in costs for equipment, services and personnel. Higher oil and gas prices generally stimulate increased demand and result in increased prices for drilling rigs, crews and associated supplies, equipment and services. Historically, increased demand resulting from high commodity prices have at times significantly increased costs and resulted in some difficulty in obtaining drilling rigs, experienced crews and related services. Resolute may continue to experience such difficulties in the future. If shortages persist or prices continue to increase, Resolute s profit margin, cash flow and operating results could be adversely affected and Resolute s ability to conduct its operations in accordance with current plans and budgets could be restricted.

Resolute s derivative activities could reduce its net income, which could reduce the price at which the Company s stock may trade.

To achieve more predictable cash flow and to reduce Resolute s exposure to adverse changes in the price of oil and gas, Resolute has entered into, and plans to enter into in the future, derivative arrangements covering a significant portion of its oil and gas production. These derivative arrangements could result in both realized and unrealized derivative losses. Resolute s derivative instruments are subject to mark-to-market accounting treatment, and the change in fair market value of the instrument is reported in Resolute s statement of operations each quarter, which has resulted in, and will in the future likely result in, significant unrealized net gains or losses.

As of December 31, 2010, Resolute had in place oil swaps covering approximately 60% of its anticipated 2011 oil production at a weighted average price of $68.26 per Bbl, oil collars covering approximately 5% of its anticipated 2011 oil production with a floor of $80.00 per Bbl and a ceiling of $90.00 per Bbl, gas swaps covering approximately 47% of its anticipated 2011 gas production at a weighted average price of $9.32 per MMBtu, and gas basis derivatives at a weighted average price of $1.40 per MMBtu covering approximately 57% of its anticipated 2010 gas production. Additional instruments are also in place for future years. Resolute expects to continue to use derivative arrangements to reduce commodity price risk with respect to its estimated production from producing properties. Please read *Management s Discussion and Analysis of Financial Condition and Results of Operations of Resolute How Resolute Evaluates Its Operations Production Levels, Trends and Prices* and *Management s Discussion and Analysis of Financial Condition and Results of Resolute Quantitative and Qualitative Disclosures About Market Risk*.

Resolute s actual future production during a period may be significantly higher or lower than it estimates at the time it enters into derivative transactions for such period. If the actual amount is higher than it estimates, it will have more unhedged production and therefore greater commodity price exposure than it intended. If the actual amount is lower than the nominal amount that is subject to Resolute s derivative financial instruments, whether due to issues with our sales to Western, natural declines in production and the failure to develop new reserves, the efficacy of our CO_2 project or other factors, Resolute might be forced to satisfy all or a portion of its derivative transactions in cash without the benefit of the cash flow from its sale of the underlying physical commodity, resulting in a substantial

diminution of its liquidity. As a result of these factors, Resolute s derivative activities may not be as effective as it intends in reducing the volatility of its cash flows, and in certain circumstances may actually increase the volatility of its cash flows.

Table of Contents

In addition, Resolute s derivative activities are subject to the risk that a counterparty may not perform its obligation under the applicable derivative instrument. If derivative counterparties, some of which have received governmental support in connection with the ongoing credit crisis, are unable to make payments to Resolute under its derivative arrangements, Resolute s results of operations, financial condition and liquidity would be adversely affected.

The effectiveness of derivative transactions to protect Resolute from future oil price declines will be dependent upon oil prices at the time it enters into future derivative transactions as well as its future levels of hedging, and as a result its future net cash flow may be more sensitive to commodity price changes.

As Resolute s derivatives expire, more of its future production will be sold at market prices unless it enters into additional derivative transactions. Resolute s revolving credit facility prohibits it from entering into derivative arrangements for more than 85% of its production from projected proved developed producing reserves using economic parameters specified in its credit agreements. The prices at which Resolute hedges its production in the future will be dependent upon commodity prices at the time it enters into these transactions, which may be substantially lower than current prices. Accordingly, Resolute s commodity price hedging strategy will not protect it from significant and sustained declines in oil and gas prices received for its future production. Conversely, Resolute s commodity price hedging strategy may limit its ability to realize cash flow from commodity price increases. It is also possible that a larger percentage of Resolute s future production will not be hedged as the Company s derivative policies may change, which would result in its oil revenue becoming more sensitive to commodity price changes.

The nature of Resolute s assets exposes it to significant costs and liabilities with respect to environmental and operational safety matters. Resolute is also responsible for costs associated with the removal and remediation of the decommissioned Aneth Gas Processing Plant.

Resolute may incur significant costs and liabilities as a result of environmental, health and safety requirements applicable to its oil and gas exploitation, production and other activities. These costs and liabilities could arise under a wide range of environmental, health and safety laws and regulations, including agency interpretations thereof and governmental enforcement policies, which have tended to become increasingly strict over time. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of investigatory, cleanup and site restoration costs and liens, the denial or revocation of permits or other authorizations and the issuance of injunctions to limit or cease operations. Compliance with these laws and regulations also increases the cost of Resolute s operations and may prevent or delay the commencement or continuance of a given operation. In addition, claims for damages to persons or property may result from environmental and other impacts of its operations.

Resolute has an interest in the Aneth Gas Processing Plant, which is currently being decommissioned. Under Resolute s purchase agreement with Chevron, Chevron is responsible for indemnifying Resolute against the decommissioning and clean-up or remediation costs allocable to the 39% interest Resolute purchased from it. Under Resolute s purchase agreement with ExxonMobil, however, Resolute is responsible for the decommissioning and clean-up or remediation cost allocable to the interests it purchased from ExxonMobil, which is 25% of the total cost of the project. If Chevron fails to pay its share of the decommissioning costs in accordance with the purchase agreement, Resolute could be held responsible for 64% of the total costs to decommission and remediate the Aneth Gas Processing Plant. Chevron is managing the decommissioning process and, based on Resolute s current estimate, the total cost of the decommissioning is $24.4 million. $20.9 million has already been incurred and paid for as of December 31, 2010. This estimate does not include any costs for any possible subsurface clean-up or remediation of the site.

The Aneth Gas Processing Plant site was previously evaluated by the U.S. EPA for possible listing on the NPL of sites contaminated with hazardous substances with the highest priority for clean-up under the CERCLA. Based on its

investigation, the EPA concluded no further investigation was warranted and that the site was not required to be listed on the NPL. The Navajo Environmental Protection Agency now has primary jurisdiction over the Aneth Gas Processing Plant site, however, and Resolute cannot predict whether it will require further

Table of Contents

investigation and possible clean-up, and the ultimate cleanup liability may be affected by the recent enactment by the Navajo Nation of the Navajo CERCLA. In some matters, the Navajo CERCLA imposes broader obligations and liabilities than the federal CERCLA. Resolute has been advised by Chevron that a significant portion of the subsurface clean-up or remediation costs, if any, would be covered by an indemnity from the prior owner of the plant, and Chevron has provided Resolute with a copy of the pertinent purchase agreement that appears to support its position. Resolute cannot predict whether any subsurface remediation will be required or what the costs of the subsurface clean-up or remediation could be. Additionally, it cannot be certain whether any of such costs will be reimbursable to it pursuant to the indemnity of the prior owner. To the extent any such costs are incurred and not reimbursed pursuant to the indemnity from the prior owner, Resolute would be liable for 25% of such costs as a result of its acquisition of the ExxonMobil Properties. Please read *Resolute s Business Aneth Gas Processing Plant* for additional information about this liability.

Strict or joint and several liability to remediate contamination may be imposed under environmental laws, which could cause Resolute to become liable for the conduct of others or for consequences of its own actions that were in compliance with all applicable laws at the time those actions were taken. New or modified environmental, health or safety laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. Please read *Resolute s Business Environmental, Health and Safety Matters and Regulation* for more information.

Resolute may be unable to compete effectively with larger companies, which may adversely affect its operations and ability to generate and maintain sufficient revenue.

The oil and gas industry is intensely competitive, and Resolute competes with companies that have greater resources. Many of these companies not only explore for and produce oil and gas, but also refine and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for oil and gas properties and exploratory prospects or identify, evaluate, bid for and purchase a greater number of properties and prospects than Resolute s financial or human resources permit. In addition, these companies may have a greater ability to continue exploration or exploitation activities during periods of low oil and gas market prices. Resolute s larger competitors may be able to absorb the burden of present and future federal, state, local and other laws and regulations more easily than Resolute can, which would adversely affect Resolute s competitive position. Resolute s ability to acquire additional properties and to discover reserves in the future will depend upon its ability to evaluate and select suitable properties and to consummate transactions in this highly competitive environment.

Resolute is subject to complex federal, state, tribal, local and other laws and regulations that could adversely affect the cost, manner or feasibility of doing business.

Exploration, exploitation, development, production and marketing operations in the oil and gas industry are regulated extensively at the federal, state and local levels. In addition, substantially all of Resolute s current leases in the Aneth Field are regulated by the Navajo Nation. Some of its future leases may be regulated by Native American tribes. Environmental and other governmental laws and regulations have increased the costs to plan, design, drill, install, operate and properly abandon oil and gas wells and other recovery operations. Under these laws and regulations, Resolute could also be liable for personal injuries, property damage and other damages. Failure to comply with these laws and regulations may result in the suspension or termination of Resolute s operations or denial or revocation of permits and subject Resolute to administrative, civil and criminal penalties. In addition, the President s budget and other legislative proposals would terminate various tax deductions currently available to companies engaged in oil and gas development and production. Tax deductions that are proposed to be terminated include the deduction for intangible drilling and development costs, the deduction for qualified tertiary injectant expenses, and the domestic manufacturing deduction. If enacted, the elimination of these deductions will adversely affect our business.

Part of the regulatory environment in which Resolute operates includes, in some cases, federal requirements for obtaining environmental assessments, environmental impact statements and/or plans of development before commencing exploration and production activities. In addition, Resolute s activities are subject to regulation by oil and gas producing states and the Navajo Nation regarding conservation practices, protection of correlative rights

Table of Contents

and other concerns. These regulations affect Resolute s operations and could limit the quantity of oil and gas it may produce and sell. A risk inherent in Resolute s CO_2 flood project is the need to obtain permits from federal, state, local and Navajo Nation tribal authorities. Delays or failures in obtaining regulatory approvals or permits or the receipt of an approval or permit with unreasonable conditions or costs could have a material adverse effect on Resolute s ability to exploit its properties. Additionally, the oil and gas regulatory environment could change in ways that might substantially increase the financial and managerial costs to comply with the requirements of these laws and regulations and, consequently, adversely affect Resolute s profitability. Proposed GHG reporting rules and proposed GHG cap and trade legislation are two examples of proposed changes in the regulatory climate that would affect Resolute. Furthermore, Resolute may be placed at a competitive disadvantage to larger companies in the industry, which can spread these additional costs over a greater number of wells and larger operating staff. Please read *Resolute s Business Environmental, Health and Safety Matters and Regulation* and *Resolute s Business Other Regulation of the Oil and Gas Industry* for a description of the laws and regulations that affect Resolute.

Possible regulation related to global warming and climate change could have an adverse effect on Resolute s operations and demand for oil and gas.

Recent scientific studies have suggested that emissions of GHG, including CO_2 and methane, may be contributing to warming of the Earth s atmosphere. In response to such studies, the U.S. Congress is considering legislation to reduce emissions of GHG. In addition, several states have already taken legal measures to reduce emissions of GHG. As a result of the U.S. Supreme Court s decision on April 2, 2007, in *Massachusetts, et al. v. EPA*, the EPA also may be required to regulate GHG emissions from mobile sources (e.g. cars and trucks) even if Congress does not adopt new legislation specifically addressing emissions of GHG. Other nations have already agreed to regulate emissions of GHG, pursuant to the United Nations Framework Convention on Climate Change, and the subsequent Kyoto Protocol, an international treaty pursuant to which participating countries (not including the United States) have agreed to reduce their emissions of GHG to below 1990 levels by 2012. Passage of state or federal climate control legislation or other regulatory initiatives or the adoption of regulations by the EPA and state agencies that restrict emissions of GHG in areas in which Resolute conducts business could have an adverse effect on Resolute s operations and demand for oil and gas.

Resolute depends on a limited number of key personnel who would be difficult to replace.

Resolute depends substantially on the performance of its executive officers and other key employees. Resolute has not entered into any employment agreements with any of these employees, and Resolute does not maintain key person life insurance policies on any of these employees. The loss of any member of the senior management team or other key employees could negatively affect Resolute s ability to execute its business strategy.

Terrorist attacks aimed at Resolute s facilities or operations could adversely affect its business.

The United States has been the target of terrorist attacks of unprecedented scale. The U.S. government has issued warnings that U.S. energy assets may be the future targets of terrorist organizations. These developments have subjected Resolute s operations to increased risks. Any terrorist attack at Resolute s facilities, or those of its customers or suppliers, could have a material adverse effect on Resolute s business.

Work stoppages or other labor issues at Resolute s facilities could adversely affect its business, financial position, results of operations, or cash flows.

As of December 31, 2010, approximately 39 of Resolute s field level employees were represented by the USW, and covered by a collective bargaining agreement. Although Resolute believes that its relations with its employees are generally satisfactory, if Resolute is unable to reach agreement with any of its unionized work groups on future

negotiations regarding the terms of their collective bargaining agreements, or if additional segments of Resolute s workforce become unionized, Resolute may be subject to work interruptions or stoppages. In addition, work stoppages have occurred in the past as a result of protests by local tribal members. Work stoppages at the facilities of Resolute s customers or suppliers may also negatively affect Resolute s business. If any of Resolute s customers experience a material work stoppage, the customer may halt or limit the

Table of Contents

purchase of Resolute s products. Moreover, if any of Resolute s suppliers experience a work stoppage, its operations could be adversely affected if an alternative source of supply is not readily available. Any of these events could be disruptive to Resolute s operations and could adversely affect its business, financial position, results of operations, or cash flows.

Resolute may be required to write down the carrying value of its properties in the future.

Resolute uses the full cost accounting method for oil and gas exploitation, development and exploration activities. Under the full cost method rules, Resolute performs a ceiling test and if the net capitalized costs for a cost center exceed the ceiling for the relevant properties, it writes down the book value of the properties. Accordingly, Resolute could recognize impairments in the future if oil and gas prices are low, if Resolute has substantial downward adjustments to its estimated proved reserves, if Resolute experiences increases in its estimates of development costs or deterioration in its exploration and development results.

At December 31, 2009, using its year-end reserve estimates prepared in accordance with the then recently promulgated SEC rules, total capitalized costs exceeded the full cost ceiling by approximately $150 million. No impairment expense was recorded at December 31, 2009, as the Company requested and received an exemption from the SEC to exclude the Resolute Transaction from the full cost ceiling assessment for a period of twelve months following the acquisition, provided the Company was able to demonstrate that the fair value of the acquired properties exceeded the carrying value in the interim periods through June 30, 2010, which was the case. No ceiling test impairment expense was recorded during 2010.

Compliance with the Sarbanes-Oxley Act of 2002 and other obligations of being a public company will require substantial financial and management resources.

Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, requires that the Company evaluate and report on its system of internal controls. If the Company fails to maintain the adequacy of its internal controls, it could be subject to regulatory scrutiny, civil or criminal penalties and/or stockholder litigation. Any inability to provide reliable financial reports could harm the Company s business. Section 404 of the Sarbanes-Oxley Act also requires that the Company s independent registered public accounting firm report on management s evaluation of the Company s system of internal controls. Any failure to maintain the adequacy of its internal controls could harm the Company s operating results or cause the Company to fail to meet its reporting obligations. Inferior internal controls could also cause investors to lose confidence in the Company s reported financial information, which could have a negative effect on the trading price of the shares of Company common stock.

Delaware law and our amended and restated charter documents may impede or discourage a takeover that our stockholders may consider favorable.

Our amended and restated charter and bylaws have provisions that may deter, delay or prevent a third party from acquiring us. These provisions include:

- limitations on the ability of stockholders to amend our charter documents, including stockholder supermajority voting requirements

- the inability of stockholders to act by written consent or to call special meetings.

- a classified board of directors with staggered three-year terms;

- the authority of our board of directors to issue, without stockholder approval, up to 1,000,000 shares of preferred stock with such terms as the board of directors may determine and to issue additional shares of our common stock; and

- advance notice procedures with respect to stockholder proposals and the nomination of candidates for election as directors.

Offers or availability for resale of a substantial number of shares of our common stock may cause the price of our common stock to decline.

If our warrant holders exercise outstanding Warrants and sell substantial amounts of our common stock in the public market, or if our stockholders resell substantial amounts of our common stock pursuant to a registration statement or upon the expiration of any statutory holding period under Rule 144 or Rule 145 under the Securities Act of 1933, as amended (the Securities Act), such resales could create a circumstance commonly referred to as an overhang and in anticipation of which the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could exert downward pressure on our stock price and make it more difficult for us to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate. At December 31, 2010, the Company had outstanding warrants to purchase 48,400,000 shares of common stock at an exercise price of $13.00 per share, representing approximately 88% of the Company s outstanding common stock at such date. Exercise of these warrants will result in dilution to our stockholders, which could cause the market price of our common stock to decline.

Registration rights held by certain of our stockholders may have an adverse effect on the market price of our common stock.

The Company s Registration Statement on Form S-1 (File No. 333-167894) (the Registration Statement), declared effective in June 2010, registered for resale 12,859,193 shares of Company common stock by certain selling stockholders identified therein (the Resale Shares). The sale of the Resale Shares in the public market pursuant to the Registration Statement could adversely affect the market price of our common stock or impact our ability to raise additional equity capital.

In addition under a Registration Rights Agreement entered into in connection with the Resolute Transaction, holders of registrable securities have the right to demand registration under the Securities Act of all or a portion of their registrable securities subject to amount and time limitations. Holders of the registrable securities may demand four registrations. Additionally, whenever (i) we propose to register any of our securities under the Securities Act and (ii) the method we select would permit the registration of registrable securities, holder of registrable securities have the right to request the inclusion of their registrable securities in such registration. The resale of these shares in the public market upon exercise of the registration rights described above may also adversely affect the market price of our common stock or impact our ability to raise additional equity capital. Parties to the Registration Rights Agreement have right to request registration of (i) shares representing 8% of our outstanding common stock at December 31, 2010, and (ii) an additional 20,800,000 shares purchasable on exercise of outstanding warrants.

ITEM 3. LEGAL PROCEEDINGS

Legal Proceedings

Resolute is not a party to any material pending legal or governmental proceedings, other than ordinary routine litigation incidental to its business. While the ultimate outcome and impact of any proceeding cannot be predicted with certainty, Resolute s management believes that the resolution of any of its pending proceedings will not have a material adverse effect on its financial condition or results of operations.

ITEM 4. RESERVED

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price Range of Common Stock and Number of Holders

Resolute s common stock is listed on the New York Stock Exchange under the symbol REN . The following table sets forth the high and the low sale prices per share of Resolute s common stock for the twelve months ended December 31, 2010 and 2009. The closing price of the common stock on March 11, 2011 was $17.45.

	2010		2009	
Period	High	Low	High	Low
1st Quarter	$ 12.66	$ 10.46	$	$
2nd Quarter	$ 13.87	$ 11.59	$	$
3rd Quarter	$ 12.82	$ 10.48	$ 10.60	$ 9.72
4th Quarter	$ 14.83	$ 10.91	$ 11.79	$ 10.12

As of March 10, 2011, there were approximately 92 record holders of Resolute s common stock.

Resolute s warrants are listed on the New York Stock Exchange under the symbol RENWS . The following table sets forth the high and the low sale prices per share of Resolute s warrants for the twelve months ended December 31, 2010 and 2009. The closing price of the warrants on March 11, 2011 was $4.58.

	2010		2009	
Period	High	Low	High	Low
1st Quarter	$ 2.61	$ 1.77	$	$
2nd Quarter	$ 3.20	$ 1.96	$	$
3rd Quarter	$ 2.59	$ 1.38	$ 1.65	$ 1.00
4th Quarter	$ 3.33	$ 1.70	$ 2.38	$ 1.40

Issuer Purchases of Equity Securities

In connection with the vesting of Resolute Energy Corporation restricted common stock under the 2009 Long Term Performance Incentive Plan (LTIP) on December 31, 2010, the Company retained 142,468 shares of common stock at the election of the recipients of such awards in satisfaction of withholding tax obligations. Such shares were valued at $14.76 per share, the closing price of the Company s common stock on the NYSE on December 31, 2010. These shares were retired by the Company.

Dividend Policy

Resolute has not declared any cash dividends on its common stock since inception and has no plans to do so in the foreseeable future. The ability of Resolute s Board of Directors to declare any dividend is subject to limits imposed by the terms of its credit agreement, which currently prohibit Resolute from paying dividends on its common stock. Resolute s ability to pay dividends is also subject to limits imposed by Delaware law. In determining whether to

declare dividends, the Board of Directors will consider the limits imposed by the credit agreement, financial condition, results of operations, working capital requirements, future prospects and other factors it considers relevant.

Table of Contents

Comparison of Cumulative Return

The following graph compares the cumulative return on a $100 investment in Resolute common stock from September 28, 2009, the date the common stock began trading on the New York Stock Exchange, through December 31, 2010, to that of the cumulative return on a $100 investment in the Russell 2000 Index and the S&P 500 Energy Index for the same period. In calculating the cumulative return, reinvestment of dividends, if any, is assumed. The indices are included for comparative purpose only. This graph is not soliciting material, is not deemed filed with the SEC and is not to be incorporated by reference in any of our filings under the Securities Act of 1933 or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

COMPARISON OF CUMULATIVE TOTAL RETURN
AMONG RESOLUTE ENERGY CORPORATION, THE RUSSELL 2000 INDEX,
AND THE S&P 500 ENERGY INDEX

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The following table presents Resolute s selected historical financial data for the years ended December 31, 2010, 2009, 2008 and 2007. The consolidated balance sheet and income statement information are derived from Resolute s audited financial statements. HACI was the accounting acquirer and, accordingly, the historical financial data below reflects HACI through the date of the Resolute Transaction. Results of oil and gas operations are reflected from the date of the Resolute Transaction in September 2009. Future results may differ substantially from historical results because of changes in oil and gas prices, production increases or declines and other factors. This information should be read in conjunction with the consolidated financial statements and notes thereto and *Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations* presented elsewhere in this report. The discussion in Item 7 regarding the Resolute Transaction affects the comparability of the information provided in this Selected Financial Data.

	Year Ended December 31,			
	2010	**2009**	**2008**	**2007**
	(in thousands, except per share data)			
Statement of Operation Data:				
Revenue	$ 173,395	$ 42,416	$	$
Operating expenses	(142,225)	(57,361)	(1,560)	(1,036)
Income (loss) from operations	31,170	(14,945)	(1,560)	(1,036)
Other income (expense)	(22,597)	(50,185)	7,601	5,154
Income (loss) before income taxes	8,573	(65,130)	6,041	4,118
Income tax benefit (expense)	(2,388)	19,887	(2,054)	(1,401)
Net income (loss)	6,185	(45,243)	3,987	2,717
Earnings (loss) per share:				
Common stock, subject to redemption	$	$ (0.16)	$ 0.09	$ 0.06
Common stock, basic and diluted	$ 0.12	$ (0.93)	$ 0.06	$ $0.09
Weighted average shares outstanding:				
Common stock, subject to redemption		12,114	16,560	16,560
Common stock, basic	49,900	46,394	45,105	18,587
Common stock, diluted	50,475	46,394	45,105	18,587
Selected Cash Flow Data:				
Net cash provided by (used in) operating activities	$ 58,495	$ (12,164)	$ 3,031	$ 5,164
Net cash provided by (used in) investing activities	(69,123)	209,987	(2,264)	(541,302)
Net cash provided by (used in) financing activities	12,017	(198,197)		536,190

	As of December 31,			
	2010	**2009**	**2008**	**2007**
	(In thousands)			
Balance Sheet Data:				
Total assets	$ 760,523	$ 693,440	$ 544,797	$ 541,842
Long term debt	127,900	109,575		
Total liabilities	356,657	299,903	19,291	20,322

Stockholders equity	403,866	393,537	362,199	359,702

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto contained elsewhere in this report. Due to the nature of the Resolute Transaction, two sets of financial statements are presented in this report. The first set covers the reporting company, Resolute. The second set covers the predecessor company, Predecessor Resolute, through September 24, 2009.

The following discussion relating to the business of Resolute is presented in one combined section with the results for the twelve months ended December 31, 2010 compared to the combined results of Resolute for the 98 days ended December 31, 2009 and Predecessor Resolute for the 267 day period ended September 24, 2009 and the twelve months ended December 31, 2008.

Overview

Resolute is an independent oil and gas company engaged in the acquisition, exploration, development and production of oil, gas and hydrocarbon liquids. Resolute s strategy is to grow through exploration, exploitation and industry standard enhanced oil recovery projects.

As of December 31, 2010, Resolute s estimated net proved reserves were approximately 64.7 MMBoe, of which approximately 53% were proved developed reserves and approximately 78% were oil. The standardized measure of Resolute s estimated net proved reserves as of December 31, 2010, was $587 million. See Note 15 to the Consolidated Financial Statements.

Resolute focuses its efforts on increasing reserves and production while controlling costs at a level that is appropriate for long-term operations. Resolute s future earnings and cash flow from existing operations are dependent on a variety of factors including commodity prices, exploitation and recovery activities and its ability to manage its overall cost structure at a level that allows for profitable production.

How Resolute Evaluates Its Operations

Resolute s management uses a variety of financial and operational measurements to analyze its operating performance, including but not limited to, production levels, trends and prices, reserve and production volumes and trends, operating and general and administrative expenses, operating cash flow, and Adjusted EBITDA (defined below).

Production Levels, Trends and Prices. Oil and gas revenue is the product of Resolute s production multiplied by the price that it receives for that production. Because the price that Resolute receives is highly dependent on many factors outside of its control, except to the extent that it has entered into derivative arrangements that can influence its net price either positively or negatively, production is the primary revenue driver over which it has some influence. Although Resolute cannot greatly alter reservoir performance, it can aggressively implement exploitation activities that can increase production or diminish production declines relative to what would have been the case without intervention. Examples of activities that can positively influence production include minimizing production downtime due to equipment malfunction, well workovers and cleanouts, recompletions of existing wells in new parts of the reservoir, and expanded secondary and tertiary recovery programs. Total production for 2011 is expected to be between 2.95 and 3.05 MMBoe, or an average of 8,000 to 8,400 Boe per day.

The price of crude oil has been extremely volatile, and Resolute expects that this volatility will continue. Given the inherent volatility of crude oil prices, Resolute plans its activities and budget based on sales price assumptions that it believes to be reasonable. Resolute uses derivative arrangements to provide a measure of stability to its cash flows in

an environment of volatile oil and gas prices. These instruments limit its exposure to declines in prices, but also limit its expected benefits if prices increase. Changes in the price of oil or gas will result in the recognition of a non-cash gain or loss recorded in other income or expense due to changes in the fair value of the derivative arrangements. Recognized gains or losses only arise from payments made or received on monthly settlements of contracts or if a contract is terminated prior to its expiration. Resolute typically enters into derivative arrangements that cover a significant portion of its estimated future oil and gas production.

Resolute currently has such derivative arrangements in place through 2014. As of December 31, 2010, Resolute has oil swaps in place for 2011 covering the aggregate average daily oil volumes of 3,250 barrels of oil at a NYMEX weighted average price of $68.26 per Bbl, oil collars covering daily oil volumes of 250 barrels of oil with a floor of $80.00 per Bbl and a ceiling of $90.00 per Bbl, gas swaps covering daily gas volumes of 2,750 MMBtu at a NYMEX price of $9.32 per MMBtu and gas basis derivatives covering the aggregate average daily volumes of 3,300 MMBtu at a NYMEX weighted average price of $1.40 per MMBtu. These derivatives provide price protection (and potentially limit price received) on an estimated 58% at the midpoint of previously announced guidance relating to 2011 oil production and 56% at the midpoint of previously announced guidance relating to 2011 gas production.

Reserve and Production Volumes and Trends. From inception, Predecessor Resolute grew its reserve base through a focused acquisition strategy, completing three significant acquisitions. These included the acquisition of the majority of its Aneth Field Properties through two significant purchases: the acquisition of the Chevron Properties was completed in November 2004 followed by the acquisition of the ExxonMobil Properties in April 2006. Predecessor Resolute acquired all of its Wyoming Properties through the purchase of Primary Natural Resources, Inc. now known as RWI in July 2008. Resolute will continue to seek opportunities to acquire similar producing properties that have upside potential through low-risk development drilling and exploitation projects. Resolute believes that its knowledge of various domestic, on-shore operating areas, strong management and staff and solid industry relationships will allow it to locate, capitalize on and integrate strategic acquisition opportunities.

At December 31, 2010, Resolute had estimated net proved reserves of approximately 39.7 MMBoe that were classified as proved developed non-producing and proved undeveloped. An estimated 37.4 MMBoe, or 94%, of those reserves are attributable to recoveries associated with expansions, extensions and processing of the tertiary recovery CO_2 floods that are currently in operation on Resolute s Aneth Field Properties. Resolute expects to incur approximately $446.7 million of capital expenditures over the next 29 years (including purchases of CO_2 under existing contracts), in connection with bringing those incremental reserves attributable to Resolute s CO_2 flood projects into production. Resolute believes that these expenditures will result in significant increases in its oil and gas production.

Operating Expenses. Operating expenses are costs associated with the operation of oil and gas properties and are classified as lease operating expenses and production and ad valorem taxes. Direct labor, repair and maintenance, workovers, utilities and contract services comprise the most significant portion of lease operating expenses. Resolute monitors its operating expenses in relation to the amount of production and the number of wells operated. Some of these expenses are relatively independent of the volume of hydrocarbons produced, but may fluctuate depending on the activities performed during a specific period. Other expenses, such as taxes and utility costs, are more directly related to production volumes or reserves. Severance taxes, for example, are charged based on production revenue and therefore are based on the product of the volumes that are sold and the related price received. Ad valorem taxes are based on the value of reserves. Because Resolute operates on the Navajo Reservation, it also pays a possessory interest tax, which is effectively an ad valorem tax assessed by the Navajo Nation. Resolute s largest utility expense is for electricity that is used primarily to power the pumps in producing wells and the compressors behind the injection wells. The more fluid that is moved, the greater the amount of electricity that is consumed. In the recent past, higher oil prices led to higher demand for drilling rigs, workover rigs, operating personnel and field supplies and services, which in turn caused increases in the costs of those goods and services. Resolute projects 2011 cash lease operating expenses of $54 million to $58 million. Production taxes for 2011 are expected to be 14.25% to 14.75% of 2011 production revenue.

General and Administrative Expenses. Resolute monitors its general and administrative expenses carefully, attempting to balance the cash effect of incurring general and administrative costs against the benefits of, among other things, hiring and retaining highly qualified staff who can add value to the Company s asset base. General and administrative expenses include, among other things, salaries and benefits, share-based compensation, general corporate overhead,

fees paid to independent auditors, lawyers, petroleum engineers and other professional advisors, costs associated with shareholder reports, investor relations activities, registrar and transfer agent fees, director and officer liability insurance costs and director compensation. Resolute expects G&A expense will be $13 million to $15 million, excluding non-cash share-based compensation expense.

Operating Cash Flow. Operating cash flow is the cash directly derived from Resolute s oil and gas properties, before considering such things as administrative expenses and interest costs. Operating cash flow on a per unit of production basis is a measure of field efficiency, and can be compared to results obtained by operators of oil and gas properties with characteristics similar to Resolute s in order to evaluate relative performance. Aggregate operating cash flow is a measure of Resolute s ability to sustain overhead expenses and costs related to capital structure, including interest expenses.

Adjusted EBITDA. Adjusted EBITDA (a non-GAAP measure) is defined by the Company as consolidated net income adjusted to exclude interest expense, interest income, income taxes, depletion, depreciation and amortization, impairment expense, accretion of asset retirement obligation, change in fair value of derivative instruments, expiration of puts, non-cash equity-based compensation expense and noncontrolling interest amounts. This definition is consistent with the definition of Adjusted EBITDA in Resolute s existing credit agreement. Adjusted EBITDA is also a financial measure that Resolute expects will be reported to its lenders and used as a gauge for compliance with some of the financial covenants under its revolving credit facility.

Adjusted EBITDA is used as a supplemental liquidity or performance measure by Resolute s management and by external users of its financial statements such as investors, commercial banks, research analysts and others, to assess:

- the ability of Resolute s assets to generate cash sufficient to pay interest costs;
- the financial metrics that support Resolute s indebtedness;
- Resolute s ability to finance capital expenditures;
- financial performance of the assets without regard to financing methods, capital structure or historical cost basis;
- Resolute s operating performance and return on capital as compared to those of other companies in the exploration and production industry, without regard to financing methods or capital structure; and
- the viability of acquisitions and capital expenditure projects and the overall rates of return on alternative investment opportunities.

Adjusted EBITDA should not be considered an alternative to, or more meaningful than, net income, operating income, cash flows from operating activities or any other measure of financial performance presented in accordance with GAAP as measures of operating performance, liquidity or ability to service debt obligations. Because Resolute has borrowed money to finance its operations, interest expense is a necessary element of its costs and its ability to generate gross margins. Because Resolute uses capital assets, depletion, depreciation and amortization are also necessary elements of its costs. Therefore, any measures that exclude these elements have material limitations. To compensate for these limitations, Resolute believes that it is important to consider both net income and net cash provided by operating activities determined under GAAP, as well as Adjusted EBITDA, to evaluate its financial performance and liquidity. Adjusted EBITDA excludes some, but not all, items that affect net income, operating income and net cash provided by operating activities and these measures may vary among companies. Resolute s Adjusted EBITDA may not be comparable to Adjusted EBITDA or Adjusted EBITDA of any other company because other entities may not calculate these measures in the same manner.

Factors That Significantly Affect Resolute s Financial Results

Revenue, cash flow from operations and future growth depend substantially on factors beyond Resolute s control, such as economic, political and regulatory developments and competition from other sources of energy. Crude oil prices

have historically been volatile and may be expected to fluctuate widely in the future. Sustained periods of low prices for crude oil could materially and adversely affect Resolute s financial position, its results of operations, the quantities of oil and gas that it can economically produce, and its ability to obtain capital.

Like all businesses engaged in the exploration for and production of oil and gas, Resolute faces the challenge of natural production declines. As initial reservoir pressures are depleted, oil and gas production from a given well decreases. Thus, an oil and gas exploration and production company depletes part of its asset base with each unit of oil or gas it produces. Resolute attempts to overcome this natural decline by implementing secondary and

tertiary recovery techniques and by acquiring more reserves than it produces. Resolute s future growth will depend on its ability to enhance production levels from existing reserves and to continue to add reserves in excess of production through exploration, development and acquisition. Resolute will maintain its focus on costs necessary to produce its reserves as well as the costs necessary to add reserves through production enhancement, drilling and acquisitions. Resolute s ability to make capital expenditures to increase production from existing reserves and to acquire more reserves is dependent on availability of capital resources, and can be limited by many factors, including the ability to obtain capital in a cost-effective manner and to timely obtain permits and regulatory approvals.

Results of Operations

Through September 24, 2009, HACI s efforts had been primarily limited to organizational activities, activities relating to its initial public offering, activities relating to identifying and evaluating prospective acquisition candidates, and activities relating to general corporate matters. HACI had not generated any revenue, other than interest income earned on the proceeds of its initial public offering.

For the purposes of management s discussion and analysis of the results of operations of Resolute, management has analyzed the operational results for the twelve months ended December 31, 2010, in comparison to the combined results of Resolute for the unaudited 98 day period ended December 31, 2009 and Predecessor Resolute for the audited 267 day period ended September 24, 2009 and the audited twelve months ended December 31, 2008, except where indicated.

The following table reflects the components of the Company s sales volumes, revenues, operating expenses, and sets forth its sales prices, costs and expenses on an equivalent barrel of oil (Boe) basis for the periods indicated for Resolute and Predecessor Resolute.

	Resolute Twelve Months Ended December 31, 2010	Resolute 98 Day Period Ended December 31, 2009	Predecessor Resolute 267 Day Period Ended September 24, 2009	Combined Twelve Months Ended December 31, 2009	Predecessor Resolute Twelve Months Ended December 31, 2008
	(In thousands except where indicated)				
Net Sales:					
Total sales (MBoe)	2,730	703	2,011	2,714	2,823
Average daily sales (Boe/d)	7,478	7,172	7,530	7,434	7,712
Revenue:					
Revenue from oil and gas activities	$ 173,395	$ 42,416	$ 85,345	$ 127,761	$ 229,172
Operating Expenses:					
Lease operating	$ 51,618	$ 16,185	$ 33,750	$ 49,935	$ 56,570
Production and ad valorem taxes	24,151	5,807	13,021	18,828	29,420
General and administrative	19,440	23,828	8,077	31,905	20,211
General and administrative (excluding non-cash compensation expense)	13,499	22,909	5,259	28,168	12,333
	47,016	11,541	21,925	33,466	50,335

Depletion, depreciation, amortization and accretion					
Other Income (Expense):					
Interest expense	$ (4,854)	$ (1,538)	$ (18,416)	$ (19,954)	$ (33,139)
Realized and unrealized gain (loss) on derivative instruments	(17,842)	(49,514)	(23,519)	(73,033)	96,032
Income tax benefit (expense)	(2,388)	19,887	5,019	24,906	18,247
Average Sales Prices ($/Boe):					
Average sales price (excluding derivative settlements)	$ 63.52	$ 60.35	$ 42.45	$ 47.08	$ 81.19
Operating Expenses ($/Boe):					
Lease operating	$ 18.91	$ 23.03	$ 16.79	$ 18.40	$ 20.04
Production and ad valorem taxes	8.85	8.26	6.48	6.94	10.42
General and administrative	7.12	33.90	4.02	11.76	7.16
General and administrative (excluding non-cash compensation expense)	4.95	32.59	2.62	10.38	4.37
Depletion, depreciation, amortization and accretion	17.22	16.42	10.90	12.33	17.83

Year Ended December 31, 2010, Compared to the Year Ended December 31, 2009

Revenue. Revenue from oil and gas activities increased to $173.4 million during 2010, from $127.8 million during 2009. Total production increased 0.6% during 2010 as compared to 2009, from 2,714 MBoe to 2,730 MBoe. The increase in production was largely attributed to an increased response from the Company s CO_2 flood and recompletion projects in its Aneth Field Properties. In addition to natural production declines, the overall increase in production was offset by limited compression capability at the Western Gas Resources Hilight Plant for the majority of 2010. Full compression capability was restored in September 2010, and management estimates that these constraints resulted in a reduction in production volumes of approximately 29.5 MBoe during the year, as compared to what the field was capable of producing if unconstrained. In addition, the Company voluntarily shutdown a portion of its coalbed methane production in Wyoming during 2009 due to uneconomic product prices for natural gas in that area. This led to a reduction of production volumes in 2010 of approximately 28.9 MBoe. Further, in 2009 the Company deferred its anticipated capital projects due to low product prices and limited financial liquidity. Had these anticipated capital projects been completed, the resulting additional production in 2010 may have partially offset the natural production declines.

In addition to increased production versus 2009, the Company experienced an increase in average sales price, excluding derivatives settlements, from $47.08 per Boe in 2009 to $63.52 per Boe in 2010, as a result of increased commodity pricing.

Operating Expenses. Lease operating expenses increased to $51.6 million during 2010, from $49.9 million during 2009. The $1.7 million, or 3.4%, increase was primarily attributable to a $1.0 million increase in equipment maintenance and supplies, $0.9 million increase in utilities and fuel and a $0.4 million increase in labor costs. The overall increase was offset by decreases in workover and compression and gathering expenses.

Production and ad valorem taxes increased to $24.2 million during 2010 from $18.8 million during 2009. The $5.4 million, or 28.7% increase was mainly due to the 35.7% increase in revenue. The increase in production and ad valorem taxes was offset by a decrease in the ad valorem tax rate from 14.7% of total revenue in 2009 to 13.9% of total revenue in 2010.

Depletion, depreciation, amortization and accretion expenses increased to $47.0 million during 2010, as compared to $33.5 million during 2009. The $13.5 million, or 40.3%, increase is mainly due to an increase in the per Boe depletion, depreciation and amortization rate from $12.33 per Boe in 2009 to $17.22 per Boe in 2010, due to increased capital spending versus 2009 and the increased depletable base that resulted from the acquisition accounting on the date of the Resolute Transaction.

Pursuant to full cost accounting rules, Resolute performs a ceiling test each quarter on its proved oil and gas assets. As a result of this limitation on capitalized costs, Predecessor Resolute included a provision for an impairment of oil and gas property costs of $13.3 million during the 267 day period ended September 24, 2009. No provision for impairment was recorded in 2010.

General and administrative expenses decreased to $19.4 million during 2010, as compared to $31.9 million during 2009. The $12.5 million, or 39.2%, decrease in the absolute level of general and administrative expenses principally resulted from a decrease of $19.1 million in acquisition and transaction costs incurred in 2009 in connection with the Resolute Transaction, the like of which were not incurred during 2010. Outside of these costs, the Company incurred a $0.8 million increase in corporate overhead, a $0.8 million increase in professional services and consulting fees, a $4.2 million increase in personnel costs due to additional employees versus 2009 and accrual of the Company s Short Term Incentive Plan and an increase of $2.2 million in stock based compensation awarded under the Company s 2009 Performance Incentive Plan.

Other Income (Expense). All oil and gas derivative instruments are accounted for under mark-to-market accounting rules, which provide for the fair value of the contracts to be reflected as either an asset or a liability on the balance sheet. The change in the fair value during an accounting period is reflected in the income statement for that period. During 2010, the realized and unrealized losses on of oil and gas derivatives totaled $17.8 million. This amount included approximately $8.2 million of realized losses on oil and gas derivatives and $9.6 million of decreases in the unrealized fair value of oil and gas derivatives. During 2009, the realized and unrealized losses

on oil and gas derivatives totaled $73.0 million and included approximately $71.8 million of unrealized losses in the fair value of oil and gas derivatives and $1.2 million of realized losses from monthly settlements.

Interest expense was $4.9 million during 2010, as compared to $20.0 million during 2009. The $15.1 million, or 75.5%, decrease is attributable to lower interest rates and a lower average debt balance during 2010 as the Company utilized funds received in the Resolute Transaction in 2009 to pay off a significant amount of debt on the Acquisition Date.

Income Tax Benefit (Expense). Income tax expense recognized during 2010 was $2.4 million, or 27.9% of income before income taxes, as compared to an income tax benefit of $24.9 million, or 22.3% of loss before income taxes, for Resolute in 2009. The change in the effective rate reflects the differing tax jurisdictions in which Resolute operates following the Resolute Transaction, permanent differences relating to transaction costs in 2009 and the differing entities subject to federal and state income tax prior to the Resolute Transaction. Income tax expense differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% due to state income taxes, estimated permanent differences and revisions to prior year estimates as a result of final income tax return filings. Resolute carried a $12.0 million current deferred tax asset at December 31, 2010, for which no valuation allowance was recorded as it is more likely than not that the asset will be realized due to projected future taxable income. The Company expects income tax benefit (expense) to more closely reflect the U.S. federal income tax rate of 35% in future years.

Year Ended December 31, 2009, Compared to the year Ended December 31, 2008

Revenue. Revenue from oil and gas activities decreased to $127.8 million during 2009, from $229.2 million during 2008. Total production decreased 3.9% during 2009 as compared to 2008, and decreased only 3.6% during 2009 on a daily basis as compared to 2008. The overall production decrease was primarily due to the previously discussed shutdown of CBM wells in 2009 that were producing in 2008. This decrease was mitigated on a daily basis by an increased CO_2 production response in Aneth versus 2008. The average sales price per Boe, excluding derivative settlements, decreased by $34.11 per Boe or 42.0% in 2009 as compared to 2008 due to lower commodity pricing in 2009.

Operating Expenses. Lease operating expenses decreased to $49.9 million during 2009, from $56.6 million during 2008. The $6.7 million, or 11.8%, decrease was mainly attributable to a $2.4 million decrease in workover expenses, $2.4 million decrease in labor costs and a $1.2 million decrease in compression and gathering.

Production and ad valorem taxes decreased to $18.8 million during 2009 from $29.4 million during 2008. The $10.6 million, or 36.1% decrease was mainly due to the 44.2% decrease in revenue. The decrease was offset by an increase in the production and ad valorem tax rate to 14.7% in 2009, compared to 12.8% in 2008.

Depletion, depreciation, amortization and accretion expenses decreased to $33.5 million during 2009, as compared to $50.3 million during 2008. The $16.8 million, or 33.4%, decrease is primarily due to a decrease in the per Boe depletion, depreciation and amortization rate from $17.83 per Boe in 2008 to $12.33 per Boe in 2009, due to the reduction in the carrying value of proved oil and gas properties in 2009 following the impairment of proved properties at December 31, 2008 and March 31, 2009.

Resolute recorded a ceiling test impairment of oil and gas property costs during 2009 and 2008 of $13.3 million and $245.0 million, respectively.

General and administrative expenses increased to $31.9 million during 2009, as compared to $20.2 million during 2008. The $11.7 million, or 57.9%, increase in the absolute level of general and administrative expenses principally

resulted from an increase of $14.0 million of acquisition and transaction costs associated with the Resolute Transaction (including $3.5 million in deferred acquisition costs) to $19.1 million versus $5.1 million of similar costs in 2008 and increases in salaries and wages of $2.9 million. These costs were offset by decreases of $4.3 million in non-cash charges to compensation expense and $1.1 million in professional services.

Other Income (Expense). During 2009, the fair value of oil and gas derivatives decreased by $73.0 million. This amount included approximately $1.2 million of realized losses on oil and gas derivatives, including a realized loss of $12.5 million that was incurred in 2009 to cash settle a 2010 derivative position as required under the terms of the Resolute Transaction, and $71.8 million of decreases in the unrealized fair value of oil and gas

derivatives. During 2008, the fair value of oil and gas derivatives increased by $96.0 million. This amount included approximately $120.6 million of unrealized gains in the fair value of oil and gas derivatives and $24.6 million of realized losses from monthly settlements.

Interest expense was $20.0 million during 2009, as compared to $33.1 million during 2008. The $13.1 million, or 39.6%, decrease is attributable to lower interest rates and a lower average debt balance during 2009.

Income Tax Benefit (Expense). Income tax benefit recognized during 2009 was $24.9 million, or 22.3% of the loss before income taxes, as compared to an income tax benefit of $18.2 million, or 16.8% of loss before income taxes in 2008. The change in the effective rate reflects the differing tax jurisdictions in which Resolute operates following the Resolute Transaction which occurred in 2009. Income tax expense differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% due to state income taxes, estimated permanent differences and inclusion of nontaxable entities prior to the Resolute Transaction.

Liquidity and Capital Resources

Resolute s primary sources of liquidity have been cash generated from operations and amounts available under its revolving Credit Facility (as defined below). During 2011, another significant source of liquidity is expected to be proceeds from the exercise of warrants for shares of Resolute common stock. Subsequent to December 31, 2010, and through March 11, 2011, the Company has received $41.6 million upon the exercise of 3,196,000 warrants.

Net cash provided by operating activities during 2010 was $58.5 million, which represents a $70.7 million increase from the $12.2 million used in operating activities during 2009. The increase was primarily due to a full year of oil and gas operations during 2010. Resolute plans to reinvest a sufficient amount of its cash flow in its development operations in order to maintain its production over the long term, and plans to use external financing sources as well as cash flow from operations and cash reserves to increase its production.

Net cash used in investing activities was $69.1 million in 2010 versus cash provided by investing activities of $210.0 million during 2009. The cash provided in 2009 was the result of activities related to the Resolute Transaction. The primary investing activities during 2010 were capital expenditures of $65.3 million. The 2010 capital expenditures were comprised of $30.8 million in leasehold and exploratory costs as a result of the acquisition and drilling of undeveloped leasehold acreage in Williams County, North Dakota, $12.9 million in CO_2 acquisition and $21.6 million in facility reconfiguration and other capital expenditures.

Net cash provided by financing activities was $12.0 million in 2010 and consisted primarily of $18.3 million in net bank borrowings less $4.0 million in deferred financing costs related to the amended credit agreement entered into by the Company on March 30, 2010. Net cash used in financing activities during 2009 related primarily to redemption and purchase of common stock and warrants as a result of the Resolute Transaction.

If cash flow from operating activities does not meet expectations, Resolute may reduce its expected level of capital expenditures and/or fund a portion of its capital expenditures using borrowings under its Credit Facility, issuances of debt and equity securities or from other sources, such as asset sales. There can be no assurance that needed capital will be available on acceptable terms or at all. Resolute s ability to raise funds through the incurrence of additional indebtedness could be limited by the covenants in its Credit Facility. If Resolute is unable to obtain funds when needed or on acceptable terms, it may not be able to complete acquisitions that may be favorable to it or finance the capital expenditures necessary to maintain production or proved reserves.

Resolute plans to continue its practice of hedging a significant portion of its production through the use of various derivative transactions. Resolute s existing derivative transactions do not qualify as cash flow hedges, and the

Company anticipates that future transactions will receive similar accounting treatment. Derivative arrangements are generally settled within five days of the end of the month. As is typical in the oil and gas industry, however, Resolute does not generally receive the proceeds from the sale of its crude oil production until the 20th day of the month following the month of production. As a result, when commodity prices increase above the fixed price in the derivative contacts, Resolute will be required to pay the derivative counterparty the difference between the fixed price in the derivative contract and the market price before receiving the proceeds

from the sale of the hedged production. If this occurs, Resolute may use working capital or borrowings under the Credit Facility to fund its operations.

Revolving Credit Facility

Resolute s credit facility is with a syndicate of banks led by Wells Fargo Bank, National Association (the Credit Facility) with Resolute as the borrower. The Credit Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of Resolute s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. On March 30, 2010, the Company entered into an amended and restated credit facility agreement. Under the terms of the restated agreement, the borrowing base was increased from $240.0 million to $260.0 million and the maturity date was extended to March 2014. At Resolute s option, the outstanding balance under the Credit Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 2.25% to 3.0% or (b) the Alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, or (iii) an adjusted London Interbank Offered Rate plus 1%, plus a margin which ranges from 1.25% to 2.0%. Each such margin is based on the level of utilization under the borrowing base. As of December 31, 2010, the weighted average interest rate on the outstanding balance under the Credit Facility was 3.15%.

The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either Resolute or the lenders may request an interim redetermination. As of December 31, 2010, outstanding borrowings were $127.9 million and unused availability under the borrowing base was $128.8 million. The borrowing base availability has been reduced by $3.3 million in conjunction with letters of credit issued to vendors at December 31, 2010. To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. The Credit Facility is collateralized by substantially all of the proved oil and gas assets of Aneth and RWI, and is guaranteed by Resolute s subsidiaries.

The Credit Facility includes terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. Resolute was in compliance with all terms and covenants of the Credit Facility at December 31, 2010.

As of March 11, 2011, Resolute had borrowings of $96.6 million under the Credit Facility, resulting in an unused availability of $160.1 million under the borrowing base.

Off Balance Sheet Arrangements

Resolute does not have any off-balance sheet financing arrangements other than operating leases. Resolute has not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Contractual Obligations

Resolute has the following contractual obligations and commitments as of December 31, 2010:

	Payments Due By Year (in thousands)						
	2011	**2012**	**2013**	**2014**	**2015**	**After 2015**	**Total (6)**

Long-term debt (1)	$	$	$	$ 127,900	$	$	$ 127,900
Office and equipment leases	553	501	537	27	36	9	1,663
Operating equipment leases(2)	2,747	2,747	2,747	2,747	2,332	3,455	16,775
Vehicle leases	543	507	307	127			1,484
ExxonMobil escrow agreement (3)	1,800	1,800	1,800	1,800	1,800	16,100	25,100
Construction purchase obligations (4)	11,638						11,638
CO_2 purchases (5)	23,032	23,893	23,033	19,062	14,694	35,586	139,300
Total	$ 40,313	$ $29,448	$ 28,424	$ 151,663	$ 18,862	$ 55,150	$ 323,860

55

1) Long-term debt represents the outstanding principal amount under Resolute s Credit Facility. This table does not include future commitment fees, interest expense or other fees because the Credit Facility is a floating rate instrument, and the Company cannot determine with accuracy the timing of future loan advances, repayments or future interest rates to be charged.

2) Operating equipment leases consist of compressors and other oil and gas field equipment used in the CO_2 project.

3) Under the terms of Resolute s purchase agreement with ExxonMobil, Resolute is obligated to make annual deposits into an escrow account that will be used to fund plugging and abandonment liabilities associated with the ExxonMobil Properties.

4) Represents purchase commitments in effect at December 31, 2010 related to construction projects in the Aneth Field Properties.

5) Represents the minimum take-or-pay quantities associated with Resolute s existing CO_2 purchase contracts. For purposes of calculating the future purchase obligation under these contracts, Resolute has assumed the purchase price over the term of the contract was the price in effect as of December 31, 2010.

6) Total contractually obligated payment commitments do not include the anticipated settlement of derivative contracts, obligations to taxing authorities or amounts relating to our asset retirement obligations, which include plugging and abandonment obligations, due to the uncertainty surrounding the ultimate settlement amounts and timing of these obligations.

Critical Accounting Policies

The discussion and analysis of Resolute s financial condition and results of operations is based upon the consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires Resolute to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. The application of accounting policies involve judgments and uncertainties to such an extent that there is reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. Resolute evaluates estimates and assumptions on a regular basis. Resolute bases estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ, perhaps materially, from these estimates and assumptions used in preparation of Resolute s financial statements. Provided below is an expanded discussion of Resolute s most significant accounting policies, estimates and judgments used in the preparation of the financial statements.

Oil and Gas Properties. Resolute uses the full cost method of accounting for oil and gas producing activities. All costs incurred in the acquisition, exploration and development of properties, including costs of unsuccessful exploration, costs of surrendered and abandoned leaseholds, delay lease rentals and the fair value of estimated future costs of site restoration, dismantlement and abandonment activities, improved recovery systems and a portion of general and administrative and operating expenses are capitalized within the cost center.

Resolute conducts tertiary recovery projects on a portion of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Under the full cost method, all development costs are capitalized at the time incurred. Development costs include charges associated with access to

and preparation of well locations, drilling and equipping development wells, test wells, and service wells including injection wells; acquiring, constructing, and installing production facilities and providing for improved recovery systems. Improved recovery systems include all related facility development costs and the cost of the acquisition of tertiary injectants, primarily purchased CO_2. The development cost related to CO_2 purchases are incurred solely for the purpose of gaining access to incremental reserves not otherwise recoverable. The accumulation of injected CO_2, in combination with additional purchased and recycled CO_2, provide future economic value over the life of the project.

In contrast, other costs related to the daily operation of the improved recovery systems are considered production costs and are expensed as incurred. These costs include, but are not limited to, costs incurred to maintain reservoir pressure, compression, electricity, separation, and re-injection of recovered CO_2 and water.

Capitalized general and administrative and operating costs include salaries, employee benefits, costs of consulting services and other specifically identifiable capital costs and do not include costs related to production operations, general corporate overhead or similar activities.

Investments in unproved properties are not depleted, pending determination of the existence of proved reserves. Unproved properties are periodically evaluated for impairment. Unproved properties whose costs are individually significant are assessed individually by considering the primary lease terms of the properties, the holding period of the properties, and geographic and geologic data obtained relating to the properties. Properties are grouped for purposes of assessing impairment when it is not practicable to assess the amount of impairment of properties on an individual basis. The amount of impairment assessed is added to the costs to be amortized, or is reported as a period expense as appropriate.

Pursuant to full cost accounting rules, Resolute must perform a ceiling test each quarter on its proved oil and gas assets. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices, excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, and a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, an impairment charge would be recognized to the extent of the excess capitalized costs.

No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain significantly alters the relationship between capitalized costs and proved oil reserves of the cost center.

Depletion and amortization of oil and gas properties is computed on the unit-of-production method based on proved reserves. Amortizable costs include estimates of asset retirement obligations and future development costs of proved reserves, including, but not limited to, costs to drill and equip development wells, constructing and installing production and processing facilities, and improved recovery systems including the cost of required future CO_2 purchases.

Oil and Gas Reserve Quantities. Resolute s estimate of proved reserves is based on the quantities of oil and gas that engineering and geological analyses demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters. Reserves and their relation to estimated future net cash flows affect Resolute s depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserves estimates. Resolute prepares reserves estimates, and the projected cash flows derived from these reserves estimates, in accordance with SEC and FASB guidelines. The accuracy of Resolute s reserves estimates is a function of many factors including but not limited to the following: the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgments of the individuals preparing the estimates. Resolute s proved reserves estimates are a function of many assumptions, any or all of which could deviate significantly from actual results. As such, reserves estimates may vary materially from the ultimate quantities of oil, gas and natural gas liquids eventually recovered.

Derivative Instruments and Hedging Activities. Resolute enters into derivative contracts to manage its exposure to oil and gas price volatility. Derivative contracts may take the form of futures contracts, swaps or options. Realized and unrealized gains and losses related to commodity derivatives are recognized in other income (expense). Realized gains and losses are recognized in the period in which the related contract is settled. The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element are reported as financing activities in the consolidated statement of cash flows.

Table of Contents

FASB Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, requires recognition of all derivative instruments on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of a derivative are recognized currently in earnings unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments must be recorded in either other comprehensive income or current earnings, depending on the nature and designation of the instrument. Presently, Resolute s management has determined that the benefit of the financial statement presentation available under the provisions of FASB ASC Topic 815, which may allow for its derivative instruments to be reflected as cash flow hedges, is not commensurate with the administrative burden required to support that treatment. As a result, Resolute marked its derivative instruments to fair value in accordance with the provisions of FASB ASC Topic 815 and recognized the changes in fair market value in earnings. Gains and losses on derivative instruments reflected in the consolidated statement of operations incorporate both realized and unrealized values.

FASB ASC Topic 820*, Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The guidance establishes a hierarchy for determining the fair values of assets and liabilities, based on the significance level of the following inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

An asset or liability subject to the fair value requirements is categorized within the hierarchy based on the lowest level of input that is significant to the fair value measurement. Resolute s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Following is a description of the valuation methodologies used by Resolute as well as the general classification of such instruments pursuant to the hierarchy.

As of December 31, 2010, Resolute s commodity derivative instruments were required to be measured at fair value on a recurring basis. Resolute used the income approach in determining the fair value of its derivative instruments, utilizing present value techniques for valuing its swaps and basis swaps and option-pricing models for valuing its collars. Inputs to these valuation techniques include published forward index prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. Substantially all of these inputs are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace and are therefore designated as Level 2 within the valuation hierarchy.

Asset Retirement Obligations. Asset retirement obligations relate to future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage and returning such land to its original condition. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred (typically when the asset is installed at the production location), and the cost of such liability increases the carrying amount of the related long-lived asset by the same amount. The liability is accreted each period and the capitalized cost is depleted on a units-of-production basis as part of the full cost pool. Revisions to estimated retirement obligations result in adjustments to the related capitalized asset and corresponding liability.

Resolute s estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

Table of Contents

Share-Based Compensation. Resolute accounts for share-based compensation in accordance with FASB ASC Topic 718, which requires it to measure the grant date fair value of equity awards given to employees in exchange for services, and to recognize that cost, less estimated forfeitures, over the period that such services are performed.

Income taxes. Deferred tax assets and liabilities are recorded to account for the expected future tax consequences of events that have been recognized in the financial statements and tax returns. The ability to realize the deferred tax assets is routinely assessed. If the conclusion is that it is more likely than not that some portion or all of the deferred tax assets will not be realized, the tax asset would be reduced by a valuation allowance. The future taxable income is considered when making such assessments. Numerous judgments and assumptions are inherent in the determination of future taxable income, including factors such as future operating conditions (particularly as related to prevailing oil and gas prices). Income tax positions are also required to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

Table of Contents

ITEM 7A. QUANTITIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Commodity Price Risk and Derivative Arrangements

Resolute s major market risk exposure is in the pricing applicable to oil and gas production. Realized pricing on Resolute s unhedged volumes of production is primarily driven by the spot market prices applicable to oil production and the prevailing price for gas. Pricing for oil production has been volatile and unpredictable for several years, and Resolute expects this volatility to continue in the future. The prices Resolute receives for unhedged production depend on many factors outside of Resolute s control.

Resolute periodically hedges a portion of its oil and gas production through swaps, puts, calls, collars and other such agreements. The purpose of the hedges is to provide a measure of stability to Resolute s cash flows in an environment of volatile oil and gas prices and to manage Resolute s exposure to commodity price risk.

Under the terms of its Credit Agreement the form of derivative instruments to be entered into is at Resolute s discretion, not to exceed 85% of its anticipated production from proved developed producing properties utilizing economic parameters specified in its Credit Agreement, including escalated prices and costs.

By removing the price volatility from a significant portion of Resolute s oil and gas production, Resolute has mitigated, but not eliminated, the potential effects of changing prices on the cash flow from operations for periods hedged. While mitigating negative effects of falling commodity prices, certain of these derivative contracts also limit the benefits Resolute would receive from increases in commodity prices. It is Resolute s policy to enter into derivative contracts only with counterparties that are major, creditworthy financial institutions deemed by management as competent and competitive market makers.

As of December 31, 2010, Resolute had entered into certain derivative instruments that are summarized in the tables below.

Year	Oil Swap Volumes Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl		Oil Collar Volumes Bbl per Day	(NYMEXWTI) Floor Price		Ceiling Price	
2011	3,250	$	68.26	250	$	80.00	$	90.00
2012	3,250	$	68.26	250	$	80.00	$	93.50
2013	2,000	$	60.47		$		$	

Year	Gas Swap Volumes MMBtu per Day	Gas (NYMEX HH) Weighted Average Hedge Price per MMBtu	
2011	2,750	$	9.32
2012	2,100	$	7.42
2013	1,900	$	7.40

Basis Hedges

Year	Index	MMBtu per Day	Hedged Price Differential per MMBtu
2011 2013	Rocky Mountain NWPL	1,800	$ 2.10
2011	Rocky Mountain CIG	1,500	$ 0.57
2012	Rocky Mountain CIG	1,000	$ 0.575
2013	Rocky Mountain CIG	500	$ 0.59
2014	Rocky Mountain CIG	1,000	$ 0.59

Table of Contents

Subsequent to December 31, 2010 and effective March 1, 2011, Resolute had modified its oil derivative instrument position as summarized in the table below. The Company will incur premium payments associated with the oil collars of $4.8 million, $1.0 million, $1.2 million and $2.7 million in 2011, 2012, 2013 and 2014, respectively.

Year	Oil Swap Volumes Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl	Oil Collar Volumes Bbl per Day	(NYMEXWTI) Floor Price	(NYMEXWTI) Ceiling Price
2011	750	$ 70.58	3,750	$ 66.67	$ 94.67
2012	3,250	$ 68.26	875	$ 69.71	$ 98.14
2013	2,000	$ 60.47	775	$ 80.00	$ 105.00
2014			1,500	$ 65.00	$ 110.00

As of December 31, 2010, the Company s weighted average derivative instrument position incorporating both the derivative instrument position in place at December 31, 2010 and the modification effective March 1, 2011 is summarized in the table below.

Year	Oil Swap Volumes Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl	Oil Collar Volumes Bbl per Day	(NYMEXWTI) Floor Price	(NYMEXWTI) Ceiling Price
2011	1,154	$ 69.53	3,184	$ 66.84	$ 94.61
2012	3,250	$ 68.26	875	$ 69.71	$ 98.14
2013	2,000	$ 60.47	775	$ 80.00	$ 105.00
2014			1,500	$ 65.00	$ 110.00

Interest Rate Risk

At December 31, 2010, Resolute has $127.9 million of outstanding debt under the Credit Facility. Interest is calculated under the terms of the agreement based on a LIBOR spread. A 10% increase in LIBOR would result in an estimated $0.1 million increase in annual interest expense. Resolute does not currently intend to enter into any derivative arrangements to protect against fluctuations in interest rates applicable to its outstanding indebtedness.

Credit Risk and Contingent Features in Derivative Instruments

Resolute is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above. All counterparties are also lenders under Resolute s Credit Facility. For these contracts, Resolute is not required to provide any credit support to its counterparties other than cross collateralization with the properties securing the Credit Facility. Resolute s derivative contracts are documented with industry standard contracts known as a Schedule to the Master Agreement and International Swaps and Derivative Association, Inc. Master Agreement (ISDA). Typical terms for the ISDAs include credit support requirements, cross default provisions, termination events, and set-off provisions. Resolute has set-off provisions with its lenders that, in the event of counterparty default, allow Resolute to set-off amounts owed under the Credit Facility or other general obligations against amounts owed for derivative contract liabilities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is included in Item 15. Exhibits, Financial Statements Schedules .

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Attached as exhibits to this reports are certifications of our CEO and CFO required pursuant to Rule 13a-14 under the Exchange Act. This section includes information concerning the controls and procedures evaluation referred to in the certifications. Included in this report is the report of KPMG LLP, our independent registered public accounting firm,

regarding its audit of our internal control over financial reporting. This section should be read in conjunction with the certifications and the KPMG LLP report for a more complete understanding of the topics presented.

Evaluation of Disclosure Controls and Procedures. We conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of December 31, 2010. This evaluation was conducted under the supervision and with the participation of management, including our CEO and CFO. Based on this evaluation, our CEO and CFO have concluded that, subject to the limitations noted in this section, as of December 31, 2010, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the rules and forms of the SEC. We also concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding disclosure.

Management s Annual Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management assessed our internal control over financial reporting as of December 31, 2010, and has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2010. This assessment was based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Changes in Internal Control over Financial Reporting. There have been no significant changes in our internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

Information relating to this item will be included in an amendment to this report or in the proxy statement for our 2011 annual stockholders meeting and is incorporated by reference in this report.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to this item will be included in an amendment to this report or in the proxy statement for our 2011 annual stockholders meeting and is incorporated by reference in this report.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to this item will be included in an amendment to this report or in the proxy statement for our 2011 annual stockholders meeting and is incorporated by reference in this report.

ITEM 13.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information relating to this item will be included in an amendment to this report or in the proxy statement for our 2011 annual stockholders meeting and is incorporated by reference in this report.

ITEM 14. PRINCIPAL ACCOUNTING FEE AND SERVICES

Information relating to this item will be included in an amendment to this report or in the proxy statement for our 2011 annual stockholders meeting and is incorporated by reference in this report.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (a)(2) Financial Statements and Financial Statement Schedules

See Item 8 Financial Statements and Supplementary Data .

(a)(3) Exhibits

Exhibit Number	Description of Exhibits
2.1	Purchase and IPO Reorganization Agreement, dated as of August 2, 2009, among Hicks Acquisition Company I, Inc., Resolute Energy Corporation, Resolute Subsidiary Corporation., Resolute Holdings, LLC, Resolute Holdings Sub, LLC, Resolute Aneth, LLC and HH-HACI, L.P., (incorporated by reference to *Annex A* to the Registration Statement on Form S-4 filed with the SEC on August 6, 2009 (File. No 33-161076)(Initial S-4).
2.2	Letter Agreement amending Purchase and IPO Reorganization Agreement, dated as of September 9, 2009, among Hicks Acquisition Company I, Inc., Resolute Energy Corporation, Resolute Subsidiary Corporation., Resolute Holdings, LLC, Resolute Holdings Sub, LLC, Resolute Aneth, LLC and HH-HACI, L.P., (incorporated by reference to *Annex A* to the Initial S-4.
2.3	Purchase and Sale Agreement between Exxon Mobil Corporation, ExxonMobil Oil Corporation, Mobil Exploration and Producing North America Inc., Mobil Producing Texas & New Mexico Inc. and Mobil Exploration & Producing U.S. Inc. and Resolute Aneth, LLC 75% and Navajo Nation Oil and Gas Company 25% dated January 1, 2005. (incorporated by reference to Exhibit 2.2 to the Initial S-4)
2.4	Asset Sale Agreement Aneth Unit, Rutherford Unit and McElmo Creek Unit, San Juan County, Utah between Chevron U.S.A. Inc. (as seller) and Resolute Natural Resources Company and Navajo Nation Oil and Gas Company, Inc. (as buyer) dated October 22, 2004. (incorporated by reference to Exhibit 2.3 to the Initial S-4)
2.5	Stock Purchase Agreement dated June 24, 2008, between Primary Natural Resources, Inc. (as seller) and Resolute Acquisition Company, LLC (as buyer). (incorporated by reference to Exhibit 2.4 to the Initial S-4)
3.1	Amended and Restated Certificate of Incorporation of Resolute Energy Corporation, filed September 25, 2009 (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Resolute Energy Corporation filed on March 30, 2010)
3.2	Amended and Restated Bylaws of Resolute Energy Corporation (incorporated by reference to Exhibit 3.2 to the Annual Report on Form 10-K of Resolute Energy Corporation filed on March 30, 2010)
4.1	Warrant Agreement between Resolute Energy Corporation and Continental Stock Transfer and Trust Company dated September 25, 2009 (incorporated by reference as *Annex D* to the Initial S-4)
4.2	Registration Rights Agreement dated September 25, 2009, among Resolute Energy Corporation and certain holders. (incorporated by reference as Exhibit 4.4 to Amendment No. 2 to the Initial S-4 filed on September 8, 2009)
10.1	

	Second Amended and Restated Credit Agreement dated March 30, 2010, between Resolute Energy Corporation as Borrower and certain of its Subsidiaries as Guarantors, Wells Fargo Bank, National Association, as Administrative Agent, Bank of Montreal as Syndication Agent, Deutsche Bank Securities Inc., UBS Securities LLC and Union Bank, N.A. as Co-Documentation Agents, and The Lenders Party Hereto, Wells Fargo Securities, LLC and BMO Capital Markets as Joint Bookrunners and Joint Lead Arrangers (incorporated by reference to Exhibit 10.1 to the Annual Report on Form 10-K of Resolute Energy Corporation filed on March 30, 2010)
10.2#	2009 Performance Incentive Plan. (incorporated by reference as Exhibit 10.7 to Amendment No. 1 to the Initial S-4 filed on August 31, 2009)

Table of Contents

Exhibit Number	Description of Exhibits
10.3#	Form of Indemnification Agreement between Resolute Energy Corporation and each executive officer and independent director of the Company. (incorporated by reference as Exhibit 10.8 to Amendment No. 1 to the initial S-4 filed on August 31, 2009)
10.4	Cooperative Agreement between Resolute Natural Resources Company and Navajo Nation Oil and Gas Company dated October 22, 2004. (incorporated by reference by Exhibit 10.9 to the Initial S-4)
10.5	First Amendment of Cooperative Agreement between Resolute Aneth, LLC and Navajo Nation Oil and Gas Company, Inc. dated October 21, 2005. (incorporated by reference as Exhibit 10.10 to the Initial S-4)
10.6	Carbon Dioxide Sale and Purchase Agreement by and between ExxonMobil Gas & Power Marketing Company (a division of Exxon Mobil Corporation), as agent for Mobil Producing Texas & New Mexico, Inc. (Seller) and Resolute Aneth, LLC (Buyer) dated July 1, 2006, as amended July 21, 2006. (incorporated by reference as Exhibit 10.11 to Amendment No. 1 to the Initial S-4 filed on August 31, 2009)
10.7	Product Sale and Purchase Contract by and between Resolute Natural Resources Company (Buyer) and Kinder Morgan CO_2 Company, L.P. (Seller) dated July 1, 2007, as amended October 1, 2007, January 1, 2009 and October 5, 2010. (incorporated by reference as Exhibit 10.12 to Amendment No. 1 to the Initial S-4 filed on August 31, 2009 and Exhibit 99.1 to the Current Report on Form 8-K filed on October 7, 2010.)
10.8	Gas Sales and Purchase Contract Conventional & Residue Gas dated April 12, 1995, between Rim Offshore, Inc., as producer, and Western Gas Resources, Inc., as processor (Contract #6690), as amended July 27, 2006 and March 6, 2009. (incorporated by reference as Exhibit 10.13 to Amendment No. 1 to the Initial S-4 filed on August 31, 2009)
10.9	Consent Decree, entered into June 2005, relating to alleged violations of the federal Clean Air Act. (incorporated by reference as Exhibit 10.16 to the Initial S-4)
10.10	Consent Decree, entered into August 2004, relating to alleged violations of the federal Clean Water Act. (incorporated by reference as Exhibit 10.17 to the Initial S-4)
10.11	Crude Oil Purchase Agreement dated August 27, 2009 between Western Refining Southwest, Inc., as purchaser, and Resolute Natural Resources Company, as seller. (incorporated by reference as Exhibit 10.18 to Amendment No. 1 to the Initial S-4 filed on August 31, 2009)
10.12	Form of Retention Award Agreement between Resolute Energy Corporation and certain award recipients. (incorporated by reference as Exhibit 10.19 to Amendment No. 2 to the Initial S-4 filed on September 8, 2009)
10.13	Form of Restricted Stock Award Agreement for Non-employee Directors (incorporated by reference to Exhibit 10.13 to the Annual Report on Form 10-K of Resolute Energy Corporation filed on March 30, 2010)
10.14#	Form of Confidentiality and Non Compete Agreement among Resolute Holdings, LLC and certain employees dated as of January 23, 2004 (incorporated by reference to Exhibit 10.14# to the Annual Report on Form 10-K of Resolute Energy Corporation filed on March 30, 2010)
10.15#	Form of Restricted Stock Agreement for Employees (incorporated by referenced as Exhibit 10.1 to the 10-Q filed on May 11, 2010)
10.16#	Form of Stock Appreciation Right Agreement for Non-employee Directors (incorporated by reference as Exhibit 10.2 to the 10-Q filed on May 11, 2010)
10.17#	Letter Agreement between Resolute Energy Corporation and Dale E. Cantwell, effective as of June 1, 2010 (incorporated by reference as Exhibit 10.1 to the 10-Q filed on August 12, 2010)
10.18#	

	Letter Agreement between Resolute Energy Corporation and Janet W. Pasque, effective as of June 1, 2010 (incorporated by reference as Exhibit 10.1 to the 10-Q filed on August 12, 2010)
12.1	Statement of Ratio of Earnings to Fixed Charges
21	List of Subsidiaries of Resolute Energy Corporation
23.1	Consent of Deloitte & Touche LLP.
23.2	Consent of KPMG LLP.
23.3	Consent of Netherland, Sewell & Associates, Inc.
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes Oxley Act of 2002
32	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Table of Contents

Exhibit Number	Description of Exhibits
99.1	Report of Netherland, Sewell & Associates, Inc. regarding the registrant s reserves as of December 31, 2010

The Purchase and IPO Reorganization Agreement filed as Exhibit 2.1, the Purchase and Sale Agreement filed as Exhibit 2.3, the Asset Sale Agreement filed as Exhibit 2.4, the Purchase and Sale Agreement filed as Exhibit 2.5 and the Cooperative Agreement file as Exhibit 10.4 omit certain of the schedule and exhibits to each of the Purchase and IPO Reorganization Agreement, Purchase and Sale Agreements, the Asset Sale Agreement and the Cooperative Agreement in accordance with Item 601 (b)(2) of Regulation S-K. A list briefly identifying the contents of all omitted schedules and exhibits is included with each of the Purchase and Sale Agreement, the Asset Sale Agreement and the Cooperative Agreement filed as Exhibit 2.1, 2.3, 2.4, 2.5 and 10.4, respectively. Resolute agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Securities and Exchange Commission upon request.

Portions of this exhibit have been omitted pursuant to a request for confidential treatment.

#	Management Contract, Compensation Plan or Agreement

Table of Contents

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.

RESOLUTE ENERGY CORPORATION Dated: March 14, 2011

By:
/s/ Nicholas J. Sutton
Nicholas J. Sutton, Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Nicholas J. Sutton Nicholas J. Sutton	Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2011
/s/ James M. Piccone James M. Piccone	President and Director	March 14, 2011
/s/ Theodore Gazulis Theodore Gazulis	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 14, 2011
/s/ James A. Tuell James A. Tuell	Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 14, 2011
/s/ Richard L. Covington Richard L. Covington	Director	March 14, 2011
/s/ William H. Cunningham William H. Cunningham	Director	March 14, 2011
/s/ James E. Duffy James E. Duffy	Director	March 14, 2011
/s/ Kenneth A. Hersh	Director	March 14, 2011

Kenneth A. Hersh		
/s/ Thomas O. Hicks, Jr.	Director	March 14, 2011
Thomas O. Hicks, Jr.		
/s/ William J. Quinn	Director	March 14, 2011
William J. Quinn		
/s/ Robert M. Swartz	Director	March 14, 2011
Robert M. Swartz		

Table of Contents

FINANCIAL STATEMENTS

INDEX TO FINANCIAL STATEMENTS

RESOLUTE ENERGY CORPORATION

Reports of Independent Registered Public Accounting Firm	F-2
Resolute Energy Corporation Consolidated Balance Sheets as of December 31, 2010 and 2009	F-4
Resolute Energy Corporation Consolidated Statements of Operations, for the years ended December 31, 2010, 2009 and 2008	F-5
Resolute Energy Corporation Consolidated Statements of Stockholders Equity for the years ended December 31, 2010, 2009 and 2008	F-6
Resolute Energy Corporation Consolidated Statements of Cash Flows, for the years ended December 31, 2010, 2009 and 2008	F-7
Notes to Resolute Energy Corporation Consolidated Financial Statements	F-8

PREDECESSOR RESOLUTE

Report of Independent Registered Public Accounting Firm	F-30
Predecessor Resolute Combined Statements of Operations, for the 267 day period ended September 24, 2009 and the year ended December 31, 2008	F-31
Predecessor Resolute Combined Statements of Shareholder s/Member s Equity for the 267 day period ended September 24, 2009 and the year ended December 31, 2008	F-32
Predecessor Resolute Combined Statements of Cash Flows, for the 267 day period ended September 24, 2009 and the year ended December 31, 2008	F-33
Notes to Predecessor Resolute Combined Financial Statements	F-34

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Resolute Energy Corporation:

We have audited the accompanying consolidated balance sheets of Resolute Energy Corporation and subsidiaries (successor by merger to Hicks Acquisition Company I, Inc.) (the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financials statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Resolute Energy Corporation and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Resolute Energy Corporation s internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2011 expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ KPMG LLP

Denver, Colorado

March 14, 2011

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Resolute Energy Corporation:

We have audited Resolute Energy Corporation and subsidiaries (the Company) internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management s Annual Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Resolute Energy Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Resolute Energy Corporation as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and our report dated March 14, 2011 expressed an unqualified opinion on these consolidated financial statements.

/s/ KPMG LLP

Denver, Colorado

March 14, 2011

Table of Contents

RESOLUTE ENERGY CORPORATION

Consolidated Balance Sheets
(in thousands, except share amounts)

	December 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 1,844	$ 455
Accounts receivable	45,154	27,047
Deferred income taxes	11,954	7,050
Derivative instruments	4,745	6,958
Prepaid expenses and other current assets	1,596	1,930
Total current assets	65,293	43,440
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting		
Unproved	37,235	7,306
Proved	689,021	634,383
Other property and equipment	2,869	2,413
Accumulated depletion, depreciation and amortization	(57,564)	(11,323)
Net property and equipment	671,561	632,779
Other assets:		
Restricted cash	14,781	12,965
Derivative instruments	3,098	3,600
Deferred financing costs	3,281	
Other assets	2,509	656
Total assets	$ 760,523	$ 693,440
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 58,144	$ 41,287
Asset retirement obligations	3,072	1,221
Derivative instruments	31,193	20,360
Total current liabilities	92,409	62,868
Long term liabilities:		
Long term debt	127,900	109,575

Asset retirement obligations	11,693	9,217
Derivative instruments	51,279	55,260
Deferred income taxes	73,376	62,467
Other noncurrent liabilities		516
Total liabilities	356,657	299,903
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized; none issued or outstanding		
Common stock, $0.0001 par value; 225,000,000 shares authorized; issued and outstanding 54,717,571 and 53,154,883 shares at December 31, 2010 and December 31, 2009, respectively	5	5
Additional paid-in capital	436,794	432,650
Accumulated deficit	(32,933)	(39,118)
Total stockholders equity	403,866	393,537
Total liabilities and stockholders equity	$ 760,523	$ 693,440

See notes to consolidated financial statements

Table of Contents

RESOLUTE ENERGY CORPORATION

Consolidated Statements of Operations
(in thousands, except per share data)

	Year Ended December 31, 2010	2009	2008
Revenue:			
Oil	$ 152,953	$ 37,528	$
Gas	17,204	4,149	
Other	3,238	739	
Total revenue	173,395	42,416	
Operating expenses:			
Lease operating	51,618	16,185	
Production and ad valorem taxes	24,151	5,807	
Depletion, depreciation, amortization, and asset retirement obligation accretion	47,016	11,541	
General and administrative	19,440	20,328	1,560
Write-off of deferred acquisition costs		3,500	
Total operating expenses	142,225	57,361	1,560
Income (loss) from operations	31,170	(14,945)	(1,560)
Other income (expense):			
Interest income		776	7,601
Interest expense, net	(4,855)	(1,538)	
Realized and unrealized losses on derivative instruments	(17,842)	(49,514)	
Other income	100	91	
Total other income (expense)	(22,597)	(50,185)	7,601
Income (loss) before income taxes	8,573	(65,130)	6,041
Income tax benefit (expense)	(2,388)	19,887	(2,054)
Net income (loss)	$ 6,185	$ (45,243)	$ 3,987
Net income (loss) per common share:			
Basic and diluted	$ 0.12	$ (0.93)	$ 0.06
Weighted average common shares outstanding:			
Basic	49,900	46,394	45,105
Diluted	50,475	46,394	45,105

See notes to consolidated financial statements

Table of Contents

RESOLUTE ENERGY CORPORATION

Consolidated Statements of Stockholders Equity
(in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated (Deficit)/ Retained Earnings	Stockholders Equity
Balance as of January 1, 2008	69,000	$ 5	$ 357,999	$ 1,697	$ 359,701
Net income				3,987	3,987
Deferred interest attributable to common stock, subject to redemption				(1,489)	(1,489)
Balance as of December 31, 2008	69,000	5	357,999	4,195	362,199
Reclassification of common stock subject to possible redemption		2	160,796	2,510	163,308
Common stock redeemed	(11,592)	(1)	(112,557)	(580)	(113,138)
Purchase of common stock	(7,503)	(1)	(73,345)		(73,346)
Cancellation of common stock previously issued to founding stockholder	(7,335)	(1)			(1)
Redemption of 27,600,000 warrants			(15,180)		(15,180)
Forgiveness of deferred underwriters commission			11,738		11,738
Issuance of common stock for acquisition	9,200	1	88,779		88,780
Issuance of earnout shares for acquisition	1,385		10,024		10,024
Issuance of warrants for acquisition			3,202		3,202
Equity based compensation			1,194		1,194
Net loss				(45,243)	(45,243)
Balance as of December 31, 2009	53,155	5	432,650	(39,118)	393,537
Grant of stock and restricted stock	1,747		6,413		6,413
Redemption of restricted stock for employee income taxes	(184)		(2,270)		(2,270)
Exercise of warrants			1		1
Net income				6,185	6,185
Balance as of December 31, 2010	54,718	$ 5	$ 436,794	$ (32,933)	$ 403,866

See notes to consolidated financial statements

Table of Contents

RESOLUTE ENERGY CORPORATION

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2010	**2009**	**2008**
Operating activities:			
Net income (loss)	$ 6,185	$ (45,243)	$ 3,987
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depletion, depreciation, amortization and asset retirement obligation accretion	47,016	11,541	
Amortization of deferred financing costs	757		
Equity-based compensation, net	6,247	1,084	
Write-off of deferred acquisition costs		3,500	
Unrealized loss on derivative instruments	9,566	46,321	
Deferred income taxes	6,005	(19,813)	(115)
Change in operating assets and liabilities, net of acquired amounts:			
Accounts receivable	(17,941)	(3,786)	
Other current assets	334	(883)	266
Accounts payable and accrued expenses	326	(4,866)	(1,054)
Accounts payable related party		(19)	(53)
Net cash provided by (used in) operating activities	58,495	(12,164)	3,031
Investing activities:			
Acquisition of subsidiary, net of cash acquired		(323,822)	
Decrease (increase) in cash and cash equivalents in trust		250,024	(250,024)
Purchase of marketable securities held in trust		(249,654)	
Sales / maturities of marketable securities held in trust		539,771	251,184
Oil and gas exploration and development expenditures	(65,254)	(6,640)	
Proceeds from sale of oil and gas properties	260	59	
Purchase of other property and equipment	(459)	(224)	
Increase in restricted cash	(1,817)		
Settlement of notes receivable related parties		52	
Payment of proposed acquisition costs			(3,424)
(Increase) decrease in other noncurrent assets	(1,853)	421	
Net cash provided by (used in) investing activities	(69,123)	209,987	(2,264)
Financing activities:			
Payments due to Holdings		(1,248)	
Redemption of common stock		(113,139)	
Forward purchase of common stock		(73,346)	
Redemption of warrants		(15,180)	
Payment of deferred underwriters fees		(5,650)	

Proceeds from bank borrowings	215,275	53,376	
Repayments of bank borrowings	(196,950)	(43,000)	
Payment of financing costs	(4,039)		
Redemption of restricted stock for employee income taxes	(2,270)		
Exercise of warrants	1		
Net cash provided by (used in) financing activities	12,017	(198,187)	
Net increase (decrease) in cash and cash equivalents	1,389	(364)	767
Cash and cash equivalents at beginning of period	455	819	52
Cash and cash equivalents at end of period	$ 1,844	$ 455	$ 819
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest, net of amounts capitalized	$ 4,135	$ 3,584	$
Income taxes	$ 32	$ 1,004	$ 2,750
Supplemental schedule of non-cash investing and financing activities:			
Deferred acquisition costs included in accounts payable and accrued expenses	$	$	$ 76
Capital expenditures financed through current liabilities	$ 15,855	$ 2,755	$
Increase to asset retirement obligations	$ 6,215	$	$
Issuance of common stock for acquisition	$	$ 88,780	$
Issuance of warrants for acquisition	$	$ 3,202	$
Issuance of earnout shares for acquisition	$	$ 10,024	$
Forgiveness of deferred underwriters commission	$	$ 11,738	$

See notes to consolidated financial statements

Table of Contents

RESOLUTE ENERGY CORPORATION

Notes To Consolidated Financial Statements

Note 1 Organization and Nature of Business

Resolute Energy Corporation (Resolute or the Company), a Delaware corporation incorporated on July 28, 2009, was formed to consummate a business combination with Hicks Acquisition Company I, Inc. (HACI), a Delaware corporation incorporated on February 26, 2007. Resolute is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, gas and natural gas liquids (NGL). The Company conducts all of its activities in the United States of America, principally in the Paradox Basin in southeastern Utah and the Powder River Basin in Wyoming.

HACI was a blank check company that was formed to acquire through a merger, capital stock exchange, asset acquisition, stock purchase, reorganization or similar business combination, one or more businesses or assets. HACI s initial public offering (the Offering) was consummated on October 3, 2007, and HACI received proceeds of approximately $529.1 million. Upon the consummation of the Resolute Transaction, described below, $11.7 million of deferred underwriters commission were forgiven and were recognized as additional paid in capital. HACI sold to the public 55,200,000 units (one share and one warrant) at a price of $10.00 per unit, including 7,200,000 units issued pursuant to the exercise of the underwriter s over-allotment option. Simultaneous with the consummation of the Offering, HACI consummated the private sale of 7,000,000 warrants (the Sponsor Warrants) to HH-HACI, L.P., a Delaware limited partnership (the Sponsor), at a price of $1.00 per Sponsor Warrant, generating gross proceeds, before expenses, of $7.0 million (the Private Placement). Net proceeds received from the consummation of both the Offering and Private Placement of Sponsor Warrants totaled approximately $536.1 million, net of underwriter s commissions and offering costs. HACI had neither engaged in any operations nor generated any operating revenue prior to the business combination with Resolute.

On September 25, 2009 (the Acquisition Date), HACI consummated a business combination under the terms of a Purchase and IPO Reorganization Agreement (Acquisition Agreement) with Resolute and Resolute Holdings Sub, LLC (Sub), whereby, through a series of transactions, HACI s stockholders collectively acquired a majority of the outstanding shares of Resolute common stock (the Resolute Transaction). Immediately prior to the consummation of the Resolute Transaction, Resolute owned, directly or indirectly, 100% of the equity interests of Resolute Natural Resources Company, LLC (Resources), WYNR, LLC (WYNR), BWNR, LLC (BWNR), RNRC Holdings, Inc. (RNRC), and Resolute Wyoming, Inc. (RWI) (formerly known as Primary Natural Resources, Inc. (PNR)), and owned a 99.996% equity interest in Resolute Aneth, LLC (Aneth), (collectively Predecessor Resolute). The entities comprising Predecessor Resolute prior to the Resolute Transaction were wholly owned by Sub (except for Aneth, which was owned 99.996%), which in turn is a wholly owned subsidiary of Resolute Holdings, LLC (Holdings). Effective December 31, 2010, Aneth became a wholly-owned subsidiary of the Company.

The Resolute Transaction was accounted for using the acquisition method, with HACI as the accounting acquirer, and resulted in a new basis of accounting reflecting the fair values of the Predecessor Resolute assets and liabilities at the Acquisition Date. Accordingly, the accompanying consolidated financial statements are presented on Resolute s new basis of accounting (see Note 3 for details). HACI is the surviving entity and periods prior to September 25, 2009 reflected in this report represent activity related to HACI s formation, its initial public offering and efforts to identify and consummate a business combination. The operations of Predecessor Resolute have been incorporated beginning September 25, 2009.

Note 2 Basis of Presentation and Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the historical accounts of HACI and, subsequent to the Acquisition Date, include Resolute and its subsidiaries, and have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). All significant intercompany transactions have been

eliminated upon consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation.

In connection with the preparation of the consolidated financial statements, Resolute evaluated subsequent events after the balance sheet date.

Assumptions, Judgments and Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments and estimates will occur as a result of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Significant estimates with regard to the consolidated financial statements include the estimate of proved oil and gas reserve volumes and the related present value of estimated future net cash flows and the ceiling test applied to capitalized oil and gas properties, the estimated cost and timing related to asset retirement obligations, the estimated fair value of derivative assets and liabilities, the estimated expense for share based compensation and depletion, depreciation, and amortization.

Fair Value of Financial Instruments

The carrying amount of Resolute s financial instruments, namely cash and cash equivalents, accounts receivable and accounts payable, approximate their fair value because of the short-term nature of these instruments. The long-term debt (see Note 7) has a recorded value that approximates its fair market value. The fair value of derivative instruments (see Note 11) is estimated based on market conditions in effect at the end of each reporting period.

The Company s accounts receivable at December 31, consists of the following (in thousands):

	2010		2009	
Trade receivables	$	40,640	$	25,500
Income tax receivable		3,645		
Derivative receivables		98		236
Other receivables		771		1,311
Total accounts receivable	$	45,154	$	27,047

Industry Segment and Geographic Information

Resolute conducts crude oil, gas and NGL exploration and production operations in one segment. All of Resolute s operations and assets are located in the United States, and all of its revenue is attributable to domestic customers. Resolute considers gathering, processing and marketing functions as ancillary to its oil and gas producing activities, and therefore these activities are not reported as a separate segment.

Cash, Cash Equivalents, and Marketable Securities

Resolute considers all highly liquid investments with original maturities of three months or less at the date of purchase to be cash equivalents. Resolute periodically maintains cash and cash equivalents in bank deposit accounts and money market funds which may be in excess of federally insured amounts. Resolute has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on such accounts.

Deferred Financing Costs

Deferred financing costs are amortized over the estimated life of the related obligation. The Company incurred $4.0 million in deferred financing costs during 2010, of which $0.8 million was amortized to expense. No deferred financing costs were incurred prior to 2010.

Capitalized Interest

Interest is capitalized when associated with significant investments in unproved properties and major development projects that are excluded from current depreciation, depletion and amortization calculations and on which exploration or development activities are in progress. Capitalized interest is calculated by multiplying the Company s weighted-average interest rate on debt by the amount of identified costs. Excluded oil and gas costs are classified as unproved properties along with any associated capitalized interest. Capitalized interest totaled $0.5 million for the twelve months ended December 31, 2010. No interest was capitalized during 2009 or 2008.

Concentration of Credit Risk

Financial instruments that potentially subject Resolute to concentrations of credit risk consist primarily of trade, production and derivative settlement receivables. Resolute derived approximately 84% and 9% of its total 2010 revenue and 87% and 9% of its total 2009 revenue from Western Refining, Inc. and WGR Asset Holding Company, LLC, respectively. If Resolute was compelled to sell its crude oil to an alternative market, costs associated with the transportation of its production would increase, and such increase could materially and negatively affect its operations. The concentration of credit risk in the oil and gas industry affects the overall exposure to credit risk because customers may be similarly affected by changes in economic or other conditions. The creditworthiness of customers and other counterparties is subject to continuing review, including the use of master netting agreements, where appropriate. Commodity derivative contracts expose Resolute to the credit risk of non-performance by the counterparty to the contracts. This exposure is diversified among major investment grade financial institutions, all of which are financial institutions participating in Resolute s Credit Facility (see Note 7).

Oil and Gas Properties

Resolute uses the full cost method of accounting for oil and gas producing activities. All costs incurred in the acquisition, exploration and development of properties, including costs of unsuccessful exploration, costs of surrendered and abandoned leaseholds, delay lease rentals and the fair value of estimated future costs of site restoration, dismantlement and abandonment activities, improved recovery systems and a portion of general and administrative and operating expenses are capitalized on a country-wide basis (the cost center).

Resolute conducts tertiary recovery projects on certain of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Under the full cost method, all development costs are capitalized at the time incurred. Development costs include charges associated with access to and preparation of well locations, drilling and equipping development wells, test wells, and service wells including injection wells, and acquiring, constructing, and installing production facilities and providing for improved recovery systems. Improved recovery systems include all related facility development costs and the cost of the acquisition of tertiary injectants, primarily purchased carbon dioxide (CO_2). The development costs related to CO_2 purchases are incurred solely for the purpose of gaining access to incremental reserves not otherwise recoverable. The accumulation of injected CO_2, in combination with additional purchased and recycled CO_2, provides future economic value over the life of the project.

In contrast, other costs related to the daily operation of the improved recovery systems are considered production costs and are expensed as incurred. These costs include, but are not limited to, compression, electricity, separation, re-injection of recovered CO_2 and water and reservoir pressure maintenance.

Capitalized general and administrative and operating costs include salaries, employee benefits, costs of consulting services and other specifically identifiable capital costs and do not include costs related to production operations,

general corporate overhead or similar activities. Resolute capitalized general and administrative and operating costs related to its acquisition, exploration and development activities of $2.0 million during 2010 and $0.1 million during 2009. No general and administrative and operating costs were capitalized during 2008.

Investments in unproved properties are not depleted, pending determination of the existence of proved reserves. The Company s investments in unproved properties are related to exploration plays in the Black Warrior Basin in Alabama, the Big Horn Basin in Wyoming and the Williston Basin in North Dakota. The Company expects to evaluate these locations for the existence of proved reserves in the next one to three years. Unproved

properties are assessed at least annually to ascertain whether impairment has occurred. Unproved properties whose costs are individually significant are assessed individually by considering the primary lease terms of the properties, the holding period of the properties, and geographic and geologic data obtained relating to the properties. Where it is not practicable to assess individually the amount of impairment of properties for which costs are not individually significant, such properties are grouped for purposes of assessing impairment. The amount of impairment assessed is added to the costs to be amortized, or is reported as a period expense as appropriate. During 2010 and 2009, Resolute transferred $2.5 million and $3.9 million in unproved property costs to the full cost pool, respectively.

No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain or loss significantly alters the relationship between the capitalized costs and proved oil reserves of the cost center.

Depletion and amortization of oil and gas properties is computed on the unit-of-production method based on proved reserves. Amortizable costs include estimates of asset retirement obligations and future development costs of proved reserves, including, but not limited to, costs to drill and equip development wells, construct and install production and processing facilities, and improved recovery systems, including the cost of required future CO_2 purchases.

Pursuant to full cost accounting rules, Resolute must perform a ceiling test each quarter on its proved oil and gas assets. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices, excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, and a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, an impairment charge would be recognized to the extent of the excess capitalized costs. The Company has recorded no ceiling test impairments for the years ended December 31, 2010 and 2009.

At December 31, 2009, the Company s full cost pool was solely comprised of assets attributable to the Resolute Transaction. In accordance with Regulation S-X Article 4-10 and rules for full cost accounting for proved oil and gas properties, Resolute performed a ceiling test at December 31, 2009 using its year-end reserve estimates. Total capitalized costs exceeded the full cost ceiling by approximately $150 million; however, no impairment was recognized as the Company requested and received an exemption from the Securities and Exchange Commission (the SEC) to exclude the Resolute Transaction from the full cost ceiling assessment for a period of twelve months following the acquisition, provided the Company was able to demonstrate that the fair value of the acquired properties exceeded the carrying value in the interim periods through June 30, 2010, which was the case. The request for exemption was made because the Company could demonstrate beyond a reasonable doubt that the fair value of the Resolute Transaction oil and gas properties exceeded unamortized cost at the Acquisition Date and at December 31, 2009.

Other Property and Equipment

Other property and equipment are recorded at cost. Costs of renewals and improvements that substantially extend the useful lives of the assets are capitalized. Maintenance and repair costs which do not extend the useful lives of property and equipment are charged to expense as incurred. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets. Office furniture, automobiles, and computer hardware and software are depreciated over three to five years. Field offices are depreciated over fifteen to twenty years. Leasehold improvements are depreciated, using the straight line method, over the shorter of the lease term or the useful life of the

asset. When other property and equipment is sold or retired, the capitalized costs and related accumulated depreciation and amortization are removed from the accounts.

Table of Contents

Impairment of Long-Lived Assets Other than Oil and Gas Properties

Resolute evaluates long-lived assets for impairment when indicators of possible impairment are present. Resolute performs an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets and if the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to the assets fair value and an impairment loss is recorded against the long-lived asset. There have been no provisions for impairment recorded for the years ended December 31, 2010, 2009 and 2008.

Asset Retirement Obligation

Asset retirement obligations relate to future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage and returning such land to its original condition. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred and the cost of such liability is recorded as an increase in the carrying amount of the related long-lived asset by the same amount. The liability is accreted each period and the capitalized cost is depleted on a units-of-production basis as part of the full cost pool. Revisions to estimated retirement obligations result in adjustments to the related capitalized asset and corresponding liability.

The restricted cash of $14.8 million located on the Company s consolidated balance sheet at December 31, 2010 in non-current other assets is legally restricted for the purpose of settling asset retirement obligations related to Predecessor Resolute s purchase of properties from a subsidiary of ExxonMobil Corporation and its affiliates (ExxonMobil Properties) (See Note 13).

Resolute s estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit- adjusted risk-free rate estimated at the time the liability is incurred or revised. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells. Asset retirement obligations are valued utilizing Level 3 fair value measurement inputs. See Note 12.

The following table provides a reconciliation of Resolute s asset retirement obligations at December 31, (in thousands):

	2010	2009
Asset retirement obligations at beginning of period	$ 10,438	$
Liabilities assumed in acquisition of Predecessor Resolute		10,278
Additional liability incurred	4	
Accretion expense	774	218
Liabilities settled	(2,662)	(58)
Revisions to previous estimates	6,211	
Asset retirement obligations at end of period	14,765	10,438
Less: current asset retirement obligations	(3,072)	(1,221)
Long-term asset retirement obligations	$ 11,693	$ 9,217

Derivative Instruments

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*, requires recognition of all derivative instruments on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of a derivative are recognized currently in earnings unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments must be recorded in either other comprehensive income or current earnings, depending on the nature and designation of the instrument. Presently, Resolute s management has determined that the benefit of cash flow hedge accounting, which may allow for its derivative instruments to be reflected as cash flow hedges, is not commensurate with the administrative burden required to support that treatment. As a result, Resolute marks its derivative instruments to fair value on the consolidated balance sheets and recognizes the changes in fair market

---

value in earnings. Gains and losses on derivative instruments reflected in the consolidated statements of operations incorporate both the realized and unrealized amounts.

Resolute enters into derivative contracts to manage its exposure to oil and gas price volatility. Derivative contracts may take the form of futures contracts, swaps or options. Realized and unrealized gains and losses related to commodity derivatives are recognized in other income (expense). Realized gains and losses are recognized in the period in which the related contract is settled. The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element are reported as financing activities in the statement of cash flows.

Revenue Recognition

Oil and gas revenue is recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred and the collectability of the revenue is probable. Oil and gas revenue is recorded using the sales method.

RWI is party to three well suspension agreements (the Agreements). The counterparties to the Agreements from time to time may submit a request to RWI to suspend well operations or defer drilling plans on certain acreage under lease to RWI in exchange for non-refundable payments. Revenue is recognized for these payments over the expected development plan or until such time as the specified properties are released from suspension and RWI may proceed with exploration of these properties. During 2010, the Company recognized no income related to the Agreements and recognized $0.2 million during 2009.

General and Administrative Expenses

General and administrative expenses are reported net of amounts capitalized to oil and gas properties and of reimbursements of overhead costs that are billed to working interest owners of the oil and gas properties operated by Resolute. During 2009, the Company recorded $16.6 million of transaction costs in general and administrative expense related to the Resolute Transaction.

Income Taxes

Income taxes and uncertain tax positions are accounted for in accordance with FASB ASC Topic 740, *Accounting for Income Taxes*. Deferred income taxes are provided for the differences between the bases of assets and liabilities for financial reporting and income tax purposes. A valuation allowance is established when necessary to reduce deferred tax assets to the amount expected to be realized. Tax positions meeting the more-likely-than-not recognition threshold are measured pursuant to the guidance set forth FASB ASC Topic 740.

Note 3 Acquisitions and Divestitures

Resolute Transaction

In regard to the Resolute Transaction, the total purchase price was allocated to the acquired assets and liabilities assumed of Predecessor Resolute based on their respective fair values as determined by management.

The total purchase price was comprised of the following (in thousands):

	September 25, 2009
Cash consideration	$ 325,000
Company common stock	88,800
Company common stock subject to forfeiture	10,000
Fair value of warrants, net of payment to Sponsor of $1.2 million	3,200
Total purchase price	$ 427,000

The business combination was accounted for using the acquisition method, in which HACI was the accounting acquirer, and resulted in a new basis of accounting reflecting the fair values of the Predecessor Resolute assets

acquired and liabilities assumed. The following table presents the allocation of the purchase price at September 25, 2009, based on the fair values of assets acquired and liabilities assumed (in thousands):

	September 25, 2009
Current assets	$ 33,500
Oil and gas properties	633,600
Other property and equipment	2,200
Other assets	18,400
Debt assumed	(99,200)
Deferred income tax liability	(75,500)
Other liabilities	(86,000)
Total purchase price	$ 427,000

The fair value of acquired properties was determined based upon numerous inputs, many of which were unobservable (which are defined as Level 3 inputs). The significant inputs used in estimating the fair value of oil and gas properties were: (1) NYMEX crude oil and natural gas futures prices (observable), (2) projections of the estimated quantities of oil and gas reserves, (3) projections regarding rates and timing of production, (4) projections regarding amounts and timing of future development and abandonment costs, (5) projections regarding the amounts and timing of operating costs and property taxes, (6) estimated risk adjusted discount rates and (7) estimated inflation rates. As a result of applying the above assumptions, the Company estimated the aggregate fair value of the oil and gas assets acquired at $622.5 million for proved properties and $11.1 million for unevaluated properties. Portions of the consideration paid were valued using a Black-Scholes model which is also based on a Level 3 input. The fair value of the acquired current assets and current liabilities equaled their stated amounts due to their short-term nature. The fair value of the debt assumed under the Credit Facility approximated its stated amount due to its variable interest rates and its May 2011 maturity date. The fair value of derivative assets and liabilities were determined consistent with the basis described in *Note 12 Fair Value Measurements.* There were no identifiable intangibles acquired and no goodwill was recognized as identifiable assets acquired and the liabilities assumed approximated the purchase price.

In connection with the Resolute Transaction, HACI acquired an estimated 72.8% membership interest in Aneth in exchange for HACI s payment to Aneth of $325 million (the HACI Contribution), which Aneth used to repay a portion of the debt outstanding under Aneth s credit facilities.

Immediately following the repayment of debt, Sub contributed to the Company its interests in Predecessor Resolute in exchange for:

(i) 9,200,000 shares of Company common stock, 200,000 of which were issued to service providers (employees of Predecessor Resolute who became employees of Resolute upon consummation of the Resolute Transaction) in recognition of their services. 100,000 shares vested immediately on September 25, 2009 and the remaining shares less forfeitures vested on the one year anniversary of the Acquisition Date;

(ii) 4,600,000 new Company Founders Warrants, (New Founder Warrants) issued in exchange for Old Founder s Warrants (defined below) to purchase Company common stock with a strike price of $13.00, a trigger price of $13.75 and a five year term from the date of the Resolute Transaction; and

(iii) 1,385,000 Company earnout shares, which are shares of Company common stock (with voting rights) (Earnout Shares) that were forfeitable if the price of Company common stock did not exceed $15.00 per share for 20 trading days in any 30 trading day period within five years from the date of the Resolute Transaction. The Earnout Shares vested on February 2, 2011.

Immediately prior to the Resolute Transaction, 7,335,000 shares of common stock and 4,600,000 sponsor warrants of HACI that had been issued to the founder of HACI (Founder Shares and Old Founder Warrants, respectively) were cancelled and forfeited. Sponsor Warrants of 2,333,333 were sold to Sub by the sponsor in exchange for Sub s payment of $1,166,667 to the Sponsor. Sponsor Warrants were warrants to purchase the

common stock of HACI held by the Sponsor that were exchanged in the Resolute Transaction for New Sponsor Warrants to purchase Company common stock with a strike price of $13.00 and a five year term.

Immediately following the HACI Contribution and simultaneously with Sub s contribution of Predecessor Resolute, Resolute Subsidiary Corporation, a wholly owned subsidiary of Resolute, merged with and into HACI, with HACI surviving. HACI continues as a wholly-owned subsidiary of Resolute and the outstanding shares of HACI common stock and outstanding HACI warrants, including outstanding Old Founder Warrants and Sponsor Warrants, were exchanged for Sub s contribution. After the Resolute Transaction, the former HACI stockholders and warrant holders have no direct equity ownership interest in HACI.

Pro Forma Financial Information

The unaudited pro forma consolidated financial information in the table below summarizes the results of operations of the Company as though the Resolute Transaction had occurred as of the beginning of the period presented. The pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition had taken place at the beginning of the earliest period presented or that may result in the future. The pro forma adjustments made were based on certain assumptions that Resolute believed were reasonable based on the available information.

The unaudited pro forma financial information for the year ended December 31, 2009, combines the historical results of HACI and Predecessor Resolute.

	2009 (in thousands, except per share amount)	
Total revenue	$	127,760
Operating loss		(26,558)
Net loss		(64,827)
Basic and diluted net loss per share	$	(1.22)

Note 4 Earnings per Share

Prior to the date of the Resolute Transaction, the Company computed earnings per share using the two class method due to the common stock subject to redemption. The liquidation rights of the holders of the Company s common stock and common stock subject to redemption are identical, except with respect to redemption rights for dissenting shareholders in an acquisition by the Company. As a result, the undistributed earnings for periods prior to the Resolute Transaction were allocated based on the contractual participation rights of the common stock and common stock subject to redemption as if the earnings for the year had been distributed. The undistributed earnings were allocated to common stock subject to redemption based on their pro-rata right to income earned on offering proceeds by the trust. Subsequent to the Resolute Transaction, no common stock subject to redemption remains outstanding.

Basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potentially dilutive shares consist of the incremental shares issuable under the outstanding warrants, Earnout Shares and the Company s 2009 Performance Incentive Plan

(the Incentive Plan).

The warrants and Earnout Shares had no dilutive impact during 2010 or 2009 as (i) 34,600,000 warrants were anti-dilutive as their exercise price is greater than the average price of the Company s common stock during the twelve months then ended; (ii) 13,800,000 warrants were considered contingently issuable as the last sales price of the Company s common stock, through December 31, 2010, has not exceeded $13.75 for any 20 days within any 30 day trading period; and (iii) Earnout Shares are considered contingently issuable and are not included in the earnings per share calculation until all necessary conditions for issuance are satisfied. Accordingly, the impact of 48,400,000 warrants and 3,250,000 shares of restricted stock outstanding during 2010 and 2009 were not included in the calculation of earnings per share. Additionally, there was a loss during the twelve months ended

Table of Contents

December 31, 2009, and all potentially dilutive shares were anti-dilutive. In 2008, 76,000,000 warrants were contingently issuable and were excluded from the calculation of diluted earnings per share.

The treasury stock method is used to measure the dilutive impact of potentially dilutive shares. Dilutive potential common shares prior to application of the treasury stock method for the period ended December 31, 2010 included 570,000 shares of time-based restricted stock and 93,000 shares of restricted stock subject to a market condition.

The following table sets forth the 2010 computation of basic and diluted net income per share of common stock (in thousands, except per share amounts):

	2010
Net Income	$ 6,185
Basic weighted average common shares outstanding	49,900
Add: dilutive effect of non-vested restricted stock	575
Diluted weighted average common shares outstanding	50,475
Basic and diluted earnings per common share	$ 0.12

The following table sets forth the 2009 and 2008 computation of basic and diluted net income per share of common stock and common stock subject to redemption (in thousands, except per share amounts):

	2009		2008	
	Common Stock	Common Stock Subject to Redemption	Common Stock	Common Stock Subject to Redemption
Numerator:				
Allocation of undistributed earnings (loss)	$ (43,313)	$ (1,930)	$ 2,498	$ 1,489
Denominator:				
Weighted average of issued shares outstanding	$ 46,394	$ 12,114	$ 45,105	$ 16,560
Basic and diluted earnings per share	$ (0.93)	$ (0.16)	$ 0.06	$ 0.09

Warrants entitle the holder to purchase one share of Company common stock at a price of $13.00 per share and expire on September 25, 2014. A summary of the activity associated with warrants during 2010, 2009 and 2008 is as follows (in thousands):

	Warrants
Balance at January 1, 2008	76,000
Redemption of warrants in Resolute Transaction	(27,600)

Cancellation of Old Founder Warrants	(4,600)
Issuance of New Founder Warrants	4,600
Balance at December 31, 2009 and 2010	48,400

Subsequent to December 31, 2010, and through March 11, 2011, 3,196,000 warrants have been exercised for proceeds of $41.6 million.

Note 5 Marketable Securities Held in Trust

On September 25, 2009, $290.1 million of marketable securities held in trust (treasury bills with a one year maturity) were distributed in connection with the Resolute Transaction (see Note 3). No gross unrealized holding gains or losses were recognized during 2009 or 2008.

Note 6 Related Party Transactions

HACI agreed to pay up to $10,000 a month for office space and general and administrative services to Hicks Holdings Operating LLC (Hicks Holdings), an affiliate of HACI s founder and chairman of the board, Thomas O. Hicks. Services commenced after the effective date of the Offering and were terminated on the Acquisition Date due to the consummation of the Resolute Transaction. The Company expensed $0.1 million during each of the years ended December 31, 2009 and 2008.

During 2009, Resources carried a payable for payments received on behalf of affiliate, Holdings, for Holdings transactions not related to Resolute. Resources paid Holdings $1.3 million in satisfaction of this payable during 2009.

Note 7 Long Term Debt

Resolute s credit facility is with a syndicate of banks led by Wells Fargo Bank, National Association (the Credit Facility) with Resolute as the borrower. The Credit Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of Resolute s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. On March 30, 2010, the Company entered into an amended and restated credit facility agreement. Under the terms of the restated agreement, the borrowing base was increased from $240.0 million to $260.0 million and the maturity date was extended to March 2014. At Resolute s option, the outstanding balance under the Credit Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 2.25% to 3.0% or (b) the Alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate, (ii) the Federal Funds Effective Rate plus 0.5%, or (iii) an adjusted London Interbank Offered Rate plus 1%, plus a margin which ranges from 1.25% to 2.0%. Each such margin is based on the level of utilization under the borrowing base. As of December 31, 2010 and 2009, the weighted average interest rate on the outstanding balance under the Credit Facility was 3.15% and 3.30%, respectively.

The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. Under certain circumstances, either Resolute or the lenders may request an interim redetermination. As of December 31, 2010, outstanding borrowings were $127.9 million and unused availability under the borrowing base was $128.8 million. As of December 31, 2009, outstanding borrowings were $109.6 million and unused availability under the borrowing base was $121.9 million. The borrowing base availability was reduced by $3.3 million and $8.5 million in conjunction with letters of credit issued to vendors at December 31, 2010 and 2009, respectively. To the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. The Credit Facility is collateralized by substantially all of the proved oil and gas assets of Aneth and RWI, and is guaranteed by Resolute s subsidiaries.

The Credit Facility includes terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. Resolute was in compliance with all terms and covenants of the Credit Facility at December 31, 2010.

As of March 11, 2011, Resolute had borrowings of $96.6 million under the Credit Facility, resulting in an unused availability of $160.1 million under the borrowing base.

Resolute Energy Corporation, the stand-alone parent entity, has insignificant independent assets and no operations. There are no restrictions on the Company s ability to obtain cash dividends or other distributions of funds from its subsidiaries, except those imposed by applicable law.

Note 8 Income Taxes

The following table summarizes the components of the provision for income taxes (in thousands):

	2010	2009	2008
Current income tax benefit (expense)	$ 3,617	$ 74	$ (2,169)
Deferred income tax benefit (expense)	(6,005)	19,813	115

Total income tax benefit (expense)	$	(2,388)	$	19,887	$	(2,054)

The provision for income taxes for the years ended December 31, 2010, 2009 and 2008 differs from the amount that would be provided by applying the statutory U.S. federal income tax rate of 35% to income before

income taxes. This difference relates primarily to state income taxes and estimated permanent differences as follows (in thousands):

	2010	2009	2008
Expected statutory income tax benefit (expense)	$ (3,001)	$ 22,120	$ (2,054)
State income tax benefit (expense)	(98)	1,612	
Equity based compensation		(322)	
Non-deductible merger costs		(3,615)	
Provision to tax return revision	969		
Other	(258)	92	
Total income tax benefit (expense)	$ (2,388)	$ 19,887	$ (2,054)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and liabilities are presented below (in thousands):

	December 31,	
	2010	2009
Current deferred income tax assets (liabilities):		
Derivative financial instruments	$ 10,048	$ 5,170
Asset retirement obligation	1,123	968
Other	783	912
Total current	11,954	7,050
Long term deferred income tax assets (liabilities):		
Derivative financial instruments	18,198	19,515
Net operating loss carryovers	7,833	9,310
Asset retirement obligation	4,272	2,414
Startup and organization costs	235	253
Deferred acquisition costs	45	45
Percentage depletion	608	
Property and equipment costs	(104,469)	(92,249)
Other	(98)	(1,755)
Total long term	(73,376)	(62,467)
Net deferred tax (liability) asset	$ (61,422)	$ (55,417)

As set forth in Note 3, in 2009 the Company acquired Predecessor Resolute s assets and liabilities in a partially tax-free transaction pursuant to Section 351 of the Internal Revenue Code. Accordingly, the Company established a

deferred tax liability of $75.5 million as part of the acquisition accounting to give effect to the differing financial accounting and income tax bases of the acquired assets and liabilities.

The Company has U.S. net operating loss carryforwards of $22.3 million at December 31, 2010, which will begin expiring in 2026. Of the $22.3 million, $3.4 million would not be available for use until 2012 and after.

The Company adopted the accounting for uncertain tax positions per FASB ASC Topic 740, *Accounting for Income Taxes*, from inception. This guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This guidance requires that the Company recognize in the consolidated financial statements, only those tax positions that are more-likely-than-not of being sustained, based on the technical merits of the position. As a result of the implementation of this guidance, the Company performed a comprehensive review of the Company s material tax positions. This guidance had no effect on the Company s financial position, cash flows or results of operations for 2010, 2009 or 2008 as the Company had no unrecognized tax benefits. The Company s policy is to recognize interest and penalties related to uncertain tax positions in income tax expense. The Company has no accrued interest or penalties related to uncertain tax positions as of December 31, 2010 or 2009.

The Company is subject to the following material taxing jurisdictions: U.S. federal, Colorado, Utah and North Dakota. The tax years that remain open to examination by the Internal Revenue Service are the years 2007 through 2010. The tax years that remain open to examination by material state taxing authorities are 2006 through 2010.

Note 9 Stockholders Equity and Equity Based Awards

Preferred Stock

The Company is authorized to issue up to 1,000,000 shares of preferred stock, par value $0.0001 with such designations, voting and other rights and preferences as may be determined from time to time by the Board of Directors. No shares were issued and outstanding as of December 31, 2010 or December 31, 2009.

Common Stock

The authorized common stock of the Company consists of 225,000,000 shares. The holders of the common shares are entitled to one vote for each share of common stock. In addition, the holders of the common stock are entitled to receive dividends when, as and if declared by the Board of Directors. At December 31, 2010 and 2009, the Company had 54.7 million and 53.2 million shares of common stock issued and outstanding, respectively.

Of the shares of common stock outstanding at December 31, 2010, 3,250,000 are classified as Earnout Shares. The Earnout Shares have voting rights and are transferable; however, they are not registered for resale and do not participate in dividends until the trigger price is met. The Earnout Shares vested on February 2, 2011, when the Company s common stock exceeded $15.00 per share for 20 consecutive trading days.

Prior to the consummation of the Resolute Transaction, holders of 30% of public common stock, less one share, had the right to vote against any acquisition proposal and demand conversion of their shares for a pro rata portion of cash and marketable securities held in trust, less certain adjustments. As a result, HACI classified 16,559,999 of the total 69,000,000 common shares issued during 2007 as common stock, subject to possible redemption for $160.8 million. The common stock subject to redemption participated in the net income of HACI. Income or loss attributable to common stock subject to redemption was considered in the calculation of earnings per share and the deferred interest attributable to common stock subject to possible redemption was accrued. Upon consummation of the Resolute Transaction, the $160.8 million temporary equity was reclassified to common stock and additional paid-in capital and 11,592,084 shares were redeemed. The deferred interest attributable to the shares of common stock not redeemed of $1.9 million was reclassified to stockholders equity.

Share-Based Compensation

The Company accounts for share-based compensation in accordance with FASB ASC Topic 718, *Stock Compensation*.

On July 31, 2009, the Company adopted the Incentive Plan, providing for long-term share based awards intended as a means for the Company to attract, motivate, retain and reward directors, officers, employees and other eligible persons through the grant of awards and incentives for high levels of individual performance and improved financial performance of the Company. Share-based awards are also intended to further align the interests of award recipients and the Company s stockholders. The Company s Board of Directors or one or more committees appointed by the Company s Board of Directors will administer the Incentive Plan. The maximum number of shares of Company common stock that may be issued pursuant to awards under the Incentive Plan is 2,657,744.

The Incentive Plan authorizes stock options, stock appreciation rights, restricted stock, restricted stock units, stock bonuses and other forms of awards that may be granted or denominated in Company common stock or units of Company common stock, as well as cash bonus awards. The Incentive Plan retains flexibility to offer competitive incentives and to tailor benefits to specific needs and circumstances. Any award may be paid or settled in cash at the

Company s option.

During the twelve months ended December 31, 2010, pursuant to the Incentive Plan, the Company granted 1,741,200 shares of restricted stock to employees. As of December 31, 2010, 407,171 of these shares had vested, 16,550 shares had been forfeited, and 142,468 shares were repurchased by the Company in satisfaction of withholding tax obligations and retired.

Shares of restricted stock vest if employees continue to be employed at specified dates in the future and if certain performance metrics are satisfied. For the majority of 2010 grants, which were completed in the first half

of the year, two-thirds of each grant of restricted stock is time-based, as the shares will vest based on continued employment in four equal tranches. The first tranche generally vested on December 31, 2010. The remaining tranches will generally vest on each successive December 31st, with the final tranche generally vesting on December 31, 2013. For grants completed in the second half of the year, the vesting dates are generally tied to the anniversary dates of the grantees employment.

The remaining one-third of each grant is subject to the satisfaction of pre-established performance targets. The performance-based shares will vest in equal tranches beginning December 31, 2010 if there has been a 10% annual appreciation in the trading price of the Company s common stock, compounded annually, from the twenty trading day average stock price at December 31, 2009, which was $11.134. At the end of each year, the twenty trading day average share price will be measured, and if the 10% threshold is met, the stock subject to the performance criteria will vest, which was the case for the December 31, 2010 tranche. If the 10% threshold is not met, shares that have not vested will be carried forward to the following year. In that way, an underperforming year can be offset by an over-performing year. At December 31, 2013, any unvested shares will vest if the cumulative test is met or will be forfeited if the test is not met. Vesting will accelerate on an individual s death or disability or, in the discretion of the Board of Directors or Compensation Committee, on certain change in control events. The compensation expense to be recognized for the time-based awards was measured based on the Company s traded stock price on the dates of grant, utilizing an estimated forfeiture rate of 5%. The compensation expense to be recognized for the performance-based awards was measured based on the estimated fair value at the date of grant using a binomial lattice model that incorporates a Monte Carlo simulation. For the twelve months ended December 31, 2010, the Company recorded $5.7 million of stock based compensation expense for the time-based and performance based awards. No expense was recorded during 2009. There was unrecognized compensation expense relating to these awards of approximately $13.0 million, at December 31, 2010.

The valuation model for the performance portion of the award used the following assumptions:

Grant Year	Average Expected Volatility	Expected Dividend Yield	Risk-Free Interest Rate
2010	70.5% - 76.4%	0.0%	1.04% - 1.75%

Due to the limited historical data on Resolute s stock, the Company s elected a peer group to estimate the expected volatility. Companies included in the peer group had similar market cap, leverage and were all heavily weighted in oil sales. The average expected volatility is based on 3.5 year historical volatility levels. Risk-free interest rates reflect the yield on an average of three and five year zero coupon U.S. Treasury bonds, based on the shares contractual terms.

On March 16, 2010, certain of the Company s directors were granted a total of 5,492 shares of Company common stock under the Incentive Plan. One quarter of each Board of Director award was granted without restriction with the remainder vesting over a service period ending on March 16, 2013. The compensation expense to be recognized for the awards was measured based on the Company s closing stock price on March 16, 2010.

On September 25, 2009, the Company and Sub entered into a Retention Bonus Award Agreement calling for the award to employees of the Company of 200,000 shares of Company common stock that would otherwise have been issued to Sub in the Resolute Transaction. Fifty percent of each employee award was awarded without restriction and fifty percent of each employee award was granted contingent upon the employee remaining employed by the Company for one year following the closing of the Resolute Transaction. As of September 25, 2010, the vesting date, employees had forfeited 15,039 shares under this agreement, which were transferred to Holdings, and had relinquished

25,086 shares in satisfaction of withholding taxes, which were retired by the Company. The compensation expense recognized for the awards was measured based on the Company s traded stock price at the date of the Resolute Transaction. For the twelve months ended December 31, 2010 and 2009, the Company recorded $0.5 million and $1.1 million of stock based compensation expense for this award, respectively.

Note 10 Employee Benefits

The Company offers a variety of health and benefit programs to all employees, including medical, dental, vision, life insurance and disability insurance. The Company s executive officers are generally eligible to participate in these employee benefit plans on the same basis as the rest of the Company s employees. The Company offers a 401(k) plan for all eligible employees. For the years ended December 31, 2010 and 2009, the Company expensed $0.5 million in connection with matching of employee contributions. No matching contributions were made in 2008. Employee benefit plans may be modified or terminated at any time by the Company s Board of Directors.

On October 22, 2009, the Company s Board of Directors approved (i) cash awards to employees in the aggregate amount of approximately $1.5 million, with 50% of each award paid in 2009 and 50% paid one year from closing if the employee remained employed by the Company; (ii) the payment to each employee who had been subject to a salary reduction in 2009 a lump sum payment equal to the amount of the reduction, such payments aggregating to approximately $0.3 million; and (iii) the payment of lump sum payments to employees approximately equal to the amount they would have received as matching 401(k) contributions for 2008 had Predecessor Resolute made a matching contribution in accordance with past practice, such bonuses amounting to approximately $0.6 million.

Time Vested Cash Awards

Prior to the Resolute Transaction, certain employees of Predecessor Resolute held time vested cash awards (Awards). All of the Awards bear simple interest of 15% per annum commencing January 1, 2008, and are payable in three installments, with the first two installments paid on January 1, 2009 and 2010 and the remaining installment payable on January 1, 2011. The Awards are accounted for as deferred compensation. The annual payments are paid contingent upon the employee s continued employment with Resolute and there is potential for forfeiture of the Awards. Accordingly, Resolute accrues the Awards and related return for the respective year on an annual basis. For the years ended December 31, 2010 and 2009, $0.2 million and $0.1 million of compensation expense related to the Awards was recognized, respectively. The remaining amount accrued December 31, 2010 for all Awards is $0.2 million.

Note 11 Derivative Instruments

As of December 31, 2010, Resolute had entered into certain commodity swap contracts. The following table represents Resolute s commodity swaps through 2013:

Year	Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl	MMBtu per Day	Gas (NYMEX HH) Weighted Average Hedge Price per MMBtu
2011	3,250	$ 68.26	2,750	$ 9.32
2012	3,250	$ 68.26	2,100	$ 7.42
2013	2,000	$ 60.47	1,900	$ 7.40

Resolute also uses basis swaps in connection with gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the gas production is sold. The table below sets forth Resolute s outstanding basis swaps as of December 31, 2010.

Year	Index	MMBtu per Day		Hedged Price Differential per MMBtu
2011 2013	Rocky Mountain NWPL	1,800	$	2.10
2011	Rocky Mountain CIG	1,500	$	0.57
2012	Rocky Mountain CIG	1,000	$	0.575
2013	Rocky Mountain CIG	500	$	0.59
2014	Rocky Mountain CIG	1,000	$	0.59

Table of Contents

As of December 31, 2010, Resolute had entered into certain commodity collar contracts. The following table represents Resolute s commodity collars:

Year	Oil Collar Volumes Bbl per Day	(NYMEX WTI) Floor Price	Ceiling Price
2011	250	$ 80.00	$ 90.00
2012	250	$ 80.00	$ 93.50

Subsequent to December 31, 2010 and effective March 1, 2011, Resolute had modified its oil derivative instrument position as summarized in the table below. The Company will incur premium payments associated with the oil collars of $4.8 million, $1.0 million, $1.2 million and $2.7 million in 2011, 2012, 2013 and 2014, respectively.

Year	Oil Swap Volumes Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl	Oil Collar Volumes Bbl per Day	(NYMEX WTI) Floor Price	Ceiling Price
2011	750	$ 70.58	3,750	$ 66.67	$ 94.67
2012	3,250	$ 68.26	875	$ 69.71	$ 98.14
2013	2,000	$ 60.47	775	$ 80.00	$ 105.00
2014			1,500	$ 65.00	$ 110.00

Resolute does not offset the fair value amounts of derivative assets and liabilities with the same counterparty for financial reporting purposes. See Note 12 for the location and fair value amounts of Resolute s commodity derivative instruments reported in the consolidated balance sheets at December 31, 2010.

The table below summarizes the location and amount of commodity derivative instrument losses reported in the consolidated statements of operations (in thousands):

	Year Ended December 31, 2010	2009
Other income (expense):		
Realized losses	$ (8,276)	$ (3,193)
Unrealized losses	(9,566)	(46,321)
Total loss on derivative instruments	$ (17,842)	$ (49,514)

Credit Risk and Contingent Features in Derivative Instruments

Resolute is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above. All counterparties are lenders under Resolute s Credit Facility. Accordingly, Resolute is not required to provide any credit support to its counterparties other than cross collateralization with the properties securing the Credit Facility. Resolute s derivative contracts are documented with industry standard contracts known as a Schedule to the Master Agreement and International Swaps and Derivative Association, Inc. Master Agreement (ISDA). Typical terms for the ISDAs include credit support requirements, cross default provisions, termination events, and set-off provisions. Resolute has set-off provisions with its lenders that, in the event of counterparty default, allow Resolute to set-off amounts owed under the Credit Facility or other general obligations against amounts owed for derivative contract liabilities.

The maximum amount of loss in the event of all counterparties defaulting is $0 as of December 31, 2010, due to the set off provisions noted above.

Note 12 Fair Value Measurements

FASB ASC Topic 820*, Fair Value Measurements and Disclosures,* defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The guidance establishes market or observable inputs as the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs.

Table of Contents

The guidance establishes a hierarchy for determining the fair values of assets and liabilities, based on the significance level of the following inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

An asset or liability subject to the fair value requirements is categorized within the hierarchy based on the lowest level of input that is significant to the fair value measurement. Resolute s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Following is a description of the valuation methodologies used by Resolute as well as the general classification of such instruments pursuant to the hierarchy.

As of December 31, 2010, Resolute s commodity derivative instruments were required to be measured at fair value on a recurring basis. Resolute used the income approach in determining the fair value of its derivative instruments, utilizing present value techniques for valuing its swaps and basis swaps and option-pricing models for valuing its collars. Inputs to these valuation techniques include published forward index prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. Substantially all of these inputs are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace and are therefore designated as Level 2 within the valuation hierarchy.

The following is a listing of Resolute s assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2010 (in thousands):

Description	Level 1	Level 2	Level 3
Assets			
Commodity swaps	$	$ 4,745	$
Commodity collars			
Current assets: derivative instruments	$	$ 4,745	$
Commodity swaps	$	$ 3,098	$
Other assets: derivative instruments	$	$ 3,098	$
Liabilities			
Commodity swaps	$	$ 585	$
Commodity collars		30,608	
Current liabilities: derivative instruments	$	$ 31,193	$

Commodity swaps	$	$ 50,793	$
Commodity collars		486	
Long term liabilities: derivative instruments	$	$ 51,279	$

Table of Contents

The following is a listing of Resolute s assets and liabilities required to be measured at fair value on a recurring basis and where they are classified within the hierarchy as of December 31, 2009 (in thousands):

Description	Level 1	Level 2	Level 3
Assets			
Commodity swaps	$	$ 5,236	$
Commodity collars		1,722	
Current assets: derivative instruments	$	$ 6,958	$
Commodity swaps	$	$ 3,600	$
Other assets: derivative instruments	$	$ 3,600	$
Liabilities			
Commodity swaps	$	$ 20,360	$
Current liabilities: derivative instruments	$	$ 20,360	$
Commodity swaps	$	$ 55,260	$
Long term liabilities: derivative instruments	$	$ 55,260	$

Note 13 Commitments and Contingencies

CO_2 Take-or-Pay Agreements

Resolute is party to a take-or-pay purchase agreement with Kinder Morgan CO_2 Company L.P., under which Resolute has committed to buy specified volumes of CO_2. The purchased CO_2 is for use in Resolute s enhanced tertiary recovery projects in Aneth Field. Resolute is obligated to purchase a minimum daily volume of CO_2 or pay for any deficiencies at the price in effect when delivery was to have occurred. The CO_2 volumes planned for use on the enhanced recovery projects exceed the minimum daily volumes provided in these take-or-pay purchase agreements. Therefore, Resolute expects to avoid any payments for deficiencies.

On October 5, 2010, Resolute entered into an amendment of the contract effective September 1, 2010. The amendment extends the term of the contract to December 31, 2020, and allows the Company flexibility to adjust the minimum purchase commitments; therefore, these yearly commitments may change.

Future minimum CO_2 purchase commitments as of December 31, 2010 under this purchase agreement based on prices in effect at December 31, 2010, are as follows (in thousands):

Year	CO_2 Purchase Commitments

2011		23,032
2012		23,893
2013		23,033
2014		19,062
2015		14,694
Thereafter		35,586
Total	$	139,300

Crude Production Purchase Agreement

Resolute sells all of its crude oil production from the Aneth field to a single customer, Western Refining Southwest, Inc. (Western), a subsidiary of Western Refining, Inc., under a contract, effective September 1, 2009. The contract provides for a minimum price equal to the NYMEX price for crude oil less a fixed differential of $6.25 per Bbl for an initial term of one year and continuing month-to-month thereafter, with either party having the right to terminate after the initial term, upon ninety days written notice. The contract may also be terminated by Western, upon sixty days notice, if Western s right-of-way agreements with the Navajo Nation are declared invalid and Western is prevented from using such rights-of-way.

Table of Contents

Operating Leases

Monthly office facility rental payments charged to expense during 2010 was $1.0 million. For 2009 and 2008, month-to-month office facilities rental payments charged to expense were approximately $0.3 million and $0.1 million, respectively. Future rental payments for office facilities under the terms of non-cancelable operating leases as of December 31, 2010 was approximately $0.5 for the years ending December 31, 2011, 2012 and 2013 and was approximately $0.1 million in aggregate for the years ending December 31, 2014, 2015 and 2016.

The Company is also party to several field equipment and compressor leases used in the CO_2 project. Total gross future rental payments under the terms of these leases amount to annual payments of $2.7 million through 2014, $2.3 million in 2015, and total lease obligations of $3.5 million thereafter. Rental expense net to the Company s interest for 2010 was $1.9 million and was $0.5 million for 2009. No rental expense was incurred under these leases in 2008.

Escrow Funding Agreement

Under the terms of Predecessor Resolute s purchase of the ExxonMobil Properties, Predecessor Resolute and Navajo Nation Oil and Gas Company (NNOG) were required to fund an escrow account sufficient to complete abandonment, well plugging, site restoration and related obligations arising from ownership of the acquired interests. The contribution net to Aneth s working interest, is included in other assets: restricted cash in the consolidated balance sheets of December 31, 2010. Aneth is required to make additional deposits to the escrow account annually. From 2011 through 2016, Aneth must fund approximately $1.8 million per year. In years after 2016, Aneth must fund additional payments averaging approximately $0.9 million per year until 2031. Total contributions from the date of acquisition through 2031 will aggregate $26.9 million. Annual interest earned in the escrow account becomes part of the balance and reduces the payment amount required for funding the escrow account each year. As of December 31, 2010, Aneth has funded the 2010 annual contractual amount of approximately $1.8 million required to meet its future obligation.

NNOG Purchase Options

In connection with Predecessor Resolute s acquisition of the ExxonMobil Properties and the acquisition from Chevron Corporation and its affiliates (Chevron) of 75% of Chevron s interest in Aneth Field (Chevron Properties) in 2005, pursuant to the terms of the Cooperative Agreement, Predecessor Resolute granted to NNOG three separate but substantially similar purchase options which became obligations of Resolute through the Resolute Transaction. Each purchase option entitles NNOG to purchase from Resolute up to 10% of Resolute s interest in each of the Chevron Properties and the ExxonMobil Properties. Each purchase option entitles NNOG to purchase, for a limited period of time, the applicable portion of Resolute s interest in the Chevron Properties or the ExxonMobil Properties, at Fair Market Value (as defined in the agreement), which is determined without giving effect to the existence of the Navajo Nation preferential purchase right or the fact that the properties are located within the Navajo Nation. Each option becomes exercisable based upon Resolute s achieving a certain multiple of payout of the relevant acquisition costs, subsequent capital costs and ongoing operating costs attributable to the applicable working interests. Revenue applicable to the determination of payout includes the effect of Resolute s derivative program. The multiples of payout that trigger the exercisability of the purchase option are 100%, 150% and 200%. The options are not exercisable prior to four years from the acquisition except in the case of a sale of such assets by, or a change of control of, Aneth. In that case, the first option for 10% would be accelerated and the other options would terminate. Assuming the purchase options are not accelerated due to a change of control of Aneth, Resolute expects that the initial payout associated with the purchase options granted will occur no sooner than 2013.

The following table demonstrates the maximum net undivided working interest in each of the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit that NNOG could acquire upon exercising each of its purchase

options under the Cooperative Agreement. The exercise by NNOG of its purchase options in full would not give it the right to remove Resolute as operator of any of the units.

	Aneth Unit	McElmo Creek Unit	Ratherford Unit
Chevron Properties:			
Option 1 (100% Payout)	5.30%	1.50%	0.30%
Option 2 (150% Payout)	5.30%	1.50%	0.30%
Option 3 (200% Payout)	5.30%	1.50%	0.30%
Total	15.90%	4.50%	0.90%

	Aneth Unit	McElmo Creek Unit	Ratherford Unit
ExxonMobil Properties:			
Option 1 (100% Payout)	0.75%	6.00%	5.60%
Option 2 (150% Payout)	0.75%	6.00%	5.60%
Option 3 (200% Payout)	0.75%	6.00%	5.60%
Total	2.25%	18.00%	16.80%

Note 14 Oil and Gas Producing Activities

Costs incurred during 2010 and 2009 related to oil and gas property acquisition, exploration and development activities, including the fair value of oil and gas properties acquired in the Resolute Transaction are summarized as follows (in thousands):

	2010	2009
Development costs*	$ 47,640	$ 7,989
Exploration	14,866	2
Acquisitions:		
Proved	635	622,495
Unproved	21,638	11,203
Total	$ 84,779	$ 641,689

* Includes $12.9 million and $4.4 million of acquired CO_2 during 2010 and 2009, respectively.

Net capitalized costs related to Resolute s oil and gas producing activities at December 31, were as follows (in thousands):

	2010	2009
Proved oil and gas properties	$ 689,021	$ 634,383
Unevaluated oil and gas properties, not subject to amortization	37,235	7,306
Accumulated depletion, depreciation and amortization	(56,967)	(11,173)
Oil and gas properties, net	$ 669,289	$ 630,516

Note 15 Supplemental Oil and Gas Information (unaudited)

Reserve Engineering and Auditor Qualifications:

Company reserves are prepared by, or under the direct supervision of, the Company s Vice President of Reservoir Engineering and are then reviewed internally by senior management and audited by a qualified independent auditor. The professional qualifications of the Vice President of Reservoir Engineering meet or exceed the qualification of reserve estimators and auditors as set forth by the Society of Petroleum Engineers. The Vice President of Reservoir Engineering has more than 28 years of practical petroleum engineering and reserve estimation and evaluation experience as well as experience as a qualified reserve estimator and auditor.

The Company s reserve data is audited by Netherland, Sewell & Associates, Inc. (NSAI), a worldwide leader of petroleum property analysis. Within NSAI, the technical person primarily responsible for auditing the Company s reserve estimates has been practicing consulting petroleum engineering at NSAI since 1997.

Table of Contents

Additionally, this person has more than 29 years of practical experience in petroleum engineering, with more than 13 years experience in the estimation and evaluation of reserves.

Oil and Gas Reserve Quantities:

Resolute had no oil and gas reserves prior to the acquisition of Predecessor Resolute. Accordingly, the following table begins with Resolute s purchase of estimated net proved oil and gas reserves and the present value of such estimated net proved reserves as of September 25, 2009. The reserve data as of December 31, 2010 was prepared by Resolute and was audited by NSAI. Users of this information should be aware that the process of estimating quantities of proved oil and gas reserves is very complex, requiring significant subjective decisions to be made in the evaluation of available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserves estimates may occur from time to time. Although every reasonable effort is made to ensure reserves estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosures.

Presented below is a summary of the changes in estimated reserves (in thousands):

	Oil (Bbl)	Gas (Mcf)	NGL (Bbl)	Oil Equivalent (BOE)
Purchases of minerals in place on September 25, 2009	64,946	52,203	6,997	80,643
Production	(543)	(895)	(4)	(696)
Revisions of previous estimates (1)	(14,544)	(13,079)	1,210	(15,514)
Proved reserves as of December 31, 2009:	49,859	38,229	8,203	64,433
Purchases of minerals in place	19	26		24
Production	(2,089)	(3,423)	(20)	(2,680)
Extensions, discoveries and other additions	49	45		58
Revisions of previsions estimates	2,394	4,221	(264)	2,834
Proved reserves as of December 31, 2010	50,232	39,098	7,919	64,669
Proved developed reserves:				
As of December 31, 2010	30,819	13,968	1,165	34,312
As of December 31, 2009	30,895	15,523	1,455	34,938

1) The negative revisions are primarily due to commodity pricing attributable to utilization of average first of month fiscal year commodity prices.

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:

The following summarizes the policies used in the preparation of the accompanying oil and gas reserves disclosures, standardized measures of discounted future net cash flows from proved oil and gas reserves and the reconciliations of standardized measures at December 31, 2010. The information disclosed is an attempt to present the information in a manner comparable with industry peers.

The information is based on estimates of proved reserves attributable to Resolute s interest in oil and gas properties as of December 31, 2010. Due to the Resolute Transaction, only 2009 and 2010 activity is presented. Proved reserves are estimated quantities of oil and gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

Table of Contents

The standardized measure of discounted future net cash flows from production of proved reserves was developed as follows:

1) Estimates were made of quantities of proved reserves and future periods during which they are expected to be produced based on year-end economic conditions.

2) The estimated future cash flows was compiled by applying average annual prices of crude oil and gas relating to Resolute s proved reserves to the year-end quantities of those reserves.

3) The future cash flows were reduced by estimated production costs, costs to develop and produce the proved reserves and abandonment costs, all based on year-end economic conditions.

4) Future income tax expenses were based on year-end statutory tax rates giving effect to the remaining tax basis in the oil and gas properties, other deductions, credits and allowances relating to Resolute s proved oil and natural gas reserves.

5) Future net cash flows were discounted to present value by applying a discount rate of 10%.

The standardized measure of discounted future net cash flows does not purport, nor should it be interpreted, to present the fair value of Resolute s oil and gas reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs and a discount factor more representative of the time value of money and the risks inherent in reserve estimates. The following summary sets forth Resolute s future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed by FASB ASC Topic 932:

	December 31, 2010	December 31, 2009
	(in thousands)	
Future cash inflows	$ 4,124,000	$ 3,056,000
Future production costs	(1,684,000)	(1,483,000)
Future development costs	(523,000)	(432,000)
Future income taxes	(589,000)	(290,000)
Future net cash flows	1,328,000	851,000
10% annual discount for estimated timing of cash flows	(741,000)	(490,000)
Standardized measure of discounted future net cash flows	$ 587,000	$ 361,000

The principal sources of change in the standardized measure of discounted future net cash flows are:

	December 31, 2010	December 31, 2009
	(in thousands)	

Standardized measure, beginning of year	$	361,000	$	
Sales of oil and gas produced, net of production costs		(63,000)		(22,000)
Net changes in prices and production costs		341,000		(288,000)
Purchase of minerals in place				555,000
Previously estimated development costs incurred during the year		41,000		5,000
Extensions and discoveries		1,000		
Changes in estimated future development costs		(87,000)		43,000
Revisions of previous quantity estimates		46,000		(131,000)
Accretion of discount		36,000		14,000
Net change in income taxes		(142,000)		122,000
Changes in timing and other		53,000		63,000
Standardized measure, end of year	$	587,000	$	361,000

Table of Contents

Note 16 Quarterly Financial Data (unaudited)

The following is a summary of the unaudited financial data for each quarter for the years ended December 31, 2010 and 2009 (in thousands except per share data):

	Three Months Ended			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31 2010
Year Ended December 31, 2010:				
Revenue	$ 41,132	$ 40,642	$ 41,828	$ 49,793
Operating expenses	32,914	33,056	36,179	40,076
Income (loss) from operations	8,218	7,586	5,649	9,717
Net income (loss)	4,704	19,068	(7,060)	(10,527)
Earnings (loss) per common share:				
Basic and diluted	$ 0.09	$ 0.38	$ (0.14)	$ (0.21)
Weighted average common shares outstanding:				
Basic	49,906	49,905	49,905	49,900
Diluted	49,906	50,526	49,905	49,900

	Three Months Ended			
	March 31, 2009	June 30, 2009	September 30, 2009	December 31, 2009
Year Ended December 31, 2009:				
Revenue	$	$	$ 2,270	$ 40,146
Operating expenses	3,805	311	13,391	39,854
Income (loss) from operations	(3,805)	(311)	(11,121)	292
Net loss	(2,209)	(79)	(21,405)	(21,550)
Basic and diluted earnings (loss) per common share:				
Common stock	$ (0.05)	$	$ (0.43)	$ (0.43)
Common stock, subject to redemption	$ 0.01	$	$ (0.13)	$
Weighted average common shares outstanding:				
Common stock	45,105	45,105	45,418	45,905
Common stock, subject to redemption	16,560	16,560	15,480	

Table of Contents

To the Managing Members of
Resolute Natural Resources Company, LLC, Resolute Aneth, LLC, WYNR, LLC, and BWNR, LLC
and
To the Board of Directors of RNRC Holdings, Inc. and Resolute Wyoming, Inc
Denver, Colorado

We have audited the accompanying combined statements of operations, shareholder s/member s equity (deficit), and cash flows of Resolute Natural Resources Company, LLC and related combined companies for the period from January 1, 2009 to September 24, 2009, and the year ended December 31, 2008. The combined financial statements include the accounts of Resolute Natural Resources Company, LLC and five related companies, Resolute Aneth, LLC, WYNR, LLC, BWNR, LLC, RNRC Holdings, Inc. and Resolute Wyoming, Inc. These companies are under common ownership and common management. These combined financial statements are the responsibility of the companies management. Our responsibility is to express an opinion on the combined financial statements based on our audits. The combined financial statements give retrospective effect to a percentage of the acquisition of Resolute Wyoming, Inc. as discussed in Note 2 to the combined financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The companies are not required to have, nor were we engaged to perform, an audit of their internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the companies internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such combined financial statements present fairly, in all material respects, the combined results of operations and combined cash flows of Resolute Natural Resources Company, LLC and related companies for the period from January 1, 2009 to September 24, 2009, and the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the combined financial statements, the combined financial statements have been retrospectively adjusted for the change in accounting for noncontrolling interests.

/s/ Deloitte & Touche LLP

Denver, Colorado

March 29, 2010

**RESOLUTE NATURAL RESOURCES COMPANY, LLC,
RESOLUTE ANETH, LLC, WYNR, LLC, BWNR, LLC,
RESOLUTE WYOMING, INC.,
RNRC HOLDINGS, INC.**

**Combined Statements of Operations
(in thousands)**

	For the 267 Day Period Ended September 24, 2009	Year Ended December 31, 2008
Revenue:		
Oil	$ 72,655	$ 193,535
Gas	10,183	29,376
Other	2,506	6,261
Total revenue	85,344	229,172
Operating expenses:		
Lease operating	46,771	85,990
Depletion, depreciation, amortization, and asset retirement obligation accretion	21,925	50,335
Impairment of proved properties	13,295	245,027
General and administrative	8,076	20,211
Total operating expenses	90,067	401,563
Loss from operations	(4,723)	(172,391)
Other income (expense):		
Interest expense	(18,416)	(33,139)
(Loss) gain on derivative instruments	(23,519)	96,032
Other income	47	832
Total other (expense) income	(41,888)	63,725
Loss before income taxes	(46,611)	(108,666)
Income tax benefit	5,019	18,247
Net loss	(41,592)	(90,419)
Less: net loss (income) attributable to the noncontrolling interest		177
Net loss attributable to Predecessor Resolute	$ (41,592)	$ (90,242)

See notes to combined financial statements

Table of Contents

RESOLUTE NATURAL RESOURCES COMPANY, LLC
RESOLUTE ANETH, LLC
WYNR, LLC
BWNR, LLC
RESOLUTE WYOMING, INC.
RNRC HOLDINGS, INC.

Combined Statements of Shareholder s/Member s Equity (Deficit)
(in thousands, except for shares)

	Common Stock		Additional Paid-in	Accumulated	Member s Equity	Noncontrolling	Total Shareholder s/ Member s Equity
	Shares	Amount	Capital	Deficit	(Deficit)	Interest	(Deficit)
Balances at January 1, 2008	2,000	$ 1	$ 26,248	$ (3,311)	$ (100,189)	$ 3,104	$ (74,147)
Capital contributions			15,909		4,227		20,136
Distributions				(15)	(9,224)		(9,239)
Acquisition of noncontrolling interest			1,981	945		(2,927)	
Equity-based compensation			4,160		3,840		7,999
Issuance of common stock	1,000		1				1
Resources conversion to LLC	(1,000)		(10,705)	10,705			
Net loss				(37,760)	(52,482)	(177)	(90,419)
Balances at December 31, 2008	2,000	1	37,594	(29,436)	(153,828)		(145,669)
Capital contributions					125		125
Distributions					(125)		(125)
Equity-based compensation					2,818		2,818
Net loss				(8,257)	(33,335)		(41,592)
Balances at September 24, 2009	2,000	$ 1	$ 37,594	$ (37,693)	$ (184,345)	$	$ (184,443)

See notes to combined financial statements

RESOLUTE NATURAL RESOURCES COMPANY, LLC
RESOLUTE ANETH, LLC
WYNR, LLC
BWNR, LLC
RESOLUTE WYOMING, INC.
RNRC HOLDINGS, INC.

Combined Statements of Cash Flows
(in thousands)

	For the 267 Day Period Ended September 24, 2009	December 31, 2008
Operating activities:		
Net loss	$ (41,592)	$ (90,419)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depletion, depreciation and amortization	21,244	49,503
Amortization and write-off of deferred financing costs	1,809	2,481
Write-off of deferred offering costs		2,480
Deferred income taxes	(4,732)	(14,540)
Equity-based compensation	2,818	7,878
Unrealized loss (gain) on derivative instruments	25,458	(120,573)
Accretion of asset retirement obligations	681	832
Impairment of proved properties	13,295	245,027
Loss on sale of other property and equipment	11	
Other	(14)	(16)
Change in operating assets and liabilities:		
Accounts receivable	(630)	28,244
Other current assets	365	2,003
Accounts payable and accrued expenses	(4,546)	(16,027)
Other current liabilities	(1,172)	729
Accounts payable Holdings	(56)	(223)
Net cash provided by operating activities	12,939	97,379
Investing activities:		
Acquisition, exploration and development expenditures	(12,904)	(62,042)
Proceeds from sale of oil and gas properties	218	1,141
Proceeds from sale of property and equipment	10	25
Purchase of other property and equipment	(66)	(582)
Notes receivable affiliated entities	7	2,070
Increase in restricted cash	(1,751)	(1,483)
Other	63	(150)
Net cash used for investing activities	(14,423)	(61,021)

Financing activities:		
Deferred financing costs	(1,823)	(3,599)
Proceeds from bank borrowings	95,670	274,099
Payment of bank borrowings	(93,120)	(312,061)
Capital contributions	125	9,273
Capital distributions	(125)	(9,224)
Net cash provided (used) by financing activities	727	(41,512)
Net decrease in cash and cash equivalents	(757)	(5,154)
Cash and cash equivalents at beginning of year	1,935	7,089
Cash and cash equivalents at end of year	$ 1,178	$ 1,935
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	$ 20,211	$ 30,987
Income taxes	$	$ 20
Supplemental schedule of non-cash investing and financing activities:		
Increase to asset retirement obligations	$ 2,641	$ 1,603
Increase to oil and gas properties through capitalized equity-based compensation	$	$ 122
Capital expenditures financed through current liabilities	$ 987	$ 1,181
Capital distributions	$	$ (15)
Capital contributions	$	$ 10,863

See notes to combined financial statements

RESOLUTE NATURAL RESOURCES COMPANY, LLC
RESOLUTE ANETH, LLC
WYNR, LLC
BWNR, LLC
RESOLUTE WYOMING, INC.
RNRC HOLDINGS, INC.

Notes to Combined Financial Statements

Note 1 Description of the Companies and Business

Resolute Natural Resources Company, LLC (Resources), previously a Delaware corporation incorporated on January 22, 2004 and converted to a limited liability company on September 30, 2008, Resolute Aneth, LLC (Aneth), a Delaware limited liability company established on November 12, 2004, WYNR, LLC (WYNR), a Delaware limited liability company established on August 25, 2005, BWNR, LLC (BWNR), a Delaware limited liability company established on August 19, 2005, RNRC Holdings, Inc. (RNRC), a Delaware corporation incorporated on September 19, 2008 and Resolute Wyoming, Inc. (RWI) (formerly Primary Natural Resources, Inc. (PNR)), a Delaware corporation incorporated on November 21, 2003 (the change of name to RWI was effective September 29, 2008) (together, Predecessor Resolute or the Companies) are engaged in the acquisition, exploration, development, and production of oil, gas and natural gas liquids (NGL), primarily in the Paradox Basin in southeastern Utah and the Powder River Basin in Wyoming. The Companies are wholly owned subsidiaries of Resolute Holdings Sub, LLC (Sub), which in turn is a wholly owned subsidiary of Resolute Holdings, LLC (Holdings).

Note 2 Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying combined statements of operations, cash flows and statements of shareholders/members equity (deficit) of Predecessor Resolute have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The 2009 and 2008 combined financial statements include the accounts of Resources and the five related companies: Aneth, WYNR, BWNR, RNRC and RWI. The conversion of Resources to an LLC and the formation of RNRC had no impact on the comparability of the combined financial statements. These companies are under common ownership and common management. All intercompany balances and transactions have been eliminated in combination.

On July 31, 2008, Predecessor Resolute acquired RWI. 87.23% of the acquisition of RWI was accounted for as a combination of entities under common control, which is similar to the pooling of interests method of accounting for business combinations. Accordingly, the combined financial statements give retrospective effect to these transactions, and therefore, Predecessor Resolute s results from January 1, 2008, through July 31, 2008, include 87.23% of the operations of RWI. The remaining 12.77% of the acquisition of RWI was accounted for using the purchase method. Accordingly, the accompanying combined financial statements reflect the 12.77% as not owned until the acquisition on July 31, 2008.

On September 25, 2009 (the Acquisition Date), Hicks Acquisition Company I, Inc. (HACI) consummated a business combination under the terms of a Purchase and IPO Reorganization Agreement (the Acquisition Agreement) with Resolute Energy Corporation (Resolute), pursuant to which, through a series of transactions, HACI s stockholders collectively acquired a majority of the outstanding equity of the Companies (the Resolute Transaction), and Resolute owns, directly or indirectly, 100% of the equity interests of Resources, WYNR, BWNR, RNRC, and RWI, and indirectly owns a 99.996% equity interest in Aneth. References to 2009 in these Notes relate to the 267 day period

ended September 24, 2009, unless otherwise specified.

Assumptions, Judgments, and Estimates

The preparation of the combined financial statements in conformity with GAAP requires management to make various assumptions, judgments and estimates to determine the reported amounts of assets, liabilities, revenue and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions,

judgments and estimates will occur as a result of the passage of time and the occurrence of future events. Accordingly, actual results could differ from amounts previously established.

Significant estimates with regard to the combined financial statements include the estimated carrying value of unproved properties, the estimate of proved oil and gas reserve volumes and the related present value of estimated future net cash flows and the ceiling test applied to capitalized oil and gas properties, the estimated cost and timing related to asset retirement obligations, the estimated fair value of derivative assets and liabilities, the estimated expense for equity based compensation and depletion, depreciation, and amortization.

Concentration of Credit Risk

Financial instruments that potentially subject Predecessor Resolute to concentrations of credit risk consist primarily of trade and production receivables. Predecessor Resolute derived 81% and 13% of its total 2009 revenue from Western Refining, Inc. and WGR Asset Holding Company, LLC, respectively. Predecessor Resolute derived 80% and 11% of its 2008 revenue from Western Refining, Inc, and WGR Asset Holding Company, LLC, respectively. The concentration of credit risk in a single industry affects the overall exposure to credit risk because customers may be similarly affected by changes in economic or other conditions. The creditworthiness of customers and other counterparties is subject to continuing review, including the use of master netting agreements, where appropriate. Commodity derivative contracts expose Predecessor Resolute to the credit risk of non-performance by the counterparty to the contracts. This exposure is diversified among major investment grade financial institutions, each of which is a financial institution participating in Predecessor Resolute s bank credit agreement.

Oil and Gas Properties

Predecessor Resolute uses the full cost method of accounting for oil and gas producing activities. All costs incurred in the acquisition, exploration and development of properties, including costs of unsuccessful exploration, costs of surrendered and abandoned leaseholds, delay lease rentals and the fair value of estimated future costs of site restoration, dismantlement and abandonment activities, improved recovery systems and a portion of general and administrative expenses are capitalized within the cost center.

Predecessor Resolute conducts tertiary recovery projects on certain of its oil and gas properties in order to recover additional hydrocarbons that are not recoverable from primary or secondary recovery methods. Under the full cost method, all development costs are capitalized at the time incurred. Development costs include charges associated with access to and preparation of well locations, drilling and equipping development wells, test wells, and service wells including injection wells; acquiring, constructing, and installing production facilities and providing for improved recovery systems. Improved recovery systems include all related facility development costs and the cost of the acquisition of tertiary injectants, primarily purchased CO_2. The development cost related to CO_2 purchases are incurred solely for the purpose of gaining access to incremental reserves not otherwise recoverable. The accumulation of injected CO_2, in combination with additional purchased and recycled CO_2, provide future economic value over the life of the project.

In contrast, other costs related to the daily operation of the improved recovery systems are considered production costs and are expensed as incurred. These costs include, but are not limited to, compression, electricity, separation, re-injection of recovered CO_2 and water. Costs incurred to maintain reservoir pressure are also expensed as incurred.

Capitalized general and administrative and operating costs include salaries, employee benefits, costs of consulting services and other specifically identifiable costs and do not include costs related to production operations, general corporate overhead or similar activities. Predecessor Resolute capitalized general and administrative and operating

costs of $0.3 million and $1.6 million related to its acquisition, exploration and development activities in 2009 and 2008, respectively.

Investments in unproved properties are not depleted, pending determination of the existence of proved reserves. Unproved properties are assessed periodically to ascertain whether impairment has occurred. Unproved properties whose costs are individually significant are assessed individually by considering the primary lease terms of the properties, the holding period of the properties, and geographic and geologic data obtained

relating to the properties. Where it is not practicable to assess individually the amount of impairment of properties for which costs are not individually significant, such properties are grouped for purposes of assessing impairment. The amount of impairment assessed is added to the costs to be amortized, or is reported as a period expense as appropriate.

Pursuant to full cost accounting rules, Predecessor Resolute must perform a ceiling test each quarter on its proved oil and gas assets. The ceiling test provides that capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices, excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, and a discount factor of 10%; plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. Should the net capitalized costs for a cost center exceed the sum of the components noted above, an impairment charge would be recognized to the extent of the excess capitalized costs. As a result of this limitation on capitalized costs, the accompanying combined statements of operations include a provision for an impairment of oil and gas property cost in 2009 and 2008 of $13.3 million and $245.0 million, respectively.

No gain or loss is recognized upon the sale or abandonment of undeveloped or producing oil and gas properties unless the sale represents a significant portion of oil and gas properties and the gain or loss significantly alters the relationship between the capitalized costs and proved oil reserves of the cost center.

Depletion and amortization of oil and gas properties is computed on the unit-of-production method based on proved reserves. Amortizable costs include estimates of asset retirement obligations and future development costs of proved reserves, including, but not limited to, costs to drill and equip development wells, constructing and installing production and processing facilities, and improved recovery systems, including the cost of required future CO_2 purchases.

Other Property and Equipment

Other property and equipment are recorded at cost. Costs of renewals and improvements that substantially extend the useful lives of the assets are capitalized. Maintenance and repair costs which do not extend the useful lives of property and equipment are charged to expense as incurred. Depreciation and amortization is calculated using the straight-line method over the estimated useful lives of the assets. Office furniture, automobiles, and computer hardware and software are depreciated from three to five years. Field offices are depreciated from fifteen to twenty years. Leasehold improvements are depreciated, using the straight line method, over the shorter of the lease term or the useful life of the asset. When other property and equipment is sold or retired, the capitalized costs and related accumulated depreciation and amortization are removed from the accounts.

Asset Retirement Obligations

Asset retirement obligations relate to future costs associated with the plugging and abandonment of oil and gas wells, removal of equipment and facilities from leased acreage and returning such land to its original condition. The fair value of a liability for an asset retirement obligation is recorded in the period in which it is incurred and the cost of such liability increases the carrying amount of the related long-lived asset by the same amount. The liability is accreted each period and the capitalized cost is depleted on a units-of-production basis as part of the full cost pool. Revisions to estimated asset retirement obligations result in adjustments to the related capitalized asset and corresponding liability. See Note 4.

Impairment of Long-Lived Assets

For non-oil and gas properties, Predecessor Resolute follows Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) Topic 360, *Property Plant and Equipment,* which requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of such assets. In the evaluation of the fair value and future benefits of long-lived assets, Predecessor Resolute performs

Table of Contents

an analysis of the anticipated undiscounted future net cash flows of the related long-lived assets. If the carrying value of the related asset exceeds the undiscounted cash flows, the carrying value is reduced to its fair value. Other than the full cost ceiling test impairment discussed in the oil and gas properties accounting policy, there were no provisions for impairment in 2009 or 2008.

Deferred Financing Costs

Deferred financing costs are amortized over the estimated lives of the related obligations or, in certain circumstances, accelerated if the obligation is refinanced.

Derivative Instruments

Predecessor Resolute enters into derivative contracts to manage its exposure to oil and gas price volatility. Derivative contracts may take the form of futures contracts, swaps or options. Realized and unrealized gains and losses related to commodity derivatives are recognized in other income (expense). Realized gains and losses are recognized in the period in which the related contract is settled. The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element are reported as financing activities in the statement of cash flows.

Predecessor Resolute recognizes all derivative instruments on the balance sheet as either assets or liabilities measured at fair value. Changes in the fair value of a derivative are recognized currently in earnings unless specific hedge accounting criteria are met. Gains and losses on derivative hedging instruments are recorded in current earnings, depending on the nature and designation of the instrument. Presently, Predecessor Resolute s management has determined that the benefit of the financial statement presentation which may allow for its derivative instruments to be reflected as cash flow hedges is not commensurate with the administrative burden required to support that treatment. As a result, Predecessor Resolute marked its derivative instruments to fair value during 2009 and 2008 and recognized the changes in fair market value in earnings. The gain or loss on derivative instruments reflected in the combined statement of operations incorporate both the realized and unrealized amounts.

Revenue Recognition

Oil revenue is recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred and if the collectability of the revenue is probable. Gas revenue is recorded using the sales method. Under this method, Predecessor Resolute recognizes revenue based on actual volumes of gas sold to purchasers. Predecessor Resolute and other joint interest owners may sell more or less than their entitlement share of the volumes produced. A liability is recorded and the revenue is deferred if Predecessor Resolute s excess sales of gas volumes exceed its estimated remaining recoverable reserves.

RWI is party to a twenty year Well Suspension Agreement (the Agreement) with Thunder Basin Coal Company, LLC and Ark Land Company (collectively TBCC). The initial term of the agreement does not exceed 20 years from October 1, 2006. However, both RWI or TBCC have the option to extend the agreement 10 years beyond the expiration of the initial term. Under the agreement, TBCC will pay RWI $2.6 million in exchange for suspension of well operations or deferral of drilling plans by RWI on certain acreage under lease to RWI. The non-refundable payment is payable to RWI in three installments over a period of three years beginning January 1, 2008. Revenue is recognized over TBCC s expected development plan or until such time the specified properties are released from suspension and RWI may proceed with exploration of these properties. RWI recognized revenue related to the Agreement of $0.5 million and $0.4 million in other revenue during 2009 and 2008, respectively.

RWI is party to two additional well suspension agreements (the Agreements). The counterparties to these Agreements from time to time may submit a request to RWI to suspend well operations or defer drilling plans on certain acreage under lease to RWI in exchange for non-refundable payments. Revenue is recognized for these payments over the expected development plan or until such time the specified properties are released from

suspension and RWI may proceed with exploration of these properties. During 2009, the Company recognized $0.1 million in income related to the Agreements.

General and Administrative Expenses

General and administrative expenses are reported net of reimbursements of overhead costs that are allocated to working interest owners of the oil and gas properties operated by Predecessor Resolute.

Income Taxes

Income taxes are provided based on earnings reported for tax return purposes in addition to a provision for deferred income taxes. RNRC and RWI use the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are determined by applying the enacted statutory tax rates in effect at the end of a reporting period to the cumulative temporary differences between the tax bases of assets and liabilities and their reported amounts in the combined financial statements. The effect on deferred taxes for a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance for deferred tax assets is established when it is more likely than not that some portion of the benefit from deferred tax assets will not be realized. Resources (prior to converting to an LLC) and RWI adopted the uncertainty provision of FASB ASC Topic 740, *Accounting for Income Taxes*. In accordance with this guidance, Resources (prior to converting to an LLC), RNRC and RWI income tax positions must meet a more-likely-than-not recognition threshold to be recognized, and any potential accrued interest and penalties related to unrecognized tax benefits are recognized within interest expense and general and administrative expenses, respectively.

Aneth, WYNR, BWNR and Resources are limited liability companies. As limited liability companies, Aneth, WYNR, BWNR and Resources (subsequent to converting to an LLC) are tax flow-through entities and, therefore, the related tax obligation, if any, is borne by the owners.

Industry Segment and Geographic Information

At September 24, 2009, Predecessor Resolute conducted operations in one industry segment, that being the crude oil, gas and natural gas liquids exploration and production industry. Predecessor Resolute considers gathering, processing and marketing functions as ancillary to its oil and gas producing activities, and therefore are not reported as a separate segment. All of Predecessor Resolute s operations and assets are located in the United States, and all of its revenue is attributable to domestic customers.

Accounting Standards Update

Predecessor Resolute adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 805, *Business Combinations* on January 1, 2009. FASB ASC Topic 805 establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the contingent and identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statement to evaluate the nature and financial effects of the business combination. FASB ASC Topic 805 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The nature and magnitude of the specific effects of FASB ASC Topic 805 on the combined financial statements will depend upon the nature, terms and size of the acquisitions consummated after the effective date. There have not been any acquisitions since adoption.

In April 2009, the FASB issued ASC Topic 825-10-65-1, *Interim Disclosures about Fair Value of Financial Instruments* which requires disclosures about the fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. FASB ASC Topic 825-10-65-1 is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this pronouncement did not have an impact on Predecessor Resolute s combined financial statements, other than additional disclosures.

In April 2009, the FASB issued ASC 820-10-65-4, *Determining Fair Value When the Volume or Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. FASB ASC Topic 820-10-65-4 provides additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased and requires that companies provide interim and annual disclosures of the inputs and valuation technique(s) used to measure fair value. FASB ASC Topic 820-10-65-4 is effective for interim and annual reporting periods ending after June 15, 2009 and is to be applied prospectively. The adoption of this pronouncement did not have an impact on Predecessor Resolute s combined financial statements.

Predecessor Resolute adopted FASB ASC Topic 810-10-65-1, *Noncontrolling Interests in Consolidated Financial Statements an amendment to Accounting Research Bulletin (ARB) No. 51*, on January 1, 2009. FASB ASC Topic 810-10-65-1 changed the accounting and reporting requirements for minority interests, which are now characterized as noncontrolling interests and are classified as a component of equity in the accompanying combined balance sheet. FASB ASC Topic 810-10-65-1 requires retroactive adoption of the presentation and disclosure requirements for existing noncontrolling interests, with all other requirements applied prospectively. Accordingly, Predecessor Resolute has reclassified net income attributable to noncontrolling interests on the combined statements of operations, to below net income for all periods presented.

In March 2008, the FASB issued ASC Topic 815-10-65, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement 133*. FASB ASC Topic 815-10-65 enhances required disclosures regarding derivatives and hedging activities, including enhanced disclosures regarding: (a) how an entity uses derivative instruments; (b) how derivative instruments and related hedged items are accounted for under the derivatives and hedging Topic of the ASC, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. Predecessor Resolute adopted this pronouncement as of January 1, 2009 (see Note 10).

Predecessor Resolute adopted FASB ASC Topic 855, *Subsequent Events* on April 1, 2009, which established general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of this pronouncement did not have a material impact on Predecessor Resolute s combined financial statements.

Predecessor Resolute adopted FASB ASC Topic 105-10-65-1, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* on July 1, 2009. This pronouncement is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. This pronouncement established only two levels of GAAP, authoritative and nonauthoritative. The ASC was not intended to change or alter existing GAAP, and it therefore did not have any impact on Predecessor Resolute s combined financial statements, other than to modify certain existing disclosures. The ASC is the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the ASC is considered nonauthoritative.

Note 3 Acquisitions

Net Profits Overriding Royalty Interest Contribution

On July 31, 2008 Predecessor Resolute entered into an asset contribution agreement with NGP-VII Income Co-Investment Opportunities, LLC (NGP Co-Invest), whereby NGP Co-Invest contributed a certain overriding net profits royalty interests (NPI) in oil and gas properties of RWI to Holdings for a total of 2,184,445 common units (value of $19.7 million) as consideration.

On July 31, 2008, RWI acquired the contributed NPI from Holdings for $19.4 million and allocated the $19.4 million to oil and gas properties after normal purchase price adjustments. The acquisition of the NPI was funded with $15.4 million cash and a note payable to Holdings. On December 31, 2008, Holdings contributed the note receivable and accrued interest in the amount of $4.1 million to Aneth.

Primary Natural Resources Acquisition

On July 31, 2008, Holdings completed the acquisition of PNR (a Natural Gas Partners, VII, L.P. (NGP VII) portfolio company). Upon closing, Holdings paid, as consideration, a total of 8,286,985 common units (value of $74.8 million) and $15.4 million in cash. NGP VII owns a significant equity position in Holdings.

The majority of the acquisition of PNR was accounted for as a combination of entities under common control, which is similar to the pooling of interests method of accounting for business combinations. Accordingly, the combined financial statements give retrospective effect to these transactions, and therefore, Predecessor Resolute s results from January 1, 2008 through July 31, 2008, include 87.23% of the operations of RWI. Accordingly, the accompanying combined financial statements reflect the 12.77% not owned by Predecessor Resolute as a noncontrolling interest for results from January 1, 2008, through July 31, 2008.

The remaining portion of the acquisition of RWI not under common control, was accounted for using the purchase method in accordance with SFAS No. 141, *Business Combinations,* which was subsequently revised by FASB ASC Topic 805. 12.77% of the purchase price was allocated to acquired assets and liabilities based on their respective fair value as determined by management.

The following table presents the pro forma operating results for year ended December 31, 2008 and gives effect as if the acquisition of PNR had occurred January 1, 2008. The pro forma results shown below are not necessarily indicative of the operating results that would have occurred if the transaction had occurred on such date. The pro forma adjustments made are based on certain assumptions that Predecessor Resolute believes are reasonable based on currently available information (unaudited; in thousands):

	December 31, 2008
Total revenue	$ 229,172
Net income	$ (90,419)

Note 4 Asset Retirement Obligations

Predecessor Resolute s estimated asset retirement obligation liability is based on estimated economic lives, estimates as to the cost to abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. The credit-adjusted risk-free rates used to discount Predecessor Resolute s abandonment liabilities range from 3.90% to 13.50%. Revisions to the liability could occur due to changes in estimated abandonment costs or well economic lives, or if federal or state regulators enact new requirements regarding the abandonment of wells.

The following table provides a reconciliation of Predecessor Resolute s asset retirement obligation (in thousands):

	Period Ended September 24, 2009	**December 31, 2008**
Asset retirement obligations at beginning of period	$ 9,828	$ 8,445

Accretion expense	681	832
Additional liability incurred		275
Liabilities settled	(1,337)	(220)
Revisions to previous estimates	2,641	496
Asset retirement obligations at end of period	11,813	9,828
Less current asset retirement obligations	2,565	1,713
Long-term asset retirement obligations	$ 9,248	$ 8,115

Note 5 Related Party Transactions

On April 1, 2005, Holdings entered into a joint venture arrangement with Wachovia Investment Holdings, LLC (Wachovia Investment) to form an oil and gas marketing and trading company, Odyssey Energy Services, LLC (Odyssey), allocating profits and losses 40% to Holdings and 60% to Wachovia Investment. Holdings made an initial capital contribution of $2.0 million, and agreed to be responsible for up to a total of $10.0 million of

Table of Contents

additional capital to cover certain potential liabilities. Holdings borrowed $2.0 million from Resources, which loan was evidenced by a note. Terms of the note included annual payment of interest at a rate of 4.09%. Interest income recognized on the note was $0.1 million in 2008. This note was paid in full on September 30, 2008.

Note 6 Long Term Debt

First Lien Facility

Predecessor Resolute s credit facility is with a syndicate of banks led by Wachovia Bank, National Association (the First Lien Facility) with Aneth as the borrower. The First Lien Facility specifies a maximum borrowing base as determined by the lenders. The determination of the borrowing base takes into consideration the estimated value of Predecessor Resolute s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. The borrowing base is redetermined semi-annually, and the amount available for borrowing could be increased or decreased as a result of such redeterminations. As of September 24, 2009, the borrowing base was $240.0 million and the unused availability under the borrowing base was $32.8 million. The First Lien Facility matures on April 13, 2011 and, to the extent that the borrowing base, as adjusted from time to time, exceeds the outstanding balance, no repayments of principal are required prior to maturity. On May 12, 2009, Predecessor Resolute entered into the Fourth Amendment to the Amended and Restated First Lien Credit Facility (Fourth Amendment) to redetermine its borrowing base and interest rates, and to amend its Maximum Leverage Ratio covenant (effective March 31, 2009). Under the terms of the Fourth Amendment, at Aneth s option, the outstanding balance under the First Lien Facility accrues interest at either (a) the London Interbank Offered Rate, plus a margin which varies from 2.5% to 3.5%, or (b) the Alternative Base Rate defined as the greater of (i) the Administrative Agent s Prime Rate, (ii) the Administrative Agent s Base CD rate plus 1%, or (iii) the Federal Funds Effective Rate plus 0.5%, plus a margin which varies from 1.0% to 2.0%. Each such margin is based on the level of utilization under the borrowing base. On July 28, 2009, Resolute entered into the Fifth Amendment to the Amended and Restated First Lien Credit Facility (Fifth Amendment) to amend its Current Ratio covenant. Under the terms of the Fifth Amendment, the Current Ratio covenant was not applicable for the quarters ended March 31, 2009 and June 30, 2009. On September 17, 2009, Predecessor Resolute entered into the Sixth Amendment to the Amended and Restated First Lien Credit Facility to amend certain terms and sections in the agreement in order to allow for the Resolute Transaction. As of September 24, 2009, the weighted average interest rate on the outstanding balance under the facility was approximately 4.0%. The First Lien Facility is collateralized by substantially all of the proved oil and gas assets of Aneth and RWI, and is guaranteed by all of the companies other than Aneth.

The First Lien Facility includes terms and covenants that place limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. Predecessor Resolute was not in compliance with the First Lien Facility June 30, 2009 Maximum Leverage Ratio covenant. The Company entered into a waiver agreement with its First Lien Facility lenders on August 27, 2009, whereby the requirement to comply with the Maximum Leverage Ratio covenant for the period ended June 30, 2009 had been waived until the earlier to occur of (a) October 15, 2009 or (b) the Early Termination Date, defined as the date on which the lenders notify Predecessor Resolute that it has determined in its sole discretion that a material condition to the merger between Predecessor Resolute and HACI is unlikely to be satisfied by October 15, 2009 (Waiver Termination Date). Upon the Waiver Termination Date, the Maximum Leverage Ratio shall be calculated using the outstanding debt amount as of the Waiver Termination Date. The terms of the waiver allowed Predecessor Resolute to remain in compliance with the Maximum Leverage Ratio covenant at June 30, 2009 and September 24, 2009. Predecessor Resolute was in compliance with all other terms and covenants of the First Lien Facility at September 24, 2009.

On September 25, 2009, Resolute repaid $99.5 million outstanding under the First Lien Facility with cash received from the Resolute Transaction.

Second Lien Facility

Predecessor Resolute s term loan was with a group of lenders, with Wilmington Trust FSB as the agent (the Second Lien Facility) and with Aneth as the borrower. The Second Lien Facility carries a borrowing base of $225.0 million which was fully utilized at September 24, 2009. Balances outstanding under the Second Lien

Facility accrue interest at either (a) the adjusted London Interbank Offered Rate plus the applicable margin of 4.5%, or (b) the greater of (i) the Administrative Agent s Prime Rate, (ii) the Administrative Agent s Base CD rate plus 1%, or (iii) the Alternative Base Rate, plus the applicable margin of 3.5%. The Second Lien Facility was collateralized by substantially all of the proved oil and gas assets of Aneth and RWI, and was guaranteed by all of the companies other than Aneth. The claim of the Second Lien Facility lenders on the collateral was explicitly subordinated to the claim of the First Lien Facility lenders. As of September 24, 2009, the weighted average interest rate on the outstanding balance under the facility was approximately 5.0%.

The Second Lien Facility included terms and covenants that placed limitations on certain types of activities, the payment of dividends, and require satisfaction of certain financial tests. On August 28, 2009, Aneth gave notice to the lenders that it was in default of the Maximum Leverage Ratio covenant (calculated as the ratio of debt to trailing four quarter EBITDA), as measured at June 30, 2009. On September 1, 2009, lenders under the Second Lien Credit Facility declared the loan in default and accelerated the indebtedness. As a result of the declaration of default on September 1, 2009, default interest of an additional 2% per annum was imposed and the Company was prohibited from utilizing the Eurodollar interest option in future borrowings under the facility.

On September 25, 2009, Resolute repaid all amounts outstanding under the Second Lien Facility with cash received from the Resolute Transaction.

Note 7 Income Taxes

Resources (prior to September 30, 2008), RNRC and RWI recognize deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the combined financial statements or tax returns. Deferred tax assets and liabilities are determined based on the differences between the financial statement and tax basis of assets and liabilities using the enacted tax rates in effect for the year in which the differences are expected to reverse. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that are not expected to be realized based on available evidence. Resources (subsequent to September 30, 2008), Aneth, BWNR and WYNR are pass-through entities for federal and state income tax purposes. As such, neither current nor deferred income taxes are recognized by these entities.

The provision for income taxes is as follows (in thousands):

	Period Ended September 24, 2009	December 31, 2008
Current income tax expense:		
Federal	$	$ (19)
State	(104)	
Deferred income tax benefit	5,123	18,266
Valuation allowance		
Total income tax benefit (expense)	$ 5,019	$ 18,247

Income tax expense (benefit) differed from amounts that would result from applying the U.S. statutory income tax rate to income before taxes as follows (in thousands):

	Period Ended September 24, 2009	December 31, 2008
U.S. statutory income tax benefit	$ (4,626)	$ (19,732)
State income tax benefit	(104)	(265)
Share based compensation		1,456
Change in valuation allowance		
Other	(289)	294
Total tax benefit*	$ (5,019)	$ (18,247)

* Tax benefit is calculated based on taxable income of RNRC and RWI, which are taxable entities. Aneth, Sub, BWNR and WYNR are pass-through entities for federal and state income tax purposes. As such, neither current nor deferred income taxes are recognized by these entities.

Table of Contents

As of September 24, 2009, RNRC had no regular tax loss carryforward and RWI had regular tax loss carryforwards of $11.3 million.

Resources and RWI adopted the uncertainty provisions of FASB ASC Topic 740, *Accounting for Income Taxes,* on January 1, 2007 and RNRC adopted the uncertainty provisions of FASB ASC Topic 740 on September 30, 2008. As a result of the implementation of this guidance, Resources recognized approximately $0.5 million, including accrued interest and penalties of $0.1 million, as a contingent liability and an increase to the January 1, 2007 balance of accumulated deficit. As of December 31, 2008 the total contingent income tax liabilities and accrued interest was approximately $0.5 million. During 2009, the previously unrecognized tax benefit in the amount of $0.4 million related to the uncertain tax position was recognized. Previously accrued interest and penalties were also reversed. This recognition and reversal resulted from the expiration of the applicable statute of limitations on September 15, 2009.

Resources (prior to September 30, 2008), RNRC and RWI recognize interest and penalties related to uncertain tax positions in interest expense and general and administrative expense, respectively. RWI and RNRC had no uncertain tax positions. Resources and RWI file income tax returns in the U.S. federal jurisdiction and various states. Resources and RWI s tax years of 2006 and forward are subject to examination by the federal and state taxing authorities.

The following table summarizes the activity during the years related to the liability for unrecognized tax benefits (in thousands):

Balance at January 1, 2008		386
Increases in unrecognized tax benefits		
Decreases in unrecognized tax benefits		
Balance at December 31, 2008		386
Increases in unrecognized tax benefits		
Decreases in unrecognized tax benefits		(386)
Balance at September 24, 2009	$	

Note 8 Shareholder s/Member s Equity and Equity Based Awards

Common Stock

At September 24, 2009, RNRC and RWI each had 1,000 shares of common stock, par value $0.01 and $1.00 per share, authorized, issued and outstanding, respectively.

Member s Equity

At September 24, 2009, member s equity included Aneth, WYNR, BWNR and Resources.

Incentive Interests

Resources

Incentive Units were granted by Holdings to certain of its members who were also officers, as well as to other employees of Resources. The Incentive Units were intended to be compensation for services provided to Resources. The original terms of the five tiers of Incentive Units are as follows. Tier I units vest ratably over three years, but are subject to forfeiture if payout is not realized. Tier I payout is realized at the return of members invested capital and a specified rate of return. Tiers II through V vest upon certain specified multiples of cash payout. Incentive Units are forfeited if an employee of Predecessor Resolute is either terminated for cause or resigns as an employee. Any Incentive Units that are forfeited by an individual employee revert to the founding senior managers of Predecessor Resolute and, therefore, the number of Tier II through V Incentive Units is not expected to change.

On June 27, 2007, Holdings made a capital distribution of $100 million to its equity owners from the proceeds of the Second Lien Facility. This distribution caused both the Tier I payout to be realized and the Tier I Incentive

Table of Contents

Units to vest. As a result of the distribution, management determined that it was probable that Tiers II-V incentive unit payouts would be achieved.

Predecessor Resolute recorded $2.8 million and $3.7 million of equity based compensation expense in general and administrative expense in the combined statements of operations for 2009 and 2008, respectively. An additional $0.1 million of equity compensation expense was capitalized and recorded in oil and gas properties during 2008. No equity compensation expense was capitalized in 2009.

Predecessor Resolute amortizes the estimated fair value of the Incentive Units over the remaining estimated vesting period using the straight-line method. The estimated weighted average fair value remaining of the Incentive Units was calculated using a discounted future net cash flows model. No Incentive Units vested during 2009 and 2008 and there were no grants or forfeitures during 2009 or 2008.

Total unrecognized compensation cost related to Predecessor Resolute s non-vested Incentive Units totaled $5.3 million as of September 24, 2009. Total unrecognized compensation cost related to Predecessor Resolute s non-vested Incentive Units as of September 24, 2009 is expected to be recognized over weighted-average periods of 0.75 years, 1.75 years, 2.75 years and 2.75 years for the Tier II, Tier III, Tier IV and Tier V Incentive Units, respectively.

Resolute Wyoming, Inc.

The Primary Natural Resources Holdings, LLC (PNRH) Operating Agreement (the Operating Agreement) provided for the issuance of up to 900,000 PNRH Incentive Interests, consisting of 844,000 Incentive Units and 56,000 Incentive Options. PNR was wholly owned by PNRH prior to the PNR acquisition. There were two categories for Incentive Units, described as Tier I and Tier II. There was one category for Incentive Options described as Tier I. Tier I Incentive Units received preferential payout over Tier II. Of the 844,000 Incentive Units, 484,000 and 360,000 were classified as Tier I and Tier II, respectively. Holders of Incentive Units were entitled to cash distributions following the sale, merger or other transaction involving the stock or assets of PNR after the recovery of capital contributions plus a rate of return, specified as payout levels in the Operating Agreement. The 844,000 Tier I and Tier II Incentive Units were granted in January 2004 to certain members of PNR s management.

Due to the acquisition of PNR on July 31, 2008, the performance criteria related to the PNRH Incentive Interests was achieved and the Incentive Interests fully vested. As a result, $4.2 million of equity based compensation expense was recorded in general and administrative expense in 2008. No further equity based compensation expense will be recorded related to these Incentive Interests.

Equity Appreciation Rights

In November 2006 and May 2008, 2,500,000 and 3,000,000 Equity Appreciation Rights (EARs) were authorized, respectively. The EARs are periodically granted by Sub to certain of Predecessor Resolute s employees. The EARs represent contract rights to a certain portion of future distributions of cash by Sub.

Upon consummation of the Acquisition Agreement on September 25, 2009 the EARs plan was cancelled. Predecessor Resolute has not assigned any value or recognized any share based compensation expense related to the EARs because no distributions were made in respect of such EARs prior to the plan termination.

On May 29, 2008, Resources, on behalf of Sub, entered into Agreements with several employees permitting those employees to make an offer to exchange for cash some or all of the EARs issued in 2007 and prior under the EARs

Plan, dated November 27, 2006. The participant could elect to offer to exchange all or any portion of their EARs for time vested cash awards equal to $2.00 per unit plus simple interest of 15% per annum, effective January 1, 2008. During 2008, a total of 395,000 units were exchanged from employees under this agreement.

Also on May 29, 2008, Resources, on behalf of Sub, granted incentive awards allowing employees to elect to receive a certain number of EARs or an amount of time vested cash awards of $1.00 per unit plus simple interest of 15% per annum, effective January 1, 2008. During 2008, a total of 1,659,000 EARs were granted and 213,700 time vested cash award units were issued.

All of the cash awards are payable in three installments on January 1, 2009, 2010 and 2011. Compensation expense related to the time vested cash awards of $0.2 million and $0.5 million was recognized, during 2009 and 2008, respectively. The time vested cash awards are accounted for as deferred compensation. The annual payments are paid based on the employee s tenure with Resources and there is potential for forfeiture of the time vested payment, therefore Predecessor Resolute will accrue for each time vested payment and related return for the respective year on an annual basis.

A summary of the activity associated with the EARs plan during 2008 and 2009 is as follows:

	EARs
January 1, 2008	2,068,000
Granted	1,659,000
Forfeited	(256,000)
Purchased	(395,000)
December 31, 2008	3,076,000
Forfeited	(113,000)
September 24, 2009	2,963,000

The EARs plan was terminated on September 25, 2009, and all outstanding EARs were cancelled due to the Resolute Transaction. The time vested cash awards were not terminated.

Note 9 Defined Contribution Plan

Predecessor Resolute offers a 401(k) plan for all eligible employees. For the periods ended September 24, 2009 and December 31, 2008, Predecessor Resolute contributed $0 and $0.2 million in connection with matching of employee contributions made in 2009 and 2008, respectively.

Note 10 Derivative Instruments

Predecessor Resolute enters into commodity derivative contracts to manage its exposure to oil and gas price volatility. Predecessor Resolute has not elected to designate derivative instruments as cash flow hedges under the provisions of FASB ASC Topic 815, *Derivatives and Hedging*. As a result, these derivative instruments are marked to market at the end of each reporting period and changes in the fair value are recorded in the accompanying combined statements of operations. Realized and unrealized gains and losses from Predecessor Resolute s price risk management activities are recognized in other income (expense), with realized gains and losses recognized in the period in which the related production is sold. The cash flows from derivatives are reported as cash flows from operating activities unless the derivative contract is deemed to contain a financing element. Derivatives deemed to contain a financing element are reported as financing activities in the statement of cash flows. Commodity derivative contracts may take the form of futures contracts, swaps or options.

As of September 24, 2009, Predecessor Resolute had entered into certain commodity swap contracts. The following table represents Predecessor Resolute s commodity swaps with respect to its estimated oil and gas production from proved developed producing properties through 2013:

Year	Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl		MMBtu per Day	Gas (NYMEX HH) Weighted Average Hedge Price per MMBtu	
2009	3,900	$	62.75	1,800	$	9.93
2010	3,650	$	67.24	3,800	$	9.69
2011	3,250	$	68.26	2,750	$	9.32
2012	3,250	$	68.26	2,100	$	7.42
2013	2,000	$	60.47	1,900	$	7.40

Predecessor Resolute also uses basis swaps in connection with gas swaps in order to fix the price differential between the NYMEX Henry Hub price and the index price at which the gas production is sold. The table below sets forth Predecessor Resolute s outstanding basis swaps as of September 24, 2009.

Table of Contents

Year	Index	MMBtu per Day	Weighted Average Hedged Price Differential per MMBtu
2009 2013	Rocky Mountain NWPL	1,800	$ 2.10

As of September 24, 2009, Predecessor Resolute had entered into certain commodity collar contracts. The following table represents Predecessor Resolute s commodity collars with respect to its estimated oil and gas production from proved developed producing properties:

Year	Bbl per Day	Oil (NYMEX WTI) Weighted Average Hedge Price per Bbl	MMBtu per Day	Gas (NYMEX HH) Weighted Average Hedge Price per MMBtu
2009	250	$ 105.00-151.00	3,288	$ 5.00-9.35
2010	200	$ 105.00-151.00		

Predecessor Resolute s derivative instruments are not designated and do not qualify as hedging instruments under FASB ASC Topic 815, the gains and losses are included in other income (expense) in the combined statements of operations. The table below summarizes the location and amount of commodity derivative instrument gains and losses reported in the combined statements of operations for the periods presented below (in thousands):

	Period Ended September 24, 2009	December 31, 2008
Other income (expense)		
Realized gains	$ 1,939	$ 120,573
Unrealized losses	(25,458)	(24,541)
Total: gain (loss) on derivative instruments	$ (23,519)	$ 96,032

Credit Risk and Contingent Features in Derivative Instruments

Predecessor Resolute is exposed to credit risk to the extent of nonperformance by the counterparties in the derivative contracts discussed above. With the exception of one contract, all counterparties are also lenders under Predecessor Resolute s First Lien Facility. For these contracts, Predecessor Resolute is not required to provide any credit support to

its counterparties other than cross collateralization with the properties securing the First Lien Facility. The counterparty that is not among Predecessor Resolute s lenders is a multinational energy company with a corporate credit rating of AA as classified by Standard and Poor s. Predecessor Resolute s derivative contracts are documented with industry standard contracts known as a Schedule to the Master Agreement and International Swaps and Derivative Association, Inc. Master Agreement (ISDA). Typical terms for the ISDAs include credit support requirements, cross default provisions, termination events, and set-off provisions. Predecessor Resolute has set-off provisions with its lenders that, in the event of counterparty default, allow Predecessor Resolute to set-off amounts owed under the First Lien Facility or other general obligations against amounts owed for derivative contract liabilities.

Note 11 Fair Value Measurements

FASB ASC Topic 820*, Fair Value Measurements and Disclosures* clarifies the definition of fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

FASB ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exact price) in an orderly transaction between market participants at the measurement date. The statement establishes market or observable inputs as the preferred sources of values, followed by assumptions

Table of Contents

based on hypothetical transactions in the absence of market inputs. The statement establishes a hierarchy for grouping these assets and liabilities, based on the significance level of the following inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Significant inputs to the valuation model are unobservable.

An asset or liability subject to the fair value requirements is categorized within the hierarchy based on the lowest level of input that is significant to the fair value measurement. Predecessor Resolute s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Following is a description of the valuation methodologies used by Predecessor Resolute as well as the general classification of such instruments pursuant to the hierarchy.

As of September 24, 2009, Predecessor Resolute s commodity derivative instruments were required to be measured at fair value. Predecessor Resolute used the income approach in determining the fair value of its derivative instruments, utilizing present value techniques for valuing its swaps and basis swaps and option-pricing models for valuing its collars. Inputs to these valuation techniques include published forward index prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. Substantially all of these inputs are observable in the marketplace throughout the full term of the contract, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace and are therefore designated as Level 2 within the valuation hierarchy.

Note 12 Commitments and Contingencies

CO_2 Take-or-Pay Agreements

Resolute entered into two take-or-pay purchase agreements, each with a different supplier, under which Resolute has committed to buy specified volumes of CO_2. The purchased CO_2 is for use in Resolute s enhanced tertiary recovery projects in Aneth Field. In each case, Resolute is obligated to purchase a minimum daily volume of CO_2 or pay for any deficiencies at the price in effect when delivery was to have occurred. The CO_2 volumes planned for use on the enhanced recovery projects exceed the minimum daily volumes provided in this take-or-pay purchase agreement. Therefore, Resolute expects to avoid any payments for deficiencies. Predecessor Resolute acquired $8.9 million of CO_2 during the period ended September 24, 2009. One contract was effective July 1, 2006, with a four year term. The second contract was entered into on May 25, 2005, and was amended on July 1, 2007, and had a ten year term.

Operating Leases

For the period ended September 24, 2009, and the year ended December 31, 2008, month-to-month office facilities rental payments charged to expense under the terms of non-cancelable operating leases was approximately $0.5 million and $1.0 million, respectively.

Predecessor Resolute is also party to several field equipment and compressor leases used in the CO_2 project. Rental expense for these leases for 2009 and 2008 was $1.3 million.

NNOG Purchase Options.

In connection with acquisition of 75% of the ExxonMobil interests in Aneth Field and various other related assets (the ExxonMobil Properties) and the acquisition from Chevron Corporation and its affiliates (Chevron) of 75% of Chevron s interest in Aneth Field (Chevron Properties) in 2005, pursuant to the terms of the Cooperative Agreement, Predecessor Resolute granted to NNOG three separate but substantially similar purchase options. Each purchase option entitles NNOG to purchase from Predecessor Resolute up to 10% of Predecessor Resolute s interest in the Chevron Properties and the ExxonMobil Properties. Each purchase option entitles NNOG to purchase, for a limited period of time, the applicable portion of Predecessor Resolute s interest

Table of Contents

in the Chevron Properties and the ExxonMobil Properties, at Fair Market Value (as defined in the agreement), which is determined without giving effect to the existence of the Navajo Nation preferential purchase right or the fact that the properties are located within the Navajo Nation. Each option becomes exercisable based upon Predecessor Resolute s achieving a certain multiple of payout of the relevant acquisition costs, subsequent capital costs and ongoing operating costs attributable to the applicable working interests. Revenue applicable to the determination of payout includes the effect of Predecessor Resolute s hedging program. The options are not exercisable prior to four years from the acquisition except in the case of a sale of such assets by, or a change of control of, Aneth. In that case, the first option for 10% would be accelerated and the other options would terminate. Assuming the purchase options are not accelerated due to a change of control of Aneth, Predecessor Resolute expects that the initial payout associated with the purchase options granted will occur no sooner than 2013.

The following table demonstrates the maximum net undivided working interest in each of the Aneth Unit, the McElmo Creek Unit and the Ratherford Unit that NNOG could acquire upon exercising each of its purchase options under the Cooperative Agreement. The exercise by NNOG of its purchase options in full would not give it the right to remove Predecessor Resolute as operator of any of the units.

	Aneth Unit	McElmo Creek Unit	Ratherford Unit
Chevron Properties:			
Option 1 (100% Payout)	5.30%	1.50%	0.30%
Option 2 (150% Payout)	5.30%	1.50%	0.30%
Option 3 (200% Payout)	5.30%	1.50%	0.30%
Total	15.90%	4.50%	0.90%

	Aneth Unit	McElmo Creek Unit	Ratherford Unit
ExxonMobil Properties:			
Option 1 (100% Payout)	0.75%	6.00%	5.60%
Option 2 (150% Payout)	0.75%	6.00%	5.60%
Option 3 (200% Payout)	0.75%	6.00%	5.60%
Total	2.25%	18.00%	16.80%

Crude Production Purchase Agreement

Predecessor Resolute sells all of its crude oil production from the Aneth field to a single customer, Western Refining Southwest, Inc. (Western), a subsidiary of Western Refining, Inc. Predecessor Resolute and Western entered into a

new contract on August 27, 2009, effective September 1, 2009. The new contract provides for a minimum price equal to the NYMEX price for crude oil less a fixed differential of $6.25 per Bbl. The contract provides for an initial term of one year and continuing month-to-month thereafter, with either party having the right to terminate after the initial term, upon ninety days written notice. The contract may also be terminated by Western after December 31, 2009, upon sixty days written notice, if Western is not able to renew its right-of-way agreements with the Navajo Nation or if such rights-of-way are declared invalid and Western is prevented from using such rights-of-way.

Table of Contents

Note 13 Oil And Gas Producing Activities

Costs incurred in oil and gas property acquisition, exploration and development activities are summarized as follows (in thousands):

	Period Ended September 24, 2009	December 31, 2008
Development costs	$ 15,018	$ 52,331
Exploration	10	239
Acquisitions:		
Proved	209	19,448
Unproved	113	344
Total	$ 15,350	$ 72,362

Note 14 Supplemental Oil and Gas Information (unaudited)

Oil and Gas Reserve Quantities:

The following table presents our estimated net proved oil and gas reserves and the present value of such estimated net proved reserves as of September 24, 2009 and December 31, 2008. The reserve data as of December 31, 2008 was prepared by Predecessor Resolute and was audited by Netherland, Sewell & Associates, Inc., independent petroleum engineers. Users of this information should be aware that the process of estimating quantities of proved oil and gas reserves is very complex, requiring significant subjective decisions to be made in the evaluation of available geological, engineering and economic data for each reservoir. The data for a given reservoir may also change substantially over time as a result of numerous factors, including, but not limited to, additional development activity, evolving production history and continual reassessment of the viability of production under varying economic conditions. As a result, revisions to existing reserves estimates may occur from time to time. Although every reasonable effort is made to ensure reserves estimates reported represent the most accurate assessments possible, the subjective decisions and variances in available data for various reservoirs make these estimates generally less precise than other estimates included in the financial statement disclosure.

Presented below is a summary of the changes in estimated reserves (in thousands):

	Oil (Bbl)(2)	Gas (Mcf)	Oil Equivalent (Boe)
Proved reserves as of January 1, 2008:	78,570	24,481	82,651
Purchases of minerals in place	212	3,240	752
Production	(2,049)	(4,029)	(2,721)
Extensions, discoveries and other additions	12		12
Revisions of previous estimates (1)	(30,375)	(5,911)	(31,360)

Proved reserves as of December 31, 2008:	46,370	17,781	49,334
Production	(1,464)	(2,971)	(1,959)
Extensions, discoveries and other additions	3,154	17,113	6,007
Revisions of previous estimates (1)	23,881	20,278	27,261
Proved reserves as of September 24, 2009	71,941	52,201	80,643
Proved developed reserves:			
As of December 31, 2008	28,760	17,949	31,751
As of September 24, 2009	46,105	17,675	49,050

1) The oil and gas revisions are attributable to the changes in prices of oil and gas.

2) Includes NGL volumes.

Table of Contents

Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:

The following summarizes the policies used in the preparation of the accompanying oil and gas reserves disclosures, standardized measures of discounted future net cash flows from proved oil and gas reserves and the reconciliations of standardized measures from year to year. The information disclosed is an attempt to present the information in a manner comparable with industry peers.

The information is based on estimates of proved reserves attributable to Predecessor Resolute s interest in oil and gas properties as of September 24, 2009 and December 31, 2008. Proved reserves are estimated quantities of oil and gas that geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions.

The standardized measure of discounted future net cash flows from production of proved reserves was developed as follows:

1) Estimates were made of quantities of proved reserves and future periods during which they are expected to be produced based on year-end economic conditions.

2) The estimated future cash flows was compiled by applying year-end prices of crude oil and gas relating to Resolute s proved reserves to the year-end quantities of those reserves.

3) The future cash flows were reduced by estimated production costs, costs to develop and produce the proved reserves and abandonment costs, all based on year-end economic conditions.

4) Future income tax expenses were based on year-end statutory tax rates giving effect to the remaining tax basis in the oil and gas properties, other deductions, credits and allowances relating to Predecessor Resolute s proved oil and natural gas reserves.

5) Future net cash flows were discounted to present value by applying a discount rate of 10%.

The standardized measure of discounted future net cash flows does not purport, nor should it be interpreted, to present the fair value of Predecessor Resolute s oil and gas reserves. An estimate of fair value would also take into account, among other things, the recovery of reserves not presently classified as proved, anticipated future changes in prices and costs and a discount factor more representative of the time value of money and the risks inherent in reserve estimates.

The following summary sets forth Resolute s future net cash flows relating to proved oil and gas reserves based on the standardized measure prescribed by FASB ASC Topic 932, *Extractive Activities Oil and Gas*:

	Period Ended September 24, 2009	December 31, 2008
	(in thousands)	
Future cash inflows	$ 4,476,000	$ 1,821,000
Future production costs	(1,663,000)	(994,000)

Future development costs		(555,000)		(265,000)
Future income taxes (1)		(10,000)		(4,000)
Future net cash flows		2,248,000		558,000
10% annual discount for estimating timing of cash flows		(1,462,000)		(310,000)
Standardized measure of discounted future net cash flows	$	786,000	$	248,000

(1) Future income taxes are related to RWI s oil and gas properties. Aneth is a pass through entity, therefore, there are no future income taxes associated with its oil and gas properties.

Table of Contents

The principal sources of change in the standardized measure of discounted future net cash flows are:

	September 24, 2009	December 31, 2008
	(in thousands)	
Standardized measure, beginning of year	$ 248,000	$ 1,626,000
Sales of oil and gas produced, net of production costs	(33,000)	(147,000)
Net changes in prices and production costs	319,000	(1,432,000)
Extensions, discoveries and other, including infill reserves in an existing proved field, net of production costs	8,000	
Improved recoveries		
Purchase of minerals in place		24,000
Previously estimated development cost incurred during the year	12,000	45,000
Changes in estimated future development costs	(151,000)	163,000
Revisions of previous quantity estimates	352,000	(230,000)
Accretion of discount	18,000	164,000
Net change in income taxes	(3,000)	35,000
Changes in timing and other	16,000	
Standardized measure, end of period	$ 786,000	$ 248,000

Table of Contents

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Resolute Energy Corporation:

We consent to the use of our reports dated March 14, 2011, with respect to the consolidated balance sheets of Resolute Energy Corporation and subsidiaries (successor by merger to Hicks Acquisition Company I, Inc.) as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2010, and the effectiveness of internal control over financial reporting as of December 31, 2010, which reports appear in the annual report on Form 10-K, included in this Prospectus Supplement No. 4, which amends the Prospectus dated July 21, 2010 contained in the Registration Statement on Form S-1 (File No. 333-167894) (collectively referred to as the Prospectus), and to the reference to our firm under the heading Experts in the Prospectus.

/s / KPMG LLP
Denver, Colorado
March 16, 2011

Table of Contents

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS AND GEOLOGISTS

We hereby consent to the use of the name Netherland, Sewell & Associates, Inc., to the inclusion of our Report dated January 31, 2011, and to the references to our audits of Resolute Energy Corporation s (Resolute) proved natural gas and oil reserves estimates as of December 31, 2010; December 31, 2009; and December 31, 2008 contained in or attached to the Annual Report on Form 10-K of Resolute Energy Corporation which is attached to this Prospectus Supplement No. 4 to the Prospectus dated July 21, 2010 contained in the Registration Statement on Form S-1 (File No. 333-167894) of Resolute.

NETHERLAND, SEWELL & ASSOCIATES, INC.

By: /s/ C.H. (Scott) Rees III
C.H. (Scott) Rees III, P.E.
Chairman and Chief Executive Officer

Dallas, Texas
March 15, 2011

(10,136) (10,136) (Repurchases) Issuance of Redeemable Common Stock, Net (60) (60)

Balances at December 31, 2001 7,000,000 70 500,000 5 748,753 (503,845) (43,698) (4,570) 196,715 Net (Loss) (11,262) (11,262) Accumulated Deriviative Instruments Loss (1,565) (1,565) Minimum Pension Liability Adjustment (71,304) (71,304) Currency Translation Adjustment 12,996 12,996 (Repurchases) Issuance of Redeemable Common Stock, Net (5) (5)

Balances at December 31, 2002 7,000,000 $70 500,000 $5 $748,748 $(515,107)$(71,304)$(30,702)$(6,135)$125,575

The accompanying notes are an integral part of the consolidated financial statements.

F-5

RIVERWOOD HOLDING, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Riverwood Holding, Inc. ("Riverwood Holding") and its wholly-owned subsidiary RIC Holding, Inc. ("RIC Holding") and the corporation formerly named CDRO Acquisition Corporation were incorporated in 1995 to acquire the stock of our predecessor, the corporation formerly named Riverwood International Corporation ("RIC").

On March 27, 1996, Riverwood Holding, through its wholly-owned subsidiaries, acquired all of the outstanding shares of common stock of RIC. On such date, CDRO Acquisition Corporation was merged into RIC. RIC, as the surviving corporation in the Merger, became a wholly-owned subsidiary of RIC Holding. On March 28, 1996, RIC transferred substantially all of its properties and assets to the corporation formerly named Riverwood International USA, Inc., other than the capital stock of Riverwood International USA, Inc, and RIC was merged into RIC Holding. Thereupon, Riverwood International USA, Inc. was renamed "Riverwood International Corporation." Upon consummation of the

Subsequent Merger, RIC Holding, as the surviving corporation in the Subsequent Merger, became the parent company of Riverwood International Corporation ("Riverwood International").

Riverwood Holding and RIC Holding, a wholly-owned subsidiary, conducted no significant business and have no independent assets or operations other than in connection with the Merger and related transactions through March 27, 1996. Riverwood Holding and RIC Holding fully and unconditionally guarantee substantially all of the debt of Riverwood International.

In connection with the Merger, the purchase method of accounting was used to establish and record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair market values of the assets acquired and liabilities assumed was recorded as goodwill.

References to the "Company" are to Riverwood Holding and its subsidiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies of the Company.

(A) PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include all of the accounts of Riverwood Holding and its majority-owned and controlled subsidiaries. The accompanying consolidated financial statements include the worldwide operations of the Coated Board segment which includes the paperboard, packaging, and packaging machinery businesses and the Containerboard segment. All significant transactions and balances between the consolidated operations have been eliminated.

(B) CASH AND EQUIVALENTS

Cash and equivalents include time deposits, certificates of deposit and other marketable securities with original maturities of three months or less.

(C) INVENTORIES

Inventories are stated at the lower of cost or market with cost determined principally by the first-in, first-out ("FIFO") basis (see Note 5). Average cost basis is used to determine the cost of supplies inventories. Inventories are stated net of an allowance for slow-moving and obsolete inventory,

which is based on estimates. If the condition of the inventories or the state of the Company's business would deteriorate, additional allowances may be required which would reduce income. Raw materials and consumables used in the production process such as wood chips and chemicals are valued at purchase cost on a FIFO basis upon receipt. Work in progress and finished goods inventories are valued at the cost of raw material consumed plus direct manufacturing costs (such as labor, utilities and supplies) as incurred and a proportion of manufacturing overhead.

(D) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Betterments, renewals and extraordinary repairs that extend the life of the asset are capitalized; other repairs and maintenance charges are expensed as incurred. The Company's cost and related accumulated depreciation applicable to assets retired or sold are removed from the accounts and the gain or loss on disposition is recognized in income.

Costs directly associated with the development and testing of computer information systems for internal use are deferred and included in property, plant and equipment. Such costs are amortized on a straight-line basis over the expected useful life of 5 years. Costs indirectly associated with such projects and ongoing maintenance costs are expensed as incurred. A total of $1.0 million and $1.4 million in costs relating to software development were capitalized in 2002 and 2001, respectively, and were included in property, plant and equipment at December 31, 2002 and December 31, 2001.

Interest is capitalized on major projects. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Capitalized interest was approximately $1.3 million, $2.1 million, and $1.3 million in the years ended December 31,

2002, 2001, and 2000, respectively.

(E) DEPRECIATION AND AMORTIZATION

Depreciation and amortization are principally computed using the straight-line method based on the following estimated useful lives of the related assets:

Buildings	10 to 40 years
Land improvements	3 to 20 years
Machinery and equipment	2 to 40 years
Furniture and fixtures	1 to 12 years
Automobiles and light trucks	2 to 5 years

For certain major capital additions, the Company computes depreciation on the units-of-production method until the asset's designed level of production is achieved and sustained.

The Company assesses its long-lived assets, including goodwill and certain identifiable intangibles, for impairment whenever events or circumstances indicate that the carrying value of an asset may not be recoverable (see Note 26). To analyze recoverability, the Company projects future cash flows, undiscounted and before interest, over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. The impairment loss is measured based upon the

difference between the carrying amount and the fair value of the assets. The Company assesses the appropriateness of the useful life of its long-lived assets periodically.

Intangible assets with a determinable life are amortized on a straight-line basis over that period. The related amortization expense is included in Other Expense, Net.

(F) INTERNATIONAL CURRENCY

The functional currency for most of the international subsidiaries is the local currency for the country in which the subsidiaries own their primary assets. The translation of the applicable currencies into U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using a weighted average exchange rate during the period. Any related translation adjustments are recorded directly to Shareholders' Equity. Gains and losses on foreign currency transactions are included in Other Expense, Net for the period in which the exchange rate changes.

The Company pursues a currency hedging program which utilizes derivatives to limit the impact of foreign currency exchange fluctuations on its consolidated financial results. Under this program, the Company has entered into forward exchange and option contracts in the normal course of business to hedge certain foreign currency denominated transactions. Realized and unrealized gains and losses on these forward contracts are included in the measurement of the basis of the related foreign currency transaction when recorded. The premium on an option contract is reflected in Other Expense, Net, during the period in which the contract expires.

(G) INCOME TAXES

The Company accounts for income taxes under the asset and liability method whereby the effect of changes in corporate tax rates on deferred income taxes is recognized currently as an adjustment to income tax expense. The asset and liability method also requires that deferred tax assets or liabilities be recorded based on the difference between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. A valuation allowance is established for deferred tax assets when it is more likely than not that the benefits of such assets will not be realized.

(H) REVENUE RECOGNITION

Riverwood receives revenue from the sales of manufactured products, the leasing of packaging machinery, and the servicing of packaging machinery. Riverwood recognizes sales revenue when the following criteria are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, Riverwood's price to the buyer is fixed and determinable, and collectibility is reasonably assured.

Delivery is not considered to have occurred until the customer takes title and assumes the risks and rewards of ownership. The timing of revenue recognition is largely dependent on shipping terms. Revenue is recorded at the time of shipment for terms designated at free on board, or f.o.b., shipping point. For sales transactions designated f.o.b. destination, revenue is recorded when the product is delivered to the customer's delivery site. Riverwood recognizes revenues on its annual and multi-year carton supply contracts as the shipment occurs in accordance with the shipping terms discussed above.

Payments from packaging machinery use agreements are recognized on a straight-line basis over the term of the agreements. Service revenue on packaging machinery is recorded at the time of service.

Discounts and allowances are comprised of trade allowances, cash discounts and sales returns. Cash discounts and sales returns are estimated using historical experience. Trade allowances are based on the estimated obligations and historical experience. Rebates are determined based on the quantity purchased and are recorded at the time of sale.

(I) SHIPPING AND HANDLING COSTS

The Company includes shipping and handling costs in Cost of Sales.

(J) INSURANCE RESERVES

It is the Company's policy to self-insure or fund a portion of certain expected losses related to group health benefits. Provisions for losses expected are recorded based on the Company's estimates, on an undiscounted basis, of the aggregate liabilities for known claims and estimated claims incurred but not reported.

(K) ENVIRONMENTAL REMEDIATION RESERVES

The Company records accruals for environmental obligations based on estimates developed in consultation with environmental consultants and legal counsel. Accruals for environmental liabilities are established in accordance with the American Institute of Certified Public Accountants Statement of Position 96-1, *"Environmental Remediation Liabilities."* The Company records a liability at the time when it is probable and can be reasonably estimated. Such liabilities are not reduced for potential recoveries from insurance carriers. Costs of future expenditures are not discounted to their present value.

(L) STOCK-BASED COMPENSATION

As permitted by SFAS No. 123 "Accounting for Stock-Based Compensation", the Company continues to apply intrinsic value accounting for its stock option plans under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees". Compensation cost for stock options, if any, is measured as the excess of the market price of the Company's common stock at the date of grant over the exercise price to be paid by the grantee to acquire the stock. The Company has adopted disclosure-only provisions of SFAS No. 123 and SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123". The Company's pro forma net earnings based upon the fair value at the grant dates for awards under the Company's plans are disclosed below.

If the Company had elected to recognize compensation expense based upon the fair value at the grant dates for awards under these plans, the Company's net (loss) income would have been reduced as follows:

	For the Year Ended December 31,		
	2002	2001	2000
	(Amounts in thousands)		

	For the Year Ended December 31,		
Net (loss) income, as reported	$ (11,262)	$ (65,557)	$ 31,347
Deduct: Total additional stock-based employee compensation cost, net of tax, that would have been included in net (loss) income under fair value method	(266)	(399)	(501)
Pro forma net (loss) income	$ (11,528)	$ (65,956)	$ 30,846

The Company recognized compensation expense on stock options for which the exercise price was less than the fair value at the date of grant in the amount of $1.9 million, $1.5 million, and $1.8 million for the years ended December 31, 2002, 2001, and 2000, respectively.

(M) RECLASSIFICATION

The Company has reclassified the presentation of certain prior period information to conform with the current presentation format.

(N) USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

NOTE 3 RECEIVABLES

The components of receivables at December 31 were as follows:

	2002	2001
	(In thousands of dollars)	
Trade	$ 127,425	$ 118,650
Less, allowance	1,955	3,294
	125,470	115,356
Other	11,814	6,053
	$ 137,284	$ 121,409

NOTE 4 FINANCIAL INSTRUMENTS

The Company has financial instruments which include foreign currency option and forward exchange contracts and interest rate swap agreements. These instruments involve, to varying degrees, elements of market and credit risk in excess of the amounts recognized in the Consolidated Balance Sheets. The Company does not hold or issue such financial instruments for trading purposes.

The Company enters into forward exchange contracts to effectively hedge substantially all accounts receivable and certain accounts payable resulting from transactions denominated in foreign currencies. The purpose of the forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from the collection of the hedged accounts receivable or payment of the hedged accounts payable will be adversely affected by changes in exchange rates. At December 31, 2002 and 2001, the Company had various foreign currency forward exchange contracts, with maturities ranging up to six months. When aggregated and measured in U.S. dollars at year-end exchange rates, the notional amount of these forward currency exchange contracts totaled approximately $20.6 million and $20.0 million at December 31, 2002 and 2001, respectively. Generally, unrealized gains and losses resulting from these contracts are recognized currently in operations and approximately offset corresponding unrealized gains and losses recognized on the hedged accounts receivable or accounts payable.

During 2002 and 2001, the Company entered into option and forward exchange contracts to hedge certain anticipated foreign currency transactions. The purpose of the option contracts and forward exchange contracts is to protect the Company from the risk that the eventual functional currency cash flows resulting from anticipated foreign currency transactions will be adversely affected by changes in exchange rates. At December 31, 2002, various option contracts existed, which expire on various dates through the year 2003. When measured in U.S. dollars at year-end exchange rates, the year 2002 notional amount of the purchased option contracts totaled approximately $120.1 million. Gains and losses, if any, related to these contracts are recognized in income when the anticipated transaction affects income. The premium on an option contract is reflected in Other Expense, Net, during which the period in which the contract expires. At December 31, 2001, no option contracts existed.

The Company uses interest rate swap agreements to fix a portion of its variable rate Term Loan Facility to a fixed rate in order to reduce the impact of interest rate changes on future income. The differential to be paid or received under these agreements is recognized as an adjustment to interest expense related to the debt. At December 31, 2002, the Company had interest rate swap agreements with a notional amount of $410 million, which expire on various dates through the year 2003 and 2004, under which the Company will pay fixed rates of 2.21% to 3.52% and receive three-month LIBOR. At December 31, 2001, the Company had interest rate swap agreements with a notional amount of $225 million, which expired on various dates through the year 2002, under which the Company paid fixed rates of 4.75% to 6.53% and received three-month LIBOR.

The Company's customers are not concentrated in any specific geographic region, but are concentrated in certain industries. Customers of the Coated Board business segment include the beverage and consumer products packaging industries. Customers of the Containerboard business segment include integrated and non-integrated containerboard converters. During 2002, the Company had one customer who accounted for approximately 16% of the Company's net sales and another customer who accounted for approximately 12% of the Company's net sales. During 2001, the Company had one customer who accounted for approximately 13% of the Company's net sales and another customer who accounted for approximately 11% of the Company's net sales. During 2000, the

Company had two customers who each accounted for approximately 11% of the Company's net sales. There were no significant accounts receivable from a single customer at December 31, 2002 or 2001. The Company reviews a customer's credit history before extending credit of which the payment terms are generally 30 days domestically, but vary internationally according to local business practices. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information.

The Company enters into fixed price natural gas contracts designed to effectively hedge prices for a substantial portion of its natural gas requirements at its two U.S. mills. The purpose of the fixed price natural gas contracts is to eliminate or reduce price risk with a focus on making cash flows more predictable. As of December 31, 2002, the Company had entered into contracts to hedge substantially all of its natural gas requirements for its two U.S. mills through and including October 2003. The contract price and fair value of these natural gas contracts was approximately $16.3 million and $19.9 million, respectively. These contracts are not accounted for as derivative instruments under Statement of Financial Accounting Standards ("SFAS") No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133, and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities* ("SFAS No. 133"), as they qualify for the normal purchase exemption.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate that value:

NONTRADE RECEIVABLES AND SHORT TERM BORROWINGS

The carrying amount of these instruments approximates fair value due to their short-term nature.

LONG-TERM DEBT

The fair value of long-term debt is based on quoted market prices.

FORWARD EXCHANGE AND OPTION CONTRACTS

The fair value of forward exchange and option contracts is based on quoted market prices.

INTEREST RATE SWAP AGREEMENTS

The fair value of interest rate swap agreements is based on quoted market prices by counter parties.

The carrying amounts and estimated fair value of the Company's financial instruments as of December 31 were as follows:

	2002		2001	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**
	(In thousands of dollars)			
Nontrade receivables	$ 11,814	$ 11,814	$ 6,053	$ 6,053
Short-term borrowings	$ 20,281	$ 20,281	$ 16,340	$ 16,340
Long-term debt	$ 1,502,079	$ 1,520,945	$ 1,524,824	$ 1,556,045
Currency forward exchange contracts	$ (376)	$ (376)	$ 212	$ 212
Currency option contracts	$ 451	$ 451	$	$
Interest rate swap contracts	$ (5,058)	$ (5,058)	$ (5,389)	$ (5,389)

NOTE 5 INVENTORIES

The major classes of inventories at December 31 were as follows:

	2002	As Restated 2001
	(In thousands of dollars)	
Finished goods	$ 78,518	$ 78,306
Work-in progress	15,175	11,815
Raw materials	42,841	35,537
Supplies	37,849	35,691
	$ 174,383	$ 161,349

Raw materials and consumables used in the production process such as wood chips and chemicals are valued at purchase cost on a FIFO basis upon receipt. Work in progress and finished goods inventories are valued at the cost of raw material consumed plus direct manufacturing costs (such as labor, utilities and supplies) as incurred and a proportion of manufacturing overhead.

In the fourth quarter of 2002, the Company changed its method of valuing inventory from the last-in, first-out ("LIFO") method to the FIFO method as over time it more closely matches revenues with costs. The FIFO method more accurately reflects the cost related to the actual physical flow of raw materials and finished goods inventory. Accordingly, the Company believes the FIFO method of valuing inventory will result in a better measurement of operating results. All previously reported results have been restated to reflect the retroactive application of the accounting change as required by generally accepted accounting principles in the United States (see Note 27). The accounting change decreased the Net Loss for the year ended December 31, 2001 by approximately $12.3 million and decreased the Net Income for the year ended December 31, 2000 by approximately $6.9 million.

NOTE 6 INVESTMENTS IN NET ASSETS OF EQUITY AFFILIATES

Investments are accounted for using the equity method of accounting. The most significant of these investments was Igaras, an integrated containerboard producer located in Brazil of which the Company owned 50 percent. On July 1, 2000, Igaras spun off the multiple packaging portion of its

business into a newly formed company, of which the Company owned 50 percent. On October 3, 2000, the Company, along with its joint venture partner, Cia Suzano de Papel e Celulose, completed the sale of the jointly-held subsidiary Igaras for approximately $510 million, including the assumption of $112 million of debt. The Company recognized a gain of $70.9 million, in connection with the sale. On October 12, 2000, the Company purchased the remaining 50 percent of the newly formed company for $12.5 million.

During 2002 and 2001, the Company received dividends from its equity investment in Rengo Riverwood Packaging Ltd. ("Rengo") totaling $0.6 million and $0.6 million, respectively, net of taxes of $0.1 million and $0.1 million, respectively.

NOTE 7 OTHER ASSETS

Other Assets at December 31, consisted of the following:

	2002	2001
	(In thousands of dollars)	
Deferred debt issuance costs, net	$ 26,647	$ 32,385
Pension/intangible asset	2,524	13,594
Capitalized spare parts	24,396	23,303
Deferred design costs	1,442	1,985
Other	8,392	9,199
	$ 63,401	$ 80,466

NOTE 8 SHORT-TERM DEBT

Short-Term Debt at December 31, consisted of the following:

	2002	2001
	(In thousands of dollars)	
Short-term borrowings	$ 20,281	$ 16,340
Current portion of long-term debt	78,415	1,742
	$ 98,696	$ 18,082

Short-term borrowings are principally at the Company's international subsidiaries. The weighted average interest rate on Short-term borrowings as of December 31, 2002 and 2001 was 2.0% and 3.4%, respectively.

In connection with the Merger, the Company called $125 million of Convertible Subordinated Notes, of which $0.2 million was not redeemed at December 31, 2002 and 2001, and is included in Current portion of long-term debt.

NOTE 9 COMPENSATION AND EMPLOYEE BENEFITS

Accruals for future compensated employee absences, principally vacation, were $12.9 million and $12.1 million at December 31, 2002 and 2001, respectively, and were included in Compensation and Employee Benefits on the Consolidated Balance Sheets.

NOTE 10 LONG-TERM DEBT

In connection with the Merger, the Company entered into a credit agreement that provided for senior secured credit facilities consisting of a term loan facility and a $400 million revolving credit facility. Such credit agreement, term loan facility and revolving facility, as in effect prior to the August 10, 2001 amendment and restatement discussed below, are referred to herein as the "Prior Credit Agreement", the "Prior Term Loan Facility" and the "Prior Revolving Facility", respectively. In addition, Riverwood International Machinery, Inc., a wholly-owned subsidiary of Riverwood, entered into a credit agreement providing for a $140 million secured revolving credit facility (the "Machinery Facility") for the purpose of financing or refinancing packaging machinery. In connection with the Merger, the Company also completed an offering of $250 million aggregate principal amount of $10^{1}/_{4}$% Senior Notes due 2006 (the "1996 Senior Notes") and $400 million aggregate principal amount of $10^{7}/_{8}$% Senior Subordinated Notes due 2008 (the "1996 Senior Subordinated Notes" and together with the 1996 Senior Notes, the "1996 Notes").

On July 28, 1997, the Company completed an offering of $250 million principal amount of $10^{5}/_{8}$% Senior Notes due 2007 (the "Initial Notes"). The net proceeds of this offering were applied to prepay certain revolving credit borrowings under the Prior Revolving Facility (without any commitment reduction) and to refinance certain Tranche A term loans and other borrowings under the Prior Credit Agreement. A registration statement under the Securities Act of 1933, as amended, registering senior notes of the Company identical in all material respects to the Initial Notes (the "Exchange Notes") offered in exchange for the Initial Notes became effective October 1, 1997. On November 3, 1997, the Company completed its exchange offer of the Initial Notes for the Exchange Notes. The Initial Notes and the Exchange Notes are referred to herein as the 1997 Notes.

In connection with the sale of Igaras on October 3, 2000, the Company entered into Amendment No. 5 dated September 12, 2000, effective October 3, 2000, to the Prior Credit Agreement. Pursuant to the amendment, the Company applied $145 million of the sale proceeds to term loan maturities under the Prior Term Loan Facility. The Company recognized a loss on the early extinguishment of debt of approximately $2.1 million, in the fourth quarter of 2000. The Company applied the remaining portion of the proceeds (approximately $48 million) to the Prior Revolving Facility (without any commitment reduction). In connection with Amendment No. 5, the Company canceled its Machinery Facility.

On June 21, 2001, the Company completed an offering of $250 million principal amount of $10^{5}/_{8}$% Senior Notes due 2007 (the "Initial 2001 Notes"). The Initial 2001 Notes were sold at a price of 103% of par. The proceeds from this offering of approximately $251.5 million, net of approximately $6 million of transaction fees and expenses, were applied to prepay a portion of the outstanding borrowings under the Prior Term Loan Facility. During the second quarter of 2001, the Company recorded a non-cash charge to earnings of approximately $2.8 million related to the write-off of the applicable portion of deferred debt issuance costs on the term loans. In connection with this offering, on June 6, 2001, the Company entered into Amendment No. 6 to the Prior Credit Agreement. The amendment modified certain financial and other covenants, including minimum EBITDA requirements, in the Prior Credit Agreement to reflect recent financial results and market and operating conditions.

A registration statement under the Securities Act registering senior notes of the Company identical in all material respects to the Initial 2001 Notes (the "Exchange 2001 Notes") offered in exchange for the Initial 2001 Notes became effective on August 27, 2001. On October 5, 2001, the Company completed its exchange offer of the Initial 2001 Notes for the Exchange 2001 Notes. The Initial 2001 Notes and the Exchange 2001 Notes are referred to herein as the 2001 Notes.

On August 10, 2001, the Company entered into an amendment and restatement of the Prior Credit Agreement (the "Senior Secured Credit Agreement") with certain lenders providing for senior secured credit facilities with aggregate commitments not to exceed $635 million (together with the 2002 Term Loan Facility referred to below, the "Facilities"), including a $335 million term loan facility (the "2001 Term Loan Facility") and a $300 million revolving credit facility (the "Revolving Facility"). The proceeds of the initial borrowings under the Facilities of approximately $386 million, including $51 million under the Revolving Facility, were applied to repay in full the outstanding borrowings under the Prior Term Loan Facility and the Prior Revolving Facility and to pay approximately $12 million of the $14 million of fees and expenses incurred in connection with the amendment and restatement of the Prior Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash charge to earnings of approximately $6.0 million related to the write-off of the applicable remaining deferred debt issuance costs on the Prior Term Loan Facility and the Prior Revolving Facility.

In April 2002, the Company entered into an amendment of the Senior Secured Credit Agreement which provided for a new, tranche B, term loan facility of $250 million ("2002 Term Loan Facility"). The 2002 Term Loan Facility was drawn on April 23, 2002 and the proceeds, together with borrowings under the Revolving Facility of approximately $12.0 million, were used to redeem the 1996 Senior Notes which occurred on May 23, 2002 and to pay related fees, costs and expenses. In the second quarter of 2002, the Company recorded a non-cash charge to earnings of approximately $3.0 million related to the write-off of the remaining deferred debt issuance costs on the 1996 Senior Notes and a charge of approximately $8.6 million related to the call premium paid upon redemption of the 1996 Senior Notes.

The Senior Secured Credit Agreement, which governs the Facilities, imposes restrictions on the Company's ability to make capital expenditures and both the Senior Secured Credit Agreement and the indentures governing the 1996 Senior Subordinated Notes, the 1997 Notes and the 2001 Notes limit the Company's ability to incur additional indebtedness. Such restrictions, together with the highly leveraged nature of the Company, could limit the Company's ability to respond to market conditions, meet its capital spending program, provide for unanticipated capital investments or take advantage of business opportunities. The covenants contained in the Senior Secured Credit Agreement, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness or amend other debt instruments, pay dividends, create liens on assets, enter into sale and leaseback transactions, make investments, loans or advances, make acquisitions, engage in mergers or consolidations, change the business conducted by Riverwood and its subsidiaries, make capital expenditures and engage in certain transactions with affiliates. The covenants contained in the indentures governing the 1996 Senior Subordinated Notes, the 1997 Notes and the 2001 Notes also impose restrictions on the operation of the Company's business.

The financial covenants in the Senior Secured Credit Agreement specify, among other things, the following requirements for each four quarter period ended during the following test periods:

Test Period		Consolidated Debt to Credit Agreement EBITDA(a) Leverage Ratio	Consolidated Interest Expense Ratio
December 31, 2002	December 30, 2003	5.50 to 1.00	2.00 to 1.00
December 31, 2003	December 30, 2004	5.00 to 1.00	2.10 to 1.00
December 31, 2004	December 30, 2005	4.70 to 1.00	2.25 to 1.00
December 31, 2005	December 30, 2006	4.40 to 1.00	2.25 to 1.00
December 31, 2006	March 31, 2007	4.40 to 1.00	2.25 to 1.00

Note:

(a) Credit Agreement EBITDA as defined in the 2001 Senior Secured Credit Agreement

At December 31, 2002, the Company was in compliance with the financial covenants in the Senior Secured Credit Agreement. The Company's ability to comply in future periods with the financial covenants in the Senior Secured 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 and profitability strategies. If a violation of any of the covenants occurred, the Company would attempt to get a waiver or an amendment from its lenders, although no assurance can be given that the Company would be successful in this regard. The Senior Secured Credit Agreement and the indentures governing the 1996 Senior Subordinated Notes, 1997 Notes and 2001 Notes have covenants as well as 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.

The Senior Secured Credit Agreement is collateralized by substantially all of the Company's assets.

The Revolving Facility matures on December 31, 2006. At December 31, 2002, the Company and its U.S. and international subsidiaries had the following amounts of commitments, amounts outstanding and amounts available under revolving credit facilities:

	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available(A)
	(In thousands of dollars)		
Revolving Facility	$ 300,000	$ 14,850	$ 284,508
International Facilities	18,384	12,090	6,294

	Total Amount of Commitments	Total Amount Outstanding	Total Amount Available(A)
	$ 318,384	$ 26,940	$ 290,802

Note:

(A) In accordance with its debt agreements, the Company's availability under its Revolving Facility as of December 31, 2002 has been reduced by the amount of standby letters of credit issued of approximately $0.6 million.

The Company is required by its insurance company to have a standby letter of credit to secure payment of Workers' Compensation claims. The letter of credit, with a value of $0.4 million, expired on February 20, 2003 and was subsequently extended. The letter of credit will automatically be extended without amendment for successive one year period from the current expiration date and any future expiration date unless at least 45 days prior to the expiration date the Company is notified that the financial institution elects not to renew it.

In addition, the Ohio Bureau of Workers' Compensation requires the Company to have a standby letter of credit for non-performance according to the conditions and obligations as provided under Workers' Compensation law. It is a further condition of the letter of credit to cover all injuries or occupational disease claims incurred in any period prior to and/or during the present term should the Company not perform. The letter of credit, with a value of $0.2 million, was renewed on September 20, 2002 and is automatically extended without amendment for successive one year period from the current expiration date and any future expiration date unless at least 60 days prior to the expiration date the Company is notified that the financial institution elects not to renew it.

Long-Term Debt at December 31 consisted of the following:

	2002	2001
	(In thousands of dollars)	
Senior Notes with interest payable semi-annually at 10.625%, payable in 2007	$ 250,000	$ 250,000
Senior Notes with interest payable semi-annually at 10.25%, payable in 2006		250,000
Senior Subordinated Notes with interest payable semi-annually at 10.875%, payable in 2008	400,000	400,000
Senior Secured Term Loan Facility with interest payable at various dates less than one year at floating rates (3.90% to 4.26% at December 31, 2002), payable through 2007	248,750	
Senior Secured Term Loan Facility with interest payable at various dates less than one year at floating rates (4.15% to 4.59% at December 31, 2002), payable through 2006	335,000	335,000
Senior Notes with interest payable semi-annually at 10.625%, payable in 2007	250,000	250,000
Senior Secured Revolving Facility with interest payable at various dates less than one year at floating rates (4.19% to 6.00% at December 31, 2002) payable in 2006	14,850	35,150
Senior Subordinated Notes with interest payable semi-annually at 11.25%, payable in 2002		804
Convertible Subordinated Notes with interest payable semi-annually at 6.75%, payable in 2003, convertible beginning March 27, 1996	209	209
Pollution control revenue bonds with interest payable semi-annually at 6.25%, payable through 2007	1,000	1,000
International Notes payable to banks with interest payable at various dates at interest rates of 7.79% to 10.0% at December 31, 2002, payable through 2004	213	533
Capitalized leases with interest payable of 5.62%, payable through 2006	2,038	2,099
Other	19	29
	1,502,079	1,524,824
Less, current portion	78,415	1,742

	2002	2001
	$ 1,423,664	$ 1,523,082

Long-term debt maturities and expirations of funded long-term working capital commitments at December 31, 2002, were as follows:

(In thousands of dollars)	
2003	$ 78,415
2004	77,975
2005	95,715
2006	110,206
2007	739,750
After 2007	400,018
	$ 1,502,079

NOTE 11 REDEEMABLE COMMON STOCK

During the nine months ended December 31, 1996, Riverwood Holding completed an offering of Riverwood Holding Common Stock to certain members of management and key employees of the Company. As of December 31, 1996, the Company had issued 111,900 shares of Riverwood Holding Class A Common Stock to Management Investors at fair value for gross cash proceeds of $11.2 million. During 2000, the Company issued 5,000 shares of additional Redeemable Common Stock to Management Investors at fair value for gross cash proceeds of $0.6 million. The common stock held by Management Investors is mandatorily redeemable at fair market value as determined by the Executive Committee of the Board of Directors and in certain circumstances the Management Investors can require the Company to repurchase the Riverwood Holding Class A Common Stock. These shares are classified as Redeemable Common Stock on the Consolidated Balance Sheets and are carried at their redemption value of $120 per share at December 31, 2002 and 2001. During 2002 and 2001, the Company repurchased 3,500 and 3,000 shares of Redeemable Common Stock at a weighted average price of $120.00 per share and $120.00 per share, respectively. During 2002, Riverwood Holding issued 250 shares of additional Redeemable Common Stock to Management Investors for gross cash proceeds of approximately $25,000. During 2001, Riverwood Holding issued 3,000 shares of additional Redeemable Common Stock to Management Investors for gross cash proceeds of approximately $0.3 million.

In connection with the issuance of Redeemable Common Stock to Management Investors, the Company has guaranteed loans, with full recourse, from a bank to certain Management Investors totaling approximately $0.4 million and $0.3 million at December 31, 2002 and 2001, respectively. As guarantor of the loans, the Company fully and unconditionally guarantees to the Lender the prompt and complete payment of all principal and interest on the Loans and all other amounts owed under the letter agreements when due and payable (whether at the stated maturity, by acceleration or otherwise) in the amounts and with respect to each of the borrowers listed in the agreement. The Company has the right of subrogation should a borrower default.

NOTE 12 NONREDEEMABLE COMMON STOCK

On March 27, 1996, Riverwood Holding completed an offering of 7,000,000 shares of Class A Common Stock with a par value of $0.01 per share to certain institutional investors for $700 million.

Total Class A Common Stock authorized for issuance at December 31, 2002 was 9,000,000 shares, of which amount 7,057,930 shares were outstanding, including 57,930 shares issued to Management Investors as Redeemable Common Stock (see Note 11). Also on March 27, 1996, Riverwood Holding completed an offering of 500,000 shares of Class B Common Stock with a par value of $0.01 per share to an institutional investor for $50 million. Total Class B Common Stock, which is non-voting, authorized for issuance at December 31, 2002 was 3,000,000

shares, of which 500,000 shares were outstanding.

NOTE 13 STOCK INCENTIVE PLANS

The Company has developed three Stock Incentive Plans ("SIP") designed to provide certain key executives and management options to purchase shares of Redeemable Class A Common Stock. These plans are the 1996 Stock Incentive Plan ("1996 SIP"), the 2002 Stock Incentive Plan ("2002 SIP") and the 1999 Supplemental Long-Term Incentive Plan ("SLTP"). The following table summarizes information pertaining to options outstanding and exercisable at December 31, 2002:

Plan	Grant Date	Number Outstanding	Granted Weighted Average Exercise Price	Vesting Reference	Number Exercisable(8)	Exercisable Weighted Average Exercise Price
SIP/2002 SIP	Jan-Sep 2002	620,485	$ 120	(1)		$ 120
SIP	November 2000	4,000	115	(2)	1,600	115
SLTP	November 2000	5,000	115	(3)	1,667	115
SLTP	May-Dec, 1999	153,223	100	(4)	71,036	100
SIP	June-Dec, 1999	49,800	100	(5)	21,120	100
SIP	March 1997	225,000	75	(6)	213,348	75
SIP	June 1996	51,410	100	(7)	47,660	100
	Total	1,108,918	$ 106.24		356,431	$ 85.17

Notes:

(1) 305,485 of these options vest one-third on the second anniversary of date of grant and two-thirds on the third anniversary of the date of grant. 165,000 of the options vest when the Company achieves certain financial targets. 150,000 of the options vest if a change of control of the company takes place before the third anniversary of the date of grant. Should any of those options not vest as described above, they will vest assuming the employee is still employed at the Company, nine years and six months following the date of grant.

(2) Options vest in five equal annual installments on the first five anniversaries of the date of grant, subject to continuous employment.

(3) Options vest based upon a range of certain financial goals for two years. Each year, the vesting starts at 30% for achievement of a minimum financial target, and increases to a maximum of 50% per year, prorated on a straight-line basis for achievement of certain results above the minimum. Those options which do not vest in this period will vest, assuming the employee is still employed, nine years and six months following the date of grant.

(4) Options vest based upon a range of certain financial goals over the next three years. Each year, the vesting starts at 20% for achievement of a minimum financial target, and increases to a maximum of 33 1/3% per year, prorated on a straight-line basis for achievement of certain financial results above the minimum. Those options which do not vest in this three-year period, will vest, assuming the employee is still employed at the Company, on December 31, 2008.

(5) 35,200 of the options will vest in five equal annual installments on each of the first five anniversaries of the date of grant, subject to continuous employment. The remaining 14,600 options vest on the date that the Company achieves certain financial targets. Should those options not vest as described above, they will vest assuming the employee is still employed at the Company, nine years and six months following the date of grant.

(6)

112,500 of these options will vest in five annual installments on each of the first five anniversaries of the date of grant, subject to continuous employment, and the remaining 112,500 have accelerated vesting based on achievement of certain financial goals or on September 30, 2006, whichever occurs first.

(7)

47,660 of the options will vest in five equal annual installments on the first five anniversaries of the date of grant, subject to continuous employment. The remaining 3,750 options vest on the date that the Company achieves certain financial targets. Should those options not vest as described above, they will vest assuming the employee is still employed at the Company, nine years and six months following the date of grant.

(8)

As of December 31, 2001 and 2000, there were exercisable options in the amount of 332,769 and 277,397, respectively.

A summary of option activity during the three years ended December 31, 2002 is as follows:

	Shares	Exercise Price
Outstanding December 31, 1999	553,910	$ 89.84
Granted	13,000	115.00
Exercised		
Canceled	(1,700)	(100.00)
Outstanding December 31, 2000	565,210	$ 90.39
Granted		
Exercised	(7,069)	(120.00)
Canceled	(12,731)	(103.77)
Outstanding December 31, 2001	545,410	$ 89.70
Granted	667,153	120.00
Exercised	(250)	(100.00)
Canceled	(103,395)	(109.14)
Outstanding December 31, 2002	1,108,918	$ 106.11

The weighted average contractual life of the outstanding options at December 31, 2002, is 8 years. The Company applies APB Opinion No. 25, "*Accounting for Stock Issued to Employees*," and related

F-21

Interpretations in accounting for the Stock Options. Accordingly, the Company recognizes compensation expense for Stock Options when the exercise price is less than the related fair value at the date of grant or when the performance criteria is met. During the years ended December 31, 2002, 2001 and 2000, the Company recognized compensation expense of $1.9 million, $1.5 million, and $1.8 million, respectively, related to Stock Options. Had compensation expense for the Company's grants of Stock Options been determined in accordance with Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation*" ("SFAS No. 123"), the Company's Net (Loss) Income for the years ended December 31, 2002, 2001, and 2000, would have been approximately $(11.5) million, $(65.9) million, and $30.8 million, respectively. The weighted average fair value of the stock options was estimated to be $28.37 per option on the date of grant for stock options granted in 2002 and 30.91 per option on the date of grant for stock options granted in 2000. The Company used the Black-Scholes option-pricing model to value the Stock Options with the following assumptions: dividend yield of zero, no volatility, risk-free interest rates ranging from 4.622% to 6.75%, a zero forfeiture rate and an expected life of 3 to 10 years.

On January 1, 2002, 16,200 restricted stock units ("RSUs") were issued to key employees of the company under the 2002 Stock Incentive Plan. The RSUs vest on the second anniversary date of grant provided that the recipients are still employed by the company. The aggregate market value of the restricted stock at the date of issuance was $1.9 million and is being recorded as deferred compensation over the two-year vesting period. During 2002, 2,500 of the RSUs were cancelled. The RSUs outstanding at December 31, 2002 were 13,700 of which none were vested.

NOTE 14 CURRENCY TRANSLATION ADJUSTMENT

An analysis of changes in the Cumulative Currency Translation Adjustment included in Shareholders' Equity at December 31 was as follows:

	2002	As Restated 2001	As Restated 2000
	(In thousands of dollars)		
Cumulative currency translation adjustment at beginning of period	$ (43,698)	$ (33,562)	$ (19,324)
Currency translation adjustments	12,996	(10,136)	(14,238)
	$ (30,702)	$ (43,698)	$ (33,562)

NOTE 15 CONTINGENCIES AND COMMITMENTS

Total rental expense was approximately $8.0 million, $10.4 million, and $11.7 million for the years ended December 31, 2002, 2001, and 2000, respectively.

At December 31, 2002, total commitments of the Company under long-term, non-cancelable contracts were as follows:

	Payment Due by Period				
	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(In thousands of dollars)				
Long-Term Debt	$ 78,415	$ 173,690	$ 849,956	$ 400,018	$ 1,502,079
Operating Leases	15,664	5,408	2,239	946	24,257
Unconditional Purchase Obligations(A)	34,291	24,674	20,381	81,609	160,955
Total Contractual Cash Obligations	$ 128,370	$ 203,772	$ 872,576	$ 482,573	$ 1,687,291

Note:

(A) Unconditional Purchase Obligations primarily consist of commitments related to wood processing and handling, natural gas and electricity and firm transportation of natural gas.

As of December 31, 2002, the Company had approximately 4,150 employees worldwide (excluding employees of joint ventures), approximately 2,950 of whom were members of unions and covered by collective bargaining agreements.

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs that are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations. In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds. Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and hazardous materials and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of the Company's facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. In certain instances, the Company has been identified as a Potentially Responsible Party ("PRP") under CERCLA and similar state laws.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the "cluster rules") that mandated more stringent controls on air and water discharges from United States pulp and paper mills. Over the next three years, the Company anticipates that it will spend approximately $22 million at its two U.S. mills to comply with these regulations.

The Company is involved in environmental investigation and remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as the CERCLA and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. The Company accrues reserves for these contingencies when the liability is probable and the costs are reasonably estimable. The Company believes that based on current information and regulatory requirements, its accruals for environmental matters are adequate. However, there can be no assurance that the Company will not incur significant costs in excess of accrued amounts in connection with remediation activities and other environmental matters.

In late 1995, the Louisiana Department of Environmental Quality (the "DEQ") notified the Predecessor of potential liability for the remediation of hazardous substances at a former wood treatment site in Shreveport, Louisiana (known as the Line Avenue Site) that the Predecessor or its predecessors previously operated. In August 2001, the Company entered into an agreement with the DEQ and the landowners to remediate the site. The agreement required the removal of soils containing wood-treating constituents in excess of regulatory standards, consolidation of these soils in a sub-portion of the site, capping of the sub portion, land use restrictions, future operations and maintenance ("O&M") to ensure the integrity of the cap, long-term monitoring of the groundwater, and a recorded prohibition on the use of on-site groundwater. The Company contracted with a qualified contractor to remediate the site at a cost of approximately $1.3 million. In addition, each of the O&M and groundwater monitoring costs for the initial five years are expected to be approximately $0.1 million (no such costs are estimated beyond the initial five-year period). As of December 31, 2002, all of the required soil excavation and consolidation has been completed. The Company expects to complete construction of the cap by July 2003. As of December 31, 2002, the Company has paid its contractor approximately $0.6 million to remediate the site. The Company has been reimbursed approximately half of these costs from a PRP that has entered into a settlement agreement with the Company.

On July 6, 2000, the Company and the DEQ entered into a Settlement Agreement for remediation of a site in Caddo Parish, Louisiana (known as the Shoreline Refinery Site). The principal contamination at this site was an approximately 5 acre impoundment of oil-based sludge that appeared to originate from an oil refinery that was operated by prior operators. The remedial action contemplated by the Settlement Agreement required the neutralization, stabilization and consolidation of sludges and soils at the site, capping of the consolidated materials, the establishment of a vegetative cover, and five years of post-closure care of the capped area. The Company contracted to complete the remedial action in accordance with the terms of the Settlement Agreement. In a November 26, 2002

letter to the Company, the DEQ stated that all required construction activities were accomplished and that the five-year post-closure care and reporting period would commence. The Company conveyed the property to its contractor on October 22, 2000.

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions filed in the U.S. District Court for the Northern District of Georgia against The MeadWestvaco Corporation ("MeadWestvaco"), successor by merger to The Mead Corporation, and R.A. Jones Co. Inc. ("R.A. Jones") claiming infringement of the Company's patents for its packaging machines and seeking damages sufficient to compensate for such infringement. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 was appealed to the Court of Appeals for the Federal Circuit (the "CAFC"). The suit against MeadWestvaco was dismissed by mutual agreement, subject to being refiled, pending the outcome of the appeal of the decision in the case against R.A. Jones. The CAFC vacated the holding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 and remanded to the District Court for determination of proper inventive entity. The finding of infringement was affirmed by the CAFC. Further proceedings consistent with the decision of the CAFC will follow in the District Court.

NOTE 16 PENSIONS

U.S. HOURLY AND SALARIED PENSION PLANS

All of the Company's U.S. hourly union employees are participants in the Company's noncontributory defined benefit hourly plan (the "Hourly plan"). The pension expense of the Hourly plan is based primarily on years of service and the pension rate near retirement. The Company's U.S. salaried and nonunion hourly employees are participants in the Company's noncontributory defined benefit plan that was established during 1992 (the "Salaried plan").

The Company's funding policies with respect to its U.S. pension plans are to contribute funds to trusts as necessary to at least meet the minimum funding requirements of the U.S. Internal Revenue Code. Plan assets are invested primarily in equities and fixed income securities.

(A) PENSION EXPENSE

The pension expense related to the Hourly plan and Salaried plan consisted of the following:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
		(In thousands of dollars)	
Components of net periodic pension cost (credit):			
Service cost	$ 5,226	$ 5,142	$ 4,806
Interest cost	16,457	16,106	15,444
Expected return on plan assets	(18,767)	(21,019)	(22,101)
Amortizations:			
Prior service cost	1,032	1,029	1,026
Actuarial gain	(34)	(10)	(2,039)
Net periodic pension cost (credit)	$ 3,914	$ 1,248	$ (2,864)

Certain assumptions used in determining the pension expense related to the Hourly plan and Salaried plan were as follows:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
Assumptions:			
Discount rate	7.50%	7.50%	7.50%
Rate of increase in future compensation levels	4.50%	4.50%	4.50%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%

(B) FUNDED STATUS

The funded status of the Company's U.S. Hourly plan and Salaried plan as of December 31, were as follows:

	2002	2001
	(In thousands of dollars)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 228,244	$ 220,881
Service cost	5,226	5,142
Interest cost	16,457	16,106
Actuarial loss (gain)	25,851	(504)
Amendments	25	130
Benefits paid	(13,849)	(13,511)
Benefit obligation at end of year	$ 261,954	$ 228,244
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 227,566	$ 253,831
Actual return on plan assets	(10,964)	(12,783)
Employer contributions	29	29
Benefits paid	(13,849)	(13,511)
Fair value of plan assets at end of year	$ 202,782	$ 227,566
Plan assets (less than) in excess of projected benefit obligation	$ (59,172)	$ (678)
Unrecognized net actuarial loss (gain)	64,866	9,252
Unrecognized prior service cost	1,200	2,206
Net amount recognized	$ 6,894	$ 10,780
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid pension cost	$	$ 13,601
Intangible asset	2,475	
Accrued pension liability	(50,596)	(2,821)
Accumulated Other Comprehensive Income (a)	55,015	
Net amount recognized	$ 6,894	$ 10,780

	2002	2001
Assumptions:		
Discount rate	6.50%	7.50%
Rates of increase in future compensation levels	4.50%	4.50%

(a) During 2002, the Company recorded a charge to Other Comprehensive (Loss) Income of approximately $55.0 million in its Consolidated Statement of Operations and Comprehensive (Loss) Income due to unfavorable market conditions.

INTERNATIONAL PENSION PLANS

(A) PENSION EXPENSE

The international defined benefit pension plans are both noncontributory and contributory and are funded in accordance with applicable local laws. Assets of the funded plans are invested primarily in equities and fixed income securities. The pension or termination benefits are based primarily on years of service and the employees' compensation.

The pension expense related to the international plans consisted of the following:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
		(In thousands of dollars)	
Components of net periodic pension cost:			
Service cost	$ 90	$ 431	$ 1,229
Interest cost	4,875	5,210	4,697
Expected return on plan assets	(4,792)	(5,485)	(5,384)
Amortizations:			
Actuarial loss		2,072	
Net periodic pension cost	$ 173	$ 2,228	$ 542
Assumptions:			
Discount rate	5.50%	5.75%	5.50%
Rates of increase in future compensation levels	6.00%	4.00%	4.00%
Expected long-term rate of return on plan assets	5.75%	6.00%	6.00%

Approximately 300 employees participate in a multi-employer pension plan that provides defined benefits to employees under certain union-employer organization agreements. Pension expense for this plan was $3.9 million, $3.5 million, and $4.0 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Effective March 31, 2001, the Company's Defined Benefit Pension Plan in the U.K. (the "U.K. Plan") was curtailed. No curtailment gain was recorded as the unrecognized net loss of the U.K. Plan at March 31, 2001 exceeded any gain calculated as a result of the curtailment. Effective March 31, 2001, the Company began a defined contribution savings plan in the U.K. to replace the curtailed U.K. Plan.

(B) FUNDED STATUS

The following table sets forth the funded status of the international pension plans as of December 31:

	2002	2001
	(In thousands of dollars)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 96,554	$ 101,529
Service cost	90	431
Interest cost	4,875	5,210
Plan participants contributions		173
Actuarial loss (gain)	1,360	(6,431)
Benefits paid	(4,108)	(4,358)
Benefit obligation at end of year	$ 98,771	$ 96,554
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 89,676	$ 97,003
Actual return on plan assets	(632)	(5,524)
Employer contributions		2,382
Plan participants contributions		173
Benefits paid	(4,108)	(4,358)
Fair value of plan assets at end of year	$ 84,936	$ 89,676
Plan assets less than projected benefit obligation	$ (13,835)	$ (6,878)
Unrecognized net actuarial loss	15,232	8,099
Net amount recognized	$ 1,397	$ 1,221
Amounts recognized in the Consolidated Balance Sheets consist of:		
Prepaid pension cost	$ 49	$ 1,221
Accrued pension liability	(14,940)	
Accumulated Other Comprehensive Income (a)	16,288	
Net amount recognized	$ 1,397	$ 1,221
Assumptions:		
Discount rate	5.50%	5.75%
Rates of increase in future compensation levels	0.00%	4.00%

(a) During 2002, the Company recorded a charge to Other Comprehensive (Loss) Income of approximately $16.3 million in its Consolidated Statement of Operations and Comprehensive (Loss) Income due to unfavorable market conditions.

As of December 31, 2002 and 2001, accrued retirement contributions for the international pension plans included in Compensation and Employee Benefits on the Consolidated Balance Sheets were $1.3 million and $1.4 million, respectively.

DEFINED CONTRIBUTION PLANS

The Company provides defined contribution plans for eligible U.S. employees. Salaried employees may make contributions of up to 16% of their compensation (percentage of pretax and after tax contributions can be any combination not to exceed a combined total of 16%). The Company matches 3% and may match up to a total of 6% of the eligible compensation, depending on the Company's performance.

Hourly employees may make contributions of up to 16% of their compensation (pretax and after tax percentages vary based on negotiated union contracts). The Company matches various percentages of the eligible compensation based on negotiated union contracts.

Contributions to these plans for the years ended December 31, 2002, 2001, and 2000 were $2.9 million, $2.5 million, and $2.3 million, respectively.

Accrued plan contributions included in Compensation and Employee Benefits on the Consolidated Balance Sheets were $0.8 million and $0.1 million at December 31, 2002 and 2001, respectively.

NOTE 17 OTHER POSTRETIREMENT BENEFITS

The Company sponsors postretirement health care plans that provide medical and life insurance coverage to eligible salaried and hourly retired U.S. employees and their dependents. No postretirement medical benefits are offered to salaried employees who began employment after December 31, 1993.

The other postretirement benefits expense consisted of the following:

	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000
		(In thousands of dollars)	
Service cost	$ 348	$ 272	$ 255
Interest cost	1,890	1,669	1,645
Amortizations:			
Prior service cost	(162)	(162)	(162)
Actuarial loss	311	151	124
Net periodic postretirement benefits cost	$ 2,387	$ 1,930	$ 1,862
Assumptions:			
Discount rate	7.5%	7.5%	7.5%
Initial health care cost trend rate	7.0%	7.5%	5.5%
Ultimate health care cost trend rate *	5.0%	5.0%	4.5%
Ultimate year *	2006	2006	2001

* The salaried plan's cost was capped beginning in 1999.

The accrued postretirement benefit obligation at December 31 was as follows:

	2002	2001
	(In thousands of dollars)	
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 22,940	$ 22,703
Service cost	348	272
Interest cost	1,890	1,669
Actuarial loss	3,795	2,013
Assumptions	2,467	
Benefits paid	(2,884)	(3,717)
Benefit obligation at end of year	$ 28,556	$ 22,940
Fair value of plan assets at end of year		
Accumulated postretirement benefit obligation in excess of plan assets	$ (28,556)	$ (22,940)
Unrecognized net actuarial loss	8,611	2,660
Unrecognized prior service credit	(1,514)	(1,676)
Total accrued postretirement benefit obligation	$ (21,459)	$ (21,956)
Assumptions:		
Discount rate	6.50%	7.50%
Initial health care cost trend rate	9.00%	7.00%
Ultimate health care cost trend rate *	5.00%	5.00%
Ultimate year *	2007	2006

	1 Percentage Point Increase	1 Percentage Point Decrease
Health care trend rate sensitivity:		
Effect on total of interest and service cost components	$ 44	$ (38)
Effect on year-end postretirement benefit obligation	$ 432	$ (382)

* The salaried plan assumes no future increases in employer subsidies.

NOTE 18 FOREIGN CURRENCY MOVEMENT EFFECT

Net international currency transaction (losses) gains included in determining Income from Operations for the years ended December 31, 2002, 2001 and 2000 were $1.8 million, $(1.4) million and $(0.1) million, respectively.

NOTE 19 INCOME TAXES

The U.S. and international components of (Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates consisted of the following:

	Year Ended December 31, 2002	As Restated Year Ended December 31, 2001	As Restated Year Ended December 31, 2000
		(In thousands of dollars)	
U.S.	$ (21,945)	$ (65,213)	$ 23,339
International	16,500	14,513	9,778
(Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates	$ (5,445)	$ (50,700)	$ 33,117

The provisions for Income Tax (Benefit) Expense on (Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates consisted of the following:

	Year Ended December 31, 2002	As Restated Year Ended December 31, 2001	As Restated Year Ended December 31, 2000
		(In thousands of dollars)	
Current:			
U.S. Federal	$ (696)	$	$ 850
U.S. State and Local	(823)	1,651	(768)
International	(3,145)	4,976	2,927
Total Current	(4,664)	6,627	3,009
Income Tax (Benefit) Expense	$ (4,664)	$ 6,627	$ 3,009

A reconciliation of Income Tax (Benefit) Expense on (Loss) Income before Cumulative Effect of a Change in Accounting Principle including Equity in Net Earnings of Affiliates at the federal statutory rate of 35% compared with the Company's actual Income Tax (Benefit) Expense is as follows:

	Year Ended December 31, 2002	As Restated Year Ended December 31, 2001	As Restated Year Ended December 31, 2000
		(In thousands of dollars)	
(Benefit) Expense Income tax at U.S. statutory rate	$ (1,906)	$ (17,745)	$ 12,584
U.S. federal taxes (benefit) expense AMT	(696)		850
U.S. state and local tax (benefit) expense	(823)	1,651	(768)
Limitation on use of net operating losses	9,631	23,173	(9,162)
International tax rate differences	(1,998)	(1,087)	(1,637)
Valuation Allowance Adjustment	(9,274)		
Foreign witholding tax	402	635	1,142
Income Tax (Benefit) Expense	$ (4,664)	$ 6,627	$ 3,009

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, were as follows:

	2002	As Restated 2001
	(In thousands of dollars)	
Property, plant and equipment	$ (308,925)	$ (274,194)
Other	1,968	(5,321)
Deferred tax liabilities	$ (306,957)	$ (279,515)
Net operating loss carryforwards	522,571	498,795
Other	2,333	(6,032)
Deferred tax assets	524,904	492,763
Valuation allowance	(220,104)	(219,747)
Net deferred tax liability	$ (2,157)	$ (6,499)

The Company's deferred tax assets and deferred tax liabilities recorded in the Company's Consolidated Balance Sheet at December 31, consisted of the following:

	2002	As Restated 2001
	(In thousands of dollars)	
Jurisdictions with deferred tax assets	$ 11,376	$ 7,923
Jurisdictions with deferred tax liabilities	(13,533)	(14,422)
Net deferred tax liability	$ (2,157)	$ (6,499)

The Company has reviewed the net deferred tax assets as of December 31, 2002 and 2001 and has determined that most deferred tax assets will not be realized. The need for a valuation allowance is made on a country-by-country basis and the amount of the valuation allowance has increased as of December 31, 2002 over 2001 primarily due to operating activities in various countries in 2002. As of December 31, 2002, the Company has concluded that due to years of sustained profitability and forecasted future profitability, realization is more likely than not on the deferred tax assets related to certain of the Company's international operations and as a result, the valuation allowance of $9.3 million for these international operations was released in 2002 and the related deferred tax asset recorded. The net result of the release of the valuation allowances against the increase in the valuation allowance resulting from 2002 operations is a net increase in the valuation allowance of approximately $0.4 million. The valuation allowance of $220.1 million and $219.7 million at December 31, 2002 and 2001, respectively, is maintained on the remaining net deferred tax assets for which the Company has not determined that realization is more likely than not.

The U.S. federal net operating loss carryforward amount totals $1,248.8 million, and expires in 2011, 2012, 2018, 2019, 2021 and 2022 in the amounts of $91.1 million, $421.5 million, $295.0 million, $196.8 million, $158.8 million and $85.6 million, respectively. International net operating loss carryforward amounts total $76.9 million of which $5.2 million expire through 2011 and $71.7 million have no expiration date.

Undistributed earnings intended to be reinvested indefinitely by the international subsidiaries totaled approximately $51.5 million at December 31, 2002. No U.S. deferred income tax has been recorded on these undistributed earnings.

NOTE 20 LOSS ON EARLY EXTINGUISHMENT OF DEBT

On April 23, 2002, the Company borrowed $250 million pursuant to an amendment to its Senior Secured Credit Agreement. The proceeds were applied to redeem in full the 1996 Senior Notes. In addition, the Company borrowed $12 million under its Revolving Facility to pay fees, costs and expenses related to the refinancing transaction. In the second quarter of 2002, the Company recorded a non-cash charge to earnings of approximately $3.0 million related to the write-off of the remaining deferred debt issuance costs on the 1996 Senior Notes and a charge of approximately $8.6 million related to the call premium paid upon redemption of the 1996 Senior Notes.

On August 10, 2001, the Company entered into the Senior Secured Credit Agreement. The proceeds of the initial borrowings under the Facilities of approximately $386 million, including $51 million in revolving credit borrowings, were applied to repay in full the outstanding borrowings under the Prior Term Loan Facility and the Prior Revolving Facility and to pay approximately $12 million of the $14 million of fees and expenses incurred in connection with the amendment and restatement of the Prior Credit Agreement. During the third quarter of 2001, the Company recorded a non-cash charge to earnings of approximately $6.0 million related to the write-off of the applicable remaining deferred debt issuance costs on the Prior Term Loan Facility and the Prior Revolving Facility.

On June 21, 2001, the Company completed an offering of $250 million principal amount of the 2001 Notes, bearing interest at $10^{5}/_{8}$% annually. The net proceeds of this offering were applied to prepay a portion of the Term Loan Facility resulting in a non-cash charge to earnings of approximately $2.8 million related to the write-off of the applicable portion of deferred debt issuance costs on the term loans.

On October 3, 2000, the Company completed the sale of its 50 percent investment in Igaras (see Note 6). The Company applied $120 million and $25 million of the sale proceeds to its 2001 and 2002 term loan maturities under the Prior Term Loan Facility, respectively. The Company recognized a loss on the early extinguishment of debt of approximately $2.1 million in the fourth quarter of 2000.

NOTE 21 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to fluctuations in interest rates on its variable rate debt and fluctuations in foreign currency transaction cash flows. The Company actively monitors these fluctuations and uses derivative instruments from time to time to manage its exposure. In accordance with its risk management strategy, the Company uses derivative instruments only for the purpose of managing risk associated with fluctuations in the cash flow of the underlying exposures identified by management. The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified. The Company's use of derivative instruments may result in short-term gains or losses and may increase volatility in its earnings.

On January 1, 2001, the Company adopted SFAS No. 133 which requires all derivative instruments to be measured at fair value and recognized on the balance sheet as either assets or liabilities. In addition, all derivative instruments used in hedging relationships must be designated, reassessed and documented pursuant to the provisions of SFAS No. 133. Upon adoption of SFAS No. 133, the Company recognized a one-time after-tax transition adjustment to decrease earnings by approximately $0.5 million and decrease other comprehensive income by approximately $1.1 million. These amounts have been presented as a cumulative effect of a change in accounting principle in the accompanying Consolidated Statement of Operations and Comprehensive (Loss) Income for the year ended December 31, 2001.

The following is a summary of the Company's derivative instruments as of December 31, 2002 and the accounting policies it employs:

Hedges of Anticipated Cash Flows

The following is a reconciliation of current period changes in the fair value of the interest rate swap agreements and foreign currency forward and option contracts which have been recorded as Accumulated Derivative Instruments Loss in the accompanying Consolidated Balance Sheets at December 31, 2002 and December 31, 2001 and as Derivative Instruments Loss in the accompanying Consolidated Statements of Operations and Comprehensive (Loss) Income for the years ended December 31, 2002 and 2001.

(In thousands of dollars)

(In thousands of dollars)		
SFAS No. 133 transition adjustment	$	(1,094)
Reclassification to earnings		3,898
Current period decrease in fair value		(7,374)
Balance at December 31, 2001		(4,570)
Reclassification to earnings		6,014
Current period decrease in fair value		(7,579)
Balance at December 31, 2002	$	(6,135)

At December 31, 2002, there was no material ineffective portion related to the changes in fair value of the interest rate swap agreements or foreign currency forward and option contracts and there were no amounts excluded from the measure of effectiveness. During the second quarter of 2002, the Company de-designated certain of its foreign currency forward and option contracts due to such contracts no longer meeting the Company's established effectiveness test. As a result, during the second quarter of 2002, the Company recognized a mark-to-market loss of approximately $1.8 million in the accompanying Consolidated Statement of Operations and Comprehensive (Loss) Income; had the foreign currency forward and option contracts not been de-designated, this approximate $1.8 million mark-to-market loss would have been deferred into Other Comprehensive (Loss) Income and would have been recognized in the Consolidated Statement of Operations and Comprehensive (Loss) Income over the remaining two quarters. At December 31, 2002, all mark to market losses relating to the de-designated hedges had been recorded in the Consolidated Statement of Operations and Comprehensive (Loss) Income.

The balance of $6.1 million recorded in Accumulated Derivative Instruments Loss at December 31, 2002 is expected to be reclassified into future earnings, contemporaneously with and offsetting changes in the related hedged exposure. The estimated amount to be reclassified into future earnings as interest expense over the next twelve months through December 31, 2003 is approximately $4.3 million. The actual amount that will be reclassified to future earnings over the next twelve months may vary from this amount as a result of changes in market conditions. No amounts were reclassified to earnings during 2002 in connection with forecasted transactions that were no longer considered probable of occurring.

The Company uses interest rate swap agreements to fix a portion of its variable rate Term Loan Facility to a fixed rate in order to reduce the impact of interest rate changes on future income. The differential to be paid or received under these agreements is recognized as an adjustment to interest expense related to the debt. At December 31, 2002, the Company had interest rate swap agreements with a notional amount of $410 million, which expire on various dates through the year 2003 and 2004, under which the Company will pay fixed rates of 2.21% to 3.52% and receive three-month LIBOR.

Derivatives not Designated as Hedges

The Company has foreign currency forward contracts used to hedge the exposure associated with foreign currency denominated receivables. These contracts are presently being marked-to-market through the income statement and will continue to be marked-to-market through the income statement.

The Company enters into fixed price natural gas contracts designed to effectively hedge prices for a substantial portion of its natural gas requirements at its two U.S. mills. The purpose of the fixed price natural gas contracts is to eliminate or reduce price risk with a focus on making cash flows more predictable. As of December 31, 2002, the Company had entered into contracts to hedge substantially all of its natural gas requirements for its two U.S. mills through October 31, 2003. The contract price and fair value of these natural gas contracts was approximately $16.3 million and $19.9 million, respectively. These contracts are not accounted for as derivative instruments under SFAS No. 133, as they qualify for the normal purchase exemption.

NOTE 22 SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and cash paid, net of refunds, for income and franchise taxes was as follows:

	Year Ended December 31,	Year Ended December 31,	Year Ended December 31,

	2002	2001	2000
	(In thousands of dollars)		
Interest	$ 147,670	$ 145,752	$ 173,180
Income and Franchise Taxes	$ 4,892	$ 32,483	$ 5,780

NOTE 23 RESTRUCTURING ACTIVITIES

In connection with the global restructuring program initiated in the fourth quarter of 1998, the Company began reducing its European workforce by approximately 300 employees and implemented other initiatives designed to improve productivity and profitability across the global organization. The initial cost of this program was approximately $25.6 million of which approximately $0.8 million was

used in December 1998 and related to severance payments. The following table provides information that details payments on this restructuring plan since December 31, 1998:

	Severance	Other Exit Costs	Total
	(In thousands of dollars)		
Balance at 12/31/98	$ 21,205	$ 3,537	$ 24,742
Charges against accrual in 1999	(11,527)	(791)	(12,318)
Balance at 12/31/99	9,678	2,746	12,424
Net charges against accrual in 2000	(6,669)	(2,499)	(9,168)
Balance at 12/31/00	3,009	247	3,256
Net charges against accrual in 2001	(3,009)	(247)	(3,256)
Balance at 12/31/01	$	$	$

During 2000, the Company substantially completed the restructuring plan and reduced the reserve by $4.8 million. In addition, $2.2 million of new restructuring activities aligned with the overall objectives of the initial plan were completed in 2000. The Company completed this program during 2001 resulting in a reduction of its European workforce related to the 1998 restructuring by approximately 250 employees.

NOTE 24 BUSINESS SEGMENT AND GEOGRAPHIC AREA INFORMATION

The Company reports its results in two business segments: Coated Board and Containerboard. These segments are evaluated by the chief operating decision maker based primarily on income from operations. The Company's reportable segments are strategic business units that offer different products. The Coated Board business segment includes the production and sale of coated board for its beverage multiple packaging and consumer products packaging businesses from its West Monroe, Louisiana and Macon, Georgia mills and from its mill in Sweden; carton converting facilities in the United States, Europe and Brazil; and the design, manufacture and installation of packaging machinery related to the assembly of beverage cartons. The Containerboard business segment includes the production and sale of linerboard, corrugating medium and kraft paper from paperboard mills in the United States. During 2002, the Company had one customer in its Coated Board business segment who accounted for approximately 16% of the Company's consolidated net sales and another customer in its Coated Board business segment who accounted for approximately 12% of the Company's consolidated net sales. During 2001, the Company had one customer in its Coated Board business segment who accounted for approximately 13% of the Company's consolidated net sales and another customer in its Coated Board business segment who accounted for approximately 11% of the Company's consolidated net sales. During 2000, the Company had two customers in its Coated Board business segment who each accounted for approximately 11% of the Company's consolidated net sales.

The Company's four separate geographic areas are the United States, Central/South America, Europe and Asia-Pacific. The United States area includes paper mills, beverage and folding carton plants, and packaging machinery facilities. The Central/South America area includes beverage and folding carton operations. The Europe area includes a coated recycled paperboard mill, beverage and folding carton operations, and a packaging machinery facility. The Asia-Pacific area includes beverage and folding carton operations.

Business segment information is as follows:

	Year Ended December 31, 2002	As Restated Year Ended December 31, 2001	As Restated Year Ended December 31, 2000
		(In thousands of dollars)	
NET SALES:			
Coated Board	$ 1,165,702	$ 1,107,937	$ 1,065,813
Containerboard	81,612	93,676	126,549
	$ 1,247,314	$ 1,201,613	$ 1,192,362
INCOME FROM OPERATIONS:			
Coated Board	$ 186,108	$ 147,958	$ 156,634
Containerboard	(23,989)	(15,180)	2,986
Corporate and Eliminations (A)	(21,507)	(25,512)	53,934
	$ 140,612	$ 107,266	$ 213,554
CAPITAL EXPENDITURES:			
Coated Board	$ 50,731	$ 51,479	$ 57,669
Containerboard	2,806	2,562	3,231
Corporate	2,505	3,256	1,162
	$ 56,042	$ 57,297	$ 62,062
DEPRECIATION AND AMORTIZATION:			
Coated Board	$ 112,144	$ 115,753	$ 123,893
Containerboard	12,707	13,787	17,252
Corporate	8,989	7,603	2,396
	$ 133,840	$ 137,143	$ 143,541

	2002	As Restated 2001
	(In thousands of dollars)	
IDENTIFIABLE ASSETS AT DECEMBER 31:		
Coated Board (B)	$ 1,720,041	$ 1,708,810
Containerboard (B)	156,919	191,598
Corporate (C)	80,712	100,688

	2002	As Restated 2001
	$ 1,957,672	$ 2,001,096

Business geographic area information is as follows:

	Year Ended December 31, 2002	As Restated Year Ended December 31, 2001	As Restated Year Ended December 31, 2000
	(In thousands of dollars)		
NET SALES:			
United States	$ 1,011,242	$ 986,462	$ 974,868
Central/South America	13,372	17,372	15,473
Europe	230,851	203,393	208,794
Asia Pacific	92,798	93,559	97,357
Eliminations (D)	(100,949)	(99,173)	(104,130)
	$ 1,247,314	$ 1,201,613	$ 1,192,362
INCOME FROM OPERATIONS:			
United States	$ 118,106	$ 82,268	$ 188,139
Central/South America	(5,203)	(4,023)	(925)
Europe	19,942	12,477	12,030
Asia Pacific	10,827	13,085	7,668
Eliminations (D)	(3,060)	3,459	6,642
	$ 140,612	$ 107,266	$ 213,554

	2002	As Restated 2001
	(In thousands of dollars)	
IDENTIFIABLE ASSETS AT DECEMBER 31:		
United States	$ 1,629,369	$ 1,698,174
Central/South America	22,476	29,330
Europe	180,884	147,050
Asia Pacific	44,037	25,428
Corporate (C)	80,712	100,688
Eliminations (D)	194	426
	$ 1,957,672	$ 2,001,096

Notes:

(A) Primarily consists of unallocated general corporate expenses and the gain on the sale of Igaras (see Note 6) in 2000.

(B) Certain mill assets are allocated based on production.

(C) Corporate assets are principally the equity investment in Igaras (up to the date of sale), (see Note 6), cash and equivalents, prepaid pension costs and other prepayments, deferred loan costs, deferred tax assets and a portion of property, plant and equipment.

(D) Represents primarily the elimination of intergeographic sales and profits from transactions between the Company's U.S., Europe, Asia-Pacific and Central/South America operations.

NOTE 25 RELATED PARTY TRANSACTIONS

On November 18, 1999, the Company loaned $5.0 million to a principal employee in a non-interest bearing note due March 26, 2002. On December 19, 2001, the Company extended the maturity of the loan through March 26, 2007. At December 31, 2002 and 2001 this receivable was included in Other Assets on the Consolidated Balance Sheets.

The Company receives certain management services provided by Clayton, Dubilier and Rice, Inc. ("CD&R"), an affiliate of an equity investor in the Company. Charges for such services, including reimbursement of expenses, totaled approximately $0.5 million, $0.5 million, and $0.6 million for the years ended December 31, 2002, 2001, and 2000, respectively, and were included in Selling, General and Administrative in the Consolidated Statements of Operations and Comprehensive (Loss) Income.

NOTE 26 NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "*Business Combinations*" ("SFAS No. 141"), which was effective as of January 1, 2002. SFAS No. 141 requires the purchase method of accounting for business combinations initiated after June 30, 2001 and eliminates the pooling-of-interests method. The Company adopted SFAS No. 141 on January 1, 2002 and the adoption did not have a significant impact on its financial position and results of operations.

In June 2001, the FASB issued SFAS No. 142 "*Goodwill and Other Intangible Assets*" ("SFAS No. 142"), which was effective January 1, 2002. SFAS No. 142 requires, among other things, the discontinuance of goodwill amortization. In addition, the standard includes provisions for the reclassification of certain existing recognized intangibles as goodwill, reassessment of the useful lives of existing recognized intangibles, reclassification of certain intangibles out of previously reported goodwill and the identification of reporting units for purposes of assessing potential future impairments of goodwill. SFAS No. 142 also requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The adoption of SFAS No. 142 resulted in the discontinuation of amortization of goodwill recorded at December 31, 2001 of approximately $8 million annually. Intangible assets with a determinable life will continue to be amortized over the appropriate periods. The Company adopted SFAS No. 142 on January 1, 2002. The following table shows Net (Loss)

Income for the year ended December 31, 2002 and Adjusted Net (Loss) Income for the years ended December 31, 2001 and 2000 exclusive of goodwill amortization:

	Year ended December 31, 2002	As Restated Year ended December 31, 2001	As Restated Year ended December 31, 2000
		(In thousands of dollars)	
Net (Loss) Income	$ (11,262)	$ (65,557)	$ 31,347
Plus: Amortization of Goodwill		7,740	7,948
Adjusted Net (Loss) Income	$ (11,262)	$ (57,817)	$ 39,295

The following table shows Income (Loss) before Cumulative Effect of a Change in Accounting Principle for the year ended December 31, 2002 and Adjusted Income (Loss) before Cumulative Effect of a Change in Accounting Principle for the years ended December 31, 2001 and 2000 exclusive of goodwill amortization:

	Year ended December 31, 2002	As Restated Year ended December 31, 2001	As Restated Year ended December 31, 2000
		(In thousands of dollars)	
Income (Loss) before Cumulative Effect of a Change in Accounting Principle	$ (11,262)	$ (65,058)	$ 31,347
Plus: Amortization of Goodwill		7,740	7,948
Adjusted Income (Loss) before Cumulative Effect of a Change in Accounting Principle	$ (11,262)	$ (57,318)	$ 39,295

The following table displays the intangible assets that continue to be subject to amortization and aggregate amortization expense as well as intangible assets not subject to amortization as of December 31, 2002 and December 31, 2001:

	As of December 31, 2002		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Patents	$ 23,633	$ 9,471	$ 14,162
Licenses	3,598	1,207	2,391
Trademarks	39,642	13,351	26,291
	$ 66,873	$ 24,029	$ 42,844
Unamortized intangible assets:			
Goodwill	$ 268,284		$ 268,284

	As of December 31, 2001		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized intangible assets:			
Patents	$ 23,926	$ 7,986	$ 15,940
Licenses	3,598	997	2,601
Trademarks	39,624	11,370	28,254
	$ 67,148	$ 20,353	$ 46,795
Unamortized intangible assets:			

	As of December 31, 2001		
Goodwill	$ 321,976	$ 45,494	$ 276,482

Amortization expense for intangible assets subject to amortization was approximately $3.7 million for 2002, and is expected to be approximately $4 million annually for the next five fiscal years.

In February 2003, the Company received $7 million of cash from a third-party in settlement of a tax matter related to the Merger. This settlement has been recorded as a reduction of Goodwill and an increase in Other Receivables as of December 31, 2002.

In the fourth quarter of 2002, in accordance with SFAS No. 109, *"Accounting for Income Taxes"*, the Company reduced Goodwill and Other Noncurrent Liabilities by approximately $1.2 million as the Company determined that certain income tax exposures that had been identified as part of the 1996 purchase price allocation were no longer considered to be an exposure to the Company.

In June 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS No. 143"), which is effective January 1, 2003. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company does not believe that the adoption of SFAS No. 143 will have a significant impact on its financial position and results of operations.

In August 2001, the FASB issued SFAS No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS No. 144"), which was effective January 1, 2002. SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, as well as eliminating the exception to consolidation for a subsidiary for which control is likely to be temporary. The Company adopted SFAS No. 144 on January 1, 2002 and the adoption did not have a significant impact on its financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002"* ("SFAS No. 145"). This statement rescinds SFAS No. 4, *"Reporting Gains and Losses from Extinguishment of Debt" ("SFAS No. 4"),* and an amendment of that Statement, SFAS No. 64, *"Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements."* This Statement also rescinds SFAS No. 44, *"Accounting for Intangible Assets of Motor Carriers."* This Statement amends SFAS No. 13, *"Accounting for Leases"*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company adopted SFAS No. 145 effective January 1, 2003 and the adoption resulted in a reclassification of expenses from Extraordinary Loss on Early Extinguishment of Debt to Loss on Early Extinguishment of Debt included in (Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates of approximately $11.5 million, $8.7 million and $2.1 million for years ended December 31, 2002, 2001 and 2000, respectively, associated with the rescission of SFAS No. 4.

In July 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS No. 146"), which was effective December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, and concludes that an entity's commitment to an exit plan does not by itself create a present obligation that meets the definition of a liability. This Statement also establishes that fair value is the objective of initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company will adopt SFAS No. 146 effective January 1, 2003.

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation Transition and Disclosure, Amendment of SFAS No. 123"* ("SFAS No. 148"). This Statement provides additional transition guidance for those entities that elect to voluntarily adopt the provisions of SFAS No. 123, *"Accounting for Stock Based Compensation."* Furthermore, SFAS No. 148 mandates new disclosures in both interim and year-end financial statements within the Company's Significant Accounting Policies footnote. The Company has elected not to adopt the recognition provisions of SFAS No. 123, as amended by SFAS No. 148.

NOTE 27 RESTATEMENT AND CHANGE IN ACCOUNTING

During the fourth quarter of 2002, the Company changed its method of determining the cost of inventories from the LIFO method to the FIFO method. Prior to 2002, the majority of the Company's operations used the LIFO method of valuing inventory. The Company has concluded that the FIFO method will result in a better measurement of current inventory costs with revenues because the

Company's operations have realized and expect to continue to realize cost reductions in its manufacturing operations. The Company applied this change by retroactively restating its financial statements as required by Accounting Principles Board Opinion No. 20, "Accounting Changes," which resulted in an increase to the accumulated deficit as of January 1, 2000 of approximately $15.5 million.

	2001 As Previously Reported	LIFO Adjustments	As Restated
	(In thousands of dollars)		
December 31:			
Inventories	180,854	(19,505)	161,349
Total Shareholders' Equity	216,220	(19,505)	196,715
Cost of Sales	966,236	(12,335)	953,901
Income from Operations	94,931	12,335	107,266
Net Loss	(77,892)	12,335	(65,557)

	2000 As Previously Reported	LIFO Adjustments	As Restated
	(In thousands of dollars)		
December 31:			
Total Shareholders' Equity	303,962	(26,924)	277,038
Cost of Sales	923,851	6,935	930,786
Income from Operations	220,489	(6,935)	213,554
Net Income	38,282	(6,935)	31,347

NOTE 28 SUBSEQUENT EVENTS

In February 2003, the Company received $7 million of cash from a third-party in settlement of a tax matter related to the Merger. This settlement has been recorded as a reduction of Goodwill and an increase in Other Receivables as of December 31, 2002.

On May 3, 2002, Riverwood Holding filed a Form S-1 registration statement with the Securities and Exchange Commission ("SEC") for the registration under the Securities Act of 1933 of $350 million of its common stock in a proposed initial public offering. As of December 31, 2002, the Company had deferred approximately $1.9 million of costs associated with this proposed transaction. On March 27, 2003, Riverwood Holding filed with the SEC an application to withdraw the registration statement. As a result, the Company will record an approximate $1.9 million charge in the first quarter of 2003.

On March 25, 2003, Riverwood Holding, Riverwood Acquisition Sub LLC, a Delaware limited liability company and a wholly-owned subsidiary of Riverwood Holding ("Merger Sub") and Graphic Packaging International Corporation, a Colorado corporation ("Graphic") entered into an Agreement and Plan of Merger (the "2003 Merger Agreement"). Pursuant to the 2003 Merger Agreement and other related transaction documents, Graphic will merge with and into Merger Sub (the "2003 Merger"). Prior to consummation of the 2003 Merger, Riverwood Holding will effect a stock split. In connection with the 2003 Merger, the shareholders of Graphic will receive one share of Riverwood

Holding common stock and associated Riverwood Holding shareholder rights for each share of Graphic common stock and associated Graphic shareholder rights they own immediately prior to the 2003 Merger. Upon completion of the transaction, holders of Riverwood Holding common stock will own 57.5% and holders of Graphic common stock will own 42.5% of the common stock of Riverwood Holding. The 2003 Merger Agreement has been approved by the respective Boards of Directors of Riverwood Holding and Graphic. Consummation of the 2003 Merger is subject to customary closing conditions, including approval by Graphic's shareholders and regulatory approvals.

In connection with the execution of the 2003 Merger Agreement, Riverwood Holding and certain major shareholders of Graphic entered into a Voting Agreement dated March 25, 2003 (the "Voting Agreement") pursuant to which such shareholders agreed to vote for the 2003 Merger and against any other transaction involving Graphic. In addition, pursuant to the Voting Agreement and as a condition to the effectiveness of the 2003 Merger, the holder of Graphic's 10% Series B Convertible Preferred Stock (the "Preferred Stock") has agreed to convert all of the outstanding shares of the Preferred Stock into Graphic common stock in exchange for a payment of the present value of future dividends on the Preferred Stock that would have been payable by Graphic from the effective time of the 2003 Merger until the Preferred Stock could have been redeemed by Graphic.

NOTE 29 SUBSEQUENT ADOPTION OF AN ACCOUNTING PRONOUNCEMENT

As discussed in Note 26, the Company adopted SFAS No. 145 effective January 1, 2003 resulting in a reclassification of expenses from Extraordinary Loss on Early Extinguishment of Debt to Loss on Early Extinguishment of Debt included in (Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates of approximately $11.5 million, $8.7 million and $2.1 million for the years ended December 31, 2002, 2001 and 2000, respectively.

RIVERWOOD HOLDING, INC.
SELECTED QUARTERLY FINANCIAL DATA

(UNAUDITED)

Results of operations for the four quarters of 2002 and 2001 are shown below.

(Quarter)	Net Sales	Gross Profit	Income From Operations	(Loss) Income Before Cumulative Effect of a Change in Accounting Principle	Net (Loss) Income
			(In thousands of dollars)		
2002					
First (D)(E)	$ 291,184	$ 57,329	$ 30,869	$ (7,717)	$ (7,717)
Second (A)(D)(E)	334,428	74,611	40,246	(9,685)	(9,685)
Third (D)(E)	326,060	72,278	41,086	4,705	4,705
Fourth (D)	295,642	58,325	28,411	1,435	1,435
Total	$ 1,247,314	$ 262,543	$ 140,612	$ (11,262)	$ (11,262)
2001					
First (D)(E)	$ 277,323	$ 48,900	$ 10,086	$ (29,664)	$ (30,162)
Second (B)(D)(E)	326,827	68,933	36,463	(6,709)	(6,709)
Third (C)(D)(E)	309,593	69,760	38,385	(8,825)	(8,826)
Fourth (D)(E)	287,870	60,119	22,332	(19,860)	(19,860)
Total	$ 1,201,613	$ 247,712	$ 107,266	$ (65,058)	$ (65,557)

(Quarter)	Net Sales	Gross Profit	Income From Operations	(Loss) Income Before Cumulative Effect of a Change in Accounting Principle	Net (Loss) Income

Notes:

(A) During the second quarter of 2002, the Company recorded a charge to earnings of approximately $3.0 million related to the write-off deferred debt issuance costs and a charge of approximately $8.6 million related to the call premium paid (see Note 20 in Notes to Consolidated Financial Statements).

(B) During the second quarter of 2001, the Company recorded a charge to earnings of approximately $2.8 million related to the write-off deferred debt issuance costs (see Note 20 in Notes to Consolidated Financial Statements).

(C) During the third quarter of 2001, the Company recorded a charge to earnings of approximately $6.0 million related to the write-off deferred debt issuance costs (see Note 20 in Notes to Consolidated Financial Statements).

(D) During the fourth quarter of 2002, the Company changed its method of determining the cost of inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. Prior to 2002, the majority of the Company's operations used the LIFO method of valuing inventory. The Company has concluded that the FIFO method will result in a better measurement of current inventory costs with revenues because the Company's operations have realized and expect to continue to realize cost reductions in its manufacturing operations. The Company applied this change by retroactively restating its financial statements as required by Accounting Principles Board Opinion No. 20, "Accounting Changes," which resulted in an increase to the accumulated deficit as of January 1, 2000 of approximately $15.5 million (see Note 27 in Notes to the Consolidated Financial Statements).

(E) The Company by means of this filing, is restating its Selected Quarterly Financial Data for the first three quarters of 2002, to report its investment in Rengo using the equity method, and the first three quarters of 2002 and the four quarters of 2001 to report its change in its method of determining the cost of inventories from LIFO to FIFO. Effective January 1, 2003, Riverwood adopted SFAS No. 145, "*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2003."* Certain amounts have been

reclassified to give effect to this statement (see Note 26 in Notes to the Consolidated Financial Statements).

	Net Sales	Gross Profit	Income from Operations	(Loss) Income Before Cumulative Effect of a Change in Accounting Principle	Net (Loss) Income
First quarter 2002 as reported	$ 300,112	$ 59,523	$ 31,181	$ (7,715)	$ (7,715)
First quarter 2002 Rengo adjustment	(8,928)	(2,194)	(312)	(2)	(2)
First quarter 2002 LIFO adjustment					
First quarter 2002 as restated	$ 291,184	$ 57,329	$ 30,869	$ (7,717)	$ (7,717)

	Net Sales	Gross Profit	Income from Operations	(Loss) Income Before Cumulative Effect of a Change in Accounting Principle	Net (Loss) Income
Second quarter 2002 as reported	$ 348,046	$ 78,071	$ 41,151	$ (9,685)	$ (9,685)
Second quarter 2002 Rengo adjustment	(13,618)	(3,460)	(905)		
Second quarter 2002 LIFO adjustment					
Second quarter 2002 as restated	$ 334,428	$ 74,611	$ 40,246	$ (9,685)	$ (9,685)
Third quarter 2002 as reported	$ 339,934	$ 87,394	$ 53,657	$ 16,549	$ 16,549
Third quarter 2002 Rengo adjustment	(13,874)	(3,272)	(727)		
Third quarter 2002 LIFO adjustment		(11,844)	(11,844)	(11,844)	(11,844)
Third quarter 2002 as restated	$ 326,060	$ 72,278	$ 41,086	$ 4,705	$ 4,705
First quarter 2001 as reported	$ 277,323	$ 48,900	$ 10,086	$ (29,664)	$ (30,162)
First quarter 2001 LIFO adjustment					
First quarter 2001 as restated	$ 277,323	$ 48,900	$ 10,086	$ (29,664)	$ (30,162)
Second quarter 2001 as reported	$ 326,827	$ 68,202	$ 35,732	$ (7,440)	$ (7,440)
Second quarter 2001 LIFO adjustment		731	731	731	731
Second quarter 2001 as restated	$ 326,827	$ 68,933	$ 36,463	$ (6,709)	$ (6,709)
Third quarter 2001 as reported	$ 309,593	$ 70,804	$ 39,429	$ (7,781)	$ (7,782)
Third quarter 2001 LIFO adjustment		(1,044)	(1,044)	(1,044)	(1,044)
Third quarter 2001 as restated	$ 309,593	$ 69,760	$ 38,385	$ (8,825)	$ (8,826)
Fourth quarter 2001 as reported	$ 287,870	$ 47,471	$ 9,684	$ (32,508)	$ (32,508)
Fourth quarter 2001 LIFO adjustment		12,648	12,648	12,648	12,648
Fourth quarter 2001 as restated	$ 287,870	$ 60,119	$ 22,332	$ (19,860)	$ (19,860)
Full year 2001 as reported	$ 1,201,613	$ 235,377	$ 94,931	$ (77,393)	$ (77,892)
Full year 2001 LIFO adjustment		12,335	12,335	12,335	12,335
Full year 2001 as restated	$ 1,201,613	$ 247,712	$ 107,266	$ (65,058)	$ (65,557)

Report of Independent Accountants

To the Stockholders and Directors of Riverwood Holding, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Riverwood Holding, Inc. and subsidiaries at December 31, 2002 and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index at Item 21(b) presents fairly, in all material respects, the information set forth therein as of and for the year ended December 31, 2002, when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Notes 26 and 27 to the financial statements, the Company adopted SFAS No. 142, *"Goodwill and Other Intangible Assets"* and changed its method of accounting for the cost of inventories, respectively, in 2002. As discussed in Notes 26 and 29 to the financial statements, the Company adopted SFAS No. 145, *"Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002"* effective January 1, 2003.

We also audited the adjustments in Note 27 that were applied to restate the 2001 and 2000 consolidated financial statements to give retroactive effect to the change in the method of accounting for the cost of inventories from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Atlanta, Georgia
February 7, 2003, except for Note 27 as to which
the date is April 10, 2003 and Note 26 and Note 29 as to which
the date is June 13, 2003

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Directors of Riverwood Holding, Inc.:

We have audited the consolidated balance sheet of Riverwood Holding, Inc. and subsidiaries (the "Company") as of December 31, 2001, and the related consolidated statements of operations and comprehensive (loss) income, shareholders' equity, and cash flows for each of the two years in the period ended December 31, 2001 (none of which are presented herein). Our audits also included the financial statement schedule listed in the Index at Item 21(b) as it relates to information as of December 31, 2001 and 2000 and for the years then ended. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Riverwood Holding, Inc. and subsidiaries at December 31, 2001, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule as it relates to information as of December 31, 2001 and 2000 and for the years then ended, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 21 to the consolidated financial statements, effective January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities.

As discussed in a note to the 2001 consolidated financial statements (such note is not included herein), the 2001 consolidated financial statements have previously been restated.

/s/ Deloitte & Touche LLP

Deloitte & Touche LLP
Atlanta, Georgia
February 15, 2002
(April 10, 2003 as to the effect of the restatement
referred to in the fifth paragraph above)

F-49

RIVERWOOD HOLDING, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands of dollars)

(unaudited)

	March 31, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and Equivalents	$ 10,622	$ 13,757
Receivables, Net of Allowances	137,162	137,284
Inventories	181,896	174,383
Prepaid Expenses	10,619	8,566
Total Current Assets	340,299	333,990
Property, Plant and Equipment, Net of Accumulated Depreciation of $799,931 in 2003 and $777,047 in 2002	1,222,488	1,232,945
Goodwill	268,284	268,284
Patents, Licenses and Trademarks, net of Accumulated Amortization of $24,981 and $24,029 at March 31, 2003 and December 31, 2002 respectively	42,100	42,844
Other Assets	80,520	79,609
Total Assets	$ 1,953,691	$ 1,957,672
LIABILITIES		
Current Liabilities:		
Short-Term Debt	$ 98,560	$ 98,696
Accounts Payable and Other Accrued Liabilities	182,167	180,652
Total Current Liabilities	280,727	279,348
Long-Term Debt, Less Current Portion	1,430,130	1,429,650
Other Noncurrent Liabilities	119,184	116,148

	March 31, 2003	December 31, 2002
Total Liabilities	1,830,041	1,825,146
Contingencies and Commitments (Note 4)		
Class A Redeemable Common Stock $120/share redemption value; 54,930 and 57,930 shares issued and outstanding at March 31, 2003 and December 31, 2002, respectively	6,591	6,951
SHAREHOLDERS' EQUITY		
Common Stock par value $.01 per Share;		
Class A Common Stock, 9,000,000 shares authorized; 7,054,930 and 7,057,930 shares designated at March 31, 2003 and December 31, 2002, respectively; 7,000,000 shares of non-redeemable Common Stock issued and outstanding at March 31, 2003 and December 31, 2002	70	70
Class B Common Stock, 3,000,000 shares authorized; 500,000 shares of non-redeemable Common Stock issued and outstanding at March 31, 2003 and at December 31, 2002	5	5
Capital in Excess of Par Value	748,748	748,748
Accumulated Deficit	(524,873)	(515,107)
Accumulated Derivative Instruments Loss	(6,392)	(6,135)
Minimum Pension Liability Adjustment	(71,304)	(71,304)
Cumulative Currency Translation Adjustment	(29,195)	(30,702)
Total Shareholders' Equity	117,059	125,575
Total Liabilities and Shareholders' Equity	$ 1,953,691	$ 1,957,672

See Notes to Condensed Consolidated Financial Statements.

RIVERWOOD HOLDING, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND COMPREHENSIVE (LOSS)

(In thousands of dollars)

(unaudited)

	Three Months Ended	
	March 31, 2003	March 31, 2002
Net Sales	$ 298,026	$ 291,184
Cost of Sales	239,889	233,855
Selling, General and Administrative	29,870	27,615
Research, Development and Engineering	1,467	1,316
Other Expense (Income), Net	1,877	(2,471)

	Three Months Ended	
Income from Operations	24,923	30,869
Interest Income	103	455
Interest Expense	33,980	39,060
(Loss) before Income Taxes	(8,954)	(7,736)
Income Tax Expense	1,016	95
Equity in Net Earnings of Affiliates	204	114
Net (Loss)	(9,766)	(7,717)
Other Comprehensive Income (Loss)		
Derivative Instruments (Loss) Gain, Net of Tax of $0	(257)	1,150
Foreign Currency Translation Adjustments, Net of Tax of $0	1,507	(1,128)
Comprehensive (Loss)	$ (8,516)	$ (7,695)

See Notes to Condensed Consolidated Financial Statements.

RIVERWOOD HOLDING, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands of dollars)

(unaudited)

	Three Months Ended	
	March 31, 2003	**March 31, 2002**
Cash Flows from Operating Activities:		
Net (Loss)	$ (9,766)	$ (7,717)
Noncash Items Included in Net (Loss):		
Depreciation and Amortization	31,161	32,103
Current and Deferred Income Taxes	157	179
Pension, Postemployment and Postretirement Benefits Expense, Net of Contributions	5,024	1,375
Equity in Net Earnings of Affiliates, Net of Dividends	(204)	498
Amortization of Deferred Debt Issuance Costs	1,563	1,784
Other	95	(2,851)
Changes in Operating Assets & Liabilities:		
Receivables	(107)	(10,347)
Inventories	(8,233)	(4,310)
Prepaid Expenses	(1,948)	(4,450)
Accounts Payable and Other Accrued Liabilities	(1,437)	(6,423)
Other Noncurrent Liabilities	837	(350)
Net Cash Provided by (Used in) Operating Activities	17,142	(509)

	Three Months Ended	
Cash Flows from Investing Activities:		
Purchases of Property, Plant and Equipment	(19,582)	(12,282)
Increase in Other Assets	(1,075)	(925)
Net Cash Used in Investing Activities	(20,657)	(13,207)
Cash Flows from Financing Activities:		
Borrowings under Revolving Credit Facilities	94,950	88,650
Payments on Revolving Credit Facilities	(94,042)	(69,616)
Payments on Debt	(162)	
Repurchases of Redeemable Common Stock	(360)	(120)
Net Cash Provided by Financing Activities	386	18,914
Effect of Exchange Rate Changes on Cash	(6)	(508)
Net (Decrease) Increase in Cash and Equivalents	(3,135)	4,690
Cash and Equivalents at Beginning of Period	13,757	7,369
Cash and Equivalents at End of Period	$ 10,622	$ 12,059

See Notes to Condensed Consolidated Financial Statements.

RIVERWOOD HOLDING, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

NOTE 1 ORGANIZATION AND BASIS OF PRESENTATION

Riverwood Holding, Inc. ("Riverwood Holding") and its wholly-owned subsidiary RIC Holding, Inc. ("RIC Holding") and the corporation formerly named CDRO Acquisition Corporation were incorporated in 1995 to acquire the stock of its predecessor, the corporation formerly named Riverwood International Corporation ("RIC").

On March 27, 1996, Riverwood Holding, through its wholly-owned subsidiaries, acquired all of the outstanding shares of common stock of RIC. On such date, CDRO Acquisition Corporation was merged into RIC ("1996 Merger"). RIC, as the surviving corporation in the 1996 Merger, became a wholly-owned subsidiary of RIC Holding. On March 28, 1996, RIC transferred substantially all of its properties and assets to the corporation formerly named Riverwood International USA, Inc., other than the capital stock of Riverwood International USA, Inc, and RIC was merged into RIC Holding. Thereupon, Riverwood International USA, Inc. was renamed "Riverwood International Corporation." Upon consummation of the subsequent merger, RIC Holding, as the surviving corporation in the subsequent merger, became the parent company of Riverwood International Corporation ("Riverwood International").

Riverwood Holding and RIC Holding, a wholly-owned subsidiary, conducted no significant business and have no independent assets or operations other than in connection with the 1996 Merger and related transactions through March 27, 1996. Riverwood Holding and RIC Holding fully and unconditionally guarantee substantially all of the debt of Riverwood International.

In connection with the 1996 Merger, the purchase method of accounting was used to establish and record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair market values of the assets acquired and liabilities assumed was recorded as goodwill.

References to the "Company" are to Riverwood Holding and its subsidiaries.

The accompanying Condensed Consolidated Financial Statements of the Company included herein have been prepared by the Company without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented have been made. The Condensed Consolidated Balance Sheet as of December 31, 2002 was derived from audited financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

For a summary of the Company's significant accounting policies, please refer to the Company's report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2002.

The preparation of the Condensed Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and

the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

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

As permitted by SFAS No. 123 "*Accounting for Stock-Based Compensation*", the Company continues to apply intrinsic value accounting for its stock option plans under Accounting Principles Board Opinion No. 25 ("APB 25"), "*Accounting for Stock Issued to Employees*". Compensation cost for stock options, if any, is measured as the excess of the market price of the Company's common stock at the date of grant over the exercise price to be paid by the grantee to acquire the stock. The Company has adopted disclosure-only provisions of SFAS No. 123 and SFAS No. 148, "*Accounting for Stock-Based Compensation Transition and Disclosure an Amendment of FASB Statement No. 123*". The Company's pro forma net earnings based upon the fair value at the grant dates for awards under the Company's plans are disclosed below.

If the Company had elected to recognize compensation expense based upon the fair value at the grant dates for awards under these plans, the Company's Net (Loss) would have been as follows:

	Three Months Ended	
	March 31, 2003	**March 31, 2002**
	(In thousand of dollars)	
Net (Loss), as reported	$ (9,766)	$ (7,717)
Deduct: Total additional stock-based employee compensation cost, net of tax, that would have been included in Net (Loss) under fair value method	(123)	(56)
Pro forma Net (Loss)	$ (9,889)	$ (7,773)

The Company recognized compensation expense on stock options for which the exercise price was less than the fair value at the date of grant in the amount of $0.3 million and $0.1 million for the three months ended March 31, 2003 and 2002, respectively.

The Company has reclassified the presentation of certain prior period information to conform to the current presentation format.

The Company has previously restated its results of operations for the first three quarters of 2002 to report its investment in Rengo Riverwood Packaging Ltd. ("Rengo") using the equity method.

NOTE 3 INVENTORIES

The major classes of inventories were as follows:

	March 31, 2003	December 31, 2002
	(In thousands of dollars)	
Finished goods	$ 88,093	$ 78,518
Work-in-process	16,241	15,175
Raw materials	40,292	42,841
Supplies	37,270	37,849
Total	$ 181,896	$ 174,383

Raw materials and consumables used in the production process such as wood chips and chemicals are valued at purchase cost on a FIFO basis upon receipt. Work in progress and finished goods inventories are valued at the cost of raw material consumed plus direct manufacturing costs (such as labor, utilities and supplies) as incurred and a proportion of manufacturing overhead.

In the fourth quarter of 2002, the Company changed its method of valuing inventory from the last-in, first-out ("LIFO") method to the first-in, first-out ("FIFO") method as over time the FIFO method more closely matches revenues with costs. The FIFO method more accurately reflects the cost related to the actual physical flow of raw materials and finished goods inventory. Accordingly, the Company believes the FIFO method of valuing inventory will result in a better measurement of operating results. All previously reported results were restated to reflect the retroactive application of the accounting change as required by generally accepted accounting principles in the United States.

NOTE 4 CONTINGENCIES AND COMMITMENTS

The Company is committed to compliance with all applicable foreign, federal, state and local environmental laws and regulations. Environmental law is, however, dynamic rather than static. As a result, costs that are unforeseeable at this time, may be incurred when new laws are enacted, and when environmental agencies adopt or revise rules and regulations. In general, the environmental laws that the Company is subject to regulate discharges and emissions of constituents to the air, soil and water, prescribe procedures for the use, reuse, reclamation, recycling and disposal of designated waste materials and impose liability and requirements relating to the cleanup of contamination. In certain instances, state environmental laws may be stricter than their federal counterparts.

The federal Clean Air Act imposes stringent limits on air emissions, establishes a federal permit program (Title V) and provides for civil and criminal enforcement sanctions. In response to these requirements, in the early 1990's the Company switched from solvent-based to water-based inks and varnishes at its converting operations in order to reduce and meet requirements with respect to emissions of volatile organic compounds. Where necessary, the Company's plants have received or submitted an application to the appropriate permitting authority for a Title V permit.

The federal Clean Water Act establishes a system of minimum national effluent standards for each industry, water quality standards for the nation's waterways and a permit program that provides discharge limitations. It also regulates releases and spills of oil and hazardous materials and wastewater and stormwater discharges. The Company's mill in West Monroe, Louisiana is the only one of the

Company's facilities that is a direct discharger to a water body and a permit currently covers its discharges to the Ouachita River. The Company's other operations discharge to publicly owned treatment works and are subject to pretreatment requirements and limitations.

The federal Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") establishes liability for waste generators, current and former site owners and operators and others in connection with releases of hazardous materials. In certain instances, the

Company has been identified as a Potentially Responsible Party ("PRP") under CERCLA and similar state laws.

In 1998, the U.S. Environmental Protection Agency adopted regulations (generally referred to as the "cluster rules") that mandated more stringent controls on air and water discharges from United States pulp and paper mills. Over the next three years, the Company anticipates that it will spend approximately $22 million at its two U.S. mills to comply with these regulations.

The Company is involved in environmental investigation and remediation projects for certain properties currently or formerly owned or operated by the Company, and at certain waste disposal sites. Some of these projects are being addressed under federal and state statutes, such as the CERCLA and analogous state laws. The Company's costs in certain instances cannot be reliably estimated until the remediation process is substantially underway or liability has been addressed. The Company accrues reserves for these contingencies when the liability is probable and the costs are reasonably estimable. The Company believes that based on current information and regulatory requirements, its accruals for environmental matters are adequate. However, there can be no assurance that the Company will not incur significant costs in excess of accrued amounts in connection with remediation activities and other environmental matters.

In late 1995, the Louisiana Department of Environmental Quality (the "DEQ") notified the Predecessor of potential liability for the remediation of hazardous substances at a former wood treatment site in Shreveport, Louisiana (known as the Line Avenue Site) that the Predecessor or its predecessors previously operated. In August 2001, the Company entered into an agreement with the DEQ and the landowners to remediate the site. The agreement required the removal of soils containing wood-treating constituents in excess of regulatory standards, consolidation of these soils in a sub-portion of the site, capping of the sub-portion, land use restrictions, future operations and maintenance ("O&M") to ensure the integrity of the cap, long-term monitoring of the groundwater, and a recorded prohibition on the use of on-site groundwater. The Company contracted with a qualified contractor to remediate the site at a cost of approximately $1.3 million. In addition, each of the O&M and groundwater monitoring costs for the initial five years are expected to be approximately $0.1 million (no such costs are estimated beyond the initial five-year period). As of March 31, 2003, all of the required soil excavation and consolidation has been completed. The Company expects to complete construction of the cap by July 2003. As of March 31, 2003, the Company has paid its contractor approximately $1.0 million to remediate the site. The Company has been reimbursed approximately half of these costs from a PRP that has entered into a settlement agreement with the Company. The Company owes its contractor approximately $0.3 million in connection with activities at the site.

On July 6, 2000, the Company and the DEQ entered into a Settlement Agreement for remediation of a site in Caddo Parish, Louisiana (known as the Shoreline Refinery Site). The principal

contamination at this site was an approximately 5 acre impoundment of oil-based sludge that appeared to originate from an oil refinery that was operated by prior operators. The remedial action contemplated by the Settlement Agreement required the neutralization, stabilization and consolidation of sludges and soils at the site, capping of the consolidated materials, the establishment of a vegetative cover, and five years of post-closure care of the capped area. The Company contracted to complete the remedial action in accordance with the terms of the Settlement Agreement. In a November 26, 2002 letter to the Company, the DEQ stated that all required construction activities were accomplished and that the five-year post-closure care and reporting period would commence. The Company conveyed the property to its contractor on October 22, 2000.

The Company is a party to a number of lawsuits arising out of the ordinary conduct of its business. While there can be no assurance as to their ultimate outcome, the Company does not believe that these lawsuits will have a material impact on the results of operations, cash flows or financial condition of the Company.

The Company has been a plaintiff in actions filed in the U.S. District Court for the Northern District of Georgia against The MeadWestvaco Corporation ("MeadWestvaco"), successor by merger to The Mead Corporation, and R.A. Jones Co. Inc. ("R.A. Jones") claiming infringement of the Company's patents for its packaging machines and seeking damages sufficient to compensate for such infringement. The patents in suit were found infringed but invalid by a jury in a trial against R.A. Jones in August 2001. This finding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 was appealed to the Court of Appeals for the Federal Circuit (the "CAFC"). The suit against MeadWestvaco was dismissed by mutual agreement, subject to being refiled, pending the outcome of the appeal of the decision in the case against R.A. Jones. The CAFC vacated the holding of invalidity as to U.S. Patent Nos. 5,666,789 and 5,692,361 and remanded to the District Court for determination of proper inventive entity. The finding of infringement was affirmed by the CAFC. Further proceedings consistent with the decision of the CAFC will follow in the District Court.

NOTE 5 BUSINESS SEGMENT INFORMATION

The Company reports its results in two business segments: Coated Board and Containerboard. These segments are evaluated by the chief operating decision maker based primarily on income from operations. The Company's reportable segments are strategic business units that offer different products. The Coated Board business segment includes the production and sale of coated board for its beverage multiple packaging and consumer products packaging businesses from its West Monroe, Louisiana and Macon, Georgia mills and from its mill in Sweden; carton converting facilities in the United States, Europe and Brazil; and the design, manufacture and installation of packaging machinery related to the assembly of beverage cartons. The Containerboard business segment includes the production and sale of linerboard, corrugating medium and kraft paper from paperboard mills in the United States.

Business segment information is as follows:

	Three Months Ended	
	March 31, 2003	March 31, 2002
	(In thousands of dollars)	
NET SALES:		
Coated Board	$ 275,912	$ 272,026
Containerboard	22,114	19,158
	$ 298,026	$ 291,184
INCOME FROM OPERATIONS:		
Coated Board	$ 38,880	$ 44,138
Containerboard	(6,677)	(8,276)
Corporate And Eliminations	(7,280)	(4,993)
	$ 24,923	$ 30,869

NOTE 6 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to fluctuations in interest rates on its variable rate debt and fluctuations in foreign currency transaction cash flows. The Company actively monitors these fluctuations and uses derivative instruments from time to time to manage its exposure. In accordance with its risk management strategy, the Company uses derivative instruments only for the purpose of managing risk associated with fluctuations in the cash flow of the underlying exposures identified by management. The Company does not trade or use derivative instruments with the objective of earning financial gains on interest or currency rates, nor does it use leveraged instruments or instruments where there are no underlying exposures identified. The Company's use of derivative instruments may result in short-term gains or losses and may increase volatility in its earnings.

The following is a summary of the Company's derivative instruments as of March 31, 2003 and the accounting policies it employs:

HEDGES OF ANTICIPATED CASH FLOWS

The following is a reconciliation of current period changes in the fair value of the interest rate swap agreements and foreign currency forward and option contracts which have been recorded as Accumulated Derivative Instruments Loss in the accompanying Condensed Consolidated Balance Sheets at March 31, 2003 and December 31, 2002 and as Derivative Instruments (Loss) Gain in the

accompanying Condensed Consolidated Statement of Operations and Comprehensive (Loss) for the three months ended March 31, 2003.

		(In thousands of dollars)
Balance at December 31, 2001	$	(4,570)
Reclassification to earnings		6,014
Current period decrease in fair value		(7,579)
Balance at December 31, 2002		(6,135)
Reclassification to earnings		994
Current period decrease in fair value		(1,251)
Balance at March 31, 2003	$	(6,392)

At March 31, 2003, there was no material ineffective portion related to the changes in fair value of the interest rate swap agreements or foreign currency forward and option contracts and there were no amounts excluded from the measure of effectiveness.

The balance of $6.4 million recorded in Accumulated Derivative Instruments Loss at March 31, 2003 is expected to be reclassified into future earnings, contemporaneously with and offsetting changes in the related hedged exposure. The estimated amount to be reclassified into future earnings as interest expense over the next twelve months through March 31, 2004 is approximately $4.4 million. The actual amount that will be reclassified to future earnings over the next twelve months may vary from this amount as a result of changes in market conditions. No amounts were reclassified to earnings during 2003 in connection with forecasted transactions that were no longer considered probable of occurring.

The Company uses interest rate swap agreements to fix a portion of its variable rate Term Loan Facility to a fixed rate in order to reduce the impact of interest rate changes on future income. The differential to be paid or received under these agreements is recognized as an adjustment to interest expense related to the debt. At March 31, 2003, the Company had interest rate swap agreements with a notional amount of $410 million, which expire on various dates through the year 2003 and 2004 under which the Company will pay fixed rates of 2.21% to 3.52% and receive three-month LIBOR.

DERIVATIVES NOT DESIGNATED AS HEDGES

The Company has foreign currency forward contracts used to hedge the exposure associated with foreign currency denominated receivables. These contracts are presently being marked-to-market through the income statement and will continue to be marked-to-market through the income statement.

The Company enters into fixed price natural gas contracts designed to effectively hedge prices for a substantial portion of its natural gas requirements at its two U.S. mills. The purpose of the fixed price natural gas contracts is to eliminate or reduce price risk with a focus on making cash flows more predictable. As of March 31, 2003, the Company had entered into contracts to hedge substantially all of its natural gas requirements for its two U.S. mills through October 31, 2003. The contract price and fair value of these natural gas contracts was approximately $10.8 million and $14.9 million, respectively. These contracts are not accounted for as derivative instruments under SFAS No. 133, as they qualify for the normal purchase exemption.

NOTE 7 NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the FASB issued SFAS No. 143, *"Accounting for Asset Retirement Obligations"* ("SFAS No. 143"), which is effective January 1, 2003. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The Company adopted SFAS No. 143 effective January 1, 2003 and the adoption did not have a significant impact on its financial position and results of operations.

In April 2002, the FASB issued SFAS No. 145, "*Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002"* ("SFAS No. 145"). This statement rescinds SFAS No. 4, *"Reporting Gains and Losses from*

Extinguishment of Debt" ("SFAS No. 4") and an amendment of the Statement, SFAS No. 64, *"Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements."* This Statement also rescinds SFAS No. 44, *"Accounting for Intangible Assets of Motor Carriers."* This statement amends SFAS No. 13, *"Accounting for Leases"*, to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. The Company adopted SFAS No. 145 effective January 1, 2003 which resulted in a reclassification of expenses from Extraordinary Loss on Early Extinguishment of Debt to Loss on Early Extinguishment of Debt included in (Loss) Income before Income Taxes and Equity in Net Earnings of Affiliates of approximately $11.5 million, $8.7 million and $2.1 million for the years ended December 31, 2002, 2001 and 2000, respectively, associated with the rescission of SFAS No. 4.

In July 2002, the FASB issued SFAS No. 146, *"Accounting for Costs Associated with Exit or Disposal Activities"* ("SFAS No. 146"), which was effective December 31, 2002. SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, *"Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)."* This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, and concludes that an entity's commitment to an exit plan does not by itself create a present obligation that meets the definition of a liability. This Statement also establishes that fair value is the objective of initial measurement of the liability. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company adopted SFAS No. 146 effective January 1, 2003 and the adoption did not have a significant impact on its financial position and results of operations.

In December 2002, the FASB issued SFAS No. 148, *"Accounting for Stock-Based Compensation Transition and Disclosure, Amendment of SFAS No. 123"* ("SFAS No. 148"). This Statement provides additional transition guidance for those entities that elect to voluntarily adopt the provisions of SFAS No. 123, *"Accounting for Stock-Based Compensation."* Furthermore, SFAS No. 148 mandates new disclosures in both interim and year-end financial statements within the Company's Significant Accounting Policies footnote. The Company has elected not to adopt the recognition provisions of SFAS No. 123, as amended by SFAS No. 148 (See Note 2).

NOTE 8 DEFINITIVE MERGER AGREEMENT

On March 25, 2003, Riverwood Holding, Riverwood Acquisition Sub LLC, a Delaware limited liability company and a wholly-owned subsidiary of Riverwood Holding ("Merger Sub") and Graphic Packaging International Corporation, a Colorado corporation ("Graphic") entered into an Agreement

and Plan of Merger (the "Merger Agreement"). Pursuant to the Merger Agreement and other related transaction documents, Graphic will merge with and into Merger Sub (the "Graphic Merger"). Prior to consummation of the Graphic Merger, Riverwood Holding will effect a stock split. In connection with the Graphic Merger, the shareholders of Graphic will receive one share of Riverwood Holding common stock and associated Riverwood Holding shareholder rights for each share of Graphic common stock and associated Graphic shareholder rights they own immediately prior to the Graphic Merger. Upon completion of the transaction, holders of Riverwood Holding common stock will own 57.5% and holders of Graphic common stock will own 42.5% of the common stock of Riverwood Holding. The Merger Agreement has been approved by the respective Boards of Directors of Riverwood Holding and Graphic. Consummation of the Graphic Merger is subject to customary closing conditions, including approval by Graphic's shareholders and regulatory approvals.

In connection with the execution of the Merger Agreement, Riverwood Holding and certain major shareholders of Graphic entered into a Voting Agreement dated March 25, 2003 (the "Voting Agreement") pursuant to which such shareholders agreed to vote for the Graphic Merger and against any other transaction involving Graphic. In addition, pursuant to the Voting Agreement and as a condition to the effectiveness of the Graphic Merger, The Grover C. Coors Trust (the "Trust"), the holder of Graphic's 10% Series B Convertible Preferred Stock (the "Preferred Stock") has agreed to convert all of the outstanding shares of the Preferred Stock into Graphic common stock. In consideration for the Trust's conversion of the Preferred Stock, Riverwood Holding has agreed to pay the Trust, in cash, a conversion payment, in an amount equal to the estimated present value, calculated using a discount rate of 8.5%, of dividends payable to the Trust on the Preferred Stock from the effective time of the Graphic Merger through August 15, 2005, the first date on which Graphic could have redeemed the Preferred Stock. While the exact amount that will be paid to the Trust by Riverwood Holding depends upon the date of completion of the Graphic Merger, assuming that the effective time of the Graphic Merger will occur on July 1, 2003, Riverwood Holding currently anticipates that the payment in consideration for the conversion of the Preferred Stock will be approximately $19.7 million.

On May 3, 2002, Riverwood Holding filed a Form S-1 registration statement with the Securities and Exchange Commission ("SEC") for the registration under the Securities Act of 1933 of $350 million of its common stock in a proposed initial public offering. On March 27, 2003,

Riverwood Holding filed with the SEC an application to withdraw the registration statement. As a result, the Company recorded an approximate $1.9 million charge in the first quarter of 2003 to write off costs it had deferred associated with the proposed transaction.

NOTE 9 SUBSEQUENT EVENT

On May 2, 2003, Riverwood Holding filed a Form S-4 registration statement with the SEC for the registration under the Securities Act of 1933 of the shares of Riverwood Holding common stock being issued to Graphic shareholders in the Graphic Merger.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Graphic Packaging International Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Graphic Packaging International Corporation (the "Company") at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index at Item 21(b) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and the financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2002 the Company changed its method of accounting for goodwill and other intangible assets. As discussed in Notes 2 and 18 to the financial statements, the Company adopted Financial Accounting Standards Board's Statement No. 145*, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002"* effective January 1, 2003.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Denver, Colorado
February 11, 2003, except for Notes 17 and 18 as to which the date is June 13, 2003

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)

	Year Ended December 31,		
	2002	**2001**	**2000**

	Year Ended December 31,		
Sales to unrelated parties	**$ 946,833**	$ 989,716	$ 990,390
Sales to Coors Brewing Company	**111,010**	122,819	112,200
Total net sales	**1,057,843**	1,112,535	1,102,590
Cost of goods sold	**930,581**	960,258	963,979
Gross profit	**127,262**	152,277	138,611
Selling, general and administrative expense	**64,620**	62,874	61,134
Goodwill amortization		20,649	20,634
Asset impairment and restructuring charges		8,900	5,620
Operating income	**62,642**	59,854	51,223
Gain from sale of businesses and other assets		3,650	19,172
Interest expense	**(44,640)**	(52,811)	(82,071)
Loss on early extinguishment of debt	**(15,766)**		
Income (loss) before income taxes and cumulative effect of change in accounting principle	**2,236**	10,693	(11,676)
Income tax (expense) benefit	**(886)**	(4,257)	4,678
Income (loss) before cumulative effect of change in accounting principle	**1,350**	6,436	(6,998)
Cumulative effect of change in goodwill accounting, net of tax of $0	**(180,000)**		
Net income (loss)	**(178,650)**	6,436	(6,998)
Preferred stock dividends declared	**(10,000)**	(10,000)	(3,806)
Net loss attributable to common shareholders	**$ (188,650)**	$ (3,564)	$ (10,804)
Net loss attributable to common shareholders per basic share of common stock:			
Before cumulative effect of change in accounting principle	**$ (0.27)**	$ (0.11)	$ (0.37)
Cumulative effect of change in accounting principle	**(5.50)**		
Net loss attributable to common shareholders per basic share	**$ (5.77)**	$ (0.11)	$ (0.37)
Weighted average shares outstanding basic	**32,715**	31,620	29,337
Net loss attributable to common shareholders per diluted share of common stock:			
Before cumulative effect of change in accounting principle	**$ (0.27)**	$ (0.11)	$ (0.37)
Cumulative effect of change in accounting principle	**(5.50)**		
Net loss attributable to common shareholders per diluted share	**$ (5.77)**	$ (0.11)	$ (0.37)
Weighted average shares outstanding diluted	**32,715**	31,620	29,337

See Notes to Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(in thousands)

	Year Ended December 31,		
	2002	**2001**	**2000**
Net income (loss)	**$ (178,650)**	$ 6,436	$ (6,998)
Other comprehensive income (loss):			
Foreign currency translation adjustments	**279**	(905)	(355)
Interest rate swap agreements:			
Cumulative effect of change in accounting principle, net of tax of $2,012		(3,217)	
Recognition of hedge results to interest expense during the period, net of tax of $2,595 and $1,861	**4,177**	2,973	
Change in fair value of cash flow hedges during the period, net of tax of $275 and $2,753	**498**	(4,397)	
Change in minimum pension liability, net of tax of $7,572, $9,103 and $178	**(12,805)**	(13,832)	(267)
Other comprehensive loss	**(7,851)**	(19,378)	(622)
Comprehensive loss	**$ (186,501)**	$ (12,942)	$ (7,620)

See Notes to Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

CONSOLIDATED BALANCE SHEET

(in thousands)

	At December 31,	
	2002	**2001**
ASSETS		
Current assets		
Cash and cash equivalents	**$ 28,626**	$ 6,766
Accounts receivable, less allowance for doubtful accounts of $2,395 in 2002 and $1,769 in 2001	**61,886**	57,679
Accounts receivable from Coors Brewing Company	**1,660**	1,795
Inventories	**87,243**	92,408
Deferred income taxes	**8,999**	17,378
Other assets	**12,687**	15,778

	At December 31,	
Total current assets	**201,101**	191,804
Properties, net	**410,592**	443,712
Goodwill, net	**379,696**	559,696
Other assets	**29,477**	34,123
Total assets	**$ 1,020,866**	$ 1,229,335
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt	**$ 3,432**	$ 37,373
Accounts payable	**82,106**	59,002
Interest payable	**11,117**	2,665
Accrued compensation	**20,013**	20,431
Other accrued expenses and liabilities	**38,321**	49,930
Total current liabilities	**154,989**	169,401
Long-term debt	**474,899**	488,386
Pension liability	**42,310**	24,860
Other long-term liabilities	**37,774**	44,684
Total liabilities	**709,972**	727,331
Minority interest	**3,856**	4,356
Commitments and contingencies (Note 15)		
Shareholders' equity		
Preferred stock, 20,000,000 shares authorized:		
Series A, $0.01 par value, no shares issued or outstanding		
Series B, $0.01 par value, 1,000,000 shares issued and outstanding at stated value and liquidation preference of $100 per share	**100,000**	100,000
Common stock, $0.01 par value 100,000,000 shares authorized; 33,477,300 and 32,188,941 issued and outstanding at December 31, 2002 and 2001	**335**	322
Paid-in capital	**416,048**	417,749
Unearned compensation	**(2,421)**	
Retained deficit	**(179,212)**	(562)
Accumulated other comprehensive loss	**(27,712)**	(19,861)
Total shareholders' equity	**307,038**	497,648
Total liabilities and shareholders' equity	**$ 1,020,866**	$ 1,229,335

See Notes to Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net income (loss)	**$ (178,650)**	$ 6,436	$ (6,998)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Loss on early extinguishment of debt	**15,766**		
Cumulative effect of change in goodwill accounting	**180,000**		
Asset impairment charges		5,000	
Gain from sale of businesses and other assets		(3,650)	(19,172)
Depreciation	**61,165**	58,757	62,460
Amortization of goodwill		20,649	20,634
Amortization of debt issuance costs	**3,109**	7,795	8,865
Deferred income tax expense	**4,990**	8,417	10,012
Compensation expense settled in stock	**4,298**	5,152	4,122
Change in current assets and current liabilities:			
Accounts receivable	**(4,072)**	15,713	(3,271)
Inventories	**5,165**	12,820	23,137
Other assets	**3,091**	(1,122)	(3,592)
Accounts payable	**23,104**	20,100	(4,935)
Accrued expenses and other liabilities	**3,970**	(4,595)	(27,954)
Other	**159**	227	(429)
Net cash provided by operating activities	**122,095**	151,699	62,879
Cash flows from investing activities:			
Capital expenditures	**(27,706)**	(31,884)	(30,931)
Proceeds from sale of assets		8,950	43,580
Collection of note receivable			200,000
Net cash provided by (used in) investing activities	**(27,706)**	(22,934)	212,649
Cash flows from financing activities:			
Proceeds from borrowings	**759,677**	206,750	52,015
Repayment of debt	**(807,105)**	(320,965)	(431,996)
Debt issuance costs	**(16,390)**		(6,312)
Proceeds from issuance of preferred stock, net of stock issuance costs			98,558
Preferred stock dividends paid	**(10,000)**	(12,083)	(1,306)
Common stock issuance and other	**1,289**	287	1,656
Net cash used in financing activities	**(72,529)**	(126,011)	(287,385)
Cash and cash equivalents:			
Net increase (decrease) in cash and cash equivalents	**21,860**	2,754	(11,857)
Balance at beginning of year	**6,766**	4,012	15,869
Balance at end of year	**$ 28,626**	$ 6,766	$ 4,012

See Notes to Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

(in thousands)

	Common Shares	Preferred Stock	Common Stock	Paid-in Capital	Unearned Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1999	28,577	$	$ 286	$ 422,885	$	$	$ 139	$ 423,310
Issuance of common stock	1,967		19	4,690				4,709
Issuance of 1,000,000 shares of preferred stock, net of issuance costs		100,000		(1,442)				98,558
Net loss						(6,998)		(6,998)
Preferred stock dividends declared				(3,806)				(3,806)
Change in minimum pension liability, net of tax							(267)	(267)
Cumulative translation adjustment							(355)	(355)
Balance at December 31, 2000	30,544	100,000	305	422,327		(6,998)	(483)	515,151
Issuance of common stock	1,645		17	5,422				5,439
Net income						6,436		6,436
Preferred stock dividends declared				(10,000)				(10,000)
Change in minimum pension liability, net of tax							(13,832)	(13,832)
Cumulative effect of a change in accounting principle, net of tax							(3,217)	(3,217)
Recognition of hedge results to interest expense during the period, net of tax							2,973	2,973
Change in fair value of cash flow hedges during the period, net of tax							(4,397)	(4,397)
Cumulative translation adjustment							(905)	(905)
Balance at December 31, 2001	32,189	100,000	322	417,749		(562)	(19,861)	497,648
Issuance of common stock	883		9	5,831				5,840
	405		4	2,468	(2,472)			

	Common Shares	Preferred Stock	Common Stock	Paid-in Capital	Unearned Compensation	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Issuance of restricted stock								
Restricted stock amortized to expense					51			51
Net loss						(178,650)		(178,650)
Preferred stock dividends declared				(10,000)				(10,000)
Change in minimum pension liability, net of tax							(12,805)	(12,805)
Recognition of hedge results to interest expense during the period, net of tax							4,177	4,177
Change in fair value of cash flow hedges during the period, net of tax							498	498
Cumulative translation adjustment							279	279
Balance at December 31, 2002	**33,477**	**$ 100,000**	**$ 335**	**$ 416,048**	**$ (2,421)**	**$ (179,212)**	**$ (27,712)**	**$ 307,038**

See Notes to Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Nature of Operations: Graphic Packaging International Corporation (the Company or GPIC) is a manufacturer of packaging products used by consumer product companies as primary packaging for their end-use products. The Company's strategy is to maximize its competitive position and growth opportunities in its core business, folding cartons.

Use of Estimates: The consolidated financial statements have been prepared in conformity with generally accepted accounting principles, using management's best estimates and judgments where appropriate. These estimates and judgments affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements. The estimates and judgments will also affect the reported amounts for certain revenues and expenses during the reporting period. Management has made significant estimates with respect to the following:

Collectibility of accounts receivable The Company estimates losses from uncollectible accounts based on the aging of the accounts receivable and an evaluation of the likelihood of success in collecting the receivable.

Self-insurance reserves The Company is self-insured for certain losses relating to workers' compensation claims and employee medical and dental benefits. The Company has purchased stop-loss coverage in order to limit its exposure to significant claims. Self-insured losses are accrued based upon the Company's estimates of the aggregate uninsured claims incurred using certain actuarial assumptions followed in the insurance industry and the Company's historical experience.

Retirement-related benefits The Company estimates its retiree liabilities based upon actuarial reports prepared by the Company's actuary, which include estimates and assumptions related to interest rates, future compensation and other factors. See further discussion of retirement related estimates and assumptions in Note 10.

Goodwill valuation The Company estimates the value of its goodwill using the discounted cash flow method of valuation on an annual basis.

Recovery of long-lived assets The Company periodically reviews long-lived assets for impairment whenever events or changes in business circumstances, such as the closure of a plant, indicate the carrying amount of the asset may not be fully recoverable by undiscounted cash flows. Measurement of the impairment loss, if any, is based on the fair value of the asset, which is generally determined by the discounting of future estimated cash flows. The Company evaluates the recovery of its long-lived assets periodically by analyzing its operating results and considering significant events or changes in the business environment that may have triggered impairment.

Deferred tax asset valuation allowance The Company estimates the realizability of deferred tax assets by estimating the projected reversal of offsetting deferred tax liability amounts and future taxable income.

Legal accruals The Company estimates the amount of potential exposure it may have with respect to litigation, claims and assessments, based upon analyses prepared by in-house and outside counsel, and records legal reserves when management believes it is probable that a loss has occurred and the amount of loss is reasonably estimatable.

Environmental expenditures and remediation liabilities Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations, and which do not contribute to current or future

revenue generation, are expensed. Liabilities are recorded when environmental assessments indicate that remedial efforts are probable and the costs can be reasonably estimated.

Stock-based employee compensation plans The Company has various stock-based employee compensation plans, which are described more fully in Note 9. The plans are accounted for under the recognition and measurement principles of APB No. 25, and related interpretations. Supplemental disclosures regarding stock-based compensation include estimates regarding volatility of the Company's stock, interest rates and expected life.

Actual results could differ from these estimates and judgments, making it reasonably possible that a change in these estimates could occur in the near term.

Reclassifications: Certain prior period amounts have been reclassified to conform to the current year presentation.

Consolidation: The consolidated financial statements include the accounts of the Company and its wholly owned and majority owned subsidiaries. All material intercompany transactions have been eliminated. See discussion of the minority interest shown on the consolidated balance sheet in Note 14.

Revenue Recognition: The Company's revenues are generated by the sale of packaging products. Revenue for all of the Company's products is recognized when goods are shipped and risks of ownership have passed to the customer. Risks of ownership pass at the time of shipment from the Company's warehouse or at the time of delivery to the customer, dependent on shipping terms with the customer. Shipping and handling costs invoiced to customers are included in revenue and associated costs are recognized as cost of goods sold. Customer returns, rebates and allowances are provided for at the time of sale based on estimates.

Concentration of Credit Risk: The Company's largest 20 customers make up approximately 81% of its gross sales. A significant portion of the Company's sales are to Altria Group, Inc., Coors Brewing Company and General Mills, Inc. For the year ended December 31, 2002, Altria Group accounted for approximately 20% of the Company's gross sales, Coors Brewing accounted for approximately 10% of gross sales and General Mills accounted for approximately 11% of gross sales. For the year ended December 31, 2001, Altria Group accounted for approximately 19% of the Company's gross sales, Coors Brewing accounted for approximately 11% of gross sales and General Mills accounted for approximately 11% of gross sales. The Company controls credit risk related to accounts receivable through credit approvals, credit limits and monitoring procedures. Credit risk with respect to accounts receivable is concentrated primarily in the food and beverage industries. Altria Group represents 15% and 15% of accounts receivable at December 31, 2002 and 2001.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out (FIFO) method. Manufacturing costs are capitalized into inventory as incurred and include such items as recycled paper fiber, purchased paperboard, paper, aluminum foil, ink, plastic films and resins, freight on purchased raw materials, labor, energy, depreciation and other manufacturing overhead costs.

The classification of inventories, in thousands, was as follows:

	At December 31,	
	2002	**2001**
Finished goods	**$ 50,771**	$ 55,057
In process	**11,298**	15,258
Raw materials	**25,174**	22,093
Total inventories	**$ 87,243**	$ 92,408

Properties: Land, buildings, equipment and purchased software are stated at cost. The costs of developing an enterprise resource planning software system are capitalized and amortized when placed in service over the expected useful life of the software. Real estate properties are non-operating properties held for sale. For financial reporting purposes, depreciation is recorded principally on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	30 years
Machinery and equipment	3 to 15 years
Building and leasehold improvements	The shorter of the useful life or lease term
Internal-use software	8 years

The cost of properties and related accumulated depreciation, in thousands, was as follows:

	At December 31,	
	2002	**2001**
Land and improvements	**$ 17,381**	$ 16,687
Buildings and improvements	**118,309**	119,439
Machinery and equipment	**522,559**	508,814
Internal-use software	**35,769**	1,781
Real estate properties	**4,485**	5,359
Construction in progress	**9,304**	42,101
	707,807	694,181
Less accumulated depreciation	**297,215**	250,469
Net properties	**$ 410,592**	$ 443,712

	At December 31,	

Expenditures for new facilities and improvements that substantially extend the capacity or useful life of an asset are capitalized. Ordinary repairs and maintenance are expensed as incurred. Upon sale or retirement of assets, the cost and related accumulated depreciation are eliminated from the respective accounts and any resulting gains or losses are reflected in operations.

Goodwill Accounting

Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," became effective on January 1, 2002 for the Company. This statement establishes new accounting and reporting standards that, among other things, eliminate amortization of goodwill and certain intangible assets with indefinite useful lives. The Company does not have any intangible assets with indefinite useful lives; however, as required by the new standard, the Company's goodwill will be

evaluated annually, or whenever a triggering event takes place, for impairment using a fair-value based approach and, if there is impairment, the carrying amount of goodwill will be written down to its implied fair value.

Effective January 1, 2002, the Company assigned the carrying value of its goodwill, totaling $560 million, to one reporting unit. Management completed the transitional impairment testing of the Company's goodwill and determined that the Company's goodwill was impaired by $180 million at January 1, 2002. The fair value of the goodwill was derived using the discounted cash flow valuation method. The transitional impairment loss is reflected as a cumulative effect of change in accounting principle in the accompanying statement of operations. Future impairments of goodwill, if any, will be charged to operating income in the period in which the impairment arises.

Of the $560 million carrying value of goodwill at December 31, 2001, $418 million was deductible for Federal income tax purposes and $142 million was not deductible. The $180 million goodwill impairment charge consists of approximately $131 million of deductible goodwill and approximately $49 million of non-deductible goodwill. The $131 million tax deductible portion of the impairment charge resulted in a deferred tax benefit/asset of approximately $50 million. We recorded a 100% valuation allowance against the approximately $50 million deferred tax asset resulting from recognition of the transitional goodwill impairment loss. Therefore, the cumulative effect of change in accounting principle reflected in the accompanying statement of operations is net of $0 tax benefit.

Effective January 1, 2002, the Company stopped amortizing its goodwill as required by SFAS No. 142. The annual reduction in amortization expense was approximately $20.6 million before taxes. Because some of the Company's goodwill amortization is nondeductible for tax purposes, the Company's effective tax rate is lower as a result of implementing SFAS No. 142. The change in the carrying amount of the Company's goodwill consists entirely of the impairment of $180 million for the year ended December 31, 2002.

The Company recorded its transitional goodwill impairment charge in the second quarter of 2002, as permitted by SFAS No. 142. The following table presents the results of operations for the first quarter of 2002 after giving effect to the goodwill impairment charge (in thousands):

	As Reported in Form 10-Q	As Adjusted for Goodwill Impairment
Operating income	$ 19,405	$ 19,405
Net loss attributable to common shareholders	$ (7,171)	$ (187,171)
Net loss attributable to common shareholders per basic share	$ (0.22)	$ (5.79)
Net loss attributable to common shareholders per diluted share	$ (0.22)	$ (2.28)

The following table illustrates net income (loss) attributable to common shareholders and earnings per share, exclusive of goodwill amortization expense in the prior year periods (in thousands):

	Year Ended December 31,		
	2002	**2001**	**2000**
Reported net loss before cumulative effect of change in accounting principle attributable to common shareholders	**$ (8,650)**	$ (3,564)	$ (10,804)
Cumulative effect of change in goodwill accounting	**(180,000)**		
Reported net loss attributable to common shareholders	**(188,650)**	(3,564)	(10,804)
Goodwill amortization, net of tax		12,389	12,380
Adjusted net income (loss) attributable to common shareholders	**$ (188,650)**	$ 8,825	$ 1,576
Earnings per share basic:			
Reported net loss before cumulative effect of change in accounting principle attributable to common shareholders	**$ (0.27)**	$ (0.11)	$ (0.37)
Cumulative effect of change in goodwill accounting	**(5.50)**		
Reported net loss attributable to common shareholders	**(5.77)**	(0.11)	(0.37)
Goodwill amortization, net of tax		0.39	0.42
Adjusted net income (loss) attributable to common shareholders	**$ (5.77)**	$ 0.28	$ 0.05
Earnings per share diluted:			
Reported loss before cumulative effect of change in accounting principle attributable to common shareholders	**$ (0.27)**	$ (0.11)	$ (0.37)
Cumulative effect of change in goodwill accounting	**(5.50)**		
Reported net loss attributable to common shareholders	**(5.77)**	(0.11)	(0.37)
Goodwill amortization, net of tax		0.39	0.42
Adjusted net income (loss) attributable to common shareholders	**$ (5.77)**	$ 0.28	$ 0.05

Derivatives and Hedging Activities: In accordance with the Company's interest rate risk-management policies, the Company periodically enters into contracts to hedge the interest rates on its variable rate borrowings. During the period January 2000 September 2002, the Company had in place various interest rate contracts. At December 31, 2002, the Company had no interest rate contracts in place. The Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," on January 1, 2001.

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) the fair value of a recognized asset or liability or (b) an unrecognized firm commitment (a fair value hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a cash flow hedge); or (3) a foreign-currency fair-value or cash flow hedge (a foreign currency hedge). The Company does not enter into derivative contracts for trading or non-hedging purposes. The Company's interest rate derivatives that were outstanding until the third quarter of 2002 were designated as cash flow hedges and are recognized on the December 31, 2001 balance sheet at their fair value. Changes in the fair value of the Company's

cash flow hedges, to the extent that the hedges are highly effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction through interest expense. Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows being hedged) is recorded in current period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When hedge accounting is discontinued due to the Company's determination that the derivative no longer qualifies as an effective fair value hedge, the Company will continue to carry the derivative on the balance sheet at its fair value but cease to adjust the hedged asset or liability for changes in fair value. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company will continue to carry the derivative on the balance sheet at its fair value, removing from the balance sheet any asset or liability that was recorded to recognize the firm commitment and recording it as a gain or loss in current period earnings. When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current period earnings.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Foreign Currency Translation: The functional currencies for the Company's United Kingdom and Canadian subsidiaries are the British pound and the Canadian dollar, respectively. Translation into U.S. dollars is performed for assets and liabilities at the exchange rates as of the balance sheet date. Income and expense accounts are translated at average exchange rates for the year. Adjustments resulting from the translation are reflected as a separate component of other comprehensive income.

Debt Issuance Costs: Costs related to the issuance of debt are capitalized and amortized to interest expense using the effective interest method over the period the debt is outstanding.

Earnings per Share: Following is a reconciliation between basic and diluted earnings per common share from continuing operations attributable to common shareholders (in thousands, except per share information):

	Year Ended December 31,								
	2002			2001			2000		
	Net Loss	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount	Net Loss	Shares	Per Share Amount
Net loss attributable to common shareholders basic EPS	**$ (188,650)**	**32,715**	**$ (5.77)**	$ (3,564)	31,620	$ (0.11)	$ (10,804)	29,337	$ (0.37)

	Year Ended December 31,								
Other dilutive equity instruments									
Net loss attributable to common shareholders diluted EPS	**$ (188,650)**	**32,715**	**$ (5.77)**	$ (3,564)	31,620	$ (0.11)	$ (10,804)	29,337	$ (0.37)

The Company's outstanding preferred stock of $100.0 million is convertible into 48,484,848 shares of common stock. The conversion of the preferred stock into common stock is not reflected in the diluted earnings per share calculations above as conversion would be anti-dilutive for 2002, 2001 and 2000. Additional potentially dilutive securities, in thousands, totaling 6,053, 6,338 and 6,627, were excluded from the historical diluted income or loss per common share calculations above because of their anti-dilutive effect for 2002, 2001 and 2000, respectively. The additional potentially dilutive securities are primarily stock options.

Stock-Based Compensation: SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," was issued in December 2002. The statement amends SFAS No. 123 to provide alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS No. 148 improves the prominence and clarity of the pro forma disclosures required by SFAS No. 123 by prescribing a specific tabular format and by requiring disclosure in the "Summary of Significant Accounting Policies" or its equivalent. In addition, SFAS No. 148 improves the timeliness of those disclosures by requiring their inclusion in financial reports for interim periods. SFAS No. 148 is effective for financial statements for fiscal years ending after December 15, 2002. Adoption of this statement resulted in moving the following disclosure to the accounting policies footnote, but had no impact on the Company's consolidated financial statements.

The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for stock options or the employee stock purchase plan. If the Company had elected to recognize compensation cost based on the fair value of the stock options at grant date as allowed by SFAS No. 123, "Accounting for Stock-Based Compensation," pre-tax compensation expense of $1.6 million, $1.7 million and $1.2 million would have been recorded for 2002, 2001 and 2000, respectively. Net loss attributable to common shareholders and earnings per share would have been reduced to the pro forma amounts indicated below:

	Years Ended December 31,		
	2002	**2001**	**2000**
	(in thousands, except per share data)		
Net loss attributable to common shareholders, as reported	**$ (188,650)**	$ (3,564)	$ (10,804)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(976)**	(1,020)	(720)
Pro forma	**$ (189,626)**	$ (4,584)	$ (11,524)
Earnings per share basic:			
As reported	**$ (5.77)**	$ (0.11)	$ (0.37)
Pro forma	**$ (5.80)**	$ (0.15)	$ (0.39)
Earnings per share diluted:			
As reported	**$ (5.77)**	$ (0.11)	$ (0.37)
Pro forma	**$ (5.80)**	$ (0.15)	$ (0.39)

Statement of Cash Flows: The Company defines cash equivalents as highly liquid investments with original maturities of 90 days or less. Book overdrafts totaling $3.5 million and $1.3 million at December 31, 2002 and 2001, respectively, have been included as a liability in other accrued expenses and liabilities on the accompanying balance sheet. The Company received income tax refunds of $2.6 million, $7.5 million and $7.1 million in 2002, 2001 and 2000, respectively.

Total interest paid was $33.3 million, $53.9 million and $80.9 million in 2002, 2001 and 2000, respectively. Capitalized interest was $0.3 million, $1.8 million and $1.1 million in 2002, 2001 and 2000, respectively.

Non-cash investing and financing activities in 2002, 2001 and 2000 include the issuance of shares of common stock valued at $4.3 million, $5.2 million and $4.1 million, respectively, relating to the 401(k) employer match.

Note 2. New Accounting Standards

Financial Accounting Standards Board Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. FIN No. 46 defines a variable interest entity as a legal entity in which, among other things, the equity investments at risk are not sufficient to finance the operating and closing activities of the entity without additional subordinated financial support from the entity's investors. The Company is a partner in the Kalamazoo Valley Group (KVG) partnership, which qualifies as a variable interest entity, as defined by FIN No. 46. KVG is a partnership formed to develop and operate a landfill for the partners' disposal of paper residuals from their respective

paperboard mills. KVG borrowed $1.5 million for the construction of the landfill, of which approximately $500 thousand remains unpaid at December 31, 2002. The partners contribute capital annually to fund the partnership's operating losses. The Company's annual capital contribution for the past two years has been approximately $200 thousand. The landfill has been in operation since December 1997; however, since 2000, the other partners have closed their paperboard mills and one minority partner has left the partnership via bankruptcy court. The Company is evaluating its alternatives and liabilities under the partnership agreement and related note, while continuing to use the landfill. However, if the partnership were to close the landfill, the Company's share of estimated closing costs, perpetual care obligations and debt repayment would approximate $2.5 million under the terms of the partnership agreement. The Company accounts for its interest in KVG using the equity method. The investment balance at December 31, 2002 was $0.3 million. Management is also evaluating its accounting method in light of the new requirements under FIN No. 46, and may conclude that its interest in KVG should be consolidated into its accounts. FIN No. 46 is effective for the Company's 2003 third quarter.

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," was issued in November 2002. This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. FIN No. 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of FIN No. 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements in the interpretation are effective for financial statements ending after December 15, 2002. The Company has included the disclosures required by this interpretation in Note 15.

Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," was issued in 2001. SFAS No. 143 requires the recognition of a liability and offsetting asset for any legal obligation associated with the retirement of long-lived assets. The asset retirement cost is depreciated over the life of the related asset. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. Management does not believe SFAS No. 143 will have a significant effect on the Company.

SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002", was issued in April 2002. SFAS No. 145 includes, among other things, the rescission of SFAS No. 4, which required that gains and losses from early extinguishment of debt be classified as extraordinary items, net of related income tax effects. Under the new guidance of SFAS No. 145, losses from early extinguishment of debt will be classified as extraordinary items when the losses are considered unusual in nature and infrequent in occurrence. SFAS No. 145 will be effective for the Company on January 1, 2003, at which time the Company reclassified its first quarter 2002 loss on early extinguishment of debt as a non-extraordinary item.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," was issued on July 30, 2002. SFAS No. 146 will require companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is effective for the Company on January 1, 2003. While SFAS No. 146 will have no effect on the Company's historical financial results, costs associated with any future restructuring efforts will be accrued as those costs are incurred.

Note 3. Dispositions

Malvern Packaging Business

On October 31, 2000, the Company sold the net assets of its Malvern, Pennsylvania packaging business to Huhtamaki Van Leer for approximately $35 million in cash. The proceeds from the sale were used to reduce debt. The Company recorded a pre-tax gain of $11.4 million on the sale. The after-tax gain on sale was $6.8 million, or $0.23 per basic and diluted share.

Other Assets

The Company sold patents and various other assets of its former developmental businesses and an airplane for cash consideration of approximately $8.2 million in 2000. A pre-tax gain of $7.8 million was recognized relating to these asset sales. The after-tax gain on sale was $4.7 million, or $0.16 per basic and diluted share. In 2001, a pre-tax gain of approximately $3.6 million was recognized upon receipt of additional consideration for assets of the Company's former developmental businesses.

Note 4. Asset Impairment and Restructuring Charges

The Company recorded asset impairment and restructuring charges totaling $8.9 million and $5.6 million in 2001 and 2000, respectively. In addition, asset impairment and restructuring reserves of $7.8 million related to the Perrysburg, Ohio plant closure were recorded in 2000 as a cost of the acquisition of Fort James Corporation's folding carton operations, which the Company acquired in August 1999. The Company reviews the relative cost effectiveness of its assets, including plant facilities and equipment, and the allocation of human resources across all functions while integrating acquisitions and responding to pressures on margins from industry conditions. As a result, the Company has closed plants and downsized its workforce with the goal of maximizing its profits and optimizing its resources.

Asset Impairment Charges

2001: The Company recorded an asset impairment charge of $3.5 million in the fourth quarter of 2001 in conjunction with the announcement of the planned closure of the Newnan, Georgia plant, a plant that was more expensive to operate than other plants in its system and produced margins below its expectations. The Company shut down the plant's operations during 2002 and plans to sell the plant's building and land. The net book value of the Newnan building and land was approximately $1.7 million at December 31, 2002. The plant's business has been transferred to other plants in the Company's system.

The Company recorded an asset impairment charge of $1.5 million in the first quarter of 2001 related to its Saratoga Springs, New York building. Operations of the Saratoga Springs plant were transferred to other manufacturing locations and the building and real property were sold in June 2001 for cash proceeds of $3.4 million. No gain or loss was recognized on the June 2001 sale.

2000: The Company announced the planned closure of its Perrysburg, Ohio folding carton plant in the second quarter of 2000. The Perrysburg plant was acquired as part of Fort James Corporation's folding carton operations and was eliminated due to excess capacity. The shutdown and restructuring plan for the Perrysburg facility included asset impairments totaling $6.5 million, which were recorded in the second quarter of 2000 as a cost of the acquisition, with a resultant adjustment to goodwill. The Company completed the closure of the plant and transition of the plant's business to our other facilities by the end of 2000. On July 11, 2001, the remaining real estate was sold for cash proceeds of approximately $1.9 million. No gain or loss was recognized on the sale.

Restructuring Charges

2001: In connection with the announced closure of the Newnan, Georgia plant discussed above, the Company recorded restructuring charges totaling $2.4 million in the fourth quarter of 2001. The charges relate to severance packages for 105 plant personnel that were communicated to employees in December 2001. The Newnan restructuring plan was essentially complete by the end of 2002, with approximately $0.5 million of severance and other restructuring payments left to be made in 2003.

2000: In December 2000 the Company announced a restructuring plan to reduce fixed-cost personnel. The plan included the elimination of approximately 200 non-production positions, including the closure of its folding carton plant in Portland, Oregon, and offered severance packages in accordance with Company policies. The total cost of the reduction in force was $5.0 million, of which $3.0 million was recognized in the fourth quarter of 2000 results. The remaining cost of approximately $2.0 million was recognized in the first half of 2001 when severance packages were communicated to employees. The restructuring plan is complete at December 31, 2002.

In connection with the announced closure of the Perrysburg, Ohio plant, restructuring reserves were recorded totaling approximately $1.3 million in the second quarter of 2000. The reserves relate to the severance of approximately 100 production positions and other plant closing costs. Consistent with the asset impairments related to the Perrysburg closure, the restructuring costs have been accounted for as a cost of the acquisition of Fort James Corporation's folding carton operations with a resultant adjustment to goodwill. At December 31, 2002, all restructuring costs have been paid relating to the Perrysburg closure.

The Company recorded a restructuring charge of $3.4 million in the first quarter of 2000 for anticipated severance costs for approximately 185 employees as a result of the announced closure of the Saratoga Springs, New York plant. The Company has completed the closure of the Saratoga Springs plant and the transition of the plant's business to other facilities. In the first quarter of 2001, the Company reversed approximately $0.5 million of severance accruals which were not needed to complete the Saratoga Springs restructuring plan. All remaining restructuring costs have been paid as of December 31, 2002.

A 1999 plant rationalization plan included severance and related charges, primarily at the Company's Lawrenceburg, Tennessee manufacturing plant. However, customer needs in Golden, Colorado and Lawrenceburg, coupled with the timing of the transition of business to the Company's new Golden, Colorado facility, impacted the completion of the restructuring and resulted in the savings of approximately $800 thousand of anticipated restructuring costs. The 2000 restructuring expense is net of this $800 thousand benefit.

The following table summarizes accruals related to the Company's restructurings (in millions):

	1999 Plant Rationalization Plan	2000 S. Springs Plant Closure	2000 Perrysburg Plant Closure	2000/2001 Reduction In Force	2001 Newnan Plant Closure	Totals
Balance, December 31, 1999	$ 1.9	$	$	$	$	$ 1.9
2000 restructuring charges, net of reversals	(0.8)	3.4		3.0		5.6
2000 restructuring Perrysburg			1.3			1.3
Cash paid	(1.0)	(2.0)	(0.7)	(0.1)		(3.8)
Balance, December 31, 2000	0.1	1.4	0.6	2.9		5.0
2001 restructuring charges, net of reversals		(0.5)		2.0	2.4	3.9
Transfer of enhanced benefits to pension liabilities				(2.2)		(2.2)
Cash paid	(0.1)	(0.8)	(0.6)	(2.5)		(4.0)
Balance, December 31, 2001		0.1		0.2	2.4	2.7
Cash paid		(0.1)		(0.2)	(1.9)	(2.2)
Balance, December 31, 2002	$	$	$	$	$ 0.5	$ 0.5

Note 5. Indebtedness

The following table summarizes the Company's outstanding debt, in thousands.

	At December 31,

	At December 31,	
	2002	2001
Seven-year term loan due 2009 (variable interest rate at 4.17%)	**$ 173,250**	$
Five-year revolving credit facility due 2007 (variable interest rate at 3.42%)		
8 5/8% Senior subordinated notes due 2012	**300,000**	
Five-year term loan, refinanced in 2002 (variable interest rate at 4.18%)		247,035
Revolving credit facility, refinanced in 2002 (variable interest rate at 4.18%)		222,750
10% Subordinated notes, refinanced in 2002		50,000
Various notes payable (interest rates ranging from 4.00% to 13.06%)	**5,081**	5,974
Total debt	**478,331**	525,759
Less current maturities	**3,432**	37,373
Total long-term debt	**$ 474,899**	$ 488,386

The maturities of long-term debt are as follows (in thousands):

2003	$ 3,432
2004	1,933
2005	1,941
2006	3,857
2007	1,750
Thereafter	465,418
	$ 478,331

On February 28, 2002, the Company completed certain refinancing transactions that replaced its then existing debt instruments with longer-term facilities more conducive to the Company's long-range needs. The refinancing consisted of the following concurrent transactions:

The Company's wholly owned subsidiary, Graphic Packaging Corporation (GPC), issued $300 million aggregate principal amount of 8 5/8% senior subordinated notes due in 2012. Net proceeds from the sale of the notes totaled approximately $294.1 million.

GPC entered into a new $450 million senior secured credit facility. The new facility includes a $175 million seven-year term note and a $275 million five-year revolving line of credit. Initial borrowings under the revolving line of credit totaled $62.6 million.

The Company used the proceeds from the refinancing transactions to retire GPIC's then existing senior credit facilities, to repurchase $50 million of subordinated notes due to Golden Heritage, LLC at par, to pay interest and expenses and for general corporate purposes.

In connection with the refinancing transactions, the Company incurred a pre-tax non-cash charge to write off its remaining unamortized debt issuance costs of $15.8 million. Issuance costs associated with the new debt totaled $16.4 million.

Senior Subordinated Notes

The Senior Subordinated Notes (the Notes) are unsecured senior subordinated obligations of GPC. Interest accrues at 8 5/8%, payable semi-annually on February 15th and August 15th. The Notes will mature on February 15, 2012. The Notes are unconditionally and jointly and severally guaranteed by GPIC and its domestic subsidiaries. The Notes are non-callable for five years. Thereafter, they are callable at a declining

premium. Upon a change in control, the holders of the Notes may require GPC to repurchase the Notes at a 1% premium.

GPC issued the Notes under an indenture among GPC, as issuer, GPIC, as a guarantor, the Company's domestic subsidiaries, as the subsidiary guarantors, and Wells Fargo Bank Minnesota, National Association, as trustee.

Senior Secured Credit Facility

GPC is the borrower of the new senior secured credit facility (the Credit Facility). A syndicate of financial institutions serves as lenders, with Morgan Stanley Senior Funding, Inc. and Credit Suisse First Boston as the joint lead arrangers. The Credit Facility consists of a $275 million, five-year revolving credit facility, or the Revolver, and a $175 million, seven-year term loan, or the Term Loan. The Revolver bears interest at various pricing options, including LIBOR plus a spread tied to GPC's leverage, with a single principal payment due at maturity. The Term Loan bears interest at various pricing options, including LIBOR plus 275 basis points, with principal amortization of 1% a year and the balance due at maturity. The Credit Facility must also be prepaid with a cash flow recapture calculation, and with certain proceeds from asset sales, and debt or equity offerings. The Credit Facility is collateralized by first priority liens on all material assets of the Company and all of its domestic subsidiaries. The Credit Facility limits the Company's ability to pay dividends other than permitted dividends on the preferred stock, and imposes limitations on the incurrence of additional debt, acquisitions, capital expenditures, repurchase of Company stock and the sale of assets.

Other Notes Payable

Other notes payable consist of miscellaneous secured notes. The notes bear interest at rates ranging from 4.0% to 13.06% and mature in 2003 through 2008. The notes are generally collateralized by assets purchased with the proceeds from the notes or by letters of credit.

Note 6. Fair Value of Financial Instruments

The Company's financial instruments consist of cash and debt at December 31, 2002.

The fair value of cash and cash equivalents and current maturities of long-term debt approximates carrying value because of the short maturity of these instruments. For 2002 and 2001, the fair value of the Company's long-term bank debt is estimated based on the current rates offered to the Company for debt of the same remaining maturity and credit quality. Because the interest rates on the long-term bank debt are reset monthly, the carrying value approximates the fair value of the long-term bank debt.

The fair value of the Company's $300 million of senior subordinated notes is based upon market quotes. As of December 31, 2002 and February 25, 2003, our bonds were trading at $105.5.

Until September 2002, the Company had interest rate swap agreements to hedge the underlying interest rates on $100 million of borrowings at an average fixed interest rate of 5.94% and an average risk-free rate of 6.98% on $125 million of its borrowings. In addition, the Company had interest rate contracts that provided interest rate cap protection on $350 million of floating rate debt. The fair value of the interest rate swaps at December 31, 2001 was $(7.5 million). The interest rate caps had no value at December 31, 2001. These contracts were not replaced as they expired during 2002.

Note 7. Operating Leases

The Company leases a variety of facilities, warehouses, offices, equipment and vehicles under operating lease agreements that expire in various years. Future minimum lease payments, in thousands, required as of December 31, 2002, under non-cancelable operating leases with terms exceeding one year, are as follows:

2003	$	3,612
2004		2,450
2005		1,301
2006		856
2007 and thereafter		42
Total	$	8,261

Operating lease rentals for warehouse, production, office facilities and equipment amounted to $4.0 million in 2002, $3.3 million in 2001, and $3.1 million in 2000.

Note 8. Income Taxes

The sources of income (loss), in thousands, before income taxes and cumulative effect of change in accounting principle were:

	Year Ended December 31,		
	2002	**2001**	**2000**
Domestic	**$ 2,236**	$ 10,689	$ (11,228)
Foreign		4	(448)
Income (loss) before income taxes and cumulative effect of change in accounting principle	**$ 2,236**	$ 10,693	$ (11,676)

Income tax expense (benefit) attributable to continuing operations, in thousands, included the following:

	Year Ended December 31,		
	2002	**2001**	**2000**
Current provision:			
Federal	**$ (4,141)**	$ (4,345)	$ (15,011)
State	**37**	185	321
Total current tax benefit	**$ (4,104)**	$ (4,160)	$ (14,690)
Deferred provision:			
Federal	**$ 4,173**	$ 9,250	$ 11,229
State	**817**	(833)	(1,217)
Total deferred tax expense	**4,990**	8,417	10,012
Total income tax expense (benefit)	**$ 886**	$ 4,257	$ (4,678)

Temporary differences that gave rise to a significant portion of deferred tax assets (liabilities), in thousands, were as follows:

At December 31,	
2002	**2001**

	At December 31,	
Depreciation and other property related	**$ (44,406)**	$ (43,570)
Amortization of intangibles		(12,306)
All other	**(82)**	
Gross deferred tax liability	**(44,488)**	(55,876)
Amortization of intangibles	**18,306**	
Pension and employee benefits	**26,646**	20,551
Tax credit carryforwards	**21,632**	13,719
Interest	**493**	3,414
Inventory	**1,769**	2,195
Accruals	**4,273**	7,557
Net operating loss and contribution carryovers	**19,898**	6,814
All other	**637**	279
Gross deferred tax asset	**93,654**	54,529
Less valuation allowance	**(51,299)**	(256)
Net deferred tax liability	**$ (2,133)**	$ (1,603)
Financial statement classification:		
Current deferred tax asset	**$ 8,999**	$ 17,378
Long-term deferred tax liability (included in other long-term liabilities)	**(11,132)**	(18,981)
Net deferred tax liability	**$ (2,133)**	$ (1,603)

The valuation allowance for deferred tax assets was increased by $51.0 million in 2002 and decreased by $82 thousand in 2001. The increase in 2002 relates to uncertainty surrounding the ultimate deductibility of the deferred tax asset created as a result of the change in accounting method as described in Note 1 Goodwill Accounting. The 2001 decrease and $66 thousand of the 2002 increase relates to uncertainty surrounding the ultimate deductibility of foreign net operating loss and research and development credit carryforwards.

At December 31, 2002 the Company had federal net operating loss carryforwards of approximately $40.6 million which will begin to expire in years after 2022. The Company also has approximately $10.2 million of alternative minimum tax credits which have an indefinite carryforward period, approximately $6.5 million of foreign tax credits which will expire in years after 2004, and $4.8 million in research and development credits which will begin to expire in years after 2017.

The principal differences between the effective income tax rate and the U.S. statutory federal income tax rate, were as follows:

	Year Ended December 31,		
	2002	**2001**	**2000**
Expected tax rate	**35.0%**	35.0%	(35.0)%
State income taxes (net of federal benefit)	**4.6**	3.4	(3.2)
Nondeductible expenses and losses	**1.5**	21.3	28.7
Nontaxable income	**(1.9)**	(1.5)	(2.0)
Effect of foreign investments			(0.1)
Change in deferred tax asset valuation allowance	**0.4**	(0.8)	1.8
Research and development and other tax credits	**(2.6)**	(14.4)	(28.3)

	Year Ended December 31,		
Other net	**2.6**	(3.2)	(2.0)
Effective tax rate	**39.6%**	39.8%	(40.1)%

The Internal Revenue Service (IRS) is examining the Company's Federal income tax returns for the years 1999 through 2001. In the opinion of management, adequate accruals have been provided for all income tax matters and related interest.

As a result of certain restructuring actions, the undistributed earnings of foreign subsidiaries previously considered as being permanently reinvested have been distributed to the U.S. as a dividend. Foreign tax credits eliminated the resulting U.S. income tax liability on the dividend. The Company no longer provides for U.S. or additional foreign taxes on undistributed earnings of foreign subsidiaries, since all foreign subsidiaries' income is included in the U.S. return.

The Company and CoorsTek (a former subsidiary spun off in 1999) have executed a tax sharing agreement that defines the parties' rights and obligations with respect to deficiencies and refunds of Federal, state and other taxes relating to the CoorsTek business for tax years prior to the spin-off and with respect to certain tax attributes of CoorsTek after the spin-off. In general, the Company is responsible for filing consolidated Federal and combined or consolidated state tax returns and paying the associated taxes for periods through December 31, 1999. CoorsTek will reimburse the Company for the portion of such taxes relating to the CoorsTek business. CoorsTek is responsible for filing returns and paying taxes related to the CoorsTek business for periods after December 31, 1999.

The tax sharing agreement is designed to preserve the status of the spin-off as a tax-free distribution. CoorsTek has agreed that it will refrain from engaging in certain transactions during the two-year period following the spin-off unless it first provides the Company with a ruling from the IRS or an opinion of tax counsel acceptable to the Company that the transaction will not adversely affect the tax-free nature of the spin-off. In addition, CoorsTek has indemnified the Company against any tax liability or other expense it may incur if the spin-off is determined to be taxable as a result of CoorsTek's breach of any covenant or representation contained in the tax sharing agreement or CoorsTek's action in effecting such transactions. By its terms, the tax sharing agreement will terminate when the statutes of limitations under applicable tax laws expire.

Note 9. Stock Compensation

The Company has an equity incentive plan that provides for the granting of nonqualified stock options and incentive stock options to certain key employees. The equity incentive plan also provides for the granting of restricted stock, bonus shares, stock units and offers to officers of the Company to

purchase stock. The number of shares made available for award under the plan was 2.8 million shares as of December 31, 2002 and is increased annually by 2% of the Company's outstanding shares on each December 31. Generally, options outstanding under the Company's equity incentive plan are subject to the following terms: (1) grant price equal to 100% of the fair value of the stock on the date of grant; (2) ratable vesting over either a three-year or four-year service period; and (3) maximum term of ten years from the date of grant. Certain options, granted primarily in 2001 pursuant to a long-term incentive plan, provide for accelerated vesting upon attainment of certain stock prices or debt to EBITDA ratios, as defined by the equity incentive plan, but vest completely after six years.

Stock option activity was as follows (shares in thousands):

	Year Ended December 31,					
	2002		2001		2000	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

	Year Ended December 31,					
Options outstanding at January 1	**6,023**	**$ 5.96**	6,262	$ 6.04	4,281	$ 8.86
Granted	**25**	**$ 7.20**	251	$ 4.62	2,523	$ 1.66
Exercised	**(147)**	**$ 6.84**				
Expired or forfeited	**(134)**	**$ 4.57**	(490)	$ 6.27	(542)	$ 7.88
Options outstanding at December 31	**5,767**	**$ 5.98**	6,023	$ 5.96	6,262	$ 6.04
Exercisable	**2,216**	**$ 9.72**	2,336	$ 9.64	2,302	$ 9.73
Available for future grant	**2,782**		2,315		1,458	

The following table summarizes information about stock options outstanding at December 31, 2002 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Options Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Options Exercisable**	**Weighted Average Exercise Price**
$1.56 to $6.92	**2,678**	**7.87 years**	**$ 2.20**	**102**	**$ 3.24**
$7.06 to $10.17	**2,592**	**3.31 years**	**$ 8.66**	**1,616**	**$ 9.32**
$10.48 to $13.74	**497**	**4.43 years**	**$ 12.36**	**497**	**$ 12.36**
$1.56 to $13.74	**5,767**	**5.52 years**	**$ 5.98**	**2,215**	**$ 9.72**

Subsequent to December 31, 2002, the accelerated vesting requirements were met on 1,240,000 options with a weighted average exercise price of $1.62.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: (1) dividend yield of 0%; (2) expected volatility of 74% in 2002, 70% in 2001 and 56% in 2000; (3) risk-free interest rate ranging from 1.2% to 4.5% in 2002, 3.7% to 5.5% in 2001 and 4.2% to 6.4% in 2000; and (4) expected life of 1.1 to 7.9 years in 2002, 4.5 to 9.0 years in 2001 and 3.0 to 9.91 years in 2000. The weighted average per-share fair value of options granted during 2002, 2001 and 2000 was $3.62, $3.52 and $1.09, respectively.

In December 2002, 405,246 shares of restricted common stock were issued to executive management pursuant to the Company's equity incentive plan. The restrictions on the stock lapse

ratably over four years. The total value of the restricted stock grant amounted to approximately $2.5 million, based upon the $6.10 market price of the Company's common stock on the date of grant. The $2.5 million restricted stock issuance has been recorded as unearned compensation and is being amortized to compensation expense over the four year vesting period. Approximately $51 thousand was amortized to compensation expense for the month of December 2002. Remaining unearned compensation of approximately $2.4 million at December 31, 2002 is reflected in the accompanying financial statements as a reduction of shareholders' equity.

On January 1, 2003, 2,600,000 shares of restricted stock were granted to management pursuant to a long-term incentive program. The fair market value of shares on the date of grant was $14.7 million, based upon the $5.64 market price of the Company's common stock on the date of grant. The restrictions on the stock lapse only if the Company meets its shareholder value growth target during the four-year life of the long-term incentive program. The long-term incentive plan restricted stock grant will be expensed over the estimated vesting period, beginning January 1, 2003. The amount of expense to be recorded is dependent upon meeting the shareholder value growth vesting requirement and the market price of the Company's common stock upon completion of the vesting requirements.

Note 10. Defined Benefit Plans

The Company maintains a defined benefit pension plan for the majority of employees. Benefits are based on years of service and average base compensation levels over a period of years. Plan assets consist primarily of equity and interest-bearing investments. The Company's funding policy is to contribute annually not less than the minimum funding required by the internal revenue code nor more than the maximum amount that can be deducted for federal income tax purposes.

The Company also has a non qualified Supplemental Executive Retirement Plan (SERP). The SERP, which is unfunded, provides defined pension benefits outside of the Company's defined benefit plan to eligible executives. The total expense and benefit obligations for the SERP are included with other pension benefits below. Expense under the SERP was $0.4 million, $0.5 million and $0.4 million for 2002, 2001 and 2000, respectively. The projected benefit obligation for the SERP was $4.3 million at December 31, 2002.

Non-union retirement health care and life insurance benefits are provided to certain employees hired prior to June 1999 and eligible dependents. Eligible employees may receive these benefits after reaching age 55 with 10 years of service. Prior to reaching age 65, eligible retirees may receive certain health care benefits identical to those available to active employees. The amount the retiree pays is based on age and service at the time of retirement. These plans are not funded.

The following assets (liabilities), in thousands, were recognized for the combined defined benefit plans of the Company at December 31:

	Pension Benefits		Other Benefits	
	2002	**2001**	**2002**	**2001**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 143,203**	$ 121,486	$ 17,632	$ 18,241
Service cost	**5,339**	4,447	493	431
Interest cost	**9,428**	9,400	1,472	1,286
Plan amendments		4,517		(1,832)
Actuarial loss (gain)	**(11,246)**	(2,475)	4,107	
Change in actuarial assumptions	**9,898**	8,906		678
Benefits paid	**(3,932)**	(3,078)	(610)	(1,172)
Benefit obligation at end of year	**152,690**	143,203	23,094	17,632
Change in plan assets				
Fair value of plan assets at beginning of year	**111,778**	118,344		
Actual return on plan assets	**(9,805)**	(5,794)		
Company contributions	**6,507**	2,306		
Benefits paid	**(3,931)**	(3,078)		
Fair value of plan assets at end of year	**104,549**	111,778		
Funded status	**(48,141)**	(31,425)	(23,094)	(17,632)
Unrecognized actuarial loss (gain)	**49,874**	30,208	1,950	(2,156)
Unrecognized prior service cost/intangible pension asset	**7,390**	7,640	(2,853)	(3,187)
Net amount recognized	**$ 9,123**	$ 6,423	$ (23,997)	$ (22,975)
Net prepaid (accrued) benefit cost is included in the consolidated balance sheet as follows:				
Other assets, long-term	**$ 7,390**	$ 7,640	$	$
Pension liability	**(42,310)**	(24,860)		
Other long-term liabilities			**(23,997)**	(22,975)

	Pension Benefits		Other Benefits	
Accumulated other comprehensive loss	**44,043**	23,643		
Total	**$ 9,123**	$ 6,423	**$ (23,997)**	$ (22,975)
Weighted average assumptions at year end				
Discount rate	**6.75%**	7.25%	6.75%	7.25%
Expected long-term return on plan assets	**9.50%**	9.75%		
Rate of compensation increase	**4.25%**	4.75%		

The Company had accumulated benefit obligations in excess of the fair value of its plan assets totaling $42.3 million and $24.9 million at December 31, 2002 and 2001, respectively, which are reflected as a minimum pension liability in long term liabilities in the accompanying balance sheet. The Company's intangible pension asset was $7.4 million and $7.6 million at December 31, 2002 and 2001, respectively. The after-tax amounts included in other comprehensive income from changes arising in the minimum pension liability in 2002, 2001 and 2000 are $12.8 million, $13.8 million and $0.3 million, respectively.

It is the Company's policy to amortize unrecognized gains and losses in excess of 10% of the larger of plan assets and the projected benefit obligation (PBO) over the expected service of active employees (12-15 years). However, in cases where the accrued benefit liability exceeds the actual unfunded liability by more than 20% of the PBO, the amortization period is reduced to 5 years.

For measurement purposes, a 10% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2002. The assumed rate was 6.5% in 2001 and 2000; however, rising health care costs prompted an increase in this assumption in 2002. The rate is assumed to decrease by 0.5% per annum to 5.0% and remain at that level thereafter. The following, in thousands, represents the Company's net periodic benefit cost.

	Pension Benefits			Other Benefits		
	2002	**2001**	**2000**	**2002**	**2001**	**2000**
Components of net periodic benefit cost						
Service cost	**$ 5,339**	$ 4,447	$ 5,094	**$ 493**	$ 431	$ 633
Interest cost	**9,428**	9,400	8,434	**1,472**	1,286	1,257
Actual return on plan assets	**9,805**	5,794	(6,534)			
Deferred investment loss	**(21,604)**	(17,662)	(4,939)			
Amortization of prior service cost	**794**	755	552	**(334)**	(334)	(422)
Recognized actuarial loss (gain)	**46**	67	136		(125)	(448)
Transition asset amortization	**(1)**	(72)	(69)			
Net periodic benefit cost	**$ 3,807**	$ 2,729	$ 2,674	**$ 1,631**	$ 1,258	$ 1,020

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects, in thousands:

	1% Point Increase	1% Point Decrease
Effect on total of service and interest cost components	$ 140	$ 123
Effect on postretirement benefit obligation	$ 2,294	$ 2,005

Note 11. Defined Contribution Plan

The Company provides a defined contribution profit sharing plan for the benefit of its employees (the Plan). The Plan and its associated trust are intended to comply with the provisions of the Internal Revenue Code and ERISA, to qualify as a profit sharing plan for all purposes of the tax code, and to provide a cash or deferred arrangement that is qualified under tax code section 401(k). Generally, employees expected to complete at least 1,000 hours of service per year are immediately eligible to participate in the Plan upon employment. Company matching

contributions are 60% of participant contributions, up to 3.6% of participant annual compensation, and are denominated in the Company's common stock. Company expenses related to the matching provisions of the Plan totaled approximately $4.3 million, $4.3 million and $4.1 million in 2002, 2001 and 2000, respectively. The Plan also provides for discretionary matching. The Company did not elect to provide discretionary matching under this provision in 2002, 2001 or 2000.

Note 12. Shareholders' Rights Plan

On June 1, 2000, the Company effected a dividend distribution of shareholder rights (the Rights) that carry certain conversion rights in the event of a significant change in beneficial ownership of the Company. One right is attached to each share of the Company's common stock outstanding and is not detachable until such time as beneficial ownership of 15% or more of the Company's outstanding common stock has occurred (a Triggering Event) by a person or group of affiliated or associated persons (an Acquiring Person). Each Right entitles each registered holder (excluding the Acquiring Person) to purchase from the Company one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $.01 per share, at a purchase price of $42.00. Registered holders receive shares of the Company's common stock valued at twice the exercise price of the Right upon exercise. Upon a Triggering Event, the Company is entitled to exchange one share of the Company's common stock for each right outstanding or to redeem the Rights at a price of $.001 per Right. The Rights will expire on June 1, 2010.

Note 13. Preferred Stock

On August 15, 2000 the Company issued one million shares of 10% Series B Convertible Preferred Stock (the Preferred Stock) at $100 per share to the Grover C. Coors Trust (the Trust). At the time of the issuance of the Preferred Stock, the Trust owned 9% of the Company's then outstanding common stock. The Trust's beneficiaries are members of the Coors family. Individual members of the Coors family and other Coors family trusts held a controlling interest in the Company at the time of issuance of the Preferred Stock. As a condition to the issuance of the Preferred Stock, a fairness opinion was obtained as to the consideration received and the value of the Preferred Stock at issuance was consistent with open market conditions and values for similar securities.

The Trust, as holder of the Preferred Stock, has the following rights and preferences:

Conversion Feature

Each share of Preferred Stock is convertible into shares of the Company's common stock at $2.0625 per share of common stock. The conversion price of $2.0625 was 125% of the average NYSE closing price per share of the Company's common stock for the five trading days prior to August 15, 2000 which was $1.65. The Preferred Stock was issued at $100 per share; therefore, a complete conversion would result in the issuance of 48,484,848 additional shares of the Company's common stock.

The Trust held 2,727,016 shares of the Company's common stock on December 31, 2002 which represents approximately 8% of all common shares currently outstanding (33,477,300). On an as-converted basis, the Trust would hold 51,211,864 shares of the Company's common stock on December 31, 2002, which would be approximately 62.5% of all shares outstanding (81,962,148).

Redemption Feature

The Company can redeem the Preferred Stock at $105 per share beginning on August 15, 2005, reduced by $1 per share each year until August 15, 2010.

Dividends

Dividends are payable quarterly at an annual rate of 10%. Dividends are cumulative and hold a preference to any dividends paid to other shareholders. The Preferred Stock participates in any common stock dividends on an as-converted basis. If dividends are not paid for two consecutive quarters, the Trust may elect one director to the Company's Board. If dividends are not paid for four consecutive quarters, the Trust may elect a majority of the directors to the Company's Board and effectively control the Company.

Liquidation Preference

The Preferred Stock has a liquidation preference over the Company's common stock at $100 per share, plus unpaid dividends. The Preferred Stock also participates in any liquidation distributions to the common shareholders on an as-converted basis.

Voting and Registration Rights

Every two shares of common stock underlying the Preferred Stock on an as-converted basis receive one vote. Therefore, the Trust currently votes 24,242,424 shares, in addition to the 2,727,016 shares of common stock held. The Trust may require the Company, with certain limitations, to register under the Securities Act of 1933 the common shares into which the Preferred Stock may be converted.

Note 14. Related Party Transactions

On December 28, 1992, the Company was spun off from Adolph Coors Company (ACCo) and since that time ACCo has had no ownership interest in GPIC. However, certain Coors family trusts have significant interests in both GPIC and ACCo. At the time of spin-off from ACCo, GPIC entered into agreements with Coors Brewing Company, a subsidiary of ACCo, for the sale of packaging and other products. The initial agreements had a stated term of five years and have resulted in substantial revenues to the Company. The Company continues to sell packaging products to Coors Brewing Company. The current contract with Coors Brewing Company will expire on March 31, 2003. The Company is renegotiating a new packaging supply agreement with Coors Brewing Company, which is expected to be executed in the first quarter of 2003.

Sales to Coors Brewing Company accounted for approximately 10%, 11% and 10% of our consolidated gross sales for 2002, 2001 and 2000, respectively. The loss of Coors Brewing as a customer in the foreseeable future could have a material effect on our results of operations.

One of the Company's subsidiaries, Golden Equities, Inc., is the general partner in a limited partnership in which Coors Brewing Company is the limited partner. The partnership owns, develops, operates and sells certain real estate previously owned directly by Coors Brewing or ACCo. Distributions were allocated equally between the partners until late 1999 when Coors Brewing recovered its investment. Thereafter, distributions were made 80 percent to GPIC as the general partner and 20 percent to Coors Brewing. Distributions in 2002 were $2.0 million to GPIC and $0.5 million to Coors Brewing. No distributions were made in 2001. Distributions in 2000 were approximately $0.8 million to Coors Brewing and $3.2 million to GPIC. Coors Brewing's share of the partnership net assets at December 31, 2002 was $3.9 million and $4.4 million, respectively, and is

reflected as minority interest on the Company's consolidated balance sheet. Coors Brewing's allocated share of the partnership's profit was $0 in 2002, 2001 and 2000.

On December 31, 1999, GPIC spun off its ceramics subsidiary, CoorsTek, Inc. In connection with the spin-off, GPIC and CoorsTek entered into contracts governing certain relationships between them following the spin-off, including a tax-sharing agreement, a transitional services agreement and certain other agreements. See further discussion of the tax-sharing agreement in Note 8.

On March 31, 2000 the Company sold the net assets of its GTC Nutrition subsidiary to an entity controlled by a member of the Coors family for approximately $0.7 million. No gain or loss was recognized as a result of the sale.

In August 2000 the Company issued $100.0 million of preferred stock to the Grover C. Coors Trust. See further discussion of the preferred stock in Note 13.

In August 2001, the Company completed a $50.0 million private placement of 10% subordinated unsecured notes. The purchaser of the notes was Golden Heritage, LLC, a company owned by several Coors family trusts and a related party. On February 28, 2002, the notes were repaid in connection with certain refinancing transactions discussed in Note 5.

In September 2002 the Company entered into a warehouse sublease with Rocky Mountain Bottle Company, a partnership partially owned by Coors Brewing Company. Annual rent under the sublease is approximately $100 thousand. The sublease term expires in July 2006.

Note 15. Commitments and Contingencies

It is the policy of the Company generally to act as a self-insurer for certain insurable risks consisting primarily of employee health insurance programs. With respect to workers' compensation, the Company uses a variety of fully or partially self-funded insurance vehicles. The Company maintains certain stop-loss and excess insurance policies that reduce overall risk of financial loss.

In the ordinary course of business, the Company is subject to various pending claims, lawsuits and contingent liabilities, including claims by current or former employees. In each of these cases, the Company is vigorously defending against them. Although the eventual outcome cannot be predicted, it is management's opinion that disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company is a partner in the Kalamazoo Valley Group (KVG), a partnership formed to develop and operate a landfill for the partners' disposal of paper residuals from their respective paperboard mills. KVG borrowed $1.5 million for the construction of the landfill, of which $500 thousand remains unpaid at December 31, 2002. Recently, the other parties have closed their paperboard mills and one minority partner has left the partnership via bankruptcy. The Company is evaluating its alternatives and liabilities under the partnership agreement and related note. The landfill remains in operation at December 31, 2002. However, if the partnership were to close the landfill, the Company's share of estimated closing costs, perpetual care obligations and debt repayment would approximate $2.5 million under the terms of the partnership agreement. The Company's investment of $0.3 million at December 31, 2002 is included in other long-term assets on the accompanying balance sheet.

From time to time the Company has been notified that it may be a potentially responsible party (PRP) under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 or similar state laws with respect to the remediation of certain sites where hazardous substances have been released into the environment. The Company cannot predict with certainty the total costs of remediation, its share of the total costs, the extent to which contributions will be available from other parties, the amount of time necessary to complete the remediation or the availability of insurance. However, based on the investigations to date, the Company believes that any liability with respect to these sites (either currently active or settled) would not be material to the financial condition, results of operations or cash flow of the Company, without consideration for insurance recoveries. There can be no certainty, however, that the Company will not be named as a PRP at additional sites or be subject to other environmental matters in the future or that the costs associated with those additional sites or matters would not be material.

In connection with the sale of various businesses, the Company has periodically agreed to guarantee the collectibility of accounts receivable and indemnify purchasers for certain liabilities for a specified period of time. Such liabilities include, but are not limited to, environmental matters and the indemnification periods generally last for 2 to 15 years. At December 31, 2002 and 2001, the Company has accrued approximately $3.0 million related to these guarantees and indemnifications.

In connection with the resale of the aluminum business in 1999, the Company guaranteed accounts receivable owed by the former owner of these assets. After the resale, the former owner refused to pay the amounts owed, $2.4 million. Pursuant to the terms of the resale agreement, the Company paid this amount and sued the former owner. The $2.4 million is reflected as a receivable on the Company's balance sheet. The former owner counterclaimed for an additional $11.0 million for certain spare parts and the Company claimed an additional $14.3 million in overpayment for raw materials to run the business prior to resale. The parties have filed motions for summary judgment. The Company does not believe that the result of this litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

On February 19, 2002, Chinyun Kim filed a putative class action claim in District Court, Jefferson County, Colorado against the Company and certain of its shareholders and directors alleging breach of fiduciary duty in connection with the issuance on August 15, 2000, of the Company's Series B Preferred Stock to the Grover C. Coors Trust. The Court dismissed plaintiff's claim against the Company for breach of fiduciary duty while allowing the plaintiff to proceed against the named directors and shareholders, including certain Coors Family Trusts. Currently, discovery is being conducted. The Company believes that the transaction was in the best interest of the Company and its shareholders and that it acted appropriately. It intends to continue to provide a vigorous defense to this action.

Note 16. Segment Information

The Company's reportable segments are based on its method of internal reporting, which is based on product category. Thus, the Company's one reportable segment in 2002, 2001 and 2000 is Packaging.

	Net Sales	Operating Income	Depreciation and Amortization	Assets	Capital Expenditures
			(in thousands)		
2002					
Packaging	**$ 1,057,843**	**$ 62,642**	**$ 61,165**	**$ 1,020,866**	**$ 27,706**
2001					
Packaging	$ 1,112,535	$ 59,854	$ 79,406	$ 1,229,335	$ 31,884
2000					
Packaging	$ 1,102,590	$ 51,223	$ 83,094	$ 1,332,518	$ 30,931

Certain financial information regarding the Company's domestic and foreign operations is included in the following summary. Long-lived assets include plant, property and equipment, intangible assets, and certain other non-current assets.

	Net Sales	Long-Lived Assets
	(in thousands)	
2002		
United States	**$ 1,052,693**	**$ 815,854**
Canada	**5,150**	**1,529**
Other		**2,383**
Total	**$ 1,057,843**	**$ 819,766**
2001		
United States	$ 1,109,293	$ 1,032,748
Canada	3,242	1,736
Other		2,066
Total	$ 1,112,535	$ 1,036,550
2000		
United States	$ 1,100,491	$ 1,103,411
Canada	2,099	1,974
Other		2,694
Total	$ 1,102,590	$ 1,108,079

Sales to Altria Group, Inc. were $215 million in 2002, $216 million in 2001 and $189 million in 2000, representing 20%, 19% and 17% of the Company's consolidated gross sales. Sales to Coors Brewing Company were $111 million in 2002, $123 million in 2001 and $112 million in 2000, representing 10%, 11% and 10% of the Company's consolidated gross sales. Sales to General Mills, Inc. were $122 million in 2002, $127 million in 2001 and $113 million in 2000, representing 11%, 11% and 10% of the Company's consolidated gross sales. No other customer generated greater than 10% of consolidated gross sales for the periods presented.

Note 17. Subsequent Events

On March 6, 2003, the Company acquired substantially all of the assets of J.D. Cahill Co., Inc. for approximately $18 million in cash. J.D. Cahill has annual revenues of approximately $20 million and produces laminated and coated paperboard with manufacturing facilities in Tuscaloosa, Alabama and Centralia, Illinois.

On March 25, 2003, GPIC entered into a merger agreement with Riverwood Holding, Inc. ("Riverwood") to effect a stock-for-stock merger with Riverwood. Riverwood will be the accounting acquiror of GPIC and will survive as a publicly traded company listed on the New York Stock Exchange. Riverwood will take the name Graphic Packaging Corporation. Prior to the merger, Riverwood will complete a 15.21 to 1 stock split of its common stock. GPIC shareholders are expected to receive one share of Riverwood common stock for each share of GPIC common stock they hold. As a condition to closing the merger, the Grover C. Coors Trust will convert its preferred shares into 48,484,848 shares of common stock. Assuming the conversion occurs on July 1, 2003, Riverwood will pay the Grover C. Coors Trust an estimated $19.7 million as consideration for early conversion of the preferred stock. Immediately after the merger, GPIC shareholders will own approximately 42.5% and Riverwood shareholders will own approximately 57.5% of the combined company on a fully diluted basis.

On May 12, 2003, the thirty-day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) expired. Accordingly, the condition to the merger requiring the expiration or termination of the HSR waiting period has been satisfied. In addition to this and other conditions to the merger, the merger must be approved by two-thirds of the combined voting power of GPIC common stock and two thirds of the preferred stock voting as a separate class. The Coors family shareholders, who collectively own approximately 65.1% of the combined voting power of the Company, have signed a voting agreement with Riverwood in which they have agreed to vote in favor of the merger. Another 0.6% of the combined voting power of the Company is owned by directors and executive officers who are also expected to vote in favor of the merger. Management is expecting the merger to be approved at a special meeting of the shareholders in the third quarter and that the merger will be consummated shortly thereafter.

The combined company has commitment letters from a banking syndicate for financing totaling $1.6 billion at the time of merger. Management estimates that up to $1.3 billion will be drawn at the time of merger to repay existing bank debt and to pay transaction costs. The combined company may also refinance GPIC's and Riverwood's senior and senior subordinated notes in the principal amount of $850 million. Assuming the GPIC existing senior bank credit facility and the senior subordinated notes are refinanced, a loss on early extinguishment of debt will occur totaling approximately $17.5 million, consisting of $3.0 million of cash tender premium and $14.5 million of non-cash unamortized debt issuance costs.

For the quarter ended March 31, 2003, the Company incurred approximately $2.3 million of merger related costs. Management expects to incur an estimated additional $10 million of transaction costs prior to closing for merger related investment banking, legal and accounting fees. For the quarter ended March 31, 2003, the Company also incurred approximately $400 thousand evaluating acquisitions that were not consummated.

Relating to the proposed merger, Riverwood has filed a registration statement with the Securities and Exchange Commission which contains a proxy statement/prospectus that will be sent to GPIC shareholders once the registration statement is effective.

Note 18. Subsequent Adoption of an Accounting Prouncement

As discussed in Note 2, the Company adopted SFAS No. 145 effective January 1, 2003 resulting in a reclassification of the $15.8 million extraordinary loss on early extinguishment of debt as a non-extraordinary item to loss before income taxes and cumulative effect of change in accounting principle for the year ended December 31, 2002.

Note 19. Quarterly Financial Information (Unaudited)

The following information summarizes selected quarterly financial information, in thousands except per share data, for each of the two years in the period ended December 31, 2002.

2002	**First**	**Second**	**Third**	**Fourth**	**Year**
Net sales	$ **263,724**	$ **263,917**	$ **270,002**	$ **260,200**	$ **1,057,843**
Cost of goods sold	**229,432**	**231,022**	**240,949**	**229,178**	**930,581**

2002	First	Second	Third	Fourth	Year
Gross profit	**34,292**	**32,895**	**29,053**	**31,022**	**127,262**
Selling, general and administrative expense	**14,887**	**15,808**	**16,192**	**17,733**	**64,620**
Operating income	**19,405**	**17,087**	**12,861**	**13,289**	**62,642**
Interest expense	**(11,296)**	**(12,453)**	**(11,310)**	**(9,581)**	**(44,640)**
Loss on early extinguishment of debt	**(15,766)**				**(15,766)**
Income (loss) before income taxes and cumulative effect of change in accounting principle	**(7,657)**	**4,634**	**1,551**	**3,708**	**2,236**
Income tax (expense) benefit	**2,986**	**(1,808)**	**(604)**	**(1,460)**	**(886)**
Income (loss) before cumulative effect of change in accounting principle	**(4,671)**	**2,826**	**947**	**2,248**	**1,350**
Cumulative effect of change in goodwill accounting, net of tax	**(180,000)**				**(180,000)**
Net income (loss)	**(184,671)**	**2,826**	**947**	**2,248**	**(178,650)**
Preferred stock dividends declared	**(2,500)**	**(2,500)**	**(2,500)**	**(2,500)**	**(10,000)**
Net income (loss) attributable to common shareholders	**$ (187,171)**	**$ 326**	**$ (1,553)**	**$ (252)**	**$ (188,650)**
Net income (loss) attributable to common shareholders per basic share(1)	**$ (5.79)**	**$ 0.01**	**$ (0.05)**	**$ (0.01)**	**$ (5.77)**
Net income (loss) attributable to common shareholders per diluted share(1)	**$ (5.79)**	**$ 0.01**	**$ (0.05)**	**$ (0.01)**	**$ (5.77)**

2001	First	Second	Third	Fourth	Year
Net sales	$ 288,444	$ 283,252	$ 270,818	$ 270,021	$ 1,112,535
Cost of goods sold	248,210	240,976	234,363	236,709	960,258
Gross profit	40,234	42,276	36,455	33,312	152,277
Selling, general and administrative expense	14,489	16,428	16,061	15,896	62,874
Goodwill amortization	5,169	5,143	5,175	5,162	20,649
Asset impairment and restructuring charges	2,000	1,000		5,900	8,900
Operating income	18,576	19,705	15,219	6,354	59,854
Gain from sale of businesses and other assets	3,650				3,650
Interest expense	(16,125)	(13,530)	(12,429)	(10,727)	(52,811)
Income (loss) before income taxes	6,101	6,175	2,790	(4,373)	10,693
Income tax (expense) benefit	(2,420)	(2,446)	(1,160)	1,769	(4,257)
Net income (loss)	3,681	3,729	1,630	(2,604)	6,436
Preferred stock dividends declared	(2,500)	(2,500)	(2,500)	(2,500)	(10,000)
	$ 1,181	$ 1,229	$ (870)	$ (5,104)	$ (3,564)

2001	First	Second	Third	Fourth	Year
Net income (loss) attributable to common shareholders					
Net income (loss) attributable to common shareholders per basic share	$ 0.04	$ 0.04	$ (0.03)	$ (0.16)	$ (0.11)
Net income (loss) attributable to common shareholders per diluted share	$ 0.04	$ 0.04	$ (0.03)	$ (0.16)	$ (0.11)

(1)
Quarterly earnings per share do not accumulate to total year earnings per share as a result of the anti-dilutive effect of the preferred stock for the year, compared to the dilutive effect of the preferred stock in the first quarter, plus the increase in common stock equivalents during the year.

Note 20. Supplemental Information

GPC issued $300 million of senior subordinated notes on February 28, 2002. The senior subordinated notes are jointly and severally as well as fully and unconditionally guaranteed by GPIC and its other domestic subsidiaries. The Company's foreign subsidiaries and a real estate development partnership do not guarantee the senior subordinated notes.

The accompanying supplemental financial information presents condensed consolidating financial statements of (a) Graphic Packaging Corporation (the Issuer); (b) Graphic Packaging International Corporation (the Parent) and a guarantor; (c) the guarantor subsidiaries; (d) the nonguarantor subsidiaries; and (e) the Company on a consolidated basis.

GPC and GPIC were co-borrowers under the Company's senior bank debt and subordinated debt agreements in effect prior to the refinancing transactions on February 28, 2002. Interest expense under these borrowing agreements was recorded by GPC. In addition, GPC incurred $10.0 million of interest expense in the year ended December 31, 2002, pursuant to a $100 million intercompany loan from GPIC. In 2001 and 2000, GPC incurred $8.8 million of interest pursuant to the same intercompany note that totaled $92.7 million.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2002
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	**$ 1,051,347**	**$**	**$**	**$ 6,496**	**$**	**$ 1,057,843**
Cost of goods sold	**925,095**			**5,486**		**930,581**
Gross profit	**126,252**			**1,010**		**127,262**
Selling, general and administrative expense	**64,301**			**319**		**64,620**
Equity in earnings of subsidiaries	**(311)**	**(4,845)**	**(352)**		**5,508**	
Operating income	**62,262**	**4,845**	**352**	**691**	**(5,508)**	**62,642**
Interest (expense) income	**(54,589)**	**10,000**		**(51)**		**(44,640)**

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Loss on early extinguishment of debt	**(15,766)**					**(15,766)**
Income (loss) before taxes and cumulative effect of change in accounting priniciple	**(8,093)**	**14,845**	**352**	**640**	**(5,508)**	**2,236**
Income tax (expense) benefit	**3,142**	**(5,790)**	**(322)**	**(65)**	**2,149**	**(886)**
Income (loss) before cumulative effect of change in accounting principle	**(4,951)**	**9,055**	**30**	**575**	**(3,359)**	**1,350**
Cumulative effect of change in goodwill accounting, net of tax of $0	**(180,000)**					**(180,000)**
Net income (loss)	**(184,951)**	**9,055**	**30**	**575**	**(3,359)**	**(178,650)**
Preferred stock dividends declared		**(10,000)**				**(10,000)**
Net income (loss) attributable to common shareholders	**$ (184,951)**	**$ (945)**	**$ 30**	**$ 575**	**$ (3,359)**	**$ (188,650)**

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2001
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 1,108,878	$	$	$ 3,657	$	$ 1,112,535
Cost of goods sold	956,631			3,627		960,258
Gross profit	152,247			30		152,277
Selling, general and administrative expense	62,789		33	52		62,874
Goodwill amortization	20,649					20,649
Asset impairment and restructuring charges	8,900					8,900
Equity in earnings of subsidiaries	(2,471)	(1,248)	(101)		3,820	
Operating income (loss)	62,380	1,248	68	(22)	(3,820)	59,854
Gain from sale of businesses and other assets			3,650			3,650
Interest (expense) income	(61,941)	8,619	288	223		(52,811)
Income (loss) before taxes	439	9,867	4,006	201	(3,820)	10,693
Income tax (expense) benefit	(174)	(3,928)	(1,595)	(80)	1,520	(4,257)
Net income (loss)	265	5,939	2,411	121	(2,300)	6,436
Preferred stock dividends declared		(10,000)				(10,000)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net income (loss) attributable to common shareholders	$ 265	$ (4,061)	$ 2,411	$ 121	$ (2,300)	$ (3,564)

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Year Ended December 31, 2000
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 1,098,498	$	$ 1,083	$ 3,009	$	$ 1,102,590
Cost of goods sold	960,750			3,229		963,979
Gross profit	137,748		1,083	(220)		138,611
Selling, general and administrative expense	60,074		977	83		61,134
Goodwill amortization	20,634					20,634
Asset impairment and restructuring charges	5,620					5,620
Equity in (earnings) of subsidiaries	(3,121)	12,158	(407)		(8,630)	
Operating income (loss)	54,541	(12,158)	513	(303)	8,630	51,223
Gain from sale of businesses and other assets	13,765		5,407			19,172
Interest (expense) income	(90,681)	8,611	10	(11)		(82,071)
Income (loss) before taxes	(22,375)	(3,547)	5,930	(314)	8,630	(11,676)
Income tax (expense) benefit	8,966	1,421	(2,539)	289	(3,459)	4,678
Net income (loss)	(13,409)	(2,126)	3,391	(25)	5,171	(6,998)
Preferred stock dividends declared		(3,806)				(3,806)
Net income (loss) attributable to common shareholders	$ (13,409)	$ (5,932)	$ 3,391	$ (25)	$ 5,171	$ (10,804)

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET

At December 31, 2002
(in thousands)

Issuer	Parent	Eliminations

			Guarantor Subsidiaries	Nonguarantor Subsidiaries		Consolidated Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 25,565	$	$	$ 3,061	$	$ 28,626
Accounts receivable, net	60,231	2,437		878		63,546
Inventories	86,740			503		87,243
Other assets	21,609		1	24,046	(23,970)	21,686
Total current assets	194,145	2,437	1	28,488	(23,970)	201,101
Properties, net	401,889			8,703		410,592
Goodwill, net	379,696					379,696
Other assets	29,781	561,410	6,880	18,393	(586,987)	29,477
Total assets	$ 1,005,511	$ 563,847	$ 6,881	$ 55,584	$ (610,957)	$ 1,020,866
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Current maturities of long-term debt	$ 1,976	$	$	$ 1,456	$	$ 3,432
Accounts payable	81,519	24		563		82,106
Other current liabilities	66,543	23,691	2,536	651	(23,970)	69,451
Total current liabilities	150,038	23,715	2,536	2,670	(23,970)	154,989
Long-term debt	472,798			235,383	(233,282)	474,899
Other long-term liabilities	185,968	1,826			(103,854)	83,940
Total liabilities	808,804	25,541	2,536	238,053	(361,106)	713,828
Shareholders' equity						
Preferred stock		100,000				100,000
Common stock		335	1,829	1,540	(3,369)	335
Paid-in capital	418,299	192,984	241,774	(182,077)	(257,353)	413,627
Retained earnings (deficit)	(194,701)	244,987	(239,258)	(1,111)	10,871	(179,212)
Accumulated other comprehensive loss	(26,891)			(821)		(27,712)
Total shareholders' equity	196,707	538,306	4,345	(182,469)	(249,851)	307,038
Total liabilities and shareholders' equity	$ 1,005,511	$ 563,847	$ 6,881	$ 55,584	$ (610,957)	$ 1,020,866

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET

At December 31, 2001
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 1,145	$ 976	$	$ 4,645	$	$ 6,766
Accounts receivable, net	56,560	135,301	93	834	(133,314)	59,474
Inventories	92,154			254		92,408
Other assets	33,101			24,024	(23,969)	33,156
Total current assets	182,960	136,277	93	29,757	(157,283)	191,804
Properties, net	434,549			9,163		443,712
Goodwill, net	559,696					559,696
Other assets	18,626	471,914	8,147	18,075	(482,639)	34,123
Total assets	$ 1,195,831	$ 608,191	$ 8,240	$ 56,995	$ (639,922)	$ 1,229,335
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Current maturities of long-term debt	$ 36,156	$	$	$ 1,217	$	$ 37,373
Accounts payable	58,110	534		358		59,002
Other current liabilities	59,929	33,286	2,730	1,500	(24,419)	73,026
Total current liabilities	154,195	33,820	2,730	3,075	(24,419)	169,401
Long-term debt	579,006			2,055	(92,675)	488,386
Other long-term liabilities	208,823	1,959		233,357	(370,239)	73,900
Total liabilities	942,024	35,779	2,730	238,487	(487,333)	731,687
Shareholders' equity						
Preferred stock		100,000				100,000
Common stock		322	1,829	1,540	(3,369)	322
Paid-in capital	283,787	234,975	243,012	(180,753)	(163,272)	417,749
Retained earnings (deficit)	(8,993)	235,353	(239,331)	(1,643)	14,052	(562)
Accumulated other comprehensive income (loss)	(20,987)	1,762		(636)		(19,861)
Total shareholders' equity	253,807	572,412	5,510	(181,492)	(152,589)	497,648
Total liabilities and shareholders' equity	$ 1,195,831	$ 608,191	$ 8,240	$ 56,995	$ (639,922)	$ 1,229,335

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2002
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by (used in) operating activities	**$ 115,898**	**$ 7,735**	**$**	**$ (1,538)**	**$**	**$ 122,095**
Cash flows from investing activities:						
Capital expenditures	**(27,660)**			**(46)**		**(27,706)**
Net cash used in investing activities	**(27,660)**			**(46)**		**(27,706)**
Cash flows from financing activities:						
Proceeds from borrowings	**759,677**					**759,677**
Repayment of debt	**(807,105)**					**(807,105)**
Debt issuance costs	**(16,390)**					**(16,390)**
Preferred stock dividends paid		**(10,000)**				**(10,000)**
Common stock issuance and other		**1,289**				**1,289**
Net cash used in financing activities	**(63,818)**	**(8,711)**				**(72,529)**
Cash and cash equivalents:						
Net increase (decrease)	**24,420**	**(976)**		**(1,584)**		**21,860**
Balance at beginning of year	**1,145**	**976**		**4,645**		**6,766**
Balance at end of year	**$ 25,565**	**$**	**$**	**$ 3,061**	**$**	**$ 28,626**

F-102

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2001
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by (used in) operating activities	$ 141,944	$ 12,772	$ (3,650)	$ 633	$	$ 151,699
Cash flows from investing activities:						
Capital expenditures	(31,884)					(31,884)
Proceeds from sale of assets	5,300		3,650			8,950
Net cash provided by (used in) investing activities	(26,584)		3,650			(22,934)
Cash flows from financing activities:						
Proceeds from borrowings	206,750					206,750
Repayment of debt	(320,965)					(320,965)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Preferred stock dividends paid		(12,083)				(12,083)
Common stock issuance and other		287				287
Net cash used in financing activities	(114,215)	(11,796)				(126,011)
Cash and cash equivalents:						
Net increase	1,145	976		633		2,754
Balance at beginning of year				4,012		4,012
Balance at end of year	$ 1,145	$ 976	$	$ 4,645	$	$ 6,766

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Year Ended December 31, 2000
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by (used in) operating activities	$ 379,095	$ (308,154)	$ (5,850)	$ (2,212)	$	$ 62,879
Cash flows from investing activities:						
Capital expenditures	(30,870)		(57)	(4)		(30,931)
Proceeds from sales of assets	37,673		5,907			43,580
Collection on note receivable		200,000				200,000
Net cash provided by (used in) investing activities	6,803	200,000	5,850	(4)		212,649
Cash flows from financing activities:						
Proceeds from borrowings	52,015					52,015
Repayment of debt	(431,996)					(431,996)
Proceeds from preferred stock issuance, net of issuance costs		98,558				98,558
Preferred stock dividends paid		(1,306)				(1,306)
Common stock issuance and other		1,656				1,656
Debt issuance costs	(6,312)					(6,312)
Net cash provided by (used in) financing activities	(386,293)	98,908				(287,385)
Cash and cash equivalents:						
Net decrease	(395)	(9,246)		(2,216)		(11,857)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Balance at beginning of year	395	9,246		6,228		15,869
Balance at end of year	$	$	$	$ 4,012	$	$ 4,012

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net sales	$ 260,883	$ 263,724
Cost of goods sold	232,174	229,432
Gross profit	28,709	34,292
Selling, general and administrative expense	16,668	14,887
Merger and acquisition transaction costs	2,698	
Operating income	9,343	19,405
Interest expense	(9,416)	(11,296)
Loss on early extinguishment of debt		(15,766)
Loss before income taxes and cumulative effect of change in accounting principle	(73)	(7,657)
Income tax benefit	30	2,986
Loss before cumulative effect of change in accounting principle	(43)	(4,671)
Cumulative effect of change in goodwill accounting, net of tax of $0		(180,000)
Net loss	(43)	(184,671)
Preferred stock dividends declared	(2,500)	(2,500)
Net loss attributable to common shareholders	$ (2,543)	$ (187,171)
Net loss attributable to common shareholders per basic and diluted share:		
Before cumulative effect of change in accounting principle	$ (0.08)	$ (0.22)
Cumulative effect of change in goodwill accounting		(5.57)
	$ (0.08)	$ (5.79)
Weighted average shares outstanding basic and diluted	33,574	32,343

	Three Months Ended March 31,	

See Notes to Condensed Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2003	**2002**
Net loss	$ (43)	$ (184,671)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(217)	(14)
Recognition of hedge results to interest expense during the period, net of tax of $937		1,507
Change in fair value of cash flow hedges during the period, net of tax of $48		(76)
Amortization of cancelled interest rate swap, net of tax of $46		73
Other comprehensive income (loss)	(217)	1,490
Comprehensive loss	$ (260)	$ (183,181)

See Notes to Condensed Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET

(in thousands, except share data)

	March 31, 2003	December 31, 2002
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,028	$ 28,626
Accounts receivable, net	74,068	63,546
Inventories:		
Finished	60,516	50,771

	March 31, 2003	December 31, 2002
In process	10,615	11,298
Raw materials	27,903	25,174
Total inventories	99,034	87,243
Other assets	21,328	21,686
Total current assets	199,458	201,101
Properties, net	405,703	410,592
Goodwill, net	391,803	379,696
Other assets	28,564	29,477
Total assets	$ 1,025,528	$ 1,020,866
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current maturities of long-term debt	$ 3,593	$ 3,432
Accounts payable	89,150	82,106
Interest payable	4,626	11,117
Other current liabilities	52,500	58,334
Total current liabilities	149,869	154,989
Long-term debt	483,858	474,899
Pension liability	44,055	42,310
Other long-term liabilities	42,159	41,630
Total liabilities	719,941	713,828
Shareholders' equity		
Preferred stock, nonvoting, 20,000,000 shares authorized:		
Series A, $0.01 par value, no shares issued or outstanding		
Series B, $0.01 par value, 1,000,000 shares issued and outstanding at stated value of $100 per share	100,000	100,000
Common stock, $0.01 par value, 100,000,000 shares authorized and 33,703,676 and 33,477,300 issued and outstanding at March 31, 2003, and December 31, 2002, respectively	337	335
Paid-in capital	414,700	416,048
Unearned compensation	(2,266)	(2,421)
Retained deficit	(179,255)	(179,212)
Accumulated other comprehensive loss	(27,929)	(27,712)
Total shareholders' equity	305,587	307,038
Total liabilities and shareholders' equity	$ 1,025,528	$ 1,020,866

See Notes to Condensed Consolidated Financial Statements.

F-107

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2003	**2002**
Cash flows from operating activities:		
Net loss	$ (43)	$ (184,671)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	15,425	15,229
Amortization of debt issuance costs	570	1,368
Loss on early extinguishment of debt		15,766
Goodwill impairment charge		180,000
Compensation expense settled in stock	1,267	1,106
Change in current assets and current liabilities, net of effects of acquisition:		
Accounts receivable	(10,522)	(16,357)
Inventory	(10,174)	(6,740)
Other current assets	358	728
Accounts payable	5,444	(2,614)
Other current liabilities	(12,325)	9,112
Other	2,347	1,738
Net cash provided by (used in) operating activities	(7,653)	14,665
Cash flows from investing activities:		
Capital expenditures	(4,540)	(7,200)
Acquisition of J.D. Cahill Co.	(18,088)	
Net cash used in investing activities	(22,628)	(7,200)
Cash flows from financing activities:		
Proceeds from borrowings	53,906	588,400
Repayment of debt	(44,786)	(579,799)
Preferred stock dividends paid	(2,500)	(2,500)
Debt issuance costs		(15,133)
Common stock issuance and other	63	73
Net cash provided by (used in) financing activities	6,683	(8,959)
Cash and cash equivalents:		
Net decrease in cash and cash equivalents	(23,598)	(1,494)
Balance at beginning of period	28,626	6,766
Balance at end of period	$ 5,028	$ 5,272

See Notes to Condensed Consolidated Financial Statements.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Note 1. Significant Accounting Policies

Nature of Operations and Basis of Presentation: Graphic Packaging International Corporation (the Company or GPIC) is a manufacturer of packaging products used by consumer product companies as primary packaging for their end-use products.

The consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures included herein are adequate to make the information presented not misleading. A description of the Company's accounting policies and other financial information is included in the audited financial statements filed with the Securities and Exchange Commission in the Company's Form 10-K for the year ended December 31, 2002.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary to fairly state the financial position of the Company at March 31, 2003, and the results of operations and cash flows for the periods presented. All such adjustments are of a normal recurring nature. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results that may be achieved for the full fiscal year and cannot be used to indicate financial performance for the entire year.

Segment Information: The Company's reportable segments are based on its method of internal reporting, which is based on product category. The Company has one reportable segment Packaging. In addition, the Company's holdings and operations outside the United States are nominal. Therefore, no additional segment information is provided herein.

Goodwill Accounting: SFAS No. 142, "Goodwill and Other Intangible Assets," became effective on January 1, 2002 for the Company. This statement establishes new accounting and reporting standards that, among other things, eliminate amortization of goodwill and certain intangible assets with indefinite useful lives. The Company does not have any intangible assets with indefinite useful lives; however, as required by the new standard, the Company's goodwill will be evaluated annually, or whenever a triggering event takes place, for impairment using a fair-value based approach and, if there is impairment, the carrying amount of goodwill will be written down to its implied fair value. Management re-evaluated the Company's goodwill for impairment upon signing the merger agreement discussed in Note 5 below. Management determined that the Company's goodwill is not impaired.

Effective January 1, 2002, the Company assigned the carrying value of its goodwill, totaling $560 million, to one reporting unit. Management completed the transitional impairment testing of the Company's goodwill and determined that the Company's goodwill was impaired by $180 million at January 1, 2002. The fair value of the Company was derived using the discounted cash flow valuation method. The transitional impairment loss is reflected as a cumulative effect of change in accounting principle in the accompanying statement of operations. Future impairments of goodwill, if any, will be charged to operating income in the period in which the impairment arises.

Of the $560 million carrying value of goodwill at December 31, 2001, $418 million was deductible for Federal income tax purposes and $142 million was not deductible. The $180 million goodwill impairment charge consists of approximately $131 million of deductible goodwill and approximately $49 million of non-deductible goodwill. The $131 million tax deductible portion of the impairment charge resulted in a deferred tax benefit/asset of approximately $50 million. The Company recorded a 100% valuation allowance against the approximately $50 million deferred tax asset resulting from

recognition of the transitional goodwill impairment loss. Therefore, the cumulative effect of change in accounting principle reflected in the accompanying statement of operations is net of $0 tax benefit.

Stock-Based Compensation: The Company applies Accounting Principles Board Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. Accordingly, no compensation expense has been recognized for stock options or the employee stock purchase plan as all options were granted at the market price. If the Company had elected to recognize compensation cost based on the fair value of the stock options at grant date as allowed by SFAS No. 123, "Accounting for Stock-Based Compensation," pre-tax compensation expense of $1.3 million and $0.4 million would have been recorded for the quarterly periods ended March 31, 2003 and 2002, respectively. Net loss attributable to common shareholders and loss per share would have been reduced to the pro forma amounts indicated

below:

	Three Months Ended March 31,	
	2003	**2002**
	(in thousands, except per share data)	
Net loss attributable to common shareholders, as reported	**$ (2,543)**	$ (187,171)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	**(767)**	(244)
Pro forma net loss attributable to common shareholders	**$ (3,310)**	$ (187,415)
Loss per share basic and diluted:		
As reported	**$ (0.08)**	$ (5.79)
Pro forma	**$ (0.10)**	$ (5.79)

Note 2. Loss on Early Extinguishment of Debt

It is the Company's policy to implement all new accounting pronouncements as they are issued and become effective for the Company. During the first quarter of 2003, one new accounting pronouncement was adopted.

In connection with its first quarter 2002 refinancing transactions, the Company incurred a non-cash charge in 2002 to write off its remaining unamortized debt issuance costs associated with the refinanced debt of $15.8 million, pretax, which was reflected as an extraordinary loss in the 2002 statement of operations. The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections as of April 2002" in April 2002. SFAS No. 145 includes, among other things, the rescission of SFAS No. 4, which required that gains and losses from early extinguishment of debt be classified as an extraordinary item, net of related income tax effects. Under the new guidance of SFAS No. 145, losses from early extinguishment of debt are classified as extraordinary items only when the losses are considered unusual in nature and infrequent in occurrence. SFAS No. 145 was effective for the Company on January 1, 2003, at which time the Company reclassified its first quarter 2002 loss on early extinguishment of debt ($.30 per share) as a non-extraordinary item.

Note 3. Acquisition of J.D. Cahill Co.

On March 6, 2003, the Company acquired the business of J.D. Cahill Co., Inc. in an asset acquisition for approximately $20.0 million, consisting of approximately $18.1 million in cash and assumption of approximately $1.9 million of liabilities. The assets acquired and liabilities assumed, which consisted of inventories, fixed assets, intangible assets and accounts payable, were valued at approximately $7.9 million, resulting in goodwill of $12.1 million. The change in the carrying amount of

the Company's goodwill during the first quarter of 2003 relates entirely to the Cahill acquisition. Consolidated operating results for the first quarter of 2003 include the results of Cahill beginning March 6, 2003. Among other expected benefits, the Company expects to avoid approximately $10 million of future capital spending as a result of this acquisition.

Note 4. New Accounting Pronouncement

Financial Accounting Standards Board Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities," was issued in January 2003. FIN No. 46 defines a variable interest entity as a legal entity in which, among other things, the equity investments at risk are not sufficient to finance the operating and closing activities of the entity without additional subordinated financial support from the entity's investors. The Company is a partner in the Kalamazoo Valley Group (KVG) Partnership, which qualifies as a variable interest entity, as defined by FIN No. 46. KVG is a partnership formed to develop and operate a landfill for the partners' disposal of paper residuals from their respective paperboard mills. KVG borrowed $1.5 million for the construction of the landfill, of which approximately $400 thousand remains unpaid at

March 31, 2003. The partners contribute capital annually to meet the partnership's operating losses. The Company's annual contribution for the past two years has been approximately $200 thousand. The landfill has been in operation since December 1997; however, since 2000, two of the other partners have closed their paperboard mills and one minority partner was permitted to withdraw by the bankruptcy court. The Company is evaluating its alternatives and liabilities under the partnership agreement and related note, while continuing to use the landfill. However, if the partnership were to close the landfill, the Company's share of estimated closing costs, perpetual care obligations and debt repayment would approximate $2.5 million under the terms of the partnership agreement. The Company accounts for its interest in KVG using the equity method. The investment balance at March 31, 2003 was $14 thousand. Management is also evaluating its accounting method in light of the new requirements under FIN No. 46, and may conclude that its interest in KVG should be consolidated into the Company's accounts. FIN No. 46 is effective for the Company's 2003 third quarter.

Note 5. Proposed Merger with Riverwood

On March 25, 2003, GPIC entered into a merger agreement with Riverwood Holding, Inc. to effect a stock-for-stock merger with Riverwood. Riverwood will be the accounting acquiror of GPIC and will survive as a publicly traded company listed on the New York Stock Exchange. Riverwood will take the name Graphic Packaging Corporation. Prior to the merger, Riverwood will complete a 15.21 to 1 stock split of its common stock. GPIC shareholders are expected to receive one share of Riverwood common stock for each share of GPIC common stock they hold. As a condition to closing the merger, the Grover C. Coors Trust will convert its preferred shares into 48,484,848 shares of common stock. Assuming the conversion occurs on July 1, 2003, Riverwood will pay the Grover C. Coors Trust an estimated $19.7 million as consideration for early conversion of the preferred stock. Immediately after the merger, GPIC shareholders will own approximately 42.5% and Riverwood shareholders will own approximately 57.5% of the combined company on a fully diluted basis.

On May 12, 2003, the thirty-day waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (HSR) expired. Accordingly, the condition to the merger requiring the expiration or termination of the HSR waiting period has been satisfied. In addition to this and other conditions to the merger, the merger must be approved by two-thirds of the combined voting power of GPIC common stock and two thirds of the preferred stock voting as a separate class. The Coors family shareholders, who collectively own approximately 65.1% of the combined voting power of the Company, have signed a voting agreement with Riverwood in which they have agreed to vote in favor of the merger. Another 0.6% of the combined voting power of the Company is owned by directors and executive officers who are also expected to vote in favor of the merger. Management is expecting the

merger to be approved at a special meeting of the shareholders in the third quarter and that the merger will be consummated shortly thereafter.

The combined company has commitment letters from a banking syndicate for financing totaling $1.6 billion at the time of merger. Management estimates that up to $1.3 billion will be drawn at the time of merger to repay existing bank debt and to pay transaction costs. The combined company may also refinance GPIC's and Riverwood's senior and senior subordinated notes in the principal amount of $850 million. Assuming the GPIC existing senior bank credit facility and the senior subordinated notes are refinanced, a loss on early extinguishment of debt will occur totaling approximately $17.5 million, consisting of $3.0 million of cash tender premium and $14.5 million of non-cash unamortized debt issuance costs.

For the quarter ended March 31, 2003, the Company incurred approximately $2.3 million of merger related costs. Management expects to incur an estimated additional $10 million of transaction costs prior to closing for merger related investment banking, legal and accounting fees. For the quarter ended March 31, 2003, the Company also incurred approximately $400 thousand evaluating acquisitions that were not consummated.

Relating to the proposed merger, Riverwood has filed a registration statement with the Securities and Exchange Commission which contains a proxy statement/prospectus that will be sent to GPIC shareholders once the registration statement is effective.

Note 6. Guarantees, Commitments and Contingencies

In the ordinary course of business, the Company is subject to various pending claims, lawsuits and contingent liabilities, including claims by current or former employees. In each of these cases, the Company is vigorously defending against them. Although the eventual outcome cannot be predicted, it is management's opinion that disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

On February 19, 2002, Chinyun Kim filed a putative class action claim in District Court, Jefferson County, Colorado against the Company and certain of its shareholders and directors alleging breach of fiduciary duty in connection with the issuance on August 15, 2000, of the

Company's Series B Preferred Stock to the Grover C. Coors Trust. The court dismissed plaintiff's claims against the Company for breach of fiduciary duty while allowing the plaintiff to proceed against the named directors and shareholders, including certain Coors Family Trusts. Currently, discovery is being conducted. The plaintiffs have moved to certify as a class action. Defendants have opposed the certification of a class. The court has not yet ruled on (1) whether it will certify as a class and (2) if it does, what group of shareholders would constitute the class. The Company believes that the transaction was in the best interest of the Company and its shareholders. The Company intends to continue to provide a vigorous defense to this action.

On April 2, 2003, two putative class action lawsuits were filed in District Court, Jefferson County, Colorado, against the Company, the Company's directors and Riverwood Holding, Inc. relating to the proposed merger transaction between the Company and Riverwood pursuant to the Merger Agreement dated March 25, 2003 among the Company, Riverwood and Riverwood Acquisition Sub LLC. The complaints were filed by Robert F. Smith and Harold Lightweis, on behalf of themselves and all others similarly situated. Each of the two complaints alleges breach of fiduciary duties by the defendants to the Company's public shareholders in connection with the proposed merger. The complaints seek an injunction against consummation of the merger, rescission of the merger if it is consummated, unspecified damages, costs and other relief permitted by law and equity. The Company believes that these lawsuits are without merit and intends to vigorously defend both cases.

During its normal course of business, the Company has entered into certain indemnification agreements with directors and officers of the Company to the maximum extent permitted under the laws of the State of Colorado, which are insured under directors and officers liability policies.

In connection with the sale of various businesses, the Company has periodically agreed to guarantee the collectibility of accounts receivable and indemnify purchasers for certain liabilities for a specified period of time. Such liabilities include, but are not limited to, environmental matters and the indemnification periods generally last for 2 to 15 years. At March 31, 2003, the Company has accrued approximately $3.0 million related to these guarantees and indemnifications.

In connection with the resale of the aluminum business in 1999, the Company guaranteed accounts receivable owed by the former owner of these assets. After the resale, the former owner refused to pay the amount owed of $2.4 million. Pursuant to the terms of the resale agreement, the Company paid this amount and sued the former owner. The $2.4 million is reflected as a receivable on the Company's balance sheet. The former owner counterclaimed for an additional $11.0 million for certain spare parts and the Company claimed an additional $14.3 million in overpayment for raw materials to run the business prior to resale. The parties have filed motions for summary judgment. The Company does not believe that the result of this litigation will have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Note 7. Related Party Supply Agreement

On December 28, 1992, the Company was spun off from Adolph Coors Company (ACCo) and since that time ACCo has had no ownership interest in the Company. However, certain Coors family trusts have significant interests in both GPIC and ACCo. The Company has also entered into various business arrangements with the Coors family trusts and related entities from time-to-time since the spin-off. The Company's policy is to negotiate market prices and competitive terms with all parties, including related parties.

The Company originated as the packaging division of Coors Brewing Company, a subsidiary of ACCo. At the time of spin-off from ACCo the Company entered into an agreement with Coors Brewing to continue to supply their packaging needs. The initial agreement had a stated term of five years and has resulted in substantial revenues for GPIC. The Company continues to sell packaging products to Coors Brewing. Coors Brewing accounted for approximately 9% and 10% of the Company's consolidated gross sales in the first quarter of 2003 and 2002, respectively. The loss of Coors Brewing as a customer in the foreseeable future could have a material effect on the Company's results of operations. In the first quarter of 2003, the Company executed a new supply agreement, effective April 1, 2003, with Coors Brewing that will not expire until December 31, 2006.

Note 8. Shareholders' Rights Plan

On June 1, 2000, the Company effected a dividend distribution of shareholder rights (the Rights) that carry certain conversion rights in the event of a significant change in beneficial ownership of the Company. One right is attached to each share of the Company's common stock outstanding and is not detachable until such time as beneficial ownership of 15% or more of the Company's outstanding common stock has occurred (a Triggering Event) by a person or group of affiliated or associated persons (an Acquiring Person). Each Right entitles each registered holder (excluding the Acquiring Person) to purchase from the Company one-thousandth of a share of Series A Junior Participating Preferred Stock, par value $.01 per share, at a purchase price of $42.00. Registered holders receive shares of the Company's common stock valued at twice

the exercise price of the Right upon exercise. Upon a Triggering Event, the Company is entitled to exchange one share of the company's common stock for each right outstanding or to redeem the Rights at the price of $.001 per Right. The Rights will expire on June 1, 2010.

In connection with the proposed merger, the Company and the rights agent amended the terms of the rights agreement so that the execution and delivery of the merger agreement and voting agreement and the consummation of the transactions contemplated by the merger agreement will not constitute a triggering event. This means that holders of the Company's common stock will not obtain the detachable rights in connection with the proposed merger.

Note 9. Supplemental Information

Graphic Packaging Corporation (GPC), a wholly-owned subsidiary of GPIC, issued $300 million of senior subordinated notes on February 28, 2002. The senior subordinated notes are jointly and severally as well as fully and unconditionally guaranteed by GPIC and its other domestic subsidiaries. The Company's foreign subsidiaries and a real estate development partnership do not guarantee the senior subordinated notes.

The accompanying supplemental financial information presents condensed consolidating financial statements of (a) Graphic Packaging Corporation (the Issuer); (b) Graphic Packaging International Corporation (the Parent); (c) the guarantor subsidiaries; (d) the nonguarantor subsidiaries; and (e) the Company on a consolidated basis.

GPC and GPIC were co-borrowers under the Company's senior bank debt and subordinated debt agreements in effect prior to the refinancing transactions on February 28, 2002. Interest expense under these borrowing agreements was recorded by GPC. In addition, GPC incurred $2.5 million of quarterly interest expense in the three months ended March 31, 2003 and 2002, pursuant to a $100 million intercompany loan from GPIC.

The following condensed consolidating financial statements are presented on the equity method. Under this method, investments in subsidiaries are recorded at cost and adjusted for the parent company's share of the subsidiaries' cumulative results of operations, capital contributions, distributions and other equity changes. The elimination entries relate primarily to investments in subsidiaries, intercompany loans and other intercompany transactions.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended March 31, 2003
(in thousands)
(unaudited)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 259,324	$	$	$ 1,559	$	$ 260,883
Cost of goods sold	230,589			1,585		232,174
Gross profit	28,735			(26)		28,709
Selling, general and administrative expense	19,366					19,366
Equity in loss of subsidiaries	52	1,545	27		(1,624)	

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Operating income (loss)	9,317	(1,545)	(27)	(26)	1,624	9,343
Interest (expense) income	(11,898)	2,500	6	(24)		(9,416)
Income (loss) before taxes	(2,581)	955	(21)	(50)	1,624	(73)
Income tax (expense) benefit	1,058	(392)	9	21	(666)	30
Net income (loss)	(1,523)	563	(12)	(29)	958	(43)
Preferred stock dividends declared		(2,500)				(2,500)
Net loss attributable to common shareholders	$ (1,523)	$ (1,937)	$ (12)	$ (29)	$ 958	$ (2,543)

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended March 31, 2002
(in thousands)
(unaudited)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net sales	$ 262,352	$	$	$ 1,372	$	$ 263,724
Cost of goods sold	228,119			1,313		229,432
Gross profit	34,233			59		34,292
Selling, general and administrative expense	14,864			23		14,887
Equity in (earnings) loss of subsidiaries	(19)	6,231	(58)		(6,154)	
Operating income (loss)	19,388	(6,231)	58	36	6,154	19,405
Interest (expense) income	(13,777)	2,500		(19)		(11,296)
Loss on early extinguishment of debt	(15,766)					(15,766)
Income (loss) before taxes and cumulative effect of change in accounting principle	(10,155)	(3,731)	58	17	6,154	(7,657)
Income tax (expense) benefit	3,970	1,446	(50)	21	(2,401)	2,986
Income (loss) before cumulative effect of change in accounting principle	(6,185)	(2,285)	8	38	3,753	(4,671)
Cumulative effect of change in goodwill accounting, net of tax of $0	(180,000)					(180,000)
Net income (loss)	(186,185)	(2,285)	8	38	3,753	(184,671)
Preferred stock dividends declared		(2,500)				(2,500)
	$ (186,185)	$ (4,785)	$ 8	$ 38	$ 3,753	$ (187,171)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net income (loss) attributable to common shareholders						

F-116

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET

At March 31, 2003
(in thousands)
(unaudited)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 1,806	$	$	$ 3,222	$	$ 5,028
Accounts receivable, net	71,034	2,437		597		74,068
Inventories	98,551			483		99,034
Other assets	21,234			24,064	(23,970)	21,328
Total current assets	192,625	2,437		28,366	(23,970)	199,458
Properties, net	397,056			8,647		405,703
Goodwill, net	391,803					391,803
Other assets	28,504	555,020	6,501	18,393	(579,854)	28,564
Total assets	$ 1,009,988	$ 557,457	$ 6,501	$ 55,406	$ (603,824)	$ 1,025,528
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Current maturities of long-term debt	$ 2,137	$	$	$ 1,456	$	$ 3,593
Accounts payable	88,144			1,006		89,150
Interest payable	4,626					4,626
Other current liabilities	49,319	24,131	2,537	483	(23,970)	52,500
Total current liabilities	144,226	24,131	2,537	2,945	(23,970)	149,869
Long-term debt	481,554			235,585	(233,281)	483,858
Other long-term liabilities	188,222	1,845			(103,853)	86,214
Total liabilities	814,002	25,976	2,537	238,530	(361,104)	719,941
Shareholders' equity:						
Preferred stock		100,000				100,000
Common stock		337	1,829	1,540	(3,369)	337
Paid-in capital	419,101	185,594	241,405	(182,486)	(251,180)	412,434

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Retained earnings (deficit)	(196,224)	245,550	(239,270)	(1,140)	11,829	(179,255)
Accumulated other comprehensive income (loss)	(26,891)			(1,038)		(27,929)
Total shareholders' equity	195,986	531,481	3,964	(183,124)	(242,720)	305,587
Total liabilities and shareholders' equity	$ 1,009,988	$ 557,457	$ 6,501	$ 55,406	$ (603,824)	$ 1,025,528

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING BALANCE SHEET

At December 31, 2002
(in thousands)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
ASSETS						
Current assets						
Cash and cash equivalents	$ 25,565	$	$	$ 3,061	$	$ 28,626
Accounts receivable, net	60,231	2,437		878		63,546
Inventories	86,740			503		87,243
Other assets	21,609		1	24,046	(23,970)	21,686
Total current assets	194,145	2,437	1	28,488	(23,970)	201,101
Properties, net	401,889			8,703		410,592
Goodwill, net	379,696					379,696
Other assets	29,781	561,410	6,880	18,393	(586,987)	29,477
Total assets	$ 1,005,511	$ 563,847	$ 6,881	$ 55,584	$ (610,957)	$ 1,020,866
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities						
Current maturities of long-term debt	$ 1,976	$	$	$ 1,456	$	$ 3,432
Accounts payable	81,519	24		563		82,106
Interest payable	11,117					11,117
Other current liabilities	55,426	23,691	2,536	651	(23,970)	58,334
Total current liabilities	150,038	23,715	2,536	2,670	(23,970)	154,989
Long-term debt	472,798			235,383	(233,282)	474,899
Other long-term liabilities	185,968	1,826			(103,854)	83,940
Total liabilities	808,804	25,541	2,536	238,053	(361,106)	713,828

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Shareholders' equity:						
Preferred stock		100,000				100,000
Common stock		335	1,829	1,540	(3,369)	335
Paid-in capital	418,299	192,984	241,774	(182,077)	(257,353)	413,627
Retained earnings (deficit)	(194,701)	244,987	(239,258)	(1,111)	10,871	(179,212)
Accumulated other comprehensive income (loss)	(26,891)			(821)		(27,712)
Total shareholders' equity	196,707	538,306	4,345	(182,469)	(249,851)	307,038
Total liabilities and shareholders' equity	$ 1,005,511	$ 563,847	$ 6,881	$ 55,584	$ (610,957)	$ 1,020,866

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2003
(in thousands)
(unaudited)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by (used in) operating activities	$ (10,247)	$ 2,433	$	$ 161	$	$ (7,653)
Cash flows from investing activities:						
Capital expenditures	(4,540)					(4,540)
Acquisition of J.D. Cahill Co. assets	(18,088)					(18,088)
Net cash used in investing activities	(22,628)					(22,628)
Cash flows from financing activities:						
Proceeds from borrowings	53,906					53,906
Repayment of debt	(44,786)					(44,786)
Preferred stock dividends paid		(2,500)				(2,500)
Common stock issuance and other	(4)	67				63
Net cash used in financing activities	9,116	(2,433)				6,683
Cash and cash equivalents:						
Net increase (decrease)	(23,759)			161		(23,598)
Balance at beginning of period	25,565			3,061		28,626
Balance at end of period	$ 1,806	$	$	$ 3,222	$	$ 5,028

GRAPHIC PACKAGING INTERNATIONAL CORPORATION
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Three Months Ended March 31, 2002
(in thousands)
(unaudited)

	Issuer	Parent	Guarantor Subsidiaries	Nonguarantor Subsidiaries	Eliminations	Consolidated Total
Net cash provided by operating activities	$ 13,160	$ 1,451	$	$ 54	$	$ 14,665
Cash flows from investing activities:						
Capital expenditures	(7,200)					(7,200)
Cash flows from financing activities:						
Proceeds from borrowings	588,400					588,400
Repayment of debt	(579,799)					(579,799)
Payment of debt issuance costs	(15,133)					(15,133)
Preferred stock dividends paid		(2,500)				(2,500)
Common stock issuance and other		73				73
Net cash used in financing activities	(6,532)	(2,427)				(8,959)
Cash and cash equivalents:						
Net increase (decrease)	(572)	(976)		54		(1,494)
Balance at beginning of period	1,145	976		4,645		6,766
Balance at end of period	$ 573	$	$	$ 4,699	$	$ 5,272

F-120

Annex A

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER
DATED AS OF MARCH 25, 2003
AMONG
RIVERWOOD HOLDING, INC.,
RIVERWOOD ACQUISITION SUB LLC
AND
GRAPHIC PACKAGING INTERNATIONAL CORPORATION

Table of Contents

		Page
	ARTICLE I	
	THE MERGER; CERTAIN RELATED MATTERS	
Section 1.1	The Merger	A-2
Section 1.2	Closing	A-2
Section 1.3	Effective Time	A-2
Section 1.4	Effects of the Merger	A-2
Section 1.5	Certificate of Incorporation of Riverwood; Certificate of Formation of Merger Sub	A-2
Section 1.6	Bylaws of Riverwood; LLC Agreement of Merger Sub	A-2
Section 1.7	Officers and Directors of Riverwood; Governance of Merger Sub	A-3
Section 1.8	Effect on Capital Stock	A-3
Section 1.9	Company Stock Options and Other Equity-Based Awards	A-3
Section 1.10	Certain Adjustments	A-4
Section 1.11	Associated Rights	A-4
	ARTICLE II	
	EXCHANGE OF CERTIFICATES	
Section 2.1	Exchange Fund	A-5
Section 2.2	Exchange Procedures	A-5
Section 2.3	Distributions with Respect to Unexchanged Shares; Voting	A-5
Section 2.4	No Further Ownership Rights in Company Common Stock	A-6
Section 2.5	No Fractional Shares of Riverwood Common Stock	A-6
Section 2.6	Termination of Exchange Fund	A-6
Section 2.7	No Liability	A-7
Section 2.8	Investment of the Exchange Fund	A-7
Section 2.9	Lost Certificates	A-7
Section 2.10	Withholding Rights	A-7
Section 2.11	Further Assurances	A-7
Section 2.12	Stock Transfer Books	A-7
Section 2.13	Affiliates	A-8
	ARTICLE III	
	REPRESENTATIONS AND WARRANTIES	
Section 3.1	Representations and Warranties of Riverwood	A-8
Section 3.2	Representations and Warranties of the Company	A-22
Section 3.3	Representations and Warranties of Riverwood and Merger Sub	A-33

A-i

	ARTICLE IV	
	COVENANTS RELATING TO CONDUCT OF BUSINESS	
Section 4.1	Covenants of Riverwood	A-34
Section 4.2	Covenants of the Company	A-36
Section 4.3	Governmental Filings	A-38
Section 4.4	Control of Other Party's Business	A-38
Section 4.5	Actions Regarding Benefit Plans	A-38
	ARTICLE V	

ADDITIONAL AGREEMENTS

Section 5.1	Preparation of Proxy Statement; Stockholders Approval	A-38
Section 5.2	Access to Information/Employees	A-40
Section 5.3	Reasonable Best Efforts	A-41
Section 5.4	Acquisition Proposals	A-42
Section 5.5	Employee Benefits Matters	A-43
Section 5.6	Fees and Expenses	A-43
Section 5.7	Directors' and Officers' Indemnification and Insurance	A-43
Section 5.8	Public Announcements	A-44
Section 5.9	Accountant's Letters	A-45
Section 5.10	Listing of Shares of Riverwood Common Stock	A-45
Section 5.11	Company Affiliates; Restrictive Legend	A-45
Section 5.12	Section 16 Matters	A-45
Section 5.13	Tax Treatment	A-46
Section 5.14	Changes to Riverwood's Capital Structure	A-46
Section 5.15	Financing	A-46

ARTICLE VI

CONDITIONS PRECEDENT

Section 6.1	Conditions to Each Party's Obligation to Effect the Merger	A-46
Section 6.2	Additional Conditions to Obligations of Riverwood	A-47
Section 6.3	Additional Conditions to Obligations of the Company	A-48

ARTICLE VII

TERMINATION AND AMENDMENT

Section 7.1	General	A-48
Section 7.2	Obligations in Event of Termination	A-50
Section 7.3	Amendment	A-51
Section 7.4	Extension; Waiver	A-51

ARTICLE VIII

GENERAL PROVISIONS

Section 8.1	Non-Survival of Representations, Warranties and Agreements	A-51
Section 8.2	Notices	A-52
Section 8.3	Interpretation	A-52
Section 8.4	Counterparts	A-52
Section 8.5	Entire Agreement; No Third Party Beneficiaries	A-53
Section 8.6	Governing Law	A-53
Section 8.7	Severability	A-53
Section 8.8	Assignment	A-53
Section 8.9	Submission to Jurisdiction; Waivers	A-53
Section 8.10	Enforcement	A-53
Section 8.11	Definitions	A-54

LIST OF EXHIBITS

Exhibit	Title	Page
1(a)	Form of Riverwood Shareholders Written Consent	

Exhibit	Title	Page
1(b)	Form of Voting Agreement	
1(c)	Executives Executing New Employment Agreements	
1.5	Form of Restated Certificate of Incorporation of Riverwood	
1.6	Form of Bylaws of Riverwood	
1.7(a)	Directors of Riverwood	
1.7(b)	Officers of Riverwood	
5.11	Form of Affiliate Agreement	

AGREEMENT AND PLAN OF MERGER, dated as of March 25, 2003 (this "*Agreement*"), among RIVERWOOD HOLDING, INC., a Delaware corporation ("*Riverwood*"), RIVERWOOD ACQUISITION SUB LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Riverwood ("*Merger Sub*"), and GRAPHIC PACKAGING INTERNATIONAL CORPORATION, a Colorado corporation (the "*Company*" and together with Riverwood and Merger Sub, the "*parties*").

W I T N E S S E T H:

WHEREAS, the respective Boards of Directors of the Company and Riverwood deem it advisable and in the best interests of each corporation and its respective stockholders that the Company and Riverwood engage in a business combination in order to advance the long-term strategic business interests of the Company and Riverwood;

WHEREAS, the combination of the Company and Riverwood shall be effected by the terms of this Agreement through a merger as outlined below (the "*Merger*");

WHEREAS, in furtherance thereof, the respective Boards of Directors of the Company and Riverwood have approved the Merger, upon the terms and subject to the conditions set forth in this Agreement, pursuant to which each share of common stock, par value $0.01 per share, of the Company ("*Company Common Stock*") issued and outstanding immediately prior to the Effective Time (as defined in Section 1.3), other than shares owned or held directly or indirectly by Riverwood or directly or indirectly by the Company, together with the associated Company Rights (as defined in Section 3.2(b)) will be converted into the right to receive shares of Riverwood Common Stock (as defined in Section 5.14) as set forth in Section 1.8;

WHEREAS, as a condition and inducement to the Company's willingness to enter into this Agreement, certain stockholders of Riverwood (the "*Riverwood Stockholders*") have given their written consent, dated as of the date hereof, in the form of Exhibit 1(a) pursuant to which the Riverwood Stockholders have approved, among other things, the adoption of this Agreement;

WHEREAS, as a condition and inducement to Riverwood's willingness to enter into this Agreement, Riverwood and certain stockholders of the Company (the "*Family Stockholders*") are entering into an agreement, dated as of the date hereof, in the form of Exhibit 1(b) (the "*Voting Agreement*") pursuant to which the Family Stockholders have agreed, among other things, (*i*) to vote their shares of Company Common Stock and of 10% Series B Convertible Preferred Stock, stated value $100.00 per share, of the Company (the "*Company Convertible Preferred Stock*") in favor of the adoption of this Agreement and (*ii*) to convert their shares of Company Convertible Preferred Stock into Common Stock immediately prior to the Effective Time (the "*Preferred Stock Conversion*");

WHEREAS, for Federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended (the "*Code*"), and the regulations promulgated thereunder (each, a "*Treasury Regulation*"), and by executing this Agreement the parties hereby adopt this Agreement as a plan of reorganization for purposes of Section 368(a) of the Code and the Treasury Regulations promulgated thereunder;

WHEREAS, simultaneously with the execution and delivery of this Agreement, each of the executives of the Company listed on Exhibit 1(c) is executing and delivering an employment agreement with the Company (each, a "*New Employment Agreement*"); and

WHEREAS, simultaneously with the execution and delivery of this Agreement, Stephen M. Humphrey is executing and delivering a Second Amended and Restated Employment Agreement with Riverwood.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement and in the Voting Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I
THE MERGER; CERTAIN RELATED MATTERS

Section 1.1 *The Merger.* Upon the terms and subject to the conditions set forth in this Agreement, and in accordance with the Delaware Limited Liability Company Act (the "*Delaware LLC Act*"), the Colorado Business Corporation Act ("*CBCA*") and the Colorado Corporations and Associations Act (together with the Delaware LLC Act and the CBCA, the "*Applicable Company Laws*"), the Company shall be merged with and into Merger Sub at the Effective Time. Following the Merger, the separate corporate existence of the Company shall cease and Merger Sub shall continue as the surviving company (the "*Surviving Company*").

Section 1.2 *Closing.* Upon the terms and subject to the conditions set forth in Article VI, and the termination rights set forth in Article VII, the closing of the Merger (the "*Closing*") will take place as promptly as practicable (but no later than the third Business Day) after the satisfaction or waiver (subject to applicable law) of the conditions (excluding conditions that, by their nature, cannot be satisfied until the Closing Date, but subject to the fulfillment or waiver of those conditions) set forth in Article VI, unless this Agreement has been previously terminated pursuant to its terms or unless another time or date is agreed to in writing by the parties (the actual time and date of the Closing being referred to herein as the "*Closing Date*"). The Closing shall be held at the offices of Debevoise & Plimpton, 919 Third Avenue, New York, New York, 10022, unless another place is agreed to in writing by the parties.

Section 1.3 *Effective Time.* As soon as practicable following the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VI, at the Closing the parties shall (*i*) file certificates of merger (the "*Certificates of Merger*") in such form as is required by, and executed in accordance with, the relevant provisions of the Applicable Company Laws and (*ii*) make all other filings or recordings required under the Applicable Company Laws. The Merger shall become effective at such time as the Certificates of Merger are duly filed with the Delaware Secretary of State and the Colorado Secretary of State or at such subsequent time as Riverwood and the Company shall agree and as shall be specified in the Certificates of Merger (the date and time the Merger becomes effective being the "*Effective Time*").

Section 1.4 *Effects of the Merger.* At and after the Effective Time, the Merger will have the effects set forth in the Applicable Company Laws. Without limiting the generality of the foregoing, and subject thereto, at the Effective Time all the property, rights, privileges, powers and franchises of the Company shall be vested in the Surviving Company, and all debts, liabilities and duties of the Company shall become the debts, liabilities and duties of the Surviving Company.

Section 1.5 *Certificate of Incorporation of Riverwood; Certificate of Formation of Merger Sub.* At the Effective Time, (*i*) the Certificate of Incorporation of Riverwood shall be amended and restated in its entirety to be in the form of Exhibit 1.5 and (*ii*) the Certificate of Formation of Merger Sub shall be the Certificate of Formation of the Surviving Company.

Section 1.6 *Bylaws of Riverwood; LLC Agreement of Merger Sub.* At the Effective Time, (*i*) the bylaws of Riverwood shall be amended and restated to be in the form of Exhibit 1.6 and (*ii*) the Limited Liability Company Agreement of Merger Sub (the "*LLC Agreement*") shall be the LLC Agreement of the Surviving Company.

Section 1.7 *Officers and Directors of Riverwood; Governance of Merger Sub.* From and after the Effective Time, (*i*) until successors are duly elected or appointed and qualified in accordance with applicable law, (*A*) the directors of Riverwood shall be comprised in accordance with Exhibit 1.7(a) and (*B*) the officers of Riverwood shall be the individuals listed on Exhibit 1.7(b) and (*ii*) the Surviving Company shall be governed and managed as a sole member limited liability company in accordance with the LLC Agreement, and Riverwood shall be the sole member of the Surviving Company.

Section 1.8 *Effect on Capital Stock.*

(a) At the Effective Time, and after giving effect to the Stock Split described in Section 5.14, by virtue of the Merger and without any action on the part of the holder thereof, each share of Company Common Stock issued and outstanding immediately prior to the Effective Time (other than shares of Company Common Stock owned by Riverwood or Merger Sub or held by the Company, all of which shall be canceled as provided in Section 1.8(d)), together with the associated Company Rights, shall be converted into one validly issued, fully paid and non-assessable share of Riverwood Common Stock (the "*Exchange Ratio*") and the associated Riverwood Rights (as defined in Section 5.14) (together with any cash in lieu of fractional shares of Riverwood Common Stock to be paid pursuant to Section 2.5, the "*Common Stock Merger Consideration*").

(b) As a result of the Merger and without any action on the part of the holders thereof, at the Effective Time, all shares of Company Common Stock (together with the associated Company Rights) and Company Convertible Preferred Stock shall cease to be outstanding and shall be canceled and retired and shall cease to exist, and (*i*) each beneficial owner of uncertificated book entry shares which immediately prior to the Effective Time represented shares of Company Common Stock or Company Preferred Stock (the "*Book Entry Shares*") and (*ii*) each holder of a certificate or certificates which immediately prior to the Effective Time represented any such shares of Company Common Stock ("*Common Certificates*") or of Company Convertible Preferred Stock ("*Preferred Certificates*" and together with the Common Certificates and the Book Entry Shares, the "*Certificates*") shall thereafter cease to have any rights with respect to such shares of Company Common Stock (together with the associated Company Rights) or Company Convertible Preferred Stock, respectively, except as provided herein or by law.

(c) Each share of Company Common Stock and Company Convertible Preferred Stock owned by Riverwood, Merger Sub or any other wholly-owned Subsidiary of Riverwood or held by the Company at the Effective Time shall, by virtue of the Merger, cease to be outstanding and shall be canceled and retired and no stock of Riverwood or other consideration shall be delivered in exchange therefor.

Section 1.9 *Company Stock Options and Other Equity-Based Awards.*

(a) Each Company Stock Option (as defined in Section 3.2(b)) that remains outstanding immediately prior to the Effective Time (other than any such Company Stock Option that, in accordance with the terms thereof is to be converted into a right to receive a cash payment from the Company) shall cease to represent a right to acquire shares of Company Common Stock and shall be converted, at the Effective Time, into an option to acquire, on the same terms and conditions as were applicable to such Company Stock Option (but taking into account any changes thereto provided for in the applicable Company Stock Incentive Plan (as defined in Section 3.2(b)(ii)), any applicable employment agreement (including change in control agreements or provisions) or in such option by reason of this Agreement or the transactions contemplated hereby), that number of shares of Riverwood Common Stock determined by multiplying the number of shares of Company Common Stock subject to such Company Stock Option by the Exchange Ratio, rounded, if necessary, to the nearest whole share of Riverwood Common Stock, at a price per share (rounded to the nearest one-hundredth of a cent) equal to the per share exercise price specified in such Company Stock Option divided by the Exchange Ratio; *provided* that in the case of any Company Stock Option to which Section 421 of the Code applies by reason of its qualification under Section 422 of the Code, the

option price, the number of shares subject to such option and the terms and conditions of exercise of such option shall be determined in a manner consistent with the requirements of Section 424(a) of the Code. On or prior to the Effective Time, the Company will take all actions necessary such that all Company Stock Options outstanding prior to the Effective Time under the Company Stock Incentive Plans are treated in accordance with the immediately preceding sentences.

(b) Each restricted share of Company Common Stock granted pursuant to a Company Stock Incentive Plan that remains outstanding immediately prior to the Effective Time shall be converted, as of the Effective Time, into a number of shares of Riverwood Common Stock equal to the product of (*i*) the number of shares subject to the award and (*ii*) the Exchange Ratio; and the number of shares of Riverwood Common Stock as so determined shall be delivered to the holder of each such award as soon as practicable following the Effective Time. Such converted awards shall otherwise be subject to the same terms, conditions and, except as may otherwise have been agreed to by the Company and the holder thereof, restrictions, if any, as were applicable to such awards under the relevant Company Stock Incentive Plan (but taking into account any changes thereto provided for in the applicable Company Stock Incentive Plan by reason of this Agreement or the transactions contemplated hereby). Notwithstanding the foregoing, with respect to any such restricted shares of the Company Common Stock held by (*i*) the executives of the Company listed on Schedule 3.2(q) (other than those listed in Exhibit 1(c))of the Merger Agreement, such restricted shares shall be fully vested as of the Effective Time, and (*ii*) the executives of the Company listed on Exhibit 1(c) hereto, such restricted shares shall be converted into restricted stock units of Riverwood in accordance with the terms of the New Employment Agreements.

(c) Prior to the Closing, Riverwood shall take all corporate action necessary to reserve for issuance a sufficient number of shares of Riverwood Common Stock for delivery upon exercise of Company Stock Options or in connection with restricted shares or in connection with the settlement of stock accounts in accordance with this Section 1.9 or in connection with any other Company Benefit Plan (as defined in Section 8.11) for which shares of Riverwood Common Stock are required to be reserved for issuance.

(d) At the Effective Time, the Surviving Company shall promptly pay all cash severance, excise taxes and gross-up payments and provide the other benefits and perform the other obligations under the employment agreements listed on Schedule 3.2(q) of the Company Disclosure Schedule to which the Company is a party with respect to the individuals listed on such Schedule whose employment terminates upon the Effective Time.

Section 1.10 *Certain Adjustments.* If, except as provided in Section 5.14, between the date of this Agreement and the Effective Time, the outstanding Riverwood Common Stock or Company Common Stock shall have been changed into a different number of shares or different class by reason of any reclassification, recapitalization, stock split, split-up, combination or exchange of shares or a stock dividend or dividend payable in any other securities shall be declared with a record date within such period, or any similar event shall have occurred, the Exchange Ratio shall be appropriately adjusted to provide to the holders of Company Common Stock the same economic effect as contemplated by this Agreement prior to such event.

Section 1.11 *Associated Rights.* References in Article I and Article II of this Agreement to Company Common Stock shall include, unless the context requires otherwise, the associated Company Rights and references in Article I and Article II of this Agreement to Riverwood Common Stock shall include, unless the context requires otherwise, the associated Riverwood Rights.

ARTICLE II
EXCHANGE OF CERTIFICATES

Section 2.1 *Exchange Fund.* Prior to the Effective Time, Riverwood shall appoint a commercial bank or trust company to act as exchange agent hereunder (which entity shall be reasonably acceptable to the Company) for the purpose of exchanging Certificates for the Merger Consideration (the "*Exchange Agent*"). At or prior to the Effective Time, Riverwood shall deposit with the Exchange Agent, in trust for the benefit of holders of shares of Company Common Stock, certificates representing the Riverwood Common Stock issuable pursuant to Section 1.8 in exchange for outstanding shares of Company Common Stock. Riverwood agrees to make available directly or indirectly to the Exchange Agent, from time to time as needed, cash sufficient to pay cash in lieu of fractional shares pursuant to Section 2.5 and any dividends and other distributions pursuant to Section 2.3. Any cash and certificates of Riverwood Common Stock deposited with the Exchange Agent shall hereinafter be referred to as the "*Exchange Fund*".

Section 2.2 *Exchange Procedures.* Promptly after the Effective Time, the Surviving Company shall cause the Exchange Agent to mail to each holder of record of a Certificate (*i*) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon proper delivery of the Certificates to the Exchange Agent, and which letter shall be in customary form and have such other provisions as Riverwood may reasonably specify (such letter to be reasonably acceptable to the Company prior to the Effective Time) and (*ii*) instructions for effecting the surrender of such Certificates in exchange for the applicable Merger Consideration. Upon surrender of a Certificate to the Exchange Agent together with such letter of transmittal, duly executed and completed in accordance with the instructions thereto, and such other documents as may reasonably be required by the Exchange Agent, the holder of such Certificate shall be entitled to receive in exchange therefor in the case of holders of Common Certificates (*A*) one or more shares of Riverwood Common Stock (which shall be in uncertificated book-entry form unless a physical certificate is requested) representing, in the aggregate, the whole number of shares that such holder has the right to receive pursuant to Section 1.8 (after taking into account all shares of Company Common Stock then held by such holder) and (*B*) a check in the amount equal to the cash that such holder has the right to receive pursuant to the provisions of this Article II, consisting of cash in lieu of any fractional shares of Riverwood Common Stock pursuant to Section 2.5 and dividends and other distributions pursuant to Section 2.3. No interest will be paid or will accrue on any cash payable pursuant to Section 2.3 or Section 2.5. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, one or more shares of Riverwood Common Stock evidencing, in the aggregate, the proper number of shares of Riverwood Common Stock, a check in the proper amount of cash in lieu of any fractional shares of Riverwood Common Stock pursuant to Section 2.5 and any dividends or other distributions to which such holder is entitled pursuant to Section 2.3, may be issued with respect to such Company Common Stock to such a transferee if the Certificate representing such shares of Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and to evidence that any applicable stock transfer taxes have been paid.

Section 2.3 *Distributions with Respect to Unexchanged Shares; Voting.*

(a) All shares of Riverwood Common Stock to be issued pursuant to the Merger shall be deemed issued and outstanding as of the Effective Time and whenever a dividend or other distribution is declared by Riverwood in respect of Riverwood Common Stock, the record date for which is at or after the Effective Time, that declaration shall include dividends or other distributions in respect of all shares issuable pursuant to this Agreement; *provided*, that no dividends or other distributions declared or made in respect of the Riverwood Common Stock with a record date that is 180 days or more after the Effective Time shall be paid to the holder of any unsurrendered Certificate until the holder of such

Certificate shall surrender such Certificate in accordance with this Article II. Subject to the effect of applicable laws, following surrender of any such Certificate, there shall be paid to such holder of shares of Riverwood Common Stock issuable in exchange therefor, without interest, (*i*) promptly after the time of such surrender, the amount of any cash payable in lieu of fractional shares of Riverwood Common Stock to which such holder is entitled pursuant to Section 2.5 and the amount of dividends or other distributions with a record date after the Effective Time theretofore paid with respect to such whole shares of Riverwood Common Stock, and (*ii*) at the appropriate payment date, the amount of dividends or other distributions with a record date after the Effective Time but prior to such surrender and a payment date subsequent to such surrender payable with respect to such shares of Riverwood Common Stock.

(b) For a period of one year following the Closing, holders of unsurrendered Certificates shall be entitled to vote at any meeting of Riverwood stockholders the number of whole shares of Riverwood Common Stock represented by such Certificates, regardless of whether such holders have exchanged their Certificates.

Section 2.4 *No Further Ownership Rights in Company Common Stock.* All shares of Riverwood Common Stock issued and cash paid upon conversion of shares of Company Common Stock in accordance with the terms of Article I and this Article II (including any cash paid pursuant to Section 2.3 or 2.5) shall be deemed to have been issued or paid in full satisfaction of all rights pertaining to the shares of Company Common Stock.

Section 2.5 *No Fractional Shares of Riverwood Common Stock.*

(a) No certificates or scrip or shares of Riverwood Common Stock representing fractional shares of Riverwood Common Stock or book-entry credit of the same shall be issued upon the surrender for exchange of Certificates and such fractional share interests will not entitle the owner thereof to vote or to have any rights of a stockholder of Riverwood or a holder of shares of Riverwood Common Stock.

(b) Notwithstanding any other provision of this Agreement, each holder of shares of Company Common Stock exchanged pursuant to the Merger who would otherwise have been entitled to receive a fraction of a share of Riverwood Common Stock (after taking into account all Certificates delivered by such holder) shall receive, in lieu thereof, cash (without interest) in an amount equal to the product of (*i*) such fractional part of a share of Riverwood Common Stock multiplied by (*ii*) the closing price for a share of Riverwood Common Stock as reported on the New York Stock Exchange, Inc. ("*NYSE*") Composite Transactions Tape on the first trading day following the date on which the Effective Time occurs.

(c) As promptly as practicable after the determination of the amount of cash, if any, to be paid to holders of fractional interests, the Exchange Agent shall so notify Riverwood, and Riverwood shall deposit such amount with the Exchange Agent and shall cause the Exchange Agent to forward payments to such holders of fractional interests subject to and in accordance with the terms hereof.

Section 2.6 *Termination of Exchange Fund.* Any portion of the Exchange Fund which remains undistributed to the holders of Certificates for six months after the Effective Time shall be delivered to Riverwood or otherwise on the instruction of Riverwood, and any holders of the Certificates who have not theretofore complied with this Article II shall thereafter look only to Riverwood for the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby to which such holders are entitled pursuant to Section 1.8 and Section 2.2, any cash in lieu of fractional shares of Riverwood Common Stock to which such holders are entitled pursuant to Section 2.5 and any dividends or distributions with respect to shares of Riverwood Common Stock to which such holders are entitled pursuant to Section 2.3. Any such portion of the Exchange Fund remaining unclaimed by holders of shares of Company Common Stock five years after the Effective Time (or such earlier date immediately prior to such time as such amounts would otherwise escheat to or become property of any

Governmental Entity (as defined in Section 3.1(c)(iii)) shall, to the extent permitted by law, become the property of the Surviving Company free and clear of any claims or interest of any Person previously entitled thereto.

Section 2.7 *No Liability.* None of Riverwood, Merger Sub, the Company, the Surviving Company or the Exchange Agent shall be liable to any Person in respect of any Merger Consideration from the Exchange Fund delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

Section 2.8 *Investment of the Exchange Fund.* The Exchange Agent shall invest any cash included in the Exchange Fund as directed by Riverwood on a daily basis; *provided*, that no such gain or loss thereon shall affect the amounts payable to the Company stockholders pursuant to Article I and the other provisions of this Article II. Any interest and other income resulting from such investments shall promptly be paid to Riverwood.

Section 2.9 *Lost Certificates.* If any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such Certificate to be lost, stolen or destroyed and, if required by the Surviving Company, the posting by such Person of a bond in such reasonable amount as the Surviving Company may direct as indemnity against any claim that may be made against it with respect to such Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed Certificate the applicable Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby, any cash in lieu of fractional shares of Riverwood Common Stock to which such holders are entitled pursuant to Section 2.5, and unpaid dividends and distributions on shares of Riverwood Common Stock to which such holders are entitled pursuant to Section 2.3, as the case may be, deliverable in respect thereof, pursuant to this Agreement.

Section 2.10 *Withholding Rights.* Riverwood and the Exchange Agent shall be entitled to deduct and withhold from the consideration otherwise payable pursuant to this Agreement to any holder of shares of Company Common Stock, Company Stock Options or any other equity rights in the Company such amounts as it is required to deduct and withhold with respect to the making of such payment under the Code and the rules and Treasury Regulations promulgated thereunder, or any provision of state, local or foreign tax law. To the extent that amounts are so withheld by Riverwood and the Exchange Agent, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of Company Common Stock, Company Stock Options or any other equity rights in the Company, as the case may be, in respect of which such deduction and withholding was made by Riverwood and the Exchange Agent.

Section 2.11 *Further Assurances.* After the Effective Time, the officers and directors of the Surviving Company will be authorized to execute and deliver, in the name and on behalf of the Company or Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of the Company or Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Company any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Company as a result of, or in connection with, the Merger.

Section 2.12 *Stock Transfer Books.* The stock transfer books of the Company shall be closed immediately upon the Effective Time and there shall be no further registration of transfers of shares of Company Common Stock thereafter on the records of the Company. On or after the Effective Time, any Certificates presented to the Exchange Agent or Riverwood for any reason shall be converted into the Merger Consideration with respect to the shares of Company Common Stock formerly represented thereby (including any cash in lieu of fractional shares of Riverwood Common Stock to which the holders thereof are entitled pursuant to Section 2.5) and any dividends or other distributions to which the holders thereof are entitled pursuant to Section 2.3.

Section 2.13 *Affiliates.* Notwithstanding anything to the contrary herein, to the fullest extent permitted by law, no certificates representing shares of Riverwood Common Stock or cash shall be delivered to a Person who may be deemed an "affiliate" of the Company in accordance with Section 5.11 hereof for purposes of Rule 145 under the Securities Act of 1933, as amended (the "*Securities Act*"), and applicable rules and regulations of the Securities and Exchange Commission (the "*SEC*") until such Person has executed and delivered an Affiliate Agreement (as defined in Section 5.11) to Riverwood.

ARTICLE III
REPRESENTATIONS AND WARRANTIES

Section 3.1 *Representations and Warranties of Riverwood.* Except as set forth in the Riverwood disclosure schedule delivered by Riverwood to the Company prior to the execution of this Agreement (the "*Riverwood Disclosure Schedule*") (each section of which qualifies the correspondingly numbered representation and warranty or covenant and any other representation or warranty, if the disclosure set forth in the Riverwood Disclosure Schedule is readily applicable to such other representation or warranty), Riverwood represents and warrants to the Company as follows:

(a) *Organization, Standing and Power; Subsidiaries.*

(i) Each of Riverwood and each of its Subsidiaries (as defined in Section 8.11) is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has the requisite corporate (or similar) power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failures to be so organized, existing and in good standing or to have such power and authority, in the aggregate, would not reasonably be expected to have a Material Adverse Effect (as defined in Section 8.11) on Riverwood, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failures so to qualify or to be in good standing, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood. The copies of the certificate of incorporation and bylaws of Riverwood which were previously furnished or made available to the Company are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) Exhibit 21 to Riverwood's Annual Report on Form 10-K for the year ended December 31, 2001 ("*Riverwood Exhibit 21*") includes all the Subsidiaries of Riverwood which as of the date of this Agreement are Significant Subsidiaries (as defined in Rule 1-02 of Regulation S-X of the SEC). All the outstanding shares of capital stock of, or other equity interests in, each such Significant Subsidiary have been validly issued and are fully paid and non-assessable and are, except as set forth in Riverwood Exhibit 21, owned directly or indirectly by Riverwood, free and clear of all Liens (as defined in Section 8.11) and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests), except for restrictions imposed by applicable securities laws. Except as set forth in the Riverwood SEC Reports (as defined in Section 3.1(d)) filed prior to the date hereof, neither Riverwood nor any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any corporation, partnership, joint venture or other business association or entity (other than Subsidiaries), that is or would reasonably be expected to be material to Riverwood and its Subsidiaries taken as a whole.

(b) *Capital Structure*.

(i) As of December 31, 2002, the authorized capital stock of Riverwood consisted of (*A*) 9,000,000 shares of Class A Common Stock, par value $0.01 ("*Riverwood Class A Common Stock*"), of which 7,063,930 shares were outstanding and no shares were held in the treasury of Riverwood and (*B*) 3,000,000 shares of Class B Common Stock, par value $0.01 ("*Riverwood Class B Common Stock*"), of which 500,000 shares were outstanding and no shares were held in the treasury of Riverwood. As of the Effective Time and prior to the issuance of the Merger Consideration, the Restated Certificate of Incorporation (as defined in Section 5.14) shall have become effective, the Stock Split shall have occurred and the authorized capital stock of Riverwood shall consist of (*x*) 500,000,000 shares of Riverwood Common Stock, of which 114,910,485 shares shall be outstanding and no shares will be held in the treasury of Riverwood and (*y*) 50,000,000 shares of Riverwood Preferred Stock a portion of which shares shall have been designated Series A Junior Preferred Stock.

(ii) Since December 31, 2002 to the date of this Agreement, there have been no issuances of shares of the capital stock of Riverwood or any other securities of Riverwood other than as contemplated by Section 5.14 and issuances of shares of Riverwood's common stock pursuant to options or rights outstanding as of December 31, 2002 under the Benefit Plans (as defined in Section 8.11) of Riverwood. All issued and outstanding shares of the capital stock of Riverwood are, and when shares of Riverwood Common Stock are issued in the Merger or upon exercise of stock options converted in the Merger pursuant to Section 1.9, such shares will be, duly authorized, validly issued fully paid and non-assessable and free of any preemptive rights. There were outstanding as of December 31, 2002 no options, warrants or other rights to acquire capital stock from Riverwood other than options, restricted stock units and other rights under the Riverwood 2003 Long-Term Incentive Plan, the Riverwood 2002 Stock Incentive Plan, the Riverwood Stock Incentive Plan, the Riverwood 1999 Long-Term Incentive Plan and the Riverwood Supplemental Long-Term Incentive Plan (collectively, the "*Riverwood Stock Incentive Plans*"). Section 3.1(b) of the Riverwood Disclosure Schedule sets forth a complete and correct list, as of December 31, 2002, of the number of shares of Riverwood Common Stock subject to Riverwood Stock Options or other rights to purchase or receive Riverwood Common Stock granted under the Riverwood Benefit Plans or otherwise, the dates of grant and the exercise prices thereof. No options or warrants or other rights to acquire capital stock from Riverwood have been issued or granted since December 31, 2002 to the date of this Agreement.

(iii) No bonds, debentures, notes or other indebtedness of Riverwood having the right to vote (or convertible into or exercisable for securities having the right to vote) on any matters on which holders of capital stock of Riverwood may vote ("*Riverwood Voting Debt*") are issued or outstanding.

(iv) Except as otherwise set forth in this Section 3.1(b) and as contemplated by Section 1.8, Section 1.9 and Section 5.14, as of the date of this Agreement, there are no securities, options, warrants, calls, rights commitments, agreements, arrangements or undertakings of any kind to which Riverwood or any of its Subsidiaries is a party or by which any of them is bound obligating Riverwood or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of Riverwood or any of its Subsidiaries or obligating Riverwood or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of Riverwood or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of Riverwood or any of its Subsidiaries. There are not outstanding any stock-appreciation rights, security-based performance units,

"phantom" stock or other security rights or other agreements, arrangements or commitments of any character (contingent or otherwise) pursuant to which any Person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of Riverwood or any of its Subsidiaries or assets or calculated in accordance therewith (other than ordinary course payments or commissions to sales representatives of Riverwood based upon revenues generated by them without augmentation as a result of the transactions contemplated hereby) or to cause Riverwood or any of its Subsidiaries to file a registration statement under the Securities Act or which otherwise relate to the registration of any securities of Riverwood or its Subsidiaries.

(c) *Authority; No Conflicts.*

(i) Riverwood has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, and this Agreement has been duly adopted and the transactions contemplated hereby have been duly authorized by the shareholders of Riverwood. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Riverwood. This Agreement has been duly executed and delivered by Riverwood and constitutes a valid and binding agreement of Riverwood, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by Riverwood does not or will not, as the case may be, and the consummation by Riverwood of the Merger and the other transactions contemplated hereby will not, conflict with, or result in any violation of, or constitute a default (with or without notice or lapse of time, or both) under, or give rise to a right of, or result by its terms in the, termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest, charge or other encumbrance on, or the loss of, any assets, including Intellectual Property (as defined in Section 3.1(n)) (any such conflict, violation default, right of termination, amendment, cancellation or acceleration loss or creation, a "*Violation*") pursuant to: (*A*) any provision of the certificate of incorporation or bylaws of Riverwood or any Significant Subsidiary (as defined in Rule 1-02 of Regulation S-X of the SEC) of Riverwood, or (*B*) except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood, or, subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Riverwood or any Subsidiary of Riverwood or their respective properties or assets.

(iii) No consent, approval, order or authorization of, clearance by, or registration, declaration or filing with, any supranational, national state, municipal, local or foreign government, any instrumentality subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority (a "*Governmental Entity*"), is required by or with respect to Riverwood or any Subsidiary of Riverwood in connection with the execution and delivery of this Agreement by Riverwood or the consummation of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (*A*) the Hart-Scott-Rodino Antitrust Improvements Act

of 1976, as amended (the "*HSR Act*"), (*B*) state securities or "blue sky" laws (the "*Blue Sky Laws*"), (*C*) the Securities Act, (*D*) the Exchange Act, (*E*) the Applicable Company Laws with respect to the filing of the Certificate of Merger and related documents, (*F*) rules and regulations of the NYSE, (*G*) antitrust or other competition laws, of the European Union or other jurisdictions and (*H*) such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood. Consents, approvals, orders, authorizations registrations, declarations and filings required under or in relation to any of the foregoing clauses (A) through (G) are hereinafter referred to as "*Necessary Consents*."

(d) *Reports and Financial Statements.*

(i) Riverwood has filed all required registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed by it with the SEC since January 1, 2000 (collectively, including all exhibits thereto, the "*Riverwood SEC Reports*"). No Subsidiary of Riverwood is required to file any form, report, registration statement or prospectus or other document with the SEC. None of the Riverwood SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or the Closing Date, then on the date of such filing), contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes and schedules) included or incorporated by reference in the Riverwood SEC Reports presents fairly, or will present fairly, in all material respects, the consolidated financial position and consolidated results of operations, retained earnings and cash flows of Riverwood and its consolidated Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with generally accepted accounting principles ("*GAAP*") consistently applied during the periods involved except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to the absence of notes and normal and recurring year-end adjustments that have not been and are not expected to be material in amount. All of such Riverwood SEC Reports, as of their respective dates (and as of the date of any amendment to the respective Riverwood SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except as disclosed in the Riverwood SEC Reports filed prior to the date hereof or in the draft dated March 21, 2003 of Riverwood's Annual Report on Form 10-K for the year ended December 31, 2002 provided to the Company prior to the date hereof (the "2002 Draft 10-K"), Riverwood and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of Riverwood and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, other than (*A*) liabilities incurred in the ordinary course of business, or (*B*) liabilities that, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood. The 2002 Draft 10-K is in substantially final form, and will be filed with the SEC in such form, except as disclosed in Schedule 3.1(d)(ii) of the Riverwood Disclosure Schedule.

(e) *Information Supplied.*

(i) None of the information supplied or to be supplied by Riverwood for inclusion or incorporation by reference in (*A*) the Form S-4 (as defined in Section 5.1) will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, (*B*) the Company Proxy Statement/Prospectus (as

defined in Section 5.1) will, on the date it is first mailed to the Company stockholders or at the time of the Company Stockholders Meeting (as defined in Section 5.1), or (*C*) any preliminary or final offering circular or memorandum for any debt securities offered or issued as part of the Financing (as defined in Section 6.1(h)), as of the date thereof and (in the case of any such final offering circular or memorandum) as of the Closing Date, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Form S-4 and the Company Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) Notwithstanding the foregoing provisions of this Section 3.1(e), no representation or warranty is made by Riverwood with respect to statements made or incorporated by reference in the Form S-4 or the Company Proxy Statement/Prospectus based on information supplied by the Company for inclusion or incorporation by reference therein.

(f) *Board Approval.* The Board of Directors of Riverwood, by resolutions duly adopted by unanimous vote at a meeting duly called and held and not subsequently rescinded or modified in any way (the "*Riverwood Board Approval*"), has duly (*i*) determined that this Agreement and the Merger are advisable and are fair to and in the best interests of Riverwood and its stockholders and (*ii*) approved this Agreement, the Merger and the other transactions contemplated by this Agreement.

(g) *Vote Required.* The only votes necessary to consummate the transactions contemplated hereby are *(i)* the affirmative vote of the holders of a majority of the outstanding shares of Riverwood Class A Common Stock in favor of the adoption of this Agreement and *(ii)* the affirmative votes of a majority of the outstanding shares of Riverwood Class A Common Stock and Riverwood Class B Common Stock, each voting separately as a class, in favor of the approval of the Restated Certificate of Incorporation, which adoption and approvals were obtained by a written consent of the shareholders of Riverwood dated the date hereof.

(h) *Litigation; Compliance with Laws.*

(i) Except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement, there are no suits, actions or proceedings (collectively "*Actions*") pending or, to the knowledge of Riverwood, threatened, against or affecting Riverwood or any Subsidiary of Riverwood which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on Riverwood, nor are there any judgments, decrees, injunctions, rules or orders of any Governmental Entity or arbitrator outstanding against Riverwood or any Subsidiary of Riverwood which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on Riverwood.

(ii) Except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement and except as would, in the aggregate, not reasonably be expected to have a Material Adverse Effect on Riverwood, Riverwood and its Subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities which are necessary for the operation of the businesses of Riverwood and its Subsidiaries, taken as a whole (the "*Riverwood Permits*"). Riverwood and its Subsidiaries are in compliance with the terms of the Riverwood Permits, except where the failures to so comply, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood. Except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement, neither Riverwood nor any of its Subsidiaries is in violation of, and Riverwood and its Subsidiaries have not received any notices of violations with respect to, any laws, ordinances or regulations

of any Governmental Entity, except for violations which, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood.

(i) *Absence of Certain Changes or Events.* Except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement, and except as permitted by Section 4.1, since December 31, 2002, (*i*) Riverwood and its Subsidiaries have conducted their business only in the ordinary course; (*ii*) through the date hereof, there has not been any declaration, setting aside or payment of any dividend or other distribution in cash, stock or property in respect of Riverwood's capital stock; (*iii*) there has not been any action taken by Riverwood or any of its Subsidiaries during the period from December 31, 2002 through the date of this Agreement that, if taken during the period from the date of this Agreement through the Effective Time would constitute a breach of Section 4.1; and (*iv*) except as required by GAAP, there has not been any change by Riverwood in accounting principles, practices or methods. Except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement, since December 31, 2002, there have not been any changes, circumstances or events which, in the aggregate, have had, or would reasonably be expected to have, a Material Adverse Effect on Riverwood.

(j) *Financial Advisors.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of Riverwood, except Goldman, Sachs & Co. and Clayton, Dubilier & Rice, Inc.

(k) *Opinion of Riverwood Financial Advisor.* Riverwood has received the opinion of Goldman, Sachs & Co., to the effect that, as of the date of this Agreement, the Exchange Ratio is fair to Riverwood from a financial point of view.

(l) *Employee Benefit Plans and Related Matters; ERISA.*

(i) *Employee Benefit Plans.* Schedule 3.1(l)(i) of the Riverwood Disclosure Schedule sets forth a complete and correct list of each Riverwood Benefit Plan. With respect to each such Riverwood Benefit Plan, Riverwood has provided or made available to the Company complete and correct copies of: (*A*) such Riverwood Benefit Plan, if written, or a description of such Riverwood Benefit Plan if not written, and (*B*) to the extent applicable, all trust agreements, insurance contracts or other funding arrangements, the two most recent actuarial and trust reports, the two most recent Forms 5500 required to have been filed with the IRS or the Department of Labor or any similar report filed with any comparable governmental authority in any non-U.S. jurisdiction having jurisdiction over any employee benefit plan sponsored by Riverwood, and all schedules thereto; the most recent IRS determination letter; all current summary plan descriptions; all material communications received from or sent to the IRS, the Pension Benefit Guaranty Corporation or the Department of Labor (including a written description of any oral communication); any actuarial study of any post-employment life or medical benefits provided under

any such Benefit Plan; all current employee handbooks and manuals; statements or other communications regarding withdrawal or other multiemployer plan liabilities or similar liabilities pertaining to any non-U.S. employee benefit plan sponsored by Riverwood, if any; and all amendments and modifications to any such document. None of Riverwood or any of its Subsidiaries has communicated to any current or former employee thereof any intention or commitment to modify any Riverwood Benefit Plan or to establish or implement any other employee or retiree benefit or compensation plan or arrangement.

(ii) *Qualification.* Each Riverwood Benefit Plan intended to be qualified under section 401(a) of the Code, and the trust (if any) forming a part thereof, has received a favorable determination letter from the IRS as to its qualification under the Code and to the

effect that each such trust is exempt from taxation under section 501(a) of the Code, and nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect such qualification or tax-exempt status. All amendments and actions required to bring each Riverwood Benefit Plan into conformity with the applicable provisions of ERISA, the Code, and other applicable laws have been made or taken, except to the extent such amendments or actions (*A*) are not required by law to be made or taken until after the Closing Date and (*B*) are disclosed on Schedule 3.1(l)(ii) of the Riverwood Disclosure Schedule.

(iii) *Compliance; Liability.*

(A) None of Riverwood, any of its Subsidiaries or any Riverwood Related Person would be liable for any material amount pursuant to section 4062, 4063 or 4064 of ERISA if any Riverwood Benefit Plan that is subject to Title IV of ERISA (a "*Riverwood Title IV Plan*") were to terminate as of the date hereof. Each Riverwood Benefit Plan that is subject to the minimum funding standards of ERISA or the Code satisfies such standards under sections 412 and 302 of the Code and ERISA, respectively, and no such Riverwood Benefit Plan has incurred an "accumulated funding deficiency" within the meaning of such sections, whether or not waived. As of the last day of the most recently ended fiscal year of each Riverwood Title IV Plan, the "projected benefit obligations" (within the meaning of the Financial Accounting Standards Board Statement No. 87) under each such Riverwood Benefit Plan did not exceed the fair market value of the assets of each such Riverwood Benefit Plan allocable to such "projected benefit obligations," determined on the basis of the actuarial assumptions contained in the actuarial report prepared for such fiscal year of each such Riverwood Benefit Plan.

(B) None of Riverwood, any of its Subsidiaries or any Riverwood Related Person has been involved in any transaction that could cause Riverwood or any of its Subsidiaries to be subject to liability under section 4069 or 4212 of ERISA. None of Riverwood, any of its Subsidiaries or any Riverwood Related Person has incurred (either directly or indirectly, including as a result of an indemnification obligation) any material liability under or pursuant to Title I or IV of ERISA or the penalty, excise Tax or joint and several liability provisions of the Code relating to employee benefit plans and, to the knowledge of Riverwood, no event, transaction or condition has occurred or exists that could result in any such liability to Riverwood, any of its Subsidiaries or any Riverwood Related Person. All contributions and premiums required to have been paid by Riverwood, any of its Subsidiaries or any Riverwood Related Person to any Riverwood Benefit Plan under the terms of any such plan or its related trust, insurance contract or other funding arrangement, or pursuant to any applicable law (including ERISA and the Code) or collective bargaining agreement have been paid within the time prescribed by any such plan, agreement or applicable law, except to the extent failure to do so would not, individually or in the aggregate, result in a Material Adverse Effect.

(C) Each of the Riverwood Benefit Plans has been operated and administered in all material respects in compliance with its terms, all applicable laws and all applicable collective bargaining agreements. There are no material pending or threatened claims by or on behalf of any participant in any of the Riverwood Benefit Plans, or otherwise involving any such Riverwood Benefit Plan or the assets of any Riverwood Benefit Plan, other than routine claims for benefits. The Riverwood Benefit Plans are not presently under audit or examination (nor has notice been received of a potential audit or examination) by the IRS, the Department of Labor, or any other governmental agency or entity, domestic or foreign, and no matters are pending with respect to a Riverwood Benefit Plan under the IRS's Voluntary Compliance Resolution program, its Closing Agreement Program, or other similar programs.

(D) No Riverwood Benefit Plan is a multiemployer plan (as defined in section 4001(a)(3) of ERISA) or a "multiple employer plan" within the meaning of section 4063 or 4064 of ERISA.

(E) No person is or will become entitled to post-employment benefits of any kind by reason of employment with Riverwood or any of its Subsidiaries, including, but not limited to, death or medical benefits (whether or not insured), other than (*x*) coverage mandated by section 4980B of the Code or (*y*) retirement benefits payable under any Riverwood Benefit Plan qualified under section 401(a) of the Code. The entering into this Agreement or the consummation of the transactions contemplated by this Agreement will not result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any current or former employee, officer, director or independent contractor of Riverwood or any of its Subsidiaries and no payment or deemed payment by Riverwood or any of its Subsidiaries will arise or be made as a result of the entering into of this Agreement or the consummation of the transactions contemplated by this Agreement that would not be deductible pursuant to Section 280G of the Code.

(F) Riverwood has classified all individuals (including but not limited to independent contractors and leased employees) appropriately under the Riverwood Benefit Plans, except where a failure to do so would not, individually or in the aggregate, result in a Material Adverse Effect.

(m) *No Restrictions on the Merger; Takeover Statutes.* The Board of Directors of Riverwood has taken all necessary action to render Section 203 of the Delaware General Corporation Law, and any other potentially applicable anti-takeover or similar statute or regulation or provision of the certificate of incorporation or by-laws, or other organizational or constitutive document or governing instruments of Riverwood or any of its Subsidiaries, inapplicable to this Agreement and the transactions contemplated hereby.

(n) *Environmental Matters.*

(i) Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood and except as disclosed in the current Riverwood SEC Reports, (*i*) the operations of Riverwood and its Subsidiaries have been and are in compliance with all Environmental Laws and the Riverwood and its Subsidiaries are in possession of and in compliance with all licenses, permits and authorizations required by applicable Environmental Laws, (*ii*) there are no pending or threatened Environmental Claims under or pursuant to Environmental Laws against Riverwood or its Subsidiaries or involving any real property currently or formerly owned, operated or leased by Riverwood or its Subsidiaries, (*iii*) Riverwood and its Subsidiaries have not incurred any Environmental Liabilities and no facts, circumstances or conditions relating to, arising from, associated with or attributable to any real property currently or formerly owned, operated or leased by Riverwood or its Subsidiaries or operations thereon would reasonably be expected to result in such Environmental Liabilities, (*iv*) all real property currently owned or operated by Riverwood or its Subsidiaries is free of contamination from Hazardous Materials that requires investigation or remedial action pursuant to applicable Environmental Laws, (*v*) no work, repair, construction or capital expenditure is required or planned pursuant to, or to comply with, any Environmental Law and (*vi*) Riverwood has provided the Company with all material environmental documentation, including all material environmental site assessments, compliance audits, studies, correspondence with environmental regulatory authorities and allegations of noncompliance or liability in its possession, custody or control.

(ii) For purposes of this Section 3.1(n) and Section 3.2(n) the following terms shall have the following meanings:

"*Environmental Claim*" shall mean any and all actions, suits, demands, demand letters, directives, orders, claims, liens, investigations, requests for information, proceedings, or notices of noncompliance or violation (written or oral) by any person (including, without limitation, any governmental authority) alleging liability or potential liability arising out of, based on or resulting from (*A*) the presence, release or disposal, or threatened release or disposal, of any Hazardous Materials at any location, (*B*) circumstances forming the basis of any violation or alleged violation of any Environmental Law or permit thereunder or (*C*) any and all claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from exposure to or the presence, release, or disposal or threat thereof of any Hazardous Materials.

"*Environmental Law*" means any applicable law, regulation, code, order, judgment, decree, injunction or any other requirement of law (including common law) promulgated by any Governmental Entity (*A*) for the protection of human health or the environment (including air, water, soil and natural resources) or (*B*) regulating the use, storage, handling, transport, treatment, disposal, release or threatened release of any Hazardous Material.

"*Hazardous Material*" means any substance, material, chemical, pollutant or contaminant (*A*) listed, defined, designated or regulated pursuant to any applicable Environmental Law including, without limitation, petroleum products and byproducts, asbestos and polychlorinated biphenyls or (*B*) requiring investigation or remedial action under any Environmental Law.

"*Environmental Liabilities*" means all liabilities, obligations, claims, losses, damages, fines, penalties and sanctions arising under any Environmental Law or relating to the presence, release or threatened release of Hazardous Materials.

(o) *Intellectual Property.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood and except as disclosed in the Riverwood SEC Reports filed prior to the date of this Agreement, (*i*) Riverwood and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (*ii*) to the knowledge of Riverwood, the use of any Intellectual Property by Riverwood and its Subsidiaries does not infringe on or otherwise violate the rights of any Person and is in accordance with any applicable license pursuant to which Riverwood or any Subsidiary acquired the right to use any Intellectual Property; (*iii*) to the knowledge of Riverwood, no Person is challenging, infringing on or otherwise violating any right of Riverwood or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to Riverwood or its Subsidiaries; and (*iv*) neither Riverwood nor any of its Subsidiaries has received any written notice or otherwise has knowledge of any pending claim, order or proceeding with respect to any Intellectual Property used by Riverwood and its Subsidiaries and to its knowledge no Intellectual Property owned and/or licensed by Riverwood or its Subsidiaries is being used or enforced in a manner that would reasonably be expected to result in the abandonment, cancellation or unenforceability of such Intellectual Property. For purposes of this Agreement, "*Intellectual Property*" shall mean trademarks, service marks, brand names, certification marks, trade dress and other indications of origin, the goodwill associated with the foregoing and registrations in any domestic or foreign jurisdiction of, and applications in any such jurisdiction to register, the foregoing, including any extension, modification or renewal of any such registration or application; inventions, discoveries and ideas, whether patentable or not, in any domestic or foreign jurisdiction; patents, applications for patents (including, without limitation, divisions, continuations, continuations in part and renewal applications), and any renewals, extensions or reissues thereof, in any such jurisdiction; nonpublic information, trade secrets and confidential information and rights in any domestic or foreign jurisdiction to limit the use or disclosure thereof by any person; writings and other works, whether copyrightable or not, in any such jurisdiction;

---

and registrations or applications for registration of copyrights in any domestic or foreign jurisdiction, and any renewals or extensions thereof; and any similar intellectual property or proprietary rights.

(p) *Taxes.*

(i) Riverwood and each of its Subsidiaries has timely filed, or has caused to be timely filed, all Tax Returns required to be filed, and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Riverwood. All Taxes shown to be due on such Tax Returns, or otherwise owed, have been timely paid, except to the extent that any failure to have so paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Riverwood. All Taxes required to be withheld by Riverwood and each of its Subsidiaries have been timely withheld and paid to the proper taxing authority, except to the extent that any failure to have so withheld or paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Riverwood.

(ii) The most recent financial statements contained in the Riverwood SEC Reports reflect an adequate reserve in accordance with GAAP for all Taxes payable by Riverwood and its Subsidiaries for all Taxable periods and portions thereof through the date of such financial statements, except to the extent that the failure to have so reserved would not, individually or in the aggregate, reasonably be expected to have a Material Adverse effect on Riverwood. No deficiency with respect to any Taxes has been proposed, asserted or assessed against Riverwood or any of its Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for waiver, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood.

(iii) The Federal income Tax Returns of Riverwood and each of its Subsidiaries consolidated in such Returns for all years through 1998 either have been examined by and settled with the United States Internal Revenue Service or the statutes of limitation for

assessment of deficiency with respect thereto have expired. All material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(iv) There are no material Liens for Taxes (other than for current Taxes not yet due and payable and for Taxes being contested in good faith) on the assets of Riverwood or any of its Subsidiaries. Neither Riverwood nor any of its Subsidiaries is bound by any Tax sharing agreements with third parties.

(v) For purposes of this Agreement:

(A) "*Taxes*" includes all forms of taxation, whenever created or imposed, and whether of the United States or elsewhere, and whether imposed by a local, municipal, governmental, state, foreign, Federal or other Governmental Entity, or in connection with any agreement with respect to Taxes, including all interest, penalties and additions imposed with respect to such amounts.

(B) "*Tax Return*" means all Federal, state, local, provincial and foreign Tax returns, declarations, statements, reports, schedules, forms and information returns and any amended Tax return relating to Taxes.

(q) *Certain Contracts.* Other than the contracts or agreements of Riverwood included as exhibits to Riverwood's Annual Report on Form 10-K for the year ended December 31, 2001, and contracts or agreements between Riverwood and its wholly owned Subsidiaries or between wholly owned Subsidiaries of Riverwood, Schedule 3.1(q) of the Riverwood Disclosure Schedule lists each of the following contracts and agreements to which Riverwood or any of its Subsidiaries is a party or by which

any of them is bound (contracts and agreements of the types described below being "*Riverwood Identified Contracts*"), in each case as such Riverwood Identified Contract is in effect on the date hereof:

(i) contracts and agreements for the purchase of inventories, goods or other materials by, or for the furnishing of services to, Riverwood or any of its Subsidiaries that (*A*) require annual payments by Riverwood or any of its Subsidiaries in excess of $2,000,000 and (*B*) have a term of one year or more and are not terminable by Riverwood or the Subsidiary party thereto, as the case may be, on notice of six months or less without penalty;

(ii) contracts and agreements for the sale of inventories, goods or other materials, or for the furnishing of services, by Riverwood or any of its Subsidiaries that (*A*) require annual payments to Riverwood or any of its Subsidiaries in excess of $500,000 (except, in the case of contracts and agreements for the sale of open market coated board, in excess of $1,000,000) and (*B*) have a term of one year or more and are not terminable by Riverwood or any Subsidiary party thereto, as the case may be, on notice of six months or less without penalty;

(iii) manufacturer's representative, sales agency and distribution contracts and agreements that (*A*) have a term of one year or more and are not terminable by Riverwood or any Subsidiary party thereto, as the case may be, on notice of six months or less without penalty, or (*B*) are otherwise material;

(iv) contracts and agreements (*A*) governing the terms of indebtedness, or guarantees of indebtedness, of, or secured by assets of, Riverwood or any of its Subsidiaries in excess of $2,000,000 principal amount in the aggregate, or (*B*) governing the terms of "synthetic" or capital leases pursuant to which Riverwood or any of its Subsidiaries has financial obligations in excess of $2,000,000 or (*C*) providing for all obligations of Riverwood and its Subsidiaries in respect of interest rate swap or similar agreements, commodity swaps or options or similar agreements or foreign currency hedge, exchange or similar agreements or any other derivative instrument (other than any such agreement involving a notional amount of less than $50,000);

(v) contracts and agreements for the direct or indirect benefit of (*x*) the stockholders of Riverwood or (*y*) any of the affiliates of the stockholders of Riverwood (other than Riverwood and its Subsidiaries and their respective officers and directors in their capacities as such);

(vi) shareholder, voting trust or similar contracts and agreements relating to the voting of shares or other equity or debt interests of Riverwood or any of its Subsidiaries;

(vii) contracts and agreements entered into since January 1, 1990 providing for the acquisition or disposition of assets having a value in excess of $5,000,000, other than sales or purchases of inventories in the ordinary course of business and sales of obsolete equipment;

(viii) all leases, subleases, licenses and other agreements relating to or constituting real property, each with a term of one year or more and an annual payment obligation in excess of $250,000;

(ix) joint venture agreements, partnership agreements and other similar contracts and agreements involving a sharing of profits and expenses;

(x) contracts and agreements governing the terms of indebtedness of third parties (*A*) owed to Riverwood or any of its Subsidiaries, other than receivables arising from the sale of goods or services, or loans or advances not exceeding $250,000 in the aggregate made to employees of Riverwood or any of its Subsidiaries, by Riverwood or such Subsidiary in the ordinary course of business consistent with past practice, or (*B*) to or guaranteed by Riverwood or any of its Subsidiaries;

(xi) contracts and agreements prohibiting or materially restricting the ability of Riverwood or any of its Subsidiaries to conduct its business, to engage in any business or operate in any geographical area or to compete with any Person, other than (*A*) distribution (including independent sales representative) contracts and agreements listed on Schedule 3.1(p) of the Disclosure Schedule or that have a term of less than one year or are terminable by Riverwood or any Subsidiary of Riverwood party thereto, as the case may be, on notice of six months or less without penalty, and, in each case, which are not material to Riverwood and its Subsidiaries taken as a whole and (*B*) supplier and customer agreements relating to non-disclosure of confidential information of the other party which are not material to Riverwood and its Subsidiaries taken as a whole.

(xii) contracts and agreements providing for future payments that are conditioned, in whole or in part, on a change in control of Riverwood or any of its Subsidiaries (other than contracts and agreements providing for payments of less than $250,000 in the aggregate); and

(xiii) contracts and agreements that are material to the business, operations, results of operations, condition (financial or otherwise), assets or properties of Riverwood and its Subsidiaries taken as a whole.

Each contract or agreement to which Riverwood or any of its Subsidiaries is a party or by which any of them is bound is in full force and effect, and neither Riverwood nor any of its Subsidiaries, nor, to the knowledge of Riverwood, any other Person, is in breach of, or default under, any such contract or agreement, and no event has occurred that with notice or passage of time or both would constitute such a breach or default thereunder by Riverwood or any of its Subsidiaries, or, to the knowledge of Riverwood, any other Person, except for such failures to be in full force and effect and such breaches and defaults as individually and in the aggregate would not have or result in a Material Adverse Effect on Riverwood.

(r) *Labor Matters.*

(i) Except where failure to comply would not reasonably be expected to have a Material Adverse Effect on Riverwood, Riverwood is and has been in compliance with all applicable laws of the United States, or of any state or local government or any subdivision thereof or of any foreign government respecting employment and employment practices, terms and conditions of employment and wages and hours and is not engaged in any unfair labor practices.

(ii) None of Riverwood and its Subsidiaries is a party to or bound by and none of their employees is subject to any collective bargaining agreement relating to the terms and conditions of employment for any group of employees (any such agreement, memorandum or document, a "*Collective Bargaining Agreement*"), and there are no labor unions or other organizations representing or, to the actual knowledge of Riverwood purporting to represent, any employees employed by any of Riverwood and its Subsidiaries. No labor union is currently engaged in or, to the actual knowledge of Riverwood, threatening, organizational efforts with respect to any employees of Riverwood or any of its Subsidiaries. Riverwood and its Subsidiaries are not in material breach of or default under any Collective Bargaining Agreement. Since January 1, 2000, there has not occurred or been threatened, any strike, slowdown, picketing, work stoppage, concerted refusal to work overtime or other similar labor activity with respect to any employees of Riverwood or any of its Subsidiaries. There are no labor disputes currently subject to any pending grievance procedure, arbitration or litigation and there is no representation

petition pending or, to the actual knowledge of Riverwood, threatened with respect to any employee of Riverwood or any of its Subsidiaries, other than as, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood.

(s) *Assets.*

(i) Riverwood and its Subsidiaries own, or otherwise have sufficient and legally enforceable rights to use, all of the properties and assets (real, personal or mixed, tangible or intangible), necessary for the conduct of, or otherwise material to, their business and operations as they are currently conducted (the "*Assets*"), other than Intellectual Property (which is the subject of Section 3.1(o)). Riverwood and its Subsidiaries have valid title to, or in the case of leased property have valid leasehold interests in, all such Assets (other than Intellectual Property), including all such Assets (other than Intellectual Property) reflected in Riverwood's consolidated balance sheet for the nine months ended September 30, 2002 appearing in Riverwood's Quarterly Report on Form 10-Q for such quarter (the "*Riverwood Balance Sheet*") or acquired since such date (except as may have been disposed of since such date or as may be disposed of after the date hereof in accordance herewith in either case in the ordinary course of business consistent with past practice), in each case free and clear of any Lien, except Riverwood Permitted Liens (as defined below). Schedule 3.1(s)(i) of the Riverwood Disclosure Schedule sets forth a complete and correct list of each of the countries in which Assets are located.

(ii) "*Riverwood Permitted Liens*" means (*A*) Liens reserved against or reflected in the Riverwood Balance Sheet, to the extent so reserved or reflected or described in the notes thereto, (*B*) Liens for Taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on Riverwood's books in accordance with GAAP, (*C*) those Liens set forth in Schedule 3.1(s)(ii) of the Riverwood Disclosure Schedule and (*D*) those Liens that, individually and in the aggregate with all other Riverwood Permitted Liens, do not and will not materially interfere with the use of the properties or assets of Riverwood and its Subsidiaries taken as a whole as currently used, or otherwise have or result in a Material Adverse Effect.

(t) *Real Property.*

(i) Schedule 3.1(t)(i) of the Riverwood Disclosure Schedule contains a complete and correct list of all Riverwood Owned Real Property (as defined in Section 3.1(t)(iii)) setting forth information sufficient to specifically identify such Riverwood Owned Real Property and the legal owner thereof. Riverwood and its Subsidiaries have good, valid and marketable fee simple title to the Riverwood Owned Real Property, free and clear of any Liens other than Riverwood Permitted Liens. There are no outstanding options or rights of first refusal to purchase the Riverwood Owned Real Property, or any material portion thereof or interest therein. Each Riverwood Lease (as defined in Section 3.1(t)(iii)) grants the lessee under such lease the exclusive right to use and occupy the premises and rights demised thereunder free and clear of any Lien other than Riverwood Permitted Liens. Each of Riverwood and its Subsidiaries has good and valid title to the leasehold estate or other interest created under its respective Riverwood Leases free and clear of any Liens other than Riverwood Permitted Liens. Each of Riverwood and its Subsidiaries enjoys peaceful and undisturbed possession under its respective Riverwood Leases of its respective Riverwood Leased Real Property (as defined in Section 3.1(t)(iii)) free and clear of any Lien other than Riverwood Permitted Liens.

(ii) The Riverwood Real Property constitutes all the fee, leasehold and other interests in real property held by Riverwood and its Subsidiaries, and constitutes all of the fee, leasehold and other interests in real property, necessary for the conduct of, or otherwise material to, the business of Riverwood and its Subsidiaries as it is currently conducted, except for any fee, leasehold or other interest acquired or disposed of in the ordinary course of business after the

---

date hereof and in accordance with this Agreement. The use and operation of the Riverwood Real Property in the conduct of the business of Riverwood and its Subsidiaries does not violate any instrument of record or agreement affecting the

Riverwood Real Property, except for such violations as individually and in the aggregate would not have or result in a Material Adverse Effect. No current use by Riverwood and its Subsidiaries of the Riverwood Real Property is dependent on a nonconforming use or other governmental approval, the absence of which individually or in the aggregate would have or result in a Material Adverse Effect.

(iii) "*Riverwood Leases*" means the real property leases, subleases, licenses and use or occupancy agreements pursuant to which Riverwood or any of its Subsidiaries is the lessee, sublessee, licensee, user or occupant of real property, or interests therein, necessary for the conduct of, or otherwise material to, the business of Riverwood and its Subsidiaries as it is currently conducted. "*Riverwood Leased Real Property*" means all interests in real property pursuant to the Riverwood Leases. "*Riverwood Owned Real Property*" means the real property owned by Riverwood and its Subsidiaries necessary for the conduct of, or otherwise material to, the business of Riverwood and its Subsidiaries as it is currently conducted. "*Riverwood Real Property*" means the Riverwood Owned Real Property and the Riverwood Leased Real Property.

(u) *Insurance.* Schedule 3.1(u) of the Riverwood Disclosure Schedule contains a complete and correct list and summary description of all insurance policies maintained by or on behalf of any of Riverwood and its Subsidiaries as of the date hereof. Such policies are in full force and effect, and all premiums due thereon have been paid. Riverwood and its Subsidiaries have complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is suitable for the business and operations of Riverwood and its Subsidiaries.

(v) *Affiliate Transactions.* Schedule 3.1(v) of the Riverwood Disclosure Schedule contains a complete and correct list of all agreements, contracts, transfers of assets or liabilities or other commitments or transactions, whether or not entered into in the ordinary course of business, to or by which Riverwood or any of its Subsidiaries, on the one hand, and the Riverwood Group Shareholders (as defined in Section 8.11) or any of their affiliates (other than Riverwood or any of its Subsidiaries), on the other hand, are or have been a party or otherwise bound or affected, and that (i) are currently pending or in effect or (ii) involve continuing liabilities and obligations that, individually or in the aggregate, have been, are or will be material to Riverwood and its Subsidiaries taken as a whole.

(w) *Disclosure.* No representation or warranty by Riverwood contained in this Agreement nor any statement or certificate furnished or to be furnished by or on behalf of Riverwood to the Company or its representatives in connection herewith or pursuant hereto contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact required to make the statements contained herein or therein not misleading. There is no fact (other than matters of a general economic or political nature which do not affect Riverwood uniquely) known to Riverwood that has not been disclosed by Riverwood to the Company that might reasonably be expected to have or result in a Material Adverse Effect on Riverwood.

Section 3.2 *Representations and Warranties of the Company.* Except as set forth in the Company Disclosure Schedule delivered by the Company to Riverwood prior to the execution of this Agreement (the "*Company Disclosure Schedule*") (each section of which qualifies the correspondingly numbered representation and warranty or covenant and any other representation or warranty, if the disclosure set forth in the Company Disclosure Schedule is readily applicable to such other representation or warranty), the Company represents and warrants to Riverwood as follows:

(a) *Organization, Standing and Power; Subsidiaries.*

(i) Each of the Company and each of its Subsidiaries is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has the requisite corporate (or similar) power and authority to own, lease and operate its properties and to carry on its business as now being conducted, except where the failures to be so organized, existing and in good standing or to have such power and authority, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company, and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary other than in such jurisdictions where the failures so to qualify or to be in good standing, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. The copies of the certificate of incorporation and bylaws of the Company which were previously furnished or made available to Riverwood are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) Exhibit 21 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 ("*Company Exhibit 21*") includes all the Subsidiaries of the Company which as of the date of this Agreement are Significant Subsidiaries (as defined in

Rule 1-02 of Regulation S-X of the SEC). All the outstanding shares of capital stock of, or other equity interests in, each such Significant Subsidiary have been validly issued and are fully paid and non-assessable and are, except as set forth in Company Exhibit 21, owned directly or indirectly by the Company, free and clear of all Liens and free of any other restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other ownership interests), except for restrictions imposed by applicable securities laws. Except as set forth in the Company SEC Reports (as defined in Section 3.2(d)) filed prior to the date hereof, neither the Company nor any of its Subsidiaries directly or indirectly owns any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for, any corporation, partnership, joint venture or other business association or entity (other than Subsidiaries), that is or would reasonably be expected to be material to the Company and its Subsidiaries taken as a whole.

(b) *Capital Structure.*

(i) As of December 31, 2002, the authorized capital stock of the Company consisted of (*A*) 100,000,000 shares of Company Common Stock, of which 33,477,300 shares were outstanding and no shares were held in the treasury of the Company, (*B*) 20,000,000 shares of preferred stock, par value $0.01 per share, of which (*x*) 1,000,000 shares have been designated as Company Convertible Preferred Stock, all of which were outstanding and (*y*) 100,000 shares have been designated Series A Junior Participating Preferred Stock and reserved for issuance upon exercise of the rights (the "*Company Rights*") distributed to the holders of Company Common Stock pursuant to the Rights Agreement dated as of May 31, 2000, between the Company and Norwest Bank Minnesota, N.A. (the "*Company Rights Agreement*").

(ii) Since December 31, 2002 to the date of this Agreement, there have been no issuances of shares of the capital stock of the Company or any other securities of the Company other than issuances of shares of Company Common Stock (and accompanying Company Rights) pursuant to options or rights outstanding as of December 31, 2002 under the Benefit Plans of the Company.

All issued and outstanding shares of the capital stock of the Company are duly authorized, validly issued, fully paid and non-assessable, and no class of capital stock is entitled to preemptive rights. There were outstanding as of December 31, 2002 no options, warrants or other rights to acquire capital stock from the Company other than (*x*) Company Rights and (*y*) options to acquire capital stock of the Company representing in the aggregate the right to purchase 5,767,528 shares of Company Common Stock (collectively, the "*Company Stock Options*") and 405,246 shares of restricted Company Common Stock under the Company Equity Incentive Plan, the Company Equity Compensation Plan for Non-Employee Directors and the Company's Employee Stock Purchase Program (collectively, the "*Company Stock Incentive Plans*"). Section 3.2(b) of the Company Disclosure Schedule sets forth a complete and correct list, as of December 31, 2002, of the number of shares of Company Common Stock subject to Company Stock Options or other rights to purchase or receive Company Common Stock granted under the Company Stock Incentive Plans or otherwise, the dates of grant and the exercise prices thereof. No options or warrants or other rights to acquire capital stock from the Company have been issued or granted since December 31, 2002 to the date of this Agreement.

(iii) No bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into or exercisable for securities having the right to vote) on any matters on which holders of capital stock of the Company may vote ("*Company Voting Debt*") are issued or outstanding.

(iv) Except as otherwise set forth in this Section 3.2(b), as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which the Company or any of its Subsidiaries is a party or by which any of them is bound obligating the Company or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of the Company or any of its Subsidiaries or obligating the Company or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries. There are not outstanding any stock-appreciation rights, security-based performance units, "phantom" stock or other security rights or other agreements, arrangements or commitments of any character (contingent or otherwise) pursuant to which any Person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of the Company or any of its Subsidiaries or assets or calculated in accordance therewith (other than ordinary course payments or commissions to sales representatives of the Company based upon revenues generated by them without augmentation as a result of the transactions contemplated hereby) or to cause the Company or any of its Subsidiaries to file a registration statement under the Securities Act or which otherwise relate to the registration of any securities of the Company or its Subsidiaries.

(c) *Authority; No Conflicts.*

(i) The Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Company Stockholder Approval (as defined in Section 3.2(g)). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Company Stockholder Approval. This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding agreement of the Company, enforceable against it in accordance with its terms, except as such

enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by the Company does not or will not, as the case may be, and the consummation by the Company of the Merger and the other transactions contemplated hereby will not, conflict with, or result in a Violation pursuant to: (*A*) any provision of the articles of incorporation or bylaws of the Company or any Significant Subsidiary (as defined in Rule 1-02 of Regulation S-X of the SEC) of the Company or (*B*) except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company or, subject to obtaining or making the consents, approvals, orders, authorizations, registrations, declarations and filings referred to in paragraph (iii) below, any loan or credit agreement, note, mortgage, bond, indenture, lease, benefit plan or other agreement, obligation, instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any Subsidiary of the Company or their respective properties or assets.

(iii) No consent, approval, order or authorization of, clearance by, or registration, declaration or filing with, any Governmental Entity is required by or with respect to the Company or any Subsidiary of the Company in connection with the execution and delivery of this Agreement by the Company or the consummation of the Merger and the other transactions contemplated hereby, except the Necessary Consents and such other consents, approvals, orders, authorizations, registrations, declarations and filings the failure of which to make or obtain, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(d) *Reports and Financial Statements.*

(i) The Company has filed all required registration statements, prospectuses, reports, schedules, forms, statements and other documents required to be filed by it with the SEC since January 1, 2000 (collectively, including all exhibits thereto, the "*Company SEC Reports*"). No Subsidiary of the Company is required to file any form, report, registration statement or prospectus or other document with the SEC. None of the Company SEC Reports, as of their respective dates (and, if amended or superseded by a filing prior to the date of this Agreement or the Closing Date, then on the date of such filing), contained or will contain any untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Each of the financial statements (including the related notes and schedules) included or incorporated by reference in the Company SEC Reports presents fairly, or will present fairly, in all material respects, the consolidated financial position and consolidated results of operations, retained earnings and cash flows of the Company and its consolidated Subsidiaries as of the respective dates or for the respective periods set forth therein, all in conformity with GAAP consistently applied during the periods involved except as otherwise noted therein, and subject, in the case of the unaudited interim financial statements, to the absence of notes and normal and recurring year-end adjustments that have not been and are not expected to be material in amount. All of such Company SEC Reports, as of their respective dates (and as of the date of any amendment to the respective Company SEC Report), complied as to form in all material respects with the applicable requirements of the Securities Act and the Exchange Act and the rules and regulations promulgated thereunder.

(ii) Except as disclosed in the Company SEC Reports filed prior to the date hereof, the Company and its Subsidiaries have not incurred any liabilities that are of a nature that would be required to be disclosed on a balance sheet of the Company and its Subsidiaries or the footnotes thereto prepared in conformity with GAAP, other than (*A*) liabilities incurred in the ordinary

course of business, or (*B*) liabilities that, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(e) *Information Supplied.*

(i) None of the information supplied or to be supplied by the Company for inclusion or incorporation by reference in (*A*) the Form S-4 will, at the time the Form S-4 is filed with the SEC, at any time it is amended or supplemented or at the time it becomes effective under the Securities Act, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, and (*B*) the Company Proxy Statement/Prospectus will, on the date it is first mailed to the Company stockholders or at the time of the Company Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Form S-4 and the Company Proxy Statement/Prospectus will comply as to form in all material respects with the requirements of the Exchange Act and the Securities Act and the rules and regulations of the SEC thereunder.

(ii) Notwithstanding the foregoing provisions of this Section 3.2(e), no representation or warranty is made by the Company with respect to statements made or incorporated by reference in the Form S-4 or the Company Proxy Statement/Prospectus based on information supplied by Riverwood for inclusion or incorporation by reference therein.

(f) *Board Approval*. The Board of Directors of the Company, by resolutions duly adopted by unanimous vote of all directors voting at a meeting duly called and held and not subsequently rescinded or modified in any way (the "*Company Board Approval*"), has duly (*i*) determined that this Agreement and the Merger are advisable and are fair to and in the best interests of the Company and its stockholders, (*ii*) approved this Agreement, the Merger and the other transactions contemplated by this Agreement and (*iii*) recommended that the stockholders of the Company adopt this Agreement and directed that this Agreement and the transactions contemplated hereby be submitted for consideration by the Company's stockholders at the Company Stockholders Meeting.

(g) *Vote Required*. The affirmative votes (*i*) of the holders of two-thirds of the voting power of Company Common Stock (including the votes to which the holders of the Company Convertible Preferred Stock are entitled) and (*ii*) of the holders of two-thirds of the outstanding shares of Company Convertible Preferred Stock, voting separately as a class, to adopt this Agreement (collectively, the "*Company Stockholder Approval*") are the only votes of the holders of any class or series of the Company's capital stock necessary to consummate the transactions contemplated hereby.

(h) *Litigation; Compliance with Laws.*

(i) Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, there are no Actions pending or, to the knowledge of the Company, threatened, against or affecting the Company or any Subsidiary of the Company which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company, nor are there any judgments, decrees, injunctions, rules or orders of any Governmental Entity or arbitrator outstanding against the Company or any Subsidiary of the Company which, in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company.

(ii) Except as disclosed in the Company SEC Reports filed prior to the date of the Agreement and except as would, in the aggregate, not reasonably be expected to have a Material Adverse Effect on the Company, the Company and its Subsidiaries hold all permits, licenses, variances, exemptions, orders and approvals of all Governmental Entities which are necessary for the operation of the businesses of the Company and its Subsidiaries, taken as a whole (the "*Company Permits*"). The Company and its Subsidiaries are in compliance with the terms of the

Company Permits, except where the failures to so comply, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, neither the Company nor any of its Subsidiaries is in violation of, and the Company and its Subsidiaries have not received any notices of violations with respect to, any laws, ordinances or regulations of any Governmental Entity, except for violations which, in the aggregate would not reasonably be expected to have a Material Adverse Effect on the Company.

(i) *Absence of Certain Changes or Events.* Except for liabilities incurred in connection with this Agreement or the transactions contemplated hereby, except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, and except as permitted by

Section 4.2, since December 31, 2002, (*i*) the Company and its Subsidiaries have conducted their business only in the ordinary course; (*ii*) through the date hereof, there has not been any declaration, setting aside or payment of any dividend or other distribution in cash, stock or property in respect of the Company's capital stock, except for dividends or other distributions on its capital stock disclosed in Schedule 3.2(i) of the Company Disclosure Schedule; (*iii*) there has not been any action by the Company or any of its Subsidiaries during the period from December 31, 2002 through the date of this Agreement that, if taken during the period from the date of this Agreement through the Effective Time would constitute a breach of Section 4.2; and (*iv*) except as required by GAAP, there has not been any change by the Company in accounting principles, practices or methods. Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, since December 31, 2002, there have not been any changes, circumstances or events which, in the aggregate, have had, or would reasonably be expected to have, a Material Adverse Effect on the Company.

(j) *Financial Advisors.* No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement, based upon arrangements made by or on behalf of the Company, except Credit Suisse First Boston and Morgan Stanley.

(k) *Opinion of the Company Financial Advisor.* The Company has received the opinion of Credit Suisse First Boston, dated the date of this Agreement, to the effect that, as of such date, the Exchange Ratio is fair to the holders of Company Common Stock, other than the Family Stockholders, from a financial point of view. The Company has received the opinion of Morgan Stanley & Co. Incorporated, dated the date of this Agreement, to the effect that, as of such date, the payment associated with the Preferred Stock Conversion is fair to the Company, from a financial point of view.

(l) *Employee Benefit Plans and Related Matters; ERISA.*

(i) *Employee Benefit Plans*. Schedule 3.2(l) of the Company Disclosure Schedule sets forth a complete and correct list of each Company Benefit Plan. With respect to each such Company Benefit Plan, the Company has provided or made available to the Company complete and correct copies of: (*A*) such Company Benefit Plan, if written, or a description of such Company Benefit Plan if not written, and (*B*) to the extent applicable, all trust agreements, insurance contracts or other funding arrangements, the two most recent actuarial and trust reports, the two most recent Forms 5500 required to have been filed with the IRS or the Department of Labor or any similar report filed with any comparable governmental authority in any non-U.S. jurisdiction having jurisdiction over any employee benefit plan sponsored by the Company, and all schedules thereto; the most recent IRS determination letter; all current summary plan descriptions; all material communications received from or sent to the IRS, the Pension Benefit Guaranty Corporation or the Department of Labor (including a written description of any oral communication); any actuarial study of any post-employment life or medical benefits provided under any such Benefit Plan; all current employee handbooks and manuals; statements or other communications regarding withdrawal or other multiemployer plan liabilities or similar liabilities pertaining to any non-U.S.

employee benefit plan sponsored by the Company, if any; and all amendments and modifications to any such document. None of the Company or any of its Subsidiaries has communicated to any current or former employee thereof any intention or commitment to modify any Company Benefit Plan or to establish or implement any other employee or retiree benefit or compensation plan or arrangement.

(ii) *Qualification*. Each Company Benefit Plan intended to be qualified under section 401(a) of the Code, and the trust (if any) forming a part thereof, has received a favorable determination letter from the IRS as to its qualification under the Code and to the effect that each such trust is exempt from taxation under section 501(a) of the Code, and nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect such qualification or tax-exempt status. All amendments and actions required to bring each Company Benefit Plan into conformity with the applicable provisions of ERISA, the Code, and other applicable laws have been made or taken, except to the extent such amendments or actions (*A*) are not required by law to be made or taken until after the Closing Date and (*B*) are disclosed on Schedule 3.2(l)(ii) of the Company Disclosure Schedule.

(iii) *Compliance; Liability.*

(A) None of the Company, any of its Subsidiaries or any Company Related Person would be liable for any material amount pursuant to section 4062, 4063 or 4064 of ERISA if any Company Benefit Plan that is subject to Title IV of ERISA (a "*Company Title IV Plan*") were to terminate as of the date hereof. Each Company Benefit Plan that is subject to the minimum funding standards of ERISA or the Code satisfies such standards under sections 412 and 302 of the Code and ERISA, respectively, and no such Company Benefit Plan has incurred an "accumulated funding deficiency" within the meaning of such sections, whether or not waived. As of the last day of the most recently ended fiscal year of each Company Title IV Plan, the "projected benefit obligations" (within the meaning of the Financial Accounting Standards Board Statement No. 87) under each such Company Benefit Plan did not exceed the fair market value of the assets of each such Company Benefit Plan allocable to such "projected benefit obligations," determined on the

basis of the actuarial assumptions contained in the actuarial report prepared for such fiscal year of each such Company Benefit Plan.

(B) None of the Company, any of its Subsidiaries or any Company Related Person has been involved in any transaction that could cause Company, any of its Subsidiaries or, following the Closing Riverwood or any Riverwood Related Person to be subject to material liability under section 4069 or 4212 of ERISA. None of Company, any of its Subsidiaries or any Company Related Person has incurred (either directly or indirectly, including as a result of an indemnification obligation) any material liability under or pursuant to Title I or IV of ERISA or the penalty, excise Tax or joint and several liability provisions of the Code relating to employee benefit plans and, to the knowledge of Company, no event, transaction or condition has occurred or exists that could result in any such liability to the Company, any of its Subsidiaries, any Company Related Person or, following the Closing Riverwood or any Riverwood Related Person. All contributions and premiums required to have been paid by the Company, any of its Subsidiaries or any Company Related Person to any Company Benefit Plan under the terms of any such plan or its related trust, insurance contract or other funding arrangement, or pursuant to any applicable law (including ERISA and the Code) or collective bargaining agreement have been paid within the time prescribed by any such plan, agreement or applicable law, except to the extent failure to do so would not, individually or in the aggregate, result in a Material Adverse Effect.

(C) Each of the Company Benefit Plans has been operated and administered in all material respects in compliance with its terms, all applicable laws and all applicable collective bargaining agreements. There are no material pending or threatened claims by or on behalf of any participant

in any of the Company Benefit Plans, or otherwise involving any such Company Benefit Plan or the assets of any Company Benefit Plan, other than routine claims for benefits. The Company Benefit Plans are not presently under audit or examination (nor has notice been received of a potential audit or examination) by the IRS, the Department of Labor, or any other governmental agency or entity, domestic or foreign, and no matters are pending with respect to a Company Benefit Plan under the IRS's Voluntary Compliance Resolution program, its Closing Agreement Program, or other similar programs.

(D) No Company Benefit Plan is a multiemployer plan (as defined in section 4001(a)(3) of ERISA) or a "multiple employer plan" within the meaning of section 4063 or 4064 of ERISA.

(E) No person is or will become entitled to post-employment benefits of any kind by reason of employment with Company or any of its Subsidiaries, including, but not limited to, death or medical benefits (whether or not insured), other than (*x*) coverage mandated by section 4980B of the Code or (*y*) retirement benefits payable under any Company Benefit Plan qualified under section 401(a) of the Code. The entering into this Agreement or the consummation of the transactions contemplated by this Agreement will not result in an increase in the amount of compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any current or former employee, officer, director or independent contractor of Company or any of its Subsidiaries and no payment or deemed payment by Company or any of its Subsidiaries will arise or be made as a result of the entering into of this Agreement or the consummation of the transactions contemplated by this Agreement that would not be deductible pursuant to Section 280G of the Code.

(F) The Company has classified all individuals (including but not limited to independent contractors and leased employees) appropriately under the Company Benefit Plans, except where a failure to do so would not, individually or in the aggregate, result in a Material Adverse Effect.

(m) *No Restrictions on the Merger.*

(i) The Board of Directors of the Company has taken all necessary action to render any potentially applicable anti-takeover or similar statute or regulation or provision of the certificate of incorporation or by-laws, or other organizational or constitutive document or governing instruments of the Company or any of its Subsidiaries, inapplicable to this Agreement and the transactions contemplated hereby.

(ii) The Company has taken all action so that the entering into of this Agreement, the Merger and the other transactions contemplated hereby will not result in the grant of any rights to any person under the Company Rights Agreement or enable or require the Company Rights to be exercised, distributed or triggered. The Company has delivered to Riverwood a true and correct copy of the Company Rights Agreement.

(n) *Environmental Matters.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company and except as disclosed in the current Company SEC Reports, (*i*) the operations of the Company and its Subsidiaries have been and are in compliance with all Environmental Laws and the Company and its subsidiaries are in possession of and in compliance with all licenses, permits and authorizations required by applicable Environmental Laws, (*ii*) there are no pending or threatened, Environmental Claims under or pursuant to Environmental Laws against the Company or its Subsidiaries or involving any real property currently or formerly owned, operated or leased by the Company or its Subsidiaries, (*iii*) the Company and its Subsidiaries have not incurred any Environmental Liabilities and no facts, circumstances or conditions relating to, arising from, associated with or attributable to any real property currently or formerly owned, operated or leased by the Company or its Subsidiaries or operations thereon would reasonably be expected to result in such Environmental Liabilities, (*iv*) all real property currently owned or operated by the Company or its

Subsidiaries is free of contamination from Hazardous Materials that requires investigation or remediation pursuant to applicable Environmental Laws, (*v*) no work, repair, construction or capital expenditure is required or planned pursuant to, or to comply with, any Environmental Law and (*vi*) the Company has provided Riverwood with all material environmental documentation, including all material environmental site assessments, compliance audits, studies, correspondence with environmental regulatory authorities and allegations of noncompliance or liability in its possession, custody or control.

(o) *Intellectual Property.* Except as, in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company and except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, (*i*) the Company and each of its Subsidiaries owns, or is licensed to use (in each case, free and clear of any Liens), all Intellectual Property used in or necessary for the conduct of its business as currently conducted; (*ii*) to the knowledge of the Company, the use of any Intellectual Property by the Company and its Subsidiaries does not infringe on or otherwise violate the rights of any Person and is in accordance with any applicable license pursuant to which the Company or any Subsidiary acquired the right to use any Intellectual Property; (*iii*) to the knowledge of the Company, no Person is challenging, infringing on or otherwise violating any right of the Company or any of its Subsidiaries with respect to any Intellectual Property owned by and/or licensed to the Company or its Subsidiaries; and (*iv*) neither the Company nor any of its Subsidiaries has received any written notice or otherwise has knowledge of any pending claim, order or proceeding with respect to any Intellectual Property used by the Company and its Subsidiaries and to its knowledge no Intellectual Property owned and/or licensed by the Company or its Subsidiaries is being used or enforced in a manner that would reasonably be expected to result in the abandonment, cancellation or unenforceability of such Intellectual Property.

(p) *Taxes.*

(i) The Company and each of its Subsidiaries has timely filed, or has caused to be timely filed, all Tax Returns required to be filed, and all such Tax Returns are true, complete and accurate, except to the extent any failure to file or any inaccuracies in any filed Tax Returns would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company. All Taxes shown to be due on such Tax Returns, or otherwise owed, have been timely paid, except to the extent that any failure to have so paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company. All Taxes required to be withheld by the Company and each of its Subsidiaries have been timely withheld and paid to the proper taxing authority, except to the extent that any failure to have so withheld or paid would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Company.

(ii) The most recent financial statements contained in the Company SEC Reports reflect an adequate reserve in accordance with GAAP for all Taxes payable by the Company and its Subsidiaries for all Taxable periods and portions thereof through the date of such financial statements, except to the extent that the failure to have so reserved would not, individually or in the aggregate, reasonably be expected to have a Material Adverse effect on the Company. No deficiency with respect to any Taxes has been proposed, asserted or assessed against the Company or any of its Subsidiaries, and no requests for waivers of the time to assess any such Taxes are pending, except to the extent any such deficiency or request for waiver, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(iii) The Federal income Tax Returns of the Company and each of its Subsidiaries consolidated in such Returns for all years through 1998 either have been examined by and settled with the United States Internal Revenue Service or the statutes of limitation for assessment of deficiency with respect thereto have expired. All material assessments for Taxes due with respect to such completed and settled examinations or any concluded litigation have been fully paid.

(iv) There are no material Liens for Taxes (other than for current Taxes not yet due and payable and for Taxes being contested in good faith) on the assets of the Company or any of its Subsidiaries. Neither the Company nor any of its Subsidiaries is bound by any Tax sharing agreements with third parties.

(q) *Certain Contracts.* Other than the contracts or agreements of the Company included as exhibits to the Company's Annual Report on Form 10-K for the year ended December 31, 2002, and contracts or agreements between the Company and its wholly owned Subsidiaries or between wholly owned Subsidiaries of the Company, Schedule 3.2(q) of the Company Disclosure Schedule lists each of the following contracts and agreements to which the Company or any of its Subsidiaries is a party or by which any of them is bound (contracts and agreements of the types described below being "*Company Identified Contracts*"), in each case as such Company Identified Contract is in effect on the date hereof:

(i) contracts and agreements for the purchase of inventories, goods or other materials by, or for the furnishing of services to, the Company or any of its Subsidiaries that (*A*) require annual payments by the Company or any of its Subsidiaries in excess of $2,000,000 and (*B*) have a term of one year or more and are not terminable by the Company or the Subsidiary party thereto, as the case may be, on notice of six months or less without penalty;

(ii) contracts and agreements for the sale of inventories, goods or other materials, or for the furnishing of services, by the Company or any of its Subsidiaries that (*A*) require annual payments to Company or any of its Subsidiaries in excess of $500,000 and (*B*) have a term of one year or more and are not terminable by Company or any Subsidiary party thereto, as the case may be, on notice of six months or less without penalty;

(iii) manufacturer's representative, sales agency and distribution contracts and agreements that (*A*) have a term of one year or more and are not terminable by the Company or any Subsidiary party thereto, as the case may be, on notice of six months or less without penalty, or (*B*) are otherwise material;

(iv) contracts and agreements (*A*) governing the terms of indebtedness, or guarantees of indebtedness, of, or secured by assets of, the Company or any of its Subsidiaries in excess of $2,000,000 principal amount in the aggregate, or (*B*) governing the terms of "synthetic" or capital leases pursuant to which the Company or any of its Subsidiaries has financial obligations in excess of $2,000,000 or (*C*) providing for all obligations of the Company and its Subsidiaries in respect of interest rate swap or similar agreements, commodity swaps or options or similar agreements or foreign currency hedge, exchange or similar agreements or any other derivative instrument (other than any such agreement involving a notional amount of less than $50,000);

(v) contracts and agreements for the direct or indirect benefit of (*x*) any Family Stockholder other than contracts and agreements that benefit all stockholders of the Company ratably or (*y*) any of the affiliates of any Family Stockholder (other than the Company and its Subsidiaries and their respective officers and directors in their capacities as such);

(vi) shareholder, voting trust or similar contracts and agreements relating to the voting of shares or other equity or debt interests of the Company or any of its Subsidiaries;

(vii) contracts and agreements entered into since January 1, 1990 providing for the acquisition or disposition of assets having a value in excess of $5,000,000, other than sales or purchases of inventories in the ordinary course of business and sales of obsolete equipment;

(viii) all leases, subleases, licenses and other agreements relating to or constituting real property, each with a term of one year or more and an annual payment obligation in excess of $250,000;

(ix) joint venture agreements, partnership agreements and other similar contracts and agreements involving a sharing of profits and expenses;

(x) contracts and agreements governing the terms of indebtedness of third parties (*A*) owed to the Company or any of its Subsidiaries, other than receivables arising from the sale of goods or services, or loans or advances not exceeding $250,000 in the

aggregate made to employees of the Company or any of its Subsidiaries, by the Company or such Subsidiary in the ordinary course of business consistent with past practice, or (*B*) to or guaranteed by the Company or any of its Subsidiaries;

(xi) contracts and agreements prohibiting or materially restricting the ability of the Company or any of its Subsidiaries to conduct its business, to engage in any business or operate in any geographical area or to compete with any Person, other than (*A*) distribution (including independent sales representative) contracts and agreements listed on Schedule 3.2(q) of the Company Disclosure Schedule or that have a term of less than one year or are terminable by the Company or any Subsidiary of the Company party thereto, as the case may be, on notice of six months or less without penalty, and, in each case, which are not material to the Company and its Subsidiaries taken as a whole and (*B*) supplier and customer agreements relating to non-disclosure of confidential information of the other party which are not material to the Company and its Subsidiaries taken as a whole.

(xii) contracts and agreements providing for future payments that are conditioned, in whole or in part, on a change in control of the Company or any of its Subsidiaries (other than contracts and agreements providing for payments of less than $250,000 in the aggregate); and

(xiii) contracts and agreements that are material to the business, operations, results of operations, condition (financial or otherwise), assets or properties of the Company and its Subsidiaries taken as a whole.

Each contract or agreement to which the Company or any of its Subsidiaries is a party or by which any of them is bound is in full force and effect, and neither the Company nor any of its Subsidiaries, nor, to the knowledge of the Company, any other Person, is in breach of, or default under, any such contract or agreement, and no event has occurred that with notice or passage of time or both would constitute such a breach or default thereunder by the Company or any of its Subsidiaries, or, to the knowledge of the Company, any other Person, except for such failures to be in full force and effect and such breaches and defaults as individually and in the aggregate would not have or result in a Material Adverse Effect on the Company.

(r) *Labor Matters.*

(i) Except where failure to comply would not reasonably be expected to have a Material Adverse Effect on the Company, the Company is and has been in compliance with all applicable laws of the United States, or of any state or local government or any subdivision thereof or of any foreign government respecting employment and employment practices, terms and conditions of employment and wages and hours and is not engaged in any unfair labor practices.

(ii) None of the Company and its Subsidiaries is a party to or bound by and none of their employees is subject to any Collective Bargaining Agreement, and there are no labor unions or other organizations representing or, to the actual knowledge of the Company purporting to represent, any employees employed by any of the Company and its Subsidiaries. No labor union is currently engaged in or, to the actual knowledge of the Company, threatening, organizational efforts with respect to any employees of the Company or any of its Subsidiaries. The Company and its Subsidiaries are not in material breach of or default under any Collective Bargaining Agreement. Since January 1, 2000, there has not occurred or been threatened, any strike, slowdown, picketing, work stoppage, concerted refusal to work overtime or other similar labor

activity with respect to any employees of the Company or any of its Subsidiaries. There are no labor disputes currently subject to any pending grievance procedure, arbitration or litigation and there is no representation petition pending or, to the actual knowledge of the Company, threatened with respect to any employee of the Company or any of its Subsidiaries, other than as, individually and in the aggregate, would not reasonably be expected to have a Material Adverse Effect on the Company.

(s) *Assets.*

(i) The Company and its Subsidiaries own, or otherwise have sufficient and legally enforceable rights to use, all of the properties and assets (real, personal or mixed, tangible or intangible), necessary for the conduct of, or otherwise material to, their business and operations as they are currently conducted (the "Assets"), other than Intellectual Property (which is the subject of Section 3.2(o)). The Company and its Subsidiaries have valid title to, or in the case of leased property have valid leasehold interests in, all such Assets (other than Intellectual Property), including all such Assets (other than Intellectual Property) reflected in the Company's consolidated balance sheet for the fiscal year ended December 31, 2002 appearing in the Company's Annual Report on Form 10-K for such year (the "Company Balance Sheet") or acquired since such date (except as may have been disposed of since such

date or as may be disposed of after the date hereof in accordance herewith in either case in the ordinary course of business consistent with past practice), in each case free and clear of any Lien (as defined below), except Company Permitted Liens (as defined below). Schedule 3.2(s)(i) of the Company Disclosure Schedule sets forth a complete and correct list of each of the countries in which Assets are located.

(ii) "*Company Permitted Liens*" means (*A*) Liens reserved against or reflected in the Company Balance Sheet, to the extent so reserved or reflected or described in the notes thereto, (*B*) Liens for Taxes not yet due and payable or which are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the Company's books in accordance with GAAP, (*C*) those Liens set forth in Schedule 3.2(s)(ii) of the Company Disclosure Schedule and (*D*) those Liens that, individually and in the aggregate with all other Permitted Liens, do not and will not materially interfere with the use of the properties or assets of the Company and its Subsidiaries taken as a whole as currently used, or otherwise have or result in a Material Adverse Effect.

(t) *Real Property.*

(i) Schedule 3.2(t)(i) of the Company Disclosure Schedule contains a complete and correct list of all Company Owned Real Property (as defined in Section 3.2(t)(iii)) setting forth information sufficient to specifically identify such Company Owned Real Property and the legal owner thereof. The Company and its Subsidiaries have good, valid and marketable fee simple title to the Company Owned Real Property, free and clear of any Liens other than Company Permitted Liens. There are no outstanding options or rights of first refusal to purchase the Company Owned Real Property, or any material portion thereof or interest therein. Each Company Lease (as defined in Section 3.2(t)(iii)) grants the lessee under such lease the exclusive right to use and occupy the premises and rights demised thereunder free and clear of any Lien other than Company Permitted Liens. Each of the Company and its Subsidiaries has good and valid title to the leasehold estate or other interest created under its respective Company Leases free and clear of any Liens other than Company Permitted Liens. Each of the Company and its Subsidiaries enjoys peaceful and undisturbed possession under its respective Company Leases of its respective Company Leased Real Property (as defined in Section 3.2(t)(iii)) free and clear of any Lien other than Company Permitted Liens.

(ii) The Company Real Property constitutes all the fee, leasehold and other interests in real property held by the Company and its Subsidiaries, and constitutes all of the fee, leasehold and

other interests in real property, necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries as it is currently conducted, except for any fee, leasehold or other interest acquired or disposed of in the ordinary course of business after the date hereof and in accordance with this Agreement. The use and operation of the Company Real Property in the conduct of the business of the Company and its Subsidiaries does not violate any instrument of record or agreement affecting the Company Real Property, except for such violations as individually and in the aggregate would not have or result in a Material Adverse Effect. No current use by the Company and its Subsidiaries of the Company Real Property is dependent on a nonconforming use or other governmental approval, the absence of which individually or in the aggregate would have or result in a Material Adverse Effect.

(iii) "*Company Leases*" means the real property leases, subleases, licenses and use or occupancy agreements pursuant to which the Company or any of its Subsidiaries is the lessee, sublessee, licensee, user or occupant of real property, or interests therein, necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries as it is currently conducted. "*Company Leased Real Property*" means all interests in real property pursuant to the Company Leases. "*Company Owned Real Property*" means the real property owned by the Company and its Subsidiaries necessary for the conduct of, or otherwise material to, the business of the Company and its Subsidiaries as it is currently conducted. "*Company Real Property*" means the Company Owned Real Property and the Company Leased Real Property.

(u) *Insurance.* Schedule 3.2(u) of the Company Disclosure Schedule contains a complete and correct list and summary description of all insurance policies maintained by or on behalf of any of the Company and its Subsidiaries as of the date hereof. Such policies are in full force and effect, and all premiums due thereon have been paid. The Company and its Subsidiaries have complied in all material respects with the terms and provisions of such policies. The insurance coverage provided by such policies is suitable for the business and operations of the Company and its Subsidiaries.

(v) *Affiliate Transactions.* Schedule 3.2(v) of the Company Disclosure Schedule contains a complete and correct list of all agreements, contracts, transfers of assets or liabilities or other commitments or transactions, whether or not entered into in the ordinary course of business, to

or by which the Company or any of its Subsidiaries, on the one hand, and the Family Stockholders or any of their affiliates (other than the Company or any of its Subsidiaries), on the other hand, are or have been a party or otherwise bound or affected, and that (i) are currently pending or in effect or (ii) involve continuing liabilities and obligations that, individually or in the aggregate, have been, are or will be material to the Company and its Subsidiaries taken as a whole.

(w) *Disclosure.* No representation or warranty by the Company contained in this Agreement nor any statement or certificate furnished or to be furnished by or on behalf of the Company to Riverwood or its representatives in connection herewith or pursuant hereto contains or will contain any untrue statement of a material fact, or omits or will omit to state any material fact required to make the statements contained herein or therein not misleading. There is no fact (other than matters of a general economic or political nature which do not affect the Company uniquely) known to the Company that has not been disclosed by the Company to Riverwood that might reasonably be expected to have or result in a Material Adverse Effect on the Company.

Section 3.3 *Representations and Warranties of Riverwood and Merger Sub.* Riverwood and Merger Sub represent and warrant to the Company as follows:

(a) *Organization.* Merger Sub is a limited liability company duly formed, validly existing and in good standing under the laws of Delaware. Merger Sub is a direct wholly-owned subsidiary of Riverwood.

(b) *Corporate Authorization.* Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Merger Sub. This Agreement has been duly executed and delivered by Merger Sub and constitutes a valid and binding agreement of Merger Sub, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law). The copies of the Certificate of Formation and the LLC Agreement of Merger Sub which were previously furnished or made available to the Company are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(c) *Non-Contravention.* The execution, delivery and performance by Merger Sub of this Agreement and the consummation by Merger Sub of the transactions contemplated hereby do not and will not contravene or conflict with the certificate of incorporation or bylaws of Merger Sub or any law binding on Merger Sub.

(d) *No Business Activities.* Merger Sub has not conducted any activities other than in connection with the organization of Merger Sub, the negotiation and execution of this Agreement and the consummation of the transactions contemplated hereby. Merger Sub has no Subsidiaries.

ARTICLE IV
COVENANTS RELATING TO CONDUCT OF BUSINESS

Section 4.1 *Covenants of Riverwood.* During the period from the date of this Agreement and continuing until the Effective Time, Riverwood agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or the Voting Agreement, or as disclosed in the Riverwood Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or to the extent that the Company shall otherwise consent in writing):

(a) *Ordinary Course.* Riverwood and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use reasonable best efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers, suppliers and others having business dealings with them; *provided*, *however*, that no action by Riverwood or its Subsidiaries with respect to matters specifically permitted by any other provision of this Section 4.1 shall be deemed a breach of this Section 4.1(a) unless such action would constitute a breach of one or more of such other provisions.

(b) *Dividends; Changes in Share Capital.* Except as contemplated by Section 5.14, Riverwood shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (*i*) declare or pay any dividends or distributions on or make other distributions in respect of any of its capital stock, except for dividends by wholly owned Subsidiaries of Riverwood, (*ii*) split, combine or reclassify

any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of Riverwood which remains a wholly owned Subsidiary after consummation of such transaction, or (*iii*) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock except for the purchase from time to time by Riverwood of its common stock in the ordinary course of business consistent with past practice in connection with the Riverwood Benefit Plans.

(c) *Issuance of Securities.* Riverwood shall not, and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock of any class, any Riverwood Voting Debt or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares or Riverwood Voting Debt, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, other than (*i*) the issuance of common stock in Riverwood (and any associated Riverwood Rights) upon the exercise of Riverwood Stock Options in accordance with their present terms, (*ii*) issuances by a wholly owned Subsidiary of Riverwood of capital stock to such Subsidiary's parent or another wholly owned Subsidiary of Riverwood or (*iii*) as set forth on Schedule 4.1(c) of the Riverwood Disclosure Schedule.

(d) *Governing Documents.* Except to the extent required to comply with applicable law or its obligations hereunder, including Section 5.14, Riverwood shall not amend or propose to amend its certificate of incorporation, bylaws or other governing documents.

(e) *No Acquisitions.* Other than acquisitions disclosed on the Riverwood Disclosure Schedule, Riverwood shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial equity interest in or a substantial portion of the assets of, or by any other manner, any business (including by acquisition of assets) or any corporation, partnership, association or business organization or division thereof.

(f) *No Dispositions.* Other than internal reorganizations or consolidations involving existing Subsidiaries of Riverwood, Riverwood shall not, and shall not permit any of its Subsidiaries to, sell, lease or otherwise dispose of, or agree to sell, lease or otherwise dispose of, any of its assets (including capital stock of Subsidiaries of Riverwood, but excluding sale or disposition of inventory and equipment leasing in the ordinary course of business).

(g) *Investments; Indebtedness.* Riverwood shall not, and shall not permit any of its Subsidiaries to (*i*) make any loans, advances or capital contributions to, or investments in, any other Person, other than (*x*) by Riverwood or a Subsidiary of Riverwood to or in Riverwood or any Subsidiary of Riverwood or (*y*) pursuant to any contract or other legal obligation of Riverwood or any of its Subsidiaries existing at the date of this Agreement, or (*ii*) create, incur, assume or suffer to exist any indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement except pursuant to the credit facilities, indentures and other arrangements in existence on the date of this Agreement.

(h) *Compensation.* Riverwood shall not increase the amount of compensation of any director, executive officer or employee, make any increase in or commitment to increase any employee benefits, issue any additional Riverwood Stock Options, adopt or make any commitment to adopt any additional employee benefit plan or make any contribution, other than (i) as contemplated by Schedule 4.1(c) or 4.1(h) of the Riverwood Disclosure Schedule or (ii) as required by an existing agreement.

(i) *Accounting Methods; Tax Elections.* Except as disclosed in Riverwood SEC Reports filed prior to the date of this Agreement, or as required by a Governmental Entity, Riverwood shall not change its methods of accounting in effect at December 31, 2002, except as required by changes in GAAP as concurred in by Riverwood's independent public accountants. Riverwood shall not make or change any material Tax election, or settle or compromise any material Tax liability or material claim for refund.

(j) *Settlement of Litigation.* Riverwood shall not settle or compromise any material action, suit or claim, or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any material action, suit or claim.

(k) *Certain Agreements.* Riverwood shall not, and shall not permit any of its Subsidiaries to, enter into any agreements or arrangements that limit or otherwise restrict Riverwood or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that could, after the Effective Time, limit or restrict the Company or any of its affiliates (including the Surviving Company) or any successor thereto, from engaging or competing in any line of business or in any geographic area or line of business which agreements or arrangements, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on the Company and its Subsidiaries (including the Surviving Company and its Subsidiaries), taken together, after giving effect to the Merger.

(l) *No Related Actions.* Riverwood will not, and will not permit any of its Subsidiaries to, agree or commit to do any of the foregoing.

Section 4.2 *Covenants of the Company.* During the period from the date of this Agreement and continuing until the Effective Time, the Company agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement (including, but not limited to, the Preferred Stock Conversion), as disclosed in the Company Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or to the extent that Riverwood shall otherwise consent in writing):

(a) *Ordinary Course.* The Company and its Subsidiaries shall carry on their respective businesses in the usual, regular and ordinary course in all material respects, in substantially the same manner as heretofore conducted, and shall use reasonable best efforts to preserve intact their present lines of business, maintain their rights and franchises and preserve their relationships with customers, suppliers and others having business dealings with them; *provided*, *however*, that no action by the Company or its Subsidiaries with respect to matters specifically permitted by any other provision of this Section 4.2 shall be deemed a breach of this Section 4.2(a) unless such action would constitute a breach of one or more of such other provisions.

(b) *Dividends; Changes in Share Capital.* The Company shall not, and shall not permit any of its Subsidiaries to, and shall not propose to, (*i*) declare or pay any dividends on or make other distributions in respect of any of its capital stock, except (*A*) the declaration and payment of regular quarterly cash dividends not in excess of the amount set forth in Section 4.2(b) of the Company Disclosure Schedule per share of Company Convertible Preferred Stock, with usual record and payment dates for such dividends in accordance with past dividend practice; and (*B*) dividends or distributions by Subsidiaries of the Company, (*ii*) split, combine or reclassify any of its capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of or in substitution for, shares of its capital stock, except for any such transaction by a wholly owned Subsidiary of the Company which remains a wholly owned Subsidiary after consummation of such transaction, or (*iii*) repurchase, redeem or otherwise acquire any shares of its capital stock or any securities convertible into or exercisable for any shares of its capital stock except (*A*) for the purchase from time to time by the Company of Company Common Stock (and the associated Company Rights) in the ordinary course of business consistent with past practice in connection with the Company Benefit Plans and *(B*) for the redemption or exchange of Company Rights in accordance with the Company Rights Agreement.

(c) *Issuance of Securities.* Except as contemplated by the Preferred Stock Conversion, the Company shall not, and shall not permit any of its Subsidiaries to, issue, deliver or sell, or authorize or propose the issuance, delivery or sale of, any shares of its capital stock of any class, any Company Voting Debt or any securities convertible into or exercisable for, or any rights, warrants, calls or options to acquire, any such shares or Company Voting Debt, or enter into any commitment, arrangement, undertaking or agreement with respect to any of the foregoing, other than (*i*) the issuance of Company Common Stock (and the associated Company Rights) upon the exercise of Company Stock Options in accordance with their present terms, (*ii*) issuances by a

wholly owned Subsidiary of the Company of capital stock to such Subsidiary's parent or another wholly owned Subsidiary of the Company, (*iii*) issuances in accordance with the Company Rights Agreement, or (*iv*) as set forth on Schedule 4.2(c) of the Company Disclosure Schedule.

(d) *Governing Documents.* Except to the extent required to comply with its obligations hereunder or with applicable law, the Company shall not amend or propose to amend its articles of incorporation, bylaws or other governing documents.

(e) *No Acquisitions.* Other than acquisitions disclosed on the Company Disclosure Schedule, the Company shall not, and shall not permit any of its Subsidiaries to, acquire or agree to acquire by merging or consolidating with, or by purchasing a substantial

equity interest in or a substantial portion of the assets of, or by any other manner, any business (including by acquisition of assets) or any corporation, partnership, association or other business organization or division thereof.

(f) *No Dispositions.* Other than internal reorganizations or consolidations involving existing Subsidiaries of the Company, the Company shall not, and shall not permit any of its Subsidiaries to, sell, lease or otherwise dispose of, or agree to sell, lease or otherwise dispose of, any of its assets (including capital stock of Subsidiaries of the Company, but excluding sale or disposition of inventory and equipment leasing in the ordinary course of business).

(g) *Investments; Indebtedness.* The Company shall not, and shall not permit any of its Subsidiaries to, (*i*) make any loans, advances or capital contributions to, or investments in, any other Person, other than (*x*) by the Company or a Subsidiary of the Company to or in the Company or any Subsidiary of the Company or (*y*) pursuant to any contract or other legal obligation of the Company or any of its Subsidiaries existing at the date of this Agreement, or (*ii*) create, incur, assume or suffer to exist any indebtedness, issuances of debt securities, guarantees, loans or advances not in existence as of the date of this Agreement.

(h) *Compensation.* Other than as contemplated by Sections 4.2(c) or 4.2(h) of the Company Disclosure Schedule, the Company shall not increase the amount of compensation of any director, executive officer or employee, make any increase in or commitment to increase any employee benefits, issue any additional Company Stock Options, adopt or make any commitment to adopt any additional employee benefit plan or make any contribution, other than regularly scheduled contributions, to any Company Benefit Plan and, in the case of any of the foregoing, except, in any case, as required by an existing agreement.

(i) *Accounting Methods; Tax Elections.* Except as disclosed in the Company SEC Reports filed prior to the date of this Agreement, or as required by a Governmental Entity, the Company shall not change its methods of accounting in effect at December 31, 2002, except as required by changes in GAAP as concurred in by the Company's independent public accountants. The Company shall not make or change any material Tax election, or settle or compromise any material Tax liability or material claim for refund.

(j) *Settlement of Litigation.* The Company shall not settle or compromise any material action, suit or claim, or enter into any consent decree, injunction or similar restraint or form of equitable relief in settlement of any material action, suit or claim.

(k) *Certain Agreements.* The Company shall not, and shall not permit any of its Subsidiaries to, enter into any agreements or arrangements that limit or otherwise restrict the Company or any of its Subsidiaries or any of their respective affiliates or any successor thereto, or that could, after the Effective Time, limit or restrict Riverwood or any of its affiliates (including the Surviving Company) or any successor thereto, from engaging or competing in any line of business or in any geographic area or line of business which agreements or arrangements, individually or in the aggregate, would reasonably be expected to have a Material Adverse Effect on Riverwood and its Subsidiaries (including the Surviving Company and its Subsidiaries), taken together, after giving effect to the Merger.

(l) *No Related Actions.* The Company will not, and will not permit any of its Subsidiaries to, agree or commit to any of the foregoing.

Section 4.3 *Governmental Filings.* Each party shall (*a*) confer on a regular basis with the other and (*b*) report to the other (to the extent permitted by law or regulation or any applicable confidentiality agreement) on material operational matters. The Company and Riverwood (*i*) shall cooperate with each other in making all filings required to be filed by each of them with the SEC (and all other Governmental Entities) between the date of this Agreement and the Effective Time, (*ii*) shall timely file all such reports and (*iii*) shall (to the extent permitted by law or regulation or any applicable confidentiality agreement) notify the other party of the filing of all such reports, announcements and publications promptly after the same are filed.

Section 4.4 *Control of Other Party's Business.* Nothing contained in this Agreement shall give the Company, directly or indirectly, the right to control or direct Riverwood's operations prior to the Effective Time. Nothing contained in this Agreement shall give Riverwood, directly or indirectly, the right to control or direct the Company's operations prior to the Effective Time. Prior to the Effective Time, each of the Company and Riverwood shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its respective operations.

Section 4.5 *Actions Regarding Benefit Plans.* During the period from the date of this Agreement and continuing until the Effective Time, the parties agree as to themselves and their Subsidiaries that neither party nor any of its Subsidiaries, nor the Board of Directors of either

party, nor any committee of either party, nor any employee of either party shall take or cause to be taken any action that would increase any payment, acceleration, termination, forgiveness of indebtedness, vesting, distribution, compensation or benefits or obligation to fund benefits, or increase the number of participants, in each case, with respect to any Benefit Plan of either party.

ARTICLE V
ADDITIONAL AGREEMENTS

Section 5.1 *Preparation of Proxy Statement; Stockholders Approval.*

(a) As promptly as reasonably practicable following the date hereof, the Company shall prepare and file with the SEC proxy materials reasonably acceptable to Riverwood which shall constitute the Company Proxy Statement/Prospectus (such proxy statement/prospectus, and any amendments or supplements thereto, the "*Company Proxy Statement/Prospectus*") and Riverwood shall prepare and file a registration statement on Form S-4 reasonably acceptable to the Company with respect to the issuance of Riverwood Common Stock in the Merger (the "*Form S-4*"). The Form S-4 and the Company Proxy Statement/Prospectus shall comply as to form in all material respects with the applicable provisions of the Securities Act and the Exchange Act and the rules and regulations thereunder. Each of Riverwood and the Company shall use reasonable best efforts to have the Form S-4 declared effective by the SEC as promptly as practicable after the date hereof and to keep the Form S-4 effective as long as is necessary to consummate the Merger and the transactions contemplated thereby. Riverwood and the Company shall, as promptly as practicable after receipt thereof, provide the other party copies of any written comments and advise the other party of any oral comments, with respect to the Form S-4 or the Company Proxy Statement/Prospectus received from the SEC. Riverwood and the Company shall provide the other party with a reasonable opportunity to review and comment on any amendment or supplement to the Form S-4 or the Company Proxy Statement/Prospectus prior to filing such with the SEC, and will promptly provide the other party with a copy of all such filings made with the SEC. Notwithstanding any other provision herein to the contrary, no amendment or supplement (including by incorporation by reference) to the Company Proxy Statement/Prospectus or the Form S-4 shall be made without the approval of both parties, which

approval shall not be unreasonably withheld or delayed. The Company shall use reasonable best efforts to cause the Company Proxy Statement/Prospectus to be mailed to the Company's stockholders as soon as reasonably practicable after the Form S-4 is declared effective under the Securities Act. Riverwood shall take any action (other than qualifying to do business in any jurisdiction in which it is not now so qualified or to file a general consent to service of process) required to be taken under any applicable state securities laws in connection with the issuance of Riverwood Common Stock in the Merger and the Company shall furnish all information concerning the Company and the holders of Company Common Stock as may be reasonably requested in connection with any such action. Each party shall advise the other party, promptly after it receives notice thereof, of the time when the Form S-4 has become effective, the issuance of any stop order, the suspension of the qualification of the Riverwood Common Stock issuable in connection with the Merger for offering or sale in any jurisdiction, or any request by the SEC for amendment of the Company Proxy Statement/Prospectus or the Form S-4. If at any time prior to the Effective Time any information relating to Riverwood or the Company, or any of their respective affiliates, officers or directors, should be discovered by Riverwood or the Company which should be set forth in an amendment or supplement to any of the Form S-4 or the Company Proxy Statement/Prospectus so that any of such documents would not include any misstatement of a material fact or omit to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, the party which discovers such information shall promptly notify the other party hereto and, to the extent required by law, rules or regulations, an appropriate amendment or supplement describing such information shall be promptly filed with the SEC and disseminated to the stockholders of Riverwood and the Company.

(b) The Company shall duly take (subject to compliance with the provisions of Section 3.1(e), Section 3.2(e) and all applicable laws (provided that the Company shall have used reasonable best efforts to ensure that such representations are true and correct)) all necessary, proper and advisable action to call, give notice of, convene and hold a meeting of its stockholders on a date as soon as reasonably practicable (the "*Company Stockholders Meeting*") for the purpose of obtaining the Company Stockholder Approval with respect to the adoption of this Agreement and shall take all lawful action to solicit the adoption of this Agreement by the Company Stockholder Approval; and the Board of Directors of the Company shall recommend adoption of this Agreement by the stockholders of the Company to the effect as set forth in Section 3.2(f) (the "*Company Recommendation*"), and shall not withdraw, modify or qualify (or propose to withdraw, modify or qualify) in any manner adverse to Riverwood such recommendation or take any action or make any statement in connection with the Company Stockholders Meeting inconsistent with such recommendation (collectively, a "*Change in the Company Recommendation*"); *provided*, that the Board of Directors of the Company may (upon the recommendation of a majority of the Independent Directors) make a Change in the Company Recommendation (*i*) pursuant to Section 5.4 hereof or (*ii*) if the Company's Board of Directors determines in good faith (after consultation with its legal and financial advisors) that not making a Change in the Company Recommendation would violate the fiduciary duties owed by the Company's Board of Directors to the Company's stockholders, and *provided further*, that the foregoing shall not prohibit accurate disclosure (and such disclosure shall not be deemed to be a Change in the Company Recommendation) of factual information regarding the business, financial condition or results of operations of Riverwood or the Company (provided that the Board of Directors of the Company does not withdraw, modify or qualify (or propose to withdraw, modify or qualify) in any manner adverse to Riverwood its recommendation) in the

Form S-4 or the Joint Proxy Statement/Prospectus or otherwise, to the extent such information, facts, identity or terms is required to be disclosed under applicable law. Notwithstanding any Change in the Company Recommendation, this Agreement shall be submitted to the stockholders of the Company at the Company Stockholders Meeting for the purpose of adopting the Agreement and approving the Merger; *provided*, that this Agreement shall not be required to be submitted to the stockholders of the Company at the Company Stockholders Meeting if this Agreement has been terminated pursuant to Section 7.1 hereof.

Section 5.2 *Access to Information/Employees.*

(a) Upon reasonable notice, each party shall (and shall cause its Subsidiaries to) afford to the officers, employees, accountants, counsel, financial advisors and other authorized representatives of the other party reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments, records, officers and employees and, during such period, such party shall (and shall cause its Subsidiaries to) furnish promptly to the other party (*i*) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under applicable law), and (*ii*) all other information concerning it and its business, properties and personnel as such other party may reasonably request (including consultation on a regular basis with such parties, agents, advisors, attorneys and representatives with respect to litigation matters); *provided, however*, that either party may restrict the foregoing access to the extent that (*A*) in the reasonable judgment of such party, any law, treaty, rule or regulation of any Governmental Entity applicable to such party requires such party or its Subsidiaries to restrict or prohibit access to any such properties or information, (*B*) in the reasonable judgment of such party, the information is subject to confidentiality obligations to a third party, (*C*) such disclosure would result in disclosure of any trade secrets of third parties or (*D*) disclosure of any such information or document could result in the loss of attorney-client privilege; *provided, however*, that with respect to this clause (D), the parties and/or counsel for the parties shall use their reasonable best efforts to enter into such joint defense agreements or other arrangements, as appropriate, so as to avoid the loss of attorney-client privilege. Any such information obtained pursuant to this Section 5.2 as well as any information about an Acquisition Proposal disclosed by the Company to Riverwood pursuant to the provisions of this Agreement ("*Confidential Information*") will be used solely for the purpose of consideration or performance of the transactions contemplated by this Agreement or any other agreement related hereto and will be kept confidential by the party obtaining such information and all persons obtaining such information on such party's behalf or who obtain such information from such party. Confidential Information shall not include information that is or becomes generally available to the public other than as a result of disclosure by a party or its Representatives (as defined below). Notwithstanding the foregoing, Confidential Information may be disclosed by a party (*x*) to its directors, officers, employees, representatives (including, without limitation, financial advisors, attorneys and accountants) or agents (collectively "*Representatives*") who need to know such information if the party informs such Representatives of the confidential nature of such information and directs them to treat such information confidentially and to use such information for no purpose other than as specifically permitted by the Agreement and (*y*) if the party is legally required to make such disclosure as a result of a court order, subpoena or similar legal duress, provided that prior to such disclosure, the disclosing party gives to the other party prompt written notice of its receipt of such order or subpoena or similar document so that the other party has a reasonable opportunity prior to disclosure to obtain a protective order (if disclosure of Confidential Information is so required, the disclosing party shall disclose only that portion of such information that is so required and shall assist the other party in obtaining protective orders or undertakings that confidential treatment will be accorded to any such information furnished). In the event of termination of this Agreement, each party will promptly return to the other party all Confidential Information in its possession (including all written materials prepared or supplied by or on its behalf containing or reflecting any Confidential Information) and will not retain any copies, extracts or other reproductions in whole or in part of any Confidential Information. Any work papers, memoranda or other writings prepared by a party or its Representatives derived from or incorporating any Confidential Information shall be destroyed promptly upon termination of this Agreement, with such destruction confirmed to the other party in writing. Any oral Confidential Information will continue to be subject to the terms of this Section 5.2. Each party shall be responsible for the breach of the terms of this Section 5.2 by its Representative. Any investigation by Riverwood or the Company shall not affect the representation and warranties of

the Company and Riverwood, as the case may be. In the event of any conflict between the terms of this Section 5.2 and the terms of a Confidentiality Agreement, the terms of this Section 5.2 shall control.

Section 5.3 *Reasonable Best Efforts.*

(a) Subject to the terms and conditions of this Agreement, each party will use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under this Agreement and applicable laws and regulations to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof, including

(*i*) preparing and filing as promptly as practicable all documentation to effect all necessary applications, notices, petitions, filings and other documents and to obtain as promptly as practicable all consents, clearances, waivers, licenses, orders, registrations, approvals, permits and authorizations necessary or advisable to be obtained from any third party and/or any Governmental Entity in order to consummate the Merger or any of the other transactions contemplated by this Agreement and (*ii*) taking all reasonable steps as may be necessary to obtain all such material consents, clearances, waivers, licenses, registrations, permits, authorizations, orders and approvals. In furtherance and not in limitation of the foregoing, each party hereto agrees to make an appropriate filing of a Notification and Report Form pursuant to the HSR Act and any other Regulatory Law (as defined in Section 5.3(b) below) with respect to the transactions contemplated hereby as promptly as practicable after the date hereof and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and any other Regulatory Law and use reasonable best efforts to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) To the extent permissible under applicable law or any rule, regulation or restriction of a Governmental Entity, each of Riverwood and the Company shall, in connection with the efforts referenced in Section 5.3(a) to obtain all requisite material approvals, clearances and authorizations for the transactions contemplated by this Agreement under the HSR Act or any other Regulatory Law, use its reasonable best efforts to (*i*) cooperate in all respects with each other in connection with any filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (*ii*) promptly inform the other party of any communication received by such party from, or given by such party to, the Antitrust Division of the Department of Justice (the "*DOJ*"), the Federal Trade Commission (the "*FTC*") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each case regarding any of the transactions contemplated hereby, (*iii*) permit the other party, or the other party's legal counsel, to review any communication given by it to, and consult with each other in advance of any meeting or conference with, the DOJ, the FTC or any such other Governmental Entity or, in connection with any proceeding by a private party, with any other Person and (*iv*) give the other party the opportunity to attend and participate in such meetings and conferences. For purposes of this Agreement, "*Regulatory Law*" means the Sherman Act, as amended, Council Regulation No. 4064/89 of the European Community, as amended (the "*EC Merger Regulation*") the Clayton Act, as amended, the HSR Act, the Federal Trade Commission Act, as amended, and all other Federal, state and foreign, if any, statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate (*i*) foreign investment or (*ii*) actions having the purpose or effect of monopolization or restraint of trade or lessening of competition.

(c) If any objections are asserted with respect to the transactions contemplated hereby under any Regulatory Law or if any suit is instituted by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any Regulatory Law, each of Riverwood and the Company shall use its reasonable best efforts to resolve any such objections or challenge as such Governmental Entity or private party may have to such transactions under such Regulatory Law so as to permit consummation of the transactions contemplated by this Agreement.

Section 5.4 *Acquisition Proposals.* The Company agrees that following the date of this Agreement and prior to the earlier of the Effective Time or the Termination Date (or the Extended Termination Date, if applicable), neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, initiate, solicit, encourage or facilitate (including by way of furnishing information) any inquiries or the making of any proposal or offer with respect to a merger, reorganization, share exchange, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving it, or any purchase or sale of the consolidated assets (including without limitation stock of Subsidiaries) of the Company and its Subsidiaries, taken as a whole, having an aggregate value equal to 15% or more of the market capitalization of the Company, or any purchase or sale of, or tender or exchange offer for, 15% or more of the equity securities of the Company (any such proposal or offer (other than a proposal or offer made by the other party or an affiliate thereof) being hereinafter referred to as an "*Acquisition Proposal*"). The Company further agrees that neither it nor any of its Subsidiaries nor any of the officers and directors of it or its Subsidiaries shall, and that it shall use its reasonable best efforts to cause its and its Subsidiaries' employees, agents and representatives (including any investment banker, attorney or accountant retained by it or any of its Subsidiaries) not to, directly or indirectly, have any discussion with or provide any information or data to any Person relating to an Acquisition Proposal, or engage in any negotiations concerning an Acquisition Proposal, or knowingly facilitate any effort or attempt to make or implement an Acquisition Proposal or (subject to Section 7.1(h)) accept an Acquisition Proposal. Notwithstanding anything in this Agreement to the contrary, the Company and the Company's Board of Directors shall be permitted to (*A*) to the extent applicable, comply with Rule 14d-9, Rule 14e-2 and other applicable rules promulgated under the Exchange Act with regard to an Acquisition Proposal, (*B*) effect a Change in the Company Recommendation, or (*C*) engage in any discussions or negotiations with, or provide any information to, any Person in response to an unsolicited bona fide written Acquisition Proposal by any such Person, if and only to the extent that, with respect to the actions contemplated by clauses (B) or (C), (*i*) the Company's Stockholders Meeting shall not have occurred, (*ii*) (*x*) in the case of clause (B) above the Company has received an unsolicited bona fide written Acquisition Proposal from a third party and a majority of the Company's Independent Directors concludes in good faith that such Acquisition Proposal constitutes a Superior Proposal (as defined in Section 8.11) and (*y*) in the case of clause (C) above, a majority of the Company's Independent Directors concludes in good faith that there is a reasonable likelihood that such Acquisition Proposal will result in a Superior Proposal, (*iii*) in the case of clause (C) above, prior to providing

any information or data to any Person in connection with an Acquisition Proposal by any such Person, the Company's Board of Directors receives from such Person an executed confidentiality agreement with terms at least as stringent as those in the Confidentiality Agreements and (*iv*) in the case of clause (C) above, prior to providing any information or data to any Person or entering into discussions or negotiations with any Person, the Company notifies Riverwood promptly of such inquiries, proposals or offers received by, any such information requested from, or any such discussions or negotiations sought to be initiated or continued with, any of its representatives indicating, in connection with such notice, the name of such Person and the material terms and conditions of any inquiries, proposals or offers. The Company agrees that it will promptly keep Riverwood informed of the status and terms of any such proposals or offers and the status and terms of any such discussions or negotiations. The Company agrees that it will, and will cause its officers, directors and representatives to, immediately cease and cause to be terminated any activities, discussions or negotiations existing as of the date of this Agreement with any parties conducted heretofore with respect to any Acquisition Proposal. The Company agrees that it will use reasonable best efforts to promptly inform its directors, officers, key employees, agents and representatives of the obligations undertaken in this Section 5.4. Nothing in this Section 5.4 shall permit Riverwood or the Company to terminate this Agreement (except as specifically provided in Article VII hereof).

Section 5.5 *Employee Benefits Matters.*

(a) From and after the Effective Time until the first anniversary of the Effective Time (the "*Benefits Continuation Period*"), the Surviving Company shall provide, or cause to be provided, compensation and employee benefits (including adoption plans and severance plans) to the employees of the Company and its Subsidiaries and Riverwood and its Subsidiaries that are substantially comparable in the aggregate to those provided to such individuals by the Company and its Subsidiaries or Riverwood and its Subsidiaries, as the case may be, immediately prior to the Effective Time (but excluding for all purposes any equity-based or long-term incentive plans or arrangements); *provided* that with respect to employees who are subject to collective bargaining or employment agreements (including change in control agreements, severance plans or their provisions), compensation, benefits and payments shall be provided in accordance with the applicable collective bargaining agreements or employment agreements (including change in control agreements, severance plans or their provisions).

(b) With respect to any Benefit Plans of the Surviving Company or any of its Subsidiaries in which employees of the Company or any of its Subsidiaries or Riverwood or any of its Subsidiaries first become eligible to participate on or after the Effective Time, the Surviving Company shall (*i*) waive any applicable pre-existing condition exclusions and waiting periods with respect to participation and coverage requirements, except to the extent that such pre-existing condition exclusions or waiting periods apply to changes made by such employee under the terms of the Surviving Company Benefit Plan on the same basis as would apply to any employee of the Surviving Company making a similar change, (*ii*) provide each such employee with credit for any co-payments and deductible paid prior to the Effective Time (to the same extent such credit was given under the analogous Benefit Plan prior to the Effective Time) in satisfying any applicable deductible or out-of-pocket requirements and (*iii*) recognize service prior to the Effective Time with the Company, its Subsidiaries, Riverwood, its Subsidiaries and any predecessor entities thereof, for all Benefit Plan purposes (including, but not limited to, eligibility to participate, vesting credit, and entitlement to benefits, but excluding for purposes of benefit accrual) to the same extent such service would be recognized by the Surviving Company under the applicable Benefit Plan for similarly situated employees; *provided, however*, that the foregoing shall not apply to the extent it would result in any duplication of benefits for the same period of service.

(c) From and after the Effective Time, the Surviving Company and Riverwood shall honor and perform in accordance with their terms those employment agreements listed on Schedule 3.2(q) of the Company Disclosure Schedule.

Section 5.6 *Fees and Expenses.* Subject to Section 7.2, whether or not the Merger is consummated, all Expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid by the party incurring such Expenses, except, if the Merger is consummated, the Surviving Company or its relevant Subsidiary shall pay, or cause to be paid, any and all property or transfer taxes imposed on the Company or its Subsidiaries. As used in this Agreement, "*Expenses*" includes all out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, investment bankers, experts and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement and the transactions contemplated hereby, including the preparation, printing, filing and mailing of the Company Proxy Statement/Prospectus and the solicitation of stockholder approvals and all other matters related to the transactions contemplated hereby.

Section 5.7 *Directors' and Officers' Indemnification and Insurance.*

(a) From and after the Effective Time Riverwood agrees that it will (*i*) indemnify and hold harmless, against any costs or expenses (including attorney's fees), judgments, fines, losses, claims, damages or liabilities incurred in connection with any claim, action, suit, proceeding or investigation,

whether civil, criminal, administrative or investigative, and provide advancement of expenses to, all past and present directors, officers, employees and agents of the Company and its Subsidiaries (in all of their capacities) (*A*) to the same extent such persons are indemnified or have the right to advancement of expenses as of the date of this Agreement by the Company pursuant to the Company's articles of incorporation, bylaws and indemnification agreements, if any, in existence on the date hereof with any directors, officers and employees of the Company and its Subsidiaries and (*B*) without limitation to clause (A), to the fullest extent permitted by law, in each case, for acts or omissions at or prior to the Effective Time (including for acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby), (*ii*) include and cause to be maintained in effect in the Surviving Company's and Riverwood's (or any successor's) certificate of incorporation and bylaws for a period of six years after the Effective Time, the current provisions regarding elimination of liability of directors, indemnification of officers, directors and employees and advancement of expenses contained in the certificate of incorporation and bylaws of the Company and (*iii*) cause to be maintained for a period of six years after the Effective Time the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by the Company (provided that Riverwood (or any successor) may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time (including for acts or omissions occurring in connection with the approval of this Agreement and the consummation of the transactions contemplated hereby). Such substitute policies shall be issued by insurance companies having the same or better ratings and levels of creditworthiness as the insurance companies that have issued the current policies. The obligations of Riverwood under this Section 5.7 shall not be terminated or modified in such a manner as to adversely affect any indemnitee to whom this Section 5.7 applies without the consent of such affected indemnitee (it being expressly agreed that the indemnitees to whom this Section 5.7 applies shall be third party beneficiaries of this Section 5.7).

(b) If Riverwood or any of its successors or assigns (*i*) shall consolidate with or merge into any other corporation or entity and shall not be the continuing or Surviving Company or entity of such consolidation or merger or (*ii*) shall transfer all or substantially all of its properties and assets to any individual, corporation or other entity, then, and in each such case, proper provisions shall be made so that the successors and assigns of Riverwood shall assume all of the obligations set forth in this Section 5.7.

Section 5.8 *Public Announcements.*

(a) Riverwood and the Company shall use reasonable best efforts to develop a joint communications plan and each party shall use reasonable best efforts (*a*) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (*b*) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or, to the extent practical, otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby. In addition to the foregoing, except to the extent disclosed in or consistent with the S-4 or the Company Proxy Statement/Prospectus in accordance with the provisions of Section 5.1, neither Riverwood nor the Company shall issue any press release or otherwise make any public statement or disclosure concerning the other party or the other party's business, financial condition or results of operations without the consent of the other party, which consent shall not be unreasonably withheld or delayed; *provided*, that the foregoing shall be subject to the requirements of law and to each party's obligations pursuant to any listing agreement or the rules of any national securities exchange.

(b) Notwithstanding anything herein or any other agreement between the parties to the contrary, any party to this Agreement (and any employee, representative or other agent of such party) may

disclose to any and all persons, without limitation of any kind, the tax treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure. However, no party nor any employee, representative or other agent of such party shall disclose any information relating to such tax treatment or tax structure to the extent nondisclosure is necessary in order to comply with applicable securities laws.

Section 5.9 *Accountant's Letters.*

(a) Riverwood shall use reasonable best efforts to cause to be delivered to the Company two letters from Riverwood's independent public accountants, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, each addressed to Riverwood and the Company, in form reasonably satisfactory to the Company and customary in scope for comfort letters delivered by

independent public accountants in connection with registration statements similar to the Form S-4.

(b) The Company shall use reasonable best efforts to cause to be delivered to Riverwood two letters from the Company's independent public accountants, one dated approximately the date on which the Form S-4 shall become effective and one dated the Closing Date, each addressed to the Company and Riverwood, in form reasonably satisfactory to Riverwood and customary in scope for comfort letters delivered by independent public accountants in connection with registration statements similar to the Form S-4.

Section 5.10 *Listing of Shares of Riverwood Common Stock.* Riverwood shall use its reasonable best efforts to cause the shares of Riverwood Common Stock to be issued in the Merger, the shares of Riverwood Common stock held by the stockholders of Riverwood immediately prior to the Effective Time and the shares of Riverwood Common Stock to be reserved for issuance upon exercise of the Company Stock Options to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Closing Date.

Section 5.11 *Company Affiliates; Restrictive Legend.* The Company will use all reasonable efforts to deliver or cause to be delivered to Riverwood, as promptly as practicable on or following the date hereof, from each person identified by the Company as an affiliate of the Company for purposes of Rule 145 promulgated under the Securities Act, an executed affiliate agreement pursuant to which such affiliate shall agree to be bound by the provisions of Rule 145 promulgated under the Securities Act in the Form of Exhibit 5.11 to this Agreement (an "*Affiliate Agreement*"). Riverwood will give stop transfer instructions to its transfer agent with respect to any Riverwood Common Stock received pursuant to the Merger by any stockholder of the Company who may reasonably be deemed to be an affiliate of the Company for purposes of Rule 145 promulgated under the Securities Act and there will be placed on the certificates representing such Riverwood Common Stock, or any substitutions therefor, a legend stating in substance that the shares were issued in a transaction to which Rule 145 promulgated under the Securities Act applies and may only be transferred (*i*) in conformity with Rule 145 or (*ii*) in accordance with a written opinion of counsel, reasonably acceptable to Riverwood in form and substance, that such transfer is exempt from registration under the Securities Act.

Section 5.12 *Section 16 Matters.* Prior to the Effective Time, each of Riverwood and the Company shall take all reasonable such steps as may be required and are consistent with applicable laws and regulations to cause any dispositions of Company Common Stock (including derivative securities with respect to Company Common Stock) or acquisitions of Riverwood Common Stock (including derivative securities with respect to Riverwood Common Stock) resulting from the transactions contemplated by Article I or Article II of this Agreement by each individual who is subject to the reporting requirements of Section 16(a) of the Exchange Act with respect to the Company, to be exempt under Rule 16b-3 promulgated under the Exchange Act.

Section 5.13 *Tax Treatment.* Riverwood and the Company intend the Merger to qualify as a reorganization within the meaning of Section 368(a) of the Code. Each of Riverwood and the Company, and each of their respective affiliates shall, to the extent consistent with their rights and obligations under this Agreement, use their reasonable best efforts to cause the Merger to so qualify, and the Company shall use its reasonable best efforts to obtain the opinions of Holme Roberts & Owen LLP referred to in Section 6.1(i) of this Agreement. For purposes of such tax opinions, each of Riverwood and the Company shall provide representation letters requested by such counsel, each dated on or before the date the Form S-4 shall become effective, and subsequently, on the Closing Date. Except for actions specifically contemplated by this Agreement, each of Riverwood and the Company and each of their respective affiliates shall use their reasonable best efforts not to take any action, fail to take any action, cause any action to be taken or not taken, or suffer to exist any condition, which action or failure to take action or condition would prevent, or would be reasonably likely to prevent the Merger from qualifying as a reorganization within the meaning of Section 368(a) of the Code.

Section 5.14 *Changes to Riverwood's Capital Structure.* Prior to the Effective Time, Riverwood shall (*a*) restate its certificate of incorporation (the "*Restated Certificate of Incorporation*") to authorize (i) up to 500,000,000 shares of common stock, par value $0.01 per share ("*Riverwood Common Stock*") and (*ii*) up to 50,000,000 shares of preferred stock, par value $0.01 per share ("*Riverwood Preferred Stock*"), (*b*) reclassify its outstanding shares of capital stock so that each outstanding share of Riverwood Class A Common Stock and Riverwood Class B Common Stock shall be converted to the right to receive 15.21 shares of Riverwood Common Stock (the "*Stock Split*") and (*c*) enter into a Rights Agreement (the "*Riverwood Rights Agreement*") containing customary terms and conditions, having provided a copy of such agreement to the Company prior to its adoption and the terms of such agreement (*x*) being reasonably acceptable to the Company and (*y*) providing that the Merger shall not trigger rights of the Riverwood Stockholders to exercise the Riverwood Rights (as defined below), and designate an amount of shares of Riverwood Preferred Stock as Series A Junior Preferred Stock, such shares to be reserved for issuance upon exercise of the rights (the "*Riverwood Rights*") provided for in the Riverwood Rights Agreement.

Section 5.15 *Financing.* Each of Riverwood and the Company agrees to use its reasonable best efforts to obtain the financing required to repay any indebtedness of Riverwood and the Company required to be repaid in connection with the transactions contemplated by this Agreement, including using reasonable best efforts to obtain senior secured financing on the terms set forth in the commitment letter referred to in Section 6.1(h).

ARTICLE VI
CONDITIONS PRECEDENT

Section 6.1 *Conditions to Each Party's Obligation to Effect the Merger.* The respective obligations of the Company and Riverwood to effect the Merger are subject to the satisfaction or waiver on or prior to the Closing Date of the following conditions:

(a) *Stockholder Approval.* The Company shall have obtained the Company Stockholder Approval in connection with the adoption of this Agreement by the stockholders of the Company.

(b) *No Injunctions or Restraints, Illegality.* No laws shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order, judgment, decision, opinion or decree issued by a court or other Governmental Entity of competent jurisdiction in the United States or the European Union shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(c) *HSR Act.* The waiting period (and any extension thereof) applicable to the Merger and the Family Stockholders under the HSR Act shall have been terminated or shall have expired, and

any investigation opened by means of a second request for additional information or otherwise shall have been terminated or closed.

(d) *NYSE Listing.* The shares of Riverwood Common Stock to be issued in the Merger and such other shares to be reserved for issuance in connection with the Merger shall have been approved for listing on the NYSE, subject to official notice of issuance.

(e) *Effectiveness of the Form S-4.* The Form S-4 shall have been declared effective by the SEC under the Securities Act. No stop order suspending the effectiveness of the Form S-4 shall have been issued by the SEC and no proceedings for that purpose shall have been initiated or threatened by the SEC.

(f) *Governmental and Regulatory Approvals.* Other than the filing provided for under Section 1.3 and filings pursuant to the HSR Act (which are addressed in Section 6.1(c)), all consents, clearances, approvals and actions of, filings with and notices to any Governmental Entity required of Riverwood, the Company or any of their Subsidiaries in connection with the execution and delivery of this Agreement and the consummation of the Merger and the other transactions contemplated hereby shall have been made or obtained (as the case may be), except for those the failure of which to be made or obtained, individually or in the aggregate, would not reasonably be expected to have a Material Adverse Effect on Riverwood and its Subsidiaries (including the Surviving Company and its Subsidiaries), taken together after giving effect to the Merger.

(g) *Blue Sky Approvals.* Riverwood shall have received all state securities and "blue sky" permits and approvals necessary to consummate the transactions contemplated hereby.

(h) *Financing.* Riverwood and the Company shall have completed financing arrangements, and entered into definitive financing agreements, and shall have received funds thereunder sufficient to repay or redeem the existing indebtedness of Riverwood and the Company and their Subsidiaries that is required to be repaid in connection with the Merger, including senior secured financing on the terms set forth in the commitment letter, dated the date hereof, addressed to Riverwood and the Company from a syndicate of financial institutions including JPMorganChase Bank with respect to senior secured financing of $1.5 billion, including the fee letter and side letter entered into in connection with such commitment letter, and such other additional financing as shall be required on such terms and conditions as shall be reasonably acceptable to Riverwood and the Company, *provided* that if the senior secured financing referred to in such commitment letter is not consummated, any such alternate senior secured financing will be on terms and conditions reasonably acceptable to Riverwood and the Company.

(i) *Tax Opinions.* The Company shall have received from Holme Roberts & Owen LLP, counsel to the Company, on or before the date the Form S-4 shall become effective, and subsequently on the Closing Date, written opinions dated as of such dates, and in form and substance reasonably satisfactory to the Company, to the effect that the Merger will qualify as a reorganization within the meaning of Section 368(a) of the Code.

Section 6.2 *Additional Conditions to Obligations of Riverwood.* The obligations of Riverwood to effect the Merger are subject to the satisfaction of, or waiver by Riverwood, on or prior to the Closing Date of the following conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of the Company set forth in this Agreement that is qualified as to Material Adverse Effect shall be true and correct, and each of the representations and warranties of the Company set forth in this Agreement that is not so qualified shall be true and correct, except where the failure to be so true and correct, individually or in the aggregate, would not have a Material Adverse Effect on the Company, in each case, as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations

and warranties speak as of another date), and Riverwood shall have received a certificate of the chief executive officer, and the chief financial officer of the Company to such effect.

(b) *Performance of Obligations of the Company.* The Company shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to Material Adverse Effect and shall have performed or complied in all material respects with all other material agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date and shall have complied with Section 4.2(c) in all respects, and Riverwood shall have received a certificate of the chief executive officer and the chief financial officer of the Company to such effect.

(c) *The Company Rights Agreement.* No Stock Acquisition Date or Distribution Date (as such terms are defined in Company Rights Agreement) shall have occurred pursuant to Company Rights Agreement.

(d) *No Material Change.* The Company and its Subsidiaries shall not have suffered from the date of this Agreement any change that would reasonably be expected to have a Material Adverse Effect.

(e) *Conversion of Company Convertible Preferred Stock.* All outstanding shares of Company Convertible Preferred Stock shall have been converted into Company Common Stock.

Section 6.3 *Additional Conditions to Obligations of the Company.* The obligations of the Company to effect the Merger are subject to the satisfaction of, or waiver by the Company, on or prior to the Closing Date of the following additional conditions:

(a) *Representations and Warranties.* Each of the representations and warranties of Riverwood set forth in this Agreement that is qualified as to Material Adverse Effect shall be true and correct, and each of the representations and warranties of Riverwood set forth in this Agreement that is not so qualified shall be true and correct, except where the failure to be so true and correct, individually or in the aggregate, would not have a Material Adverse Effect on Riverwood, in each case, as of the date of this Agreement and as of the Closing Date as though made on and as of the Closing Date (except to the extent in either case that such representations and warranties speak as of another date), and the Company shall have received a certificate of the chief executive officer and the chief financial officer of Riverwood to such effect.

(b) *Performance of Obligations of Riverwood.* Riverwood shall have performed or complied with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date that are qualified as to Material Adverse Effect and shall have performed or complied in all material respects with all other material agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date and shall have complied with Section 4.1(c) in all respects, and the Company shall have received a certificate of the chief executive officer and the chief financial officer of Riverwood to such effect.

(c) *No Material Change.* Riverwood and its Subsidiaries shall not have suffered from the date of this Agreement any change that would reasonably be expected to have a Material Adverse Effect.

ARTICLE VII
TERMINATION AND AMENDMENT

Section 7.1 *General.* This Agreement may be terminated and the transactions contemplated hereby may be abandoned at any time prior to the Effective Time notwithstanding approval thereof by the stockholders of the Company:

(a) by mutual written consent duly authorized by the Boards of the Company and Riverwood;

(b) by the Company or Riverwood if the Closing shall not have occurred on or before October 31, 2003 (the "*Termination Date*" which term shall include the date of any extension under this Section 7.1(b)); *provided, however*, that if on the Termination Date the conditions to Closing set forth in Sections 6.1(c) and 6.1(f) shall not have been fulfilled but all other conditions to Closing shall or shall be capable of being fulfilled then the Termination Date shall be automatically extended to December 31, 2003 (the "*Extended Termination Date*"); and *provided, further*, that the right to terminate this Agreement under this Section 7.1(b) shall not be available to any party whose failure to fulfill any material obligation under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur before such date;

(c) by the Company, if Riverwood shall have breached in any material respect any of its representations or warranties or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (*i*) is incapable of being cured by Riverwood prior to the Termination Date and (*ii*) renders the condition set forth in Section 6.3(a), 6.3(b) or 6.3(d) incapable of being satisfied prior to the Termination Date;

(d) by Riverwood, if the Company shall have breached in any material respect any of its representations or warranties or failed to perform in any material respect any of its covenants or other agreements contained in this Agreement, which breach or failure to perform (*i*) is incapable of being cured by the Company prior to the Termination Date and (*ii*) renders the condition set forth in Section 6.2(a), 6.2(b) or 6.2(d) incapable of being satisfied prior to the Termination Date;

(e) by the Company or Riverwood, upon written notice to the other party, if a Governmental Entity of competent jurisdiction in the United States or of the European Union shall have issued an order, judgment, decision, opinion, decree or ruling or taken any other action (which the party seeking to terminate shall have used its reasonable best efforts to resist, resolve, annul, quash, or lift, as applicable, subject to the provisions of Section 5.3) permanently enjoining or otherwise prohibiting the consummation of the transactions contemplated by this Agreement, and such order, decree, ruling or action shall have become final and non-appealable; provided, however, that the party seeking to terminate this Agreement pursuant to this clause (e) has fulfilled its obligations under Section 5.3;

(f) by Riverwood if (*i*) the Board of Directors of the Company shall have withdrawn or changed or modified the Company Recommendation in a manner adverse to Riverwood or (*ii*) for any reason the Company fails to call or hold the Company Stockholders Meeting within five months of the date hereof;

(g) by the Company, if the (*i*) Board of Directors of the Company (upon the recommendation of a majority of the Independent Directors) authorizes the Company, subject to complying with the terms of this Agreement, to enter into a binding written agreement concerning a transaction that constitutes a Superior Proposal and the Company notifies Riverwood in writing that it intends to enter into such an agreement, attaching the most current version of such agreement (or a description of all material terms and conditions thereof) to such notice, (*ii*) Riverwood does not make, within five Business Days of receipt of the Company's written notification of its intention to enter into a binding agreement for such Superior Proposal, an offer that the Board of Directors of the Company determines, in good faith after consultation with a financial advisor of nationally recognized reputation, is at least as favorable to the Company's stockholders as such Superior Proposal, it being understood that the Company shall not enter into any such binding agreement during such five-day period, and (*iii*) the Company, at or prior to any

termination pursuant to this Section 7.1(g), pays Riverwood the Termination Fee (as defined below) set forth in Section 7.2; and

(h) by the Company or Riverwood, if the Company Stockholder Approval shall not have been received at a duly held meeting of the stockholders of the Company called for such purpose (including any adjournment or postponement thereof).

Section 7.2 *Obligations in Event of Termination.*

(a) In the event of any termination of this Agreement as provided in Section 7.1, this Agreement shall forthwith become wholly void and of no further force and effect (except with respect to Section 3.1(j), Section 3.2(j), Section 5.2 (as it relates to Confidential Information only), Section 5.6, this Section 7.2 and Article VIII, which shall remain in full force and effect) and there shall be no liability on the part of the

Company or Riverwood; *provided, however*, that termination shall not preclude any party from suing the other party for, or relieve any party hereto from any liability arising from a, willful breach of this Agreement.

(b) If this Agreement is terminated (*i*) by Riverwood pursuant to Section 7.1(f)(i); (*ii*) by Riverwood pursuant to Section 7.1(f)(ii), unless there is a Permitted Reason for the failure to hold the Company Stockholders Meeting; (*iii*) by Riverwood or the Company pursuant to Section 7.1(h) because of the failure to obtain the Company Stockholder Approval unless there is a Permitted Reason for the failure to obtain the Company Stockholder Approval; (*iv*) by Riverwood or the Company pursuant to Section 7.1(b) because the Merger shall not have been consummated at or prior to the Termination Date or the Extended Termination Date, as the case may be, and, at the time of the termination, (*x*) the Company Stockholder Approval shall not have been obtained, unless there is a Permitted Reason for the failure to obtain the Company Stockholder Approval and (*y*) after the date hereof and prior to the Termination Date or the Extended Termination Date, as the case may be, there shall have been made in good faith by a third party (other than Riverwood or any of its affiliates) an offer or proposal for, or an announcement of any intention with respect to (including the filing of a statement of beneficial ownership on Schedule 13D discussing the possibility of or reserving the right to engage in), a transaction that would constitute a Business Combination involving the Company (whether or not such offer, proposal, announcement or agreement will have been rejected or withdrawn prior to the Termination Date or the Extended Termination Date, as the case may be); or (*v*) by the Company pursuant to Section 7.1(g), then the Company shall pay to Riverwood, at or prior to a termination pursuant to clause 7.1(g) or the sending by the Company of a notice of termination in the case of clauses (b)(iii) or (b)(iv) and not later than one Business Day after the receipt by the Company of a notice of termination from Riverwood in the case of clauses (b)(i), (b)(ii), (b)(iii) or (b)(iv), a termination fee of $30 million (the "*Termination Fee*").

(c) For the purposes of this Section 7.2, "*Business Combination*" means with respect to the Company, (*i*) a merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction involving such party as a result of which either (*A*) the Company's stockholders prior to such transaction (by virtue of their ownership of such party's shares) in the aggregate cease to own at least 50% of the voting securities of the entity surviving or resulting from such transaction (or the ultimate parent entity thereof) or, regardless of the percentage of voting securities held by such stockholders, if any Person shall beneficially own, directly or indirectly, at least 40% of the voting securities of such ultimate parent entity or (*B*) the individuals comprising the board of directors of the Company prior to such transaction do not constitute a majority of the board of directors of such ultimate parent entity, (*ii*) a sale, lease, exchange, transfer or other disposition of at least 40% of the assets of the Company and its Subsidiaries, taken as a whole, in a single transaction or a series of related transactions, or (*iii*) the acquisition, directly or indirectly, by a Person of beneficial ownership of 40% or more of the common stock of the Company whether by merger, consolidation, share exchange, business combination, tender or exchange offer or otherwise

(other than a merger, reorganization, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or similar transaction upon the consummation of which the Company's stockholders would in the aggregate beneficially own greater than 50% of the voting securities of such Person); *provided, however*, that any purchase, sale or other transfer of the voting securities of the Company held by any Family Stockholder as of the date hereof to or from any of the other Family Stockholders shall not be considered a Business Combination.

(d) All payments under this Section 7.2 shall be made by wire transfer of immediately available funds to an account designated by Riverwood.

(e) The parties each agree that the agreements contained in Section 7.2(b) are an integral part of the transaction contemplated by this Agreement. If the Company fails to promptly pay Riverwood any fee due under such Section 7.2(b), the Company shall pay the costs and expenses of Riverwood (including legal fees and expenses) in connection with any action, including the filing of any lawsuit or legal action, taken to collect payment.

(f) In the event that the Company is required to pay Riverwood a Termination Fee under Section 7.2(b), the Company shall also pay and reimburse Riverwood for all Expenses of Riverwood, up to a total amount of no more than $3 million, within one Business Day of receipt of a notice from Riverwood providing reasonable information regarding such Expenses and requesting payment.

(g) For purposes of this Section 7.2, "*Permitted Reason*" means with respect to (*i*) calling or holding the Company Stockholder Meeting, that the Company Stockholder Meeting shall not have occurred because of the failure of the SEC to declare the Form S-4 Effective and (*ii*) obtaining Company Stockholder Approval, that Company Stockholder Approval shall not have been obtained because of the failure of the Family Stockholders to vote in accordance with the Voting Agreement.

Section 7.3 *Amendment.* This Agreement may be amended by the parties, by action taken or authorized by their respective Boards of Directors, at any time before or after approval of the matters presented in connection with the Merger by the stockholders of the Company and Riverwood, but, after any such approval, no amendment shall be made which by law or in accordance with the rules of any relevant stock

exchange requires further approval by such stockholders without such further approval. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

Section 7.4 *Extension; Waiver.* At any time prior to the Effective Time, the parties, by action taken or authorized by their respective Boards of Directors, may, to the extent legally allowed, (*a*) extend the time for the performance of any of the obligations or other acts of the other parties, (*b*) waive any inaccuracies in the representations and warranties contained herein or in any document delivered pursuant hereto and (*c*) waive compliance with any of the agreements or conditions contained herein. Any agreement on the part of a party hereto to any such extension or waiver shall be valid only if set forth in a written instrument signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of those rights.

ARTICLE VIII
GENERAL PROVISIONS

Section 8.1 *Non-Survival of Representations, Warranties and Agreements.* None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein (including Sections 1.9(d), 5.5(c) and

A-51

5.7) that by their terms apply or are to be performed in whole or in part after the Effective Time and this Article VIII.

Section 8.2 *Notices.* All notices and other communications hereunder shall be in writing and shall be deemed duly given (*a*) on the date of delivery if delivered personally, or by telecopy or telefacsimile, upon confirmation of receipt, (*b*) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (*c*) on the tenth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) if to Riverwood, to:

Riverwood Holding, Inc.
3350 Riverwood Parkway
Suite 1400
Atlanta, GA 30339
Fax: (770) 644-2929
Attention: General Counsel

with a copy to:

Debevoise & Plimpton
919 Third Avenue
New York, New York 10022
Fax: (212) 909-6836
Attention: Paul S. Bird, Esq.

(b) if to the Company to:

Graphic Packaging International Corporation
4455 Table Mountain Drive
Golden, Colorado 80403
Fax: (303) 215-0737
Attention: General Counsel

with a copy to:

Holme Roberts & Owen LLP
1700 Lincoln Street, Suite 4100
Denver, Colorado 80203-4541
Fax: (303) 866-0200
Attention: W. Dean Salter, Esq.

Section 8.3 *Interpretation.* When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation."

Section 8.4 *Counterparts.* This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other party, it being understood that both parties need not sign the same counterpart.

Section 8.5 *Entire Agreement; No Third Party Beneficiaries.*

(a) This Agreement (including the Exhibits and Schedules hereto) and the Confidentiality Agreements constitute the entire agreement, and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof and thereof.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than Section 1.9(d) and Section 5.5 (which are intended to be for the benefit, respectively, only of the individuals party to the employment agreements listed on Schedule 3.2(q) of the Company Disclosure Schedule, and may be enforced by such individuals) and Section 5.7 (which is intended to be for the benefit of the individuals covered thereby, and may be enforced by such individuals).

Section 8.6 *Governing Law.* This Agreement shall be governed and construed in accordance with the laws of the State of Delaware, without giving effect to its principles and rules of conflict of laws to the extent such principles or rules would require the application of the law of another jurisdiction.

Section 8.7 *Severability.* If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Notwithstanding the foregoing, upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

Section 8.8 *Assignment.* Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other party, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

Section 8.9 *Submission to Jurisdiction; Waivers.* Each of Riverwood and the Company irrevocably agrees that any legal action or proceeding with respect to this Agreement or for recognition and enforcement of any judgment in respect hereof brought by the other party hereto or its successors or assigns may be brought and determined in the Chancery or other Courts of the State of Delaware, and each of Riverwood and the Company hereby irrevocably submits with regard to any such action or proceeding for itself and in respect to its property, generally and unconditionally, to the nonexclusive jurisdiction of the aforesaid courts. Each of Riverwood and the Company hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, (*a*) any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to lawfully serve process (*b*) that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and (*c*) to the fullest extent permitted by applicable law, that (*i*) the suit, action or proceeding in any such court is brought in an inconvenient forum, (*ii*) the venue of such suit, action or proceeding is improper and (*iii*) this Agreement, or the subject matter hereof, may not be enforced in or by such courts.

Section 8.10 *Enforcement.* The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific

terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

Section 8.11 *Definitions.* As used in this Agreement:

(a) "*beneficial ownership*" or "*beneficially own*" shall have the meaning under Section 13(d) of the Exchange Act and the rules and regulations thereunder.

(b) "*Benefit Plans*" means, with respect to any Person, each foreign or domestic employee benefit plan, scheme, program, policy, arrangement and contract (including, but not limited to, any "employee benefit plan," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("*ERISA*"), whether or not subject to ERISA, and any bonus, deferred compensation, stock bonus, stock purchase, restricted stock, stock option, employment, termination, stay agreement or bonus, change in control and severance plan, program, policy, arrangement and contract, written or oral) in effect on the date of this Agreement or disclosed on the Company Disclosure Schedule or the Riverwood Disclosure Schedule, as the case may be, to which such Person or its Subsidiary is a party, which is maintained or contributed to by such Person, or with respect to which such Person could incur material liability under Section 4069, 4201 or 4212(c) of ERISA or any similar foreign law.

(c) "*Board of Directors*" means the Board of Directors of any specified Person and any committees thereof.

(d) "*Business Day*" means any day on which banks are not required or authorized to close in the City of New York.

(e) "*Riverwood Group Shareholders*" means Clayton, Dubilier & Rice Fund V Limited Partnership, the 1818 Fund, L.P., HWH Investment Pte Ltd., J.P. Morgan Partners, L.P., EXOR Group S.A., First Plaza Group Trust and Madison Dearborn Capital Partners, L.P.

(f) "*Confidentiality Agreements*" means the letter agreement, dated July 22, 2002, between Riverwood and the Company, and the letter agreement, dated October 11, 2002, between Riverwood and the Company.

(g) "*Independent Directors*" means the members of the Company's Board of Directors who are not Family Stockholders or, to the extent such stockholders are trusts, are not the direct or indirect beneficiaries of any such trust.

(h) "*known*" or "*knowledge*" means, with respect to any party, the actual knowledge of such party's executive officers and senior management as listed on such party's annual report to its shareholders and such knowledge as would be reasonably expected to be known by such executive officers in the ordinary and usual course of the performance of their professional responsibilities to such party.

(i) "*Lien*" means any mortgage, pledge, deed of trust, hypothecation, right of others, claim, security interest, encumbrance, burden, title defect, title retention agreement, lease, sublease, license, occupancy agreement, easement, covenant, condition, encroachment, voting trust agreement, interest, option, right of first offer, negotiation or refusal, proxy, lien, charge or other restrictions or limitations of any nature whatsoever.

(j) "*Material Adverse Effect*" means, with respect to any entity, any event, change, circumstance or effect that, individually or in the aggregate, is or would be reasonably likely to be materially adverse to (*i*) the business, financial condition, results of operations or prospects of such entity and its Subsidiaries, taken as a whole, other than any event, change, circumstance or effect relating (*w*) to the economy or financial markets in general, (*x*) to changes in general in the industries in which such entity operates, *provided, however*, that the effect of such changes shall be

included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity, (*y*) to changes in applicable law or regulations or in GAAP, *provided*, however, that the effect of such changes shall be included to the extent of, and in the amount of, the disproportionate impact (if any) they have on such entity, or (*z*) to the announcement of this Agreement or the transactions contemplated hereby; or (*ii*) the ability of such entity to consummate the transactions contemplated by this Agreement.

(k) "*other party*" means, with respect to the Company, Riverwood and means, with respect to Riverwood, the Company, unless the context otherwise requires.

(l) "*Person*" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(m) "*Related Persons*" means, as to any Person, any trade or business, whether or not incorporated, which, together with such Person, is or would have been at any date of determination occurring within the preceding six years, treated as a single employer under Section 414 of the Code.

(n) "*Subsidiary*" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, (*i*) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership) or (*ii*) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

(o) "*Superior Proposal*" means with respect to the Company, a bona fide written proposal made by a third party: (*I*) which is (*i*) for a sale, lease, exchange, transfer or other disposition of substantially all of the assets of the Company and its Subsidiaries, taken as a whole, in a single transaction or a series of related transactions, or (*ii*) for the acquisition, directly or indirectly, by such third party of beneficial ownership of all of the common stock of the Company whether by merger, consolidation, share exchange, business combination, tender or exchange offer or otherwise; (*II*) which is (*i*) otherwise on terms which the Board of Directors of the Company in good faith concludes (after consultation with its financial advisors and outside counsel), taking into account all relevant aspects of the proposal and the third party making the proposal, would, if consummated, result in a transaction that is more favorable to its stockholders (in their capacities as stockholders), from a financial point of view, than the transactions contemplated by this Agreement and (*ii*) is reasonably capable of being completed; and (*III*) for which all of the debt and equity financing required to consummate the proposed transaction is as fully and unconditionally committed, as evidenced by written commitments provided to the board of directors of the Company, as the debt and equity financing required to consummate the Merger under this Agreement is at such time.

IN WITNESS WHEREOF, Riverwood, Merger Sub and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

RIVERWOOD HOLDING, INC.

By: /s/ STEPHEN M. HUMPHREY

Name: Stephen M. Humphrey
Title: President and Chief Executive Officer

RIVERWOOD ACQUISITION SUB LLC

By: /s/ STEPHEN M. HUMPHREY

Name: Stephen M. Humphrey
Title: President

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

By: /s/ JEFFREY H. COORS

Name: Jeffrey H. Coors
Title: President and Chief Executive Officer

Index

	Page
Acquisition Proposal	A-42
Actions	A-12
Affiliate Agreement	A-45
Affiliates	A-8
Agreement	A-1
Applicable Company Laws	A-2
beneficial ownership	A-54
beneficially own	A-54
Benefit Plans	A-54
Benefits Continuation Period	A-43
Blue Sky Laws	A-11
Board of Directors	A-54
Book Entry Shares	A-3
Business Combination	A-50
Business Day	A-54
CBCA	A-2
Certificates	A-3
Certificates of Merger	A-2
Change in the Company Recommendation	A-39
Closing	A-2
Closing Date	A-2
Code	A-1
Collective Bargaining Agreement	A-19
Common Certificates	A-3
Company	A-1
Company Assets	A-48
Company Board Approval	A-25
Company Common Stock	A-1
Company Convertible Preferred Stock	A-1
Company Disclosure Schedule	A-22
Company Exhibit 21	A-22
Company Identified Contracts	A-30
Company Leased Real Property	A-32
Company Leases	A-32
Company Owned Real Property	A-32
Company Permits	A-25
Company Proxy Statement/Prospectus	A-38
Company Real Property	A-32
Company Recommendation	A-39
Company Rights	A-22
Company Rights Agreement	A-22
Company SEC Reports	A-24
Company Stock Incentive Plans	A-23
Company Stock Options	A-23
Company Stockholder Approval	A-25
Company Stockholder Meeting	A-39
Company Title IV Plan	A-27

Page

A-I

Company Voting Debt	A-23
Confidential Information	A-40
Confidential Agreement	A-54
Delaware LLC Act	A-2
DOJ	A-41
EC Merger Regulation	A-41
Effective Time	A-2
Environmental Claim	A-16
Environmental Law	A-16
Environmental Liabilities	A-16
ERISA	A-54
Exchange Agent	A-5
Exchange Fund	A-5
Exchange Ratio	A-3
Expenses	A-43
Extended Termination Date	A-49
Family Stockholders	A-1
Financing	A-47
Form A-4	A-38
FTC	A-41
GAAP	A-11
Governmental Entity	A-10
Hazardous Material	A-16
HSR Act	A-11
Intellectual Property	A-6
knowledge	A-54
known	A-54
LLC Agreement	A-2
Material Adverse Effect	A-54
Merger	A-1
Merger Consideration	A-3
Merger Sub	A-1
Necessary Consents	A-11
New Employment Agreement	A-2
NYSE	A-6
other party	A-55
parties	A-1
Permitted Reason	A-50
Person	A-55
Preferred Certificates	A-3
Preferred Stock Conversion	A-1
Regulatory Law	A-41
Representatives	A-40
Restated Certificate of Incorporation	A-46
Riverwood	A-1
Riverwood Assets	A-20
Riverwood Balance Sheet	A-20
Riverwood Board Approval	A-12
Riverwood Class A Common Stock	A-9
Riverwood Class B Common Stock	A-9

A-II

Riverwood Common Stock	A-46
Riverwood Disclosure Schedule	A-8
Riverwood Exhibit 21	A-8
Riverwood Identified Contracts	A-18
Riverwood Leased Real Property	A-20
Riverwood Leases	A-20
Riverwood Owned Real Property	A-20
Riverwood Permits	A-12
Riverwood Permits Liens	A-46
Riverwood Preferred Stock	A-46
Riverwood Real Property	A-20
Riverwood Rights	A-46
Riverwood Rights Agreement	A-46
Riverwood SEC Reports	A-11
Riverwood Stock Option Plans	A-12
Riverwood Stockholders	A-1
Riverwood Title IV Plan	A-14
Riverwood Voting Debt	A-9
SEC	A-8
Securities Act	A-8
Subsidiary	A-55
Superior Proposal	A-55
Surviving Company	A-2
Tax Return	A-17
Taxes	A-17
Termination Date	A-49
Termination Fee	A-50
Treasury Regulation	A-1
Violation	A-10
Voting Agreement	A-1

Annex B

EXECUTION COPY

VOTING AGREEMENT
DATED AS OF MARCH 25, 2003
BETWEEN
RIVERWOOD HOLDING, INC.
AND
THE FAMILY STOCKHOLDERS

VOTING AGREEMENT, dated as of March 25, 2003, between RIVERWOOD HOLDING, INC., a Delaware corporation ("*Riverwood*"), and the persons listed on signature pages hereof (each, a "*Family Stockholder*" and, collectively, the "*Family Stockholders*").

W I T N E S S E T H:

WHEREAS, each Family Stockholder owns the number of shares of 10% Series B Convertible Preferred Stock, stated value $100.00 per share, of Graphic Packaging International Corporation, a Colorado corporation (the "*Company*") (the "*Series B Preferred Stock*"), and of Common Stock, par value $0.01 per share, of the Company (including any common stock into which such Series B Preferred Stock may be converted or exchanged after the date hereof, the "*Common Stock*") set forth opposite such Family Stockholder's name on Schedule A hereto (such shares of Common Stock and Series B Preferred Stock, together with any other shares of capital stock of the Company acquired by any Family Stockholder after the date hereof and during the term of this Agreement, being collectively referred to herein as the "*Subject Shares*");

WHEREAS, concurrently with the execution and delivery of this Agreement, Riverwood and the Company are entering into an Agreement and Plan of Merger (as the same may from time to time be modified, supplemented or restated, the "*Merger Agreement*") providing for the merger of the Company with and into a subsidiary of Riverwood (the "*Merger*") upon the terms and subject to the conditions set forth therein;

WHEREAS, concurrently with the execution and delivery of this Agreement, Riverwood, certain stockholders of Riverwood and the Family Stockholders are entering into a Stockholders Agreement (as the same may from time to time be modified supplemented or restated, the "*Stockholders Agreement*") with the Company, governing certain of the rights, duties and obligations of the parties thereto relating to their ownership of stock of the Company following the Merger, such agreement to become effective immediately upon the Effective Time (as defined in the Merger Agreement);

WHEREAS, as a condition and inducement to the Company's willingness to enter into the Merger Agreement, certain stockholders of Riverwood (the "*Riverwood Stockholders*") have given their written consent, dated as of the date hereof, in the form of Exhibit 1(a) to the Merger Agreement, pursuant to which the Riverwood Stockholders have approved, among other things, the adoption of the Merger Agreement; and

WHEREAS, as a condition and inducement to Riverwood's willingness to enter into the Merger Agreement, the Family Stockholders desire to enter into this Agreement, pursuant to which (*i*) the Family Stockholders are agreeing, among other things, to vote their shares of Common Stock and Series B Preferred Stock in favor of the adoption of the Merger Agreement and, at the Closing (as defined in the Merger Agreement), to convert their shares of Series B Preferred Stock into Common Stock, and (*ii*) Riverwood is agreeing to make a monetary payment to the Family Stockholders in consideration of such conversion.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth in this Agreement, and intending to be legally bound hereby, the parties agree as follows:

ARTICLE I

REPRESENTATIONS AND WARRANTIES OF EACH FAMILY STOCKHOLDER

Each Family Stockholder, severally and not jointly, represents and warrants to Riverwood as follows:

Section 1.1 *Authority.* Such Family Stockholder has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by such Family Stockholder and constitutes a valid and binding obligation of such Family Stockholder enforceable in accordance with its terms. If such Family Stockholder is married and the Subject Shares of such Family Stockholder constitute community property or otherwise need spousal or other approval for this Agreement to be legal, valid and binding with respect to such Subject Shares, this Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, such Family Stockholder's spouse, enforceable against such spouse in accordance with its terms. If such Family Stockholder is a trust, no consent of any beneficiary is required for the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 1.2 *No Conflicts; Required Filings and Consents.*

(a) Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby and compliance with the terms hereof will violate, conflict with or result in a breach, or constitute a default (with or without due notice of lapse of time or both) under any provision of, any trust agreement, loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, license, judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to such Family Stockholder or to such Family Stockholder's property or assets.

(b) The execution and delivery of this Agreement by such Family Stockholder do not, and the performance of this Agreement by such Family Stockholder will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity (as defined in the Merger Agreement), except (*i*) where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, prevent or materially delay the performance by such Family Stockholder of any of his obligations under this Agreement and (*ii*) that the Family Stockholders shall be required make an appropriate report pursuant to the HSR Act (as defined in the Merger Agreement) with respect to the transactions contemplated by the Merger Agreement.

Section 1.3   *The Subject Shares.*   Such Family Stockholder is the record and beneficial owner of, or is a trust that is the record holder of and whose beneficiaries are the beneficial owners of, and has good and marketable title to, the Subject Shares set forth opposite such Family Stockholder's name on Schedule A hereto, free and clear of any mortgage, lien, pledge, charge, encumbrance, security interest or other adverse claim. Such Family Stockholder does not own, of record or beneficially, any shares of capital stock of the Company other than the Subject Shares set forth opposite such Family Stockholder's name on Schedule A hereto. Such Family Stockholder has the sole right to vote, or to dispose, of such Subject Shares, and none of such Subject Shares is subject to any agreement, arrangement or restriction with respect to the voting of such Subject Shares, except as contemplated by this Agreement or the Stockholders Agreement. There are no agreements or arrangements of any kind,

---

contingent or otherwise, obligating such Family Stockholder to sell, transfer, assign, grant a participation interest in, option pledge, hypothecate or otherwise dispose or encumber (each, a "*Transfer*"), or cause to be Transferred, any of the Subject Shares, and no Person (as defined in the Merger Agreement) has any contractual or other right or obligation to purchase or otherwise acquire any of the Subject Shares.

Section 1.4   *Reliance by Riverwood.*   Such Family Stockholder understands and acknowledges that Riverwood is entering into the Merger Agreement in reliance upon such Family Stockholder's execution and delivery of this Agreement.

Section 1.5   *Litigation.*   There is no action, proceeding or investigation pending or threatened against such Family Stockholder that questions the validity of this Agreement or any action taken or to be taken by such Family Stockholder in connection with this Agreement.

Section 1.6   *Finder's Fees.*   No broker, investment bank, financial advisor or other person is entitled to any broker's finder's, financial adviser's or similar fee or commission in connection with the transactions contemplated hereby based upon arrangements made by or on behalf of the Family Stockholders.

ARTICLE II

**REPRESENTATIONS AND WARRANTIES
OF RIVERWOOD**

Riverwood represents and warrants to each of the Family Stockholders as follows:

Section 2.1   *Authority.*   Riverwood has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly authorized, executed and delivered by Riverwood and constitutes a valid and binding obligation of Riverwood enforceable in accordance with its terms.

Section 2.2   *No Conflicts; Required Filings and Consents.*

(a)   Neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby and compliance with the terms hereof will violate, conflict with or result in a breach, or constitute a default (with or without due notice of lapse of time or both) under any provision of, any trust agreement, loan or credit agreement, note, bond, mortgage, indenture, lease or other agreement, instrument, permit, concession, franchise, license, judgment, order, notice, decree, statute, law, ordinance, rule or regulation applicable to Riverwood or to Riverwood's property or assets.

(b)   The execution and delivery of this Agreement by Riverwood does not, and the performance of this Agreement by Riverwood will not, require any consent, approval, authorization or permit of, or filing with or notification to, any Governmental Entity (as defined in the Merger Agreement), except where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, would not, individually or in the aggregate, prevent or materially delay the performance by Riverwood of any of its obligations under this Agreement.

ARTICLE III

VOTING OF SUBJECT SHARES

Section 3.1 *Agreement to Vote.* From the date hereof, and until the termination of this Agreement in accordance with Section 6.1, each Family Stockholder, severally and not jointly, and subject to the provisions of Section 5.1, agrees as follows:

(a) At any meeting of stockholders of the Company called to vote upon the Merger and the Merger Agreement or at any adjournment thereof or in any other circumstances upon which a vote, consent or other approval (including by written consent) with respect to the Merger and the Merger Agreement is sought, each Family Stockholder shall vote (or cause to be voted) the Subject Shares (and each class thereof) in favor of the adoption by the Company of the Merger and the approval of the Merger Agreement and, subject to Section 4.4, any actions required in furtherance thereof and each of the transactions contemplated by the Merger Agreement.

(b) At any meeting of stockholders of the Company or at any adjournment thereof or in any other circumstances upon which a vote, consent or other approval of all or some of the stockholders of the Company is sought, each Family Stockholder shall vote (or cause to be voted) its Subject Shares (and each class thereof) against (*i*) any merger agreement or merger (other than the Merger Agreement and the Merger), consolidation, combination, sale or transfer of a material amount of assets, reorganization, recapitalization, dissolution, liquidation or winding up of or by the Company, and (*ii*) any amendment of the Company's certificate of incorporation or by-laws or other proposal or transaction involving the Company or any of its subsidiaries, which amendment or other proposal or transaction would in any manner delay, impede, frustrate, prevent or nullify the Merger, the Merger Agreement or any of the other transactions contemplated by the Merger Agreement or change in any manner the voting rights of the Subject Shares other than in connection with the transactions contemplated by the Merger. Each Family Stockholder further agrees not to commit or agree to take any action inconsistent with the foregoing.

Section 3.2 *No Solicitation of Transactions.* Subject to the terms of Section 5.1, none of the Family Stockholders nor any of their affiliates shall, directly or indirectly, and each Family Stockholder will instruct his agents, advisors and other representatives (including without limitation, any investment banker, attorney or accountant retained by it) not to, directly or indirectly, initiate, solicit, encourage or facilitate (including by way of furnishing information) any inquiries or proposals regarding any Acquisition Proposal (as defined in the Merger Agreement). Each Family Stockholder and each of his agents, advisors and other representatives shall immediately cease and cause to be terminated any existing discussions or negotiations with any person (other than Riverwood) conducted heretofore with respect to any of the foregoing. Each Family Stockholder shall promptly advise Riverwood orally and in writing of (*x*) any proposal for an Acquisition Proposal or any request for information with respect to any proposal for an Acquisition Proposal received by such Family Stockholder or any of his agents, advisors or other representatives, the material terms and conditions of such proposal for an Acquisition Proposal or request and the identity of the person making such proposal for an Acquisition Proposal or request (and provide Riverwood with copies of any written proposal for an Acquisition Proposal or amendments or supplements thereto) and (*y*) any changes in any such proposal for an Acquisition Proposal or request.

ARTICLE IV

ADDITIONAL AGREEMENTS

Section 4.1 *No Disposition or Encumbrance of Subject Shares.* Except as provided in the next to the last sentence of this Section 4.1, each Family Stockholder agrees not to, directly or indirectly, (*i*) Transfer or enter into any agreement, option or other arrangement (including any profit sharing arrangement) with respect to the Transfer of, any Subject Shares to any Person, other than in accordance with the Merger Agreement or (*ii*) grant any proxies, deposit any Subject Shares into any voting trust or enter into any voting arrangement, whether by proxy, voting agreement or otherwise, with respect to the Subject Shares, other than pursuant to this Agreement. Subject to the next to the last sentence of this Section 4.1, each Family Stockholder further agrees not to commit or agree to take any of the foregoing actions. Notwithstanding the foregoing, each Family Stockholder shall have the right to Transfer its Subject Shares to a Permitted Transferee (as defined in this Section 4.1) of such Family Stockholder if and only if such Permitted Transferee shall have agreed in writing, in a manner reasonably acceptable in form and substance to Riverwood, (*i*) to accept such Subject Shares subject to the terms and conditions of this Agreement and (*ii*) to be bound by this Agreement and to agree and acknowledge that such Person shall constitute a Family Stockholder for all purposes of this Agreement. "*Permitted Transferee*" means, with respect to any Family Stockholder, (*A*) any other Family Stockholder, (*B*) a spouse or lineal descendant (whether natural or adopted), sibling, parent, heir, executor, administrator, testamentary trustee, lifetime trustee or legatee of such Family Stockholder or Adolph Coors, Jr., (*C*) any trust, the trustees of which include only the Persons named in clause (A) or (B) and the beneficiaries of which include only the Persons named in clause (A) or (B), (*D*) any corporation, limited liability company or partnership, the stockholders, members or general or limited partners of which include only the Persons named in clause (A) or (B), or (*E*) if such Family Stockholder is a trust, the beneficiary or beneficiaries authorized or entitled to receive distributions from such trust.

Section 4.2 *Disclosure.* Each of the Family Stockholders hereby permits Riverwood to publish and disclose in the Registration Statement of Riverwood to be filed on Form S-4 with respect to the Merger and all documents and schedules filed with the SEC in connection therewith, such Family Stockholder's identity and ownership of the Subject Shares and, with the prior approval of the Family Representative, the nature of such Family Stockholder's commitments, arrangements and understandings under this Agreement.

Section 4.3 *Waiver of Appraisal Rights.* Each of the Family Stockholders hereby waives any rights of appraisal or rights to dissent from the Merger that it may have under Article 113 of the Colorado Business Corporation Act (the "*CBCA*").

Section 4.4 *Reasonable Efforts.* Each Family Stockholder shall use all reasonable efforts to take, or cause to be taken, all actions, and to do, or cause to be done, and to assist and cooperate with the other parties in doing, all things necessary, proper or advisable to consummate and make effective, in the most expeditious manner practicable, the Merger and the other transactions contemplated by the Merger Agreement, and to carry out the intent and purposes of this Agreement; *provided, however*, that this Section 4.4 shall not require the Family Stockholders to interfere with the composition or actions of the Company's Board of Directors or to acquire additional securities nor provide financing to the Company.

Section 4.5 *Family Representative.* Each Family Stockholder hereby designates and appoints (and each permitted Transferee of each such Family Stockholder is hereby deemed to have so designated and appointed) Jeffrey H. Coors and, in the case of his inability to act, William K. Coors (the "*Family Representative*"), as its attorney-in-fact with full power of substitution for each of them, to serve as the representative of such Family Stockholder to perform all such acts as are required, authorized or contemplated by this Agreement to be performed by such Family Stockholder (including the voting of

the Subject Shares in accordance with Sections 3.1(a) and (b)), and hereby acknowledges that the Family Representative shall be authorized to take any action so required, authorized or contemplated by this Agreement. Each such Family Stockholder further acknowledges that the foregoing appointment and designation shall be deemed to be coupled with an interest and shall survive the death or incapacity of such Family Stockholder. Each such Family Stockholder hereby authorizes (and each such Permitted Transferee of such Family Stockholder shall be deemed to have authorized) the other parties hereto to disregard any notices or other action taken by such Family Stockholder pursuant to this Agreement, except for notices and actions taken by the Family Representative. Riverwood is and will be entitled to rely on any action so taken or any notice given by any Family Representative and is and will be entitled and authorized to give notices only to the Family Representative for any notice contemplated by this Agreement to be given to any such Family Stockholder. A successor to the Family Representative may be chosen by the holders of a majority of the shares held by the Family Stockholders; *provided* that notice thereof is given by the new Family Representative to Riverwood.

Section 4.6 *Irrevocable Proxy.* Notwithstanding the generality of Section 4.5, each Family Stockholder hereby constitutes and appoints the Family Representative with full power of substitution, as the proxy pursuant to the provisions of Article 107 of the CBCA and attorney of such Family Stockholder, and hereby authorizes and empowers the Family Representative to represent, vote and otherwise act (by voting at any meeting of the stockholders of the Company, by written consent in lieu thereof or otherwise) with respect to the Subject Shares owned or held by such Family Stockholder regarding the matters referred to in Sections 3.1(a) and (b) until the termination of this Agreement, to the same extent and with the same effect as such Family Stockholder might or could do under applicable law, rules and regulations. The proxy granted pursuant to the immediately preceding sentence is coupled with an interest and shall be irrevocable. Each Family Stockholder hereby revokes any and all previous proxies or powers of attorney granted with respect to any of the Subject Shares owned or held by such Family Stockholder regarding the matters referred to in Sections 3.1(a) and (b).

Section 4.7 *Conversion of Preferred.*

(a) At the Closing and immediately prior to the Effective Time (as such terms are defined in the Merger Agreement), the Grover C. Coors Trust shall convert all of the shares of Series B Preferred Stock held by such trust into shares of Common Stock in accordance with the terms of the Articles of Incorporation of the Company as amended by the Company's Board of Directors on August 14, 2000 (the "*Share Conversion*").

(b) In consideration of the Share Conversion, promptly after such conversion Riverwood shall pay by wire transfer, to an account or accounts specified by not less than three day's notice from the Family Representative to Riverwood, funds in an amount equal to the present value, calculated using a discount rate of 8.5%, of the dividend payments payable to the Series B Preferred Stock from the Effective Time of the Merger through the first date as of which the Company may redeem the Series B Preferred Stock.

Section 4.8 *Additional Consideration.*

(a) In the event that the Merger Agreement shall have been terminated under circumstances where Riverwood is entitled to receive the Termination Fee (as defined in and in accordance with the Merger Agreement), each Family Stockholder shall pay to Riverwood, on demand, an amount equal to such Family Stockholder's pro rata share (based on the number of subject shares held by such stockholder on the date hereof, treating the Series B Preferred Stock on an as converted basis) of *(i)* 75% of the first $20 million

of all Profit (as defined in Section 4.8(b)) earned by the Family Stockholders, collectively, and *(ii)* 50% of the next $40 million of all Profit earned by the Family Stockholders, collectively, in each case from the consummation of any Business Combination (as defined in the Merger Agreement) that is consummated within two years of such termination.

(b) For purposes of this Section 4.8, the "*Profit*" of the Family Stockholders, collectively, from any Business Combination shall equal (*i*) the aggregate consideration received by the Family Stockholders pursuant to such Business Combination, valuing any non-cash consideration (including any residual interest in the Company) at its Fair Market Value on the date of the consummation of the Business Combination *plus* (*ii*) the Fair Market Value, determined as of the date of disposition, of all Subject Shares of the Family Stockholders disposed of after the termination of the Merger Agreement and prior to the date of the consummation of the Business Combination *minus* (*iii*) the Fair Market Value of all Subject Shares of the Family Stockholders, determined as of (*x*) the day immediately prior to date of the Merger Agreement or (*y*) the day immediately prior to the date that the Company first receives notice of or otherwise becomes aware of an Acquisition Proposal (as defined in the Merger Agreement), whichever date of determination yields a lower Fair Market Value.

(c) In the event that (*i*) prior to the Effective Time, a Superior Proposal shall have been made and (*ii*) the Effective Time of the Merger shall have occurred and Riverwood for any reason shall have increased the amount of the Merger Consideration payable over that set forth in the Merger Agreement in effect on the date hereof, the Family Stockholders hereby agree that they will not be entitled to receive, and shall waive any right to receive, 50% of any such additional Merger Consideration that would otherwise have been received by the Family Stockholders, and that the full amount of any such additional Merger Consideration shall be payable by Riverwood only with respect to shares of the Common Stock held by Persons other than the Family Stockholders.

(d) For purposes of this Section 4.8, the Fair Market Value of any non-cash consideration consisting of:

(i) securities listed on a national securities exchange or traded on the NASDAQ/NMS shall be equal to the average closing price per share of such security as reported on such exchange or the NASDAQ/NMS for the ten trading days prior to the date of determination; and

(ii) consideration which is other than cash or securities of the form specified in clause (i) of this Section 4.8(d) shall be determined by a nationally recognized independent investment banking firm mutually agreed upon by the parties within 10 business days of the event requiring selection of such banking firm; *provided, however*, that if the parties are unable to agree within two business days after the date of such event as to the investment banking firm, then the parties shall each select one firm, and those firms shall select a third investment banking firm, which third firm shall make such determination; *provided further*, that the fees and expenses of such investment banking firm shall be borne equally by Riverwood, on the one hand, and the Family Stockholders, on the other hand. The determination of the investment banking firm shall be binding upon the parties.

(e) Any payment of profit under this Section 4.8 shall (*i*) if paid in cash, be paid by wire transfer of same day funds to an account designated by Riverwood and (*ii*) if paid through transfer of freely tradeable securities, be paid through delivery of such securities, suitably endorsed for transfer.

ARTICLE V

STOCKHOLDER CAPACITY

Section 5.1 *Stockholder Capacity.* No Person executing this Agreement who is or becomes during the term hereof a director or officer of the Company shall be deemed to make any agreement or understanding in this Agreement in such Person's capacity as a director or officer. Each Family

Stockholder is entering into this Agreement solely in its capacity as the record holder or beneficial owner of, or the trustee of a trust whose beneficiaries are the beneficial owners of, such Family Stockholder's Subject Shares and nothing herein shall limit or affect any actions taken by

a Family Stockholder in its capacity as a director or officer of the Company to the extent specifically permitted by the Merger Agreement or following the termination of the Merger Agreement.

ARTICLE VI

TERMINATION

Section 6.1 *Termination.* This Agreement shall terminate upon the earlier of (*x*) the Effective Time and (*y*) the termination of the Merger Agreement in accordance with its terms, except that (*i*) the provisions of Section 4.8 of this Agreement shall survive any such termination and (*ii*) a termination of this Agreement shall not relieve any party from liability for any breach hereof.

ARTICLE VII

MISCELLANEOUS

Section 7.1 *Additional Shares.* In the event any Family Stockholder becomes the legal or beneficial owner of any additional shares or other securities of the Company (the "*Additional Securities*"), any securities into which such shares or securities may be converted or exchanged and any securities issued in replacement of, or as a dividend or distribution on, or otherwise in respect of, such shares or securities, then the terms of this Agreement shall apply to such securities. Each Family Stockholder agrees not to purchase or in any other manner acquire any Additional Securities, except for (*x*) the purchase or other acquisition pursuant to Section 4.1 of Common Stock or Series B Preferred Stock that is held by another Family Stockholder as of the date hereof and (*y*) with respect to any Family Stockholder who is an employee of the Company, pursuant to a Company Benefit Plan (as defined in the Merger Agreement).

Section 7.2 *Governing Law.* This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware, without giving effect to its principles or rules of conflicts of laws to the extent that such principles or rules would require or permit the application of the law of another jurisdiction.

Section 7.3 *Jurisdiction.* Each of the parties hereto irrevocably and unconditionally (*i*) agrees that any legal suit, action or proceeding brought by any party hereto arising out of or based upon this Agreement or the transactions contemplated hereby may be brought in the Courts of Delaware or the United States District Court for the District of Delaware (each, a "*Delaware Court*"), (*ii*) waives, to the fullest extent it may effectively do so, any objection which it may now or hereafter have to the laying of venue of any such proceeding brought in any Delaware Court, and any claim that any such action or proceeding brought in any Delaware Court has been brought in an inconvenient forum, and (*iii*) submits to the non-exclusive jurisdiction of Delaware Courts in any suit, action or proceeding. Each of the parties agrees that a judgment in any suit, action or proceeding brought in a Delaware Court shall be conclusive and binding upon it and may be enforced in any other courts to whose jurisdiction it is or may be subject, by suit upon such judgment.

Section 7.4 *WAIVER OF JURY TRIAL.* EACH OF THE PARTIES AGREES AND ACKNOWLEDGES THAT ANY CONTROVERSY THAT MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND THEREFORE EACH SUCH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR THE BREACH, TERMINATION OR VALIDITY OF THIS AGREEMENT.

Section 7.5 *Specific Performance.* Each Family Stockholder acknowledges and agrees that (*i*) the obligations and agreements of such Family Stockholder contained in this Agreement relate to special, unique and extraordinary matters, (*ii*) Riverwood is and will be relying on such covenants in connection with entering into the Merger Agreement, the performance of its obligations under the Merger Agreement, and (*iii*) a violation of any of the terms of obligations or agreements will cause Riverwood irreparable injury for which adequate remedies are not available at law. Therefore, each Family Stockholder agrees that Riverwood shall be entitled to an injunction, restraining order or such other equitable relief (without the requirement to post bond) as a court of competent jurisdiction may deem necessary or appropriate to restrain such Family Stockholder from committing any violation of such covenants, obligations or agreements. These injunctive remedies are cumulative and in addition to any other rights and remedies Riverwood may have.

Section 7.6 *Amendment, Waivers, etc.* Neither this Agreement nor any term hereof may be amended or otherwise modified other than by an instrument in writing signed by Riverwood and the Family Representative. No provision of this Agreement may be waived, discharged or terminated other than by an instrument in writing signed by the party against whom the enforcement of such waiver, discharge or termination is sought.

Section 7.7 *Assignment; No Third Party Beneficiaries.* This Agreement shall not be assignable or otherwise transferable by a party without the prior consent of the other parties, and any attempt to so assign or otherwise transfer this Agreement without such consent shall be void and of no effect; *provided* that (*i*) any Permitted Transferee acquiring any Subject Shares in accordance with this Section 7.7 shall, upon the delivery of the documents contemplated by Section 7.7, become a "Family Stockholder", and (*ii*) Riverwood may, in its sole discretion, assign or transfer all or any of its rights, interests and obligations under this Agreement to any direct or indirect wholly-owned subsidiary of Riverwood. This Agreement shall be binding upon the respective heirs, successors, legal representatives and permitted assigns of the parties hereto. Nothing in this Agreement shall be construed as giving any Person, other than the parties hereto and their heirs, successors, legal representatives and permitted assigns, any right, remedy or claim under or in respect of this Agreement or any provision hereof.

Section 7.8 *Expenses.* Except as otherwise provided herein, all costs and expenses incurred in connection with the transactions contemplated by this Agreement shall be paid by the party incurring such costs and expenses.

Section 7.9 *Notices.* All notices, consents, requests, instructions, approvals and other communications provided for in this Agreement shall be in writing and shall be deemed validly given upon personal delivery or one day after being sent by overnight courier service or by telecopy (so long as for notices or other communications sent by telecopy, the transmitting telecopy machine records electronic conformation of the due transmission of the notice), at the following address or telecopy number, or at such other address or telecopy number as a party may designate to the other parties:

(A) if to Riverwood to:

Riverwood Holding, Inc.
3350 Riverwood Parkway
Suite 1400
Atlanta, GA 30339
Attn: General Counsel
Telecopy: (770) 644-2929

with a copy to:

Debevoise & Plimpton
919 Third Avenue
New York, New York 10022
Attn.: Paul S. Bird
Telecopy: (212) 909-6836

(B) if to any Family Stockholder to:

Coors Family Trust
Mail Stop VR 900
P.O. Box 4030
Golden, CO 80401
Attn: Jeffrey H. Coors
Telecopy: (303) 277-6887

with a copy to:

Davis Graham & Stubbs LLP
1550 Seventeenth Street,
Suite 500
Denver, CO 80202
Attn.: Jennings J. Newcom
Telecopy: (303) 892-7400

Section 7.10 *Remedies.* No failure or delay by any party in exercising any right, power or privilege under this Agreement shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies provided herein shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 7.11 *Severability.* If any term or provision of this Agreement is held to be invalid, illegal, incapable of being enforced by any rule of law, or public policy, or unenforceable for any reason, it shall be adjusted rather than voided, if possible, in order to achieve the intent of the parties hereto to the maximum extent possible. In any event, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of this Agreement, including that provision, in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the terms of this Agreement remain as originally contemplated to the fullest extent possible.

Section 7.12 *Integration.* This Agreement, including all exhibits and schedules attached hereto, constitutes the full and entire understanding and agreement of the parties with respect to the subject matter hereof and thereof and supersede any and all prior understandings or agreements relating to the subject matter hereof and thereof.

Section 7.13 *Section Headings.* The article and section headings of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

Section 7.14 *Further Assurances.* From time to time at the request of Riverwood, and without further consideration, each Family Stockholder shall execute and deliver or cause to be executed and delivered such additional documents and instruments and take all such further action as may be reasonably necessary or desirable to effect the matters contemplated by this Agreement.

Section 7.15 *Stop Transfer.* Each of the Family Stockholders agrees that such Family Stockholder shall not request that the Company register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any Subject Shares, unless such transfer is made in compliance with this Agreement.

Section 7.16 *Public Announcements.* Each Family Stockholder will consult with Riverwood before issuing, and provide Riverwood with the opportunity to review and comment upon, any press release or other public statements with respect to the transactions contemplated by this Agreement and the Merger Agreement, and shall not issue any such press release or make any such public statement prior to such consultation, except as may be required by applicable law, court process or by obligations pursuant to any listing agreement with any national securities exchange (including, but not limited to, the New York Stock Exchange).

Section 7.17 *Counterparts.* This Agreement may be executed in one or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[*Remainder of page intentionally left blank.]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and date first above written.

RIVERWOOD HOLDING, INC.

By: /s/ Stephen M. Humphrey

Name: Stephen M. Humphrey
Title: President and Chief Executive Officer

The undersigned each hereby *(i)* acknowledges and accepts his appointment as a Family Representative pursuant to Section 4.5 and the grant of the proxy referred to in Section 4.6, and *(ii)* agrees and confirms that he will vote all Subject Shares in accordance with Sections 3.1(a) and (b):

/s/ Jeffrey H. Coors

Name: Jeffrey H. Coors

/s/ William K. Coors

Name: William K. Coors

ADOLPH COORS FOUNDATION, except with respect to Section 4.8 of the Voting Agreement, which shall not be applicable to such foundation

By: /s/ William K. Coors

William K. Coors

/s/ William K. Coors

William K. Coors as Trustee of Adolph Coors, Jr. Trust dated September 12, 1969, Grover C. Coors Trust dated August 7, 1952, Herman F. Coors Trust dated July 5, 1946, May Kistler Coors Trust dated September 24, 1965, Augusta Coors Collbran Trust dated July 5, 1946, Bertha Coors Munroe Trust dated July 5, 1946, Louise Coors Porter Trust dated July 5, 1946, Joseph Coors Trust dated December 14, 1988, Janet H. Coors Irrevocable Trust FBO Frances M. Baker dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Frank E. Ferrin dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Joseph J. Ferrin dated July 27, 1976

/s/ Joseph Coors, Jr.

Joseph Coors, Jr. as Trustee of May Kistler Coors Trust dated September 24, 1965, Herman F. Coors Trust dated July 5, 1946, Augusta Coors Collbran Trust dated July 5, 1946, Bertha Coors Munroe Trust dated July 5, 1946, Louise Coors Porter Trust dated July 5, 1946, Joseph Coors Trust dated December 14, 1988, Grover C. Coors Trust dated September 12, 1969

/s/ Jeffrey H. Coors

Jeffrey H. Coors as Trustee of Adolph Coors, Jr. Trust dated September 12, 1969, May Kistler Coors Trust dated September 24, 1965, Grover C. Coors Trust dated August 7, 1952, Herman F. Coors Trust dated July 5, 1946, Augusta Coors Collbran Trust dated July 5, 1946, Bertha Coors Munroe Trust dated July 5, 1946, Louise Coors Porter Trust dated July 5, 1946, Joseph Coors Trust dated December 14, 1988, Janet H. Coors Irrevocable Trust FBO Frances M. Baker dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Frank E. Ferrin dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Joseph J. Ferrin dated July 27, 1976

/s/ Peter H. Coors

Peter H. Coors as Trustee of Adolph Coors, Jr. Trust dated September 12, 1969, May Kistler Coors Trust dated September 24, 1965, Grover C. Coors Trust dated August 7, 1952, Herman F. Coors Trust dated July 5, 1946, Augusta Coors Collbran Trust dated July 5, 1946, Bertha Coors Munroe Trust dated July 5, 1946, Louise Coors Porter Trust dated July 5, 1946, Joseph Coors Trust dated December 14, 1988, Janet H. Coors Irrevocable Trust FBO Frances M. Baker dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Frank E. Ferrin dated July 27, 1976, Janet H. Coors Irrevocable Trust FBO Joseph J. Ferrin dated July 27, 1976

/s/ John K. Coors

John K. Coors as Trustee of May Kistler Coors Trust dated September 24, 1965, Grover C. Coors Trust dated August 7, 1952, Herman F. Coors Trust dated July 5, 1946, Augusta Coors Collbran Trust dated July 5, 1946, Bertha Coors Munroe Trust dated July 5, 1946, Louise Coors Porter Trust dated July 5, 1946

/s/ Darden K. Coors

Darden K. Coors as Trustee of Herman F. Coors Trust dated July 5, 1946

/s/ Melissa E. Coors

Melissa E. Coors as Trustee of Adolph Coors, Jr.
Trust dated September 12, 1969

/s/ J. Bradford Coors

J. Bradford Coors as Trustee of Adolph Coors, Jr.
Trust dated September 12, 1969

/s/ John K. Coors

John K. Coors, Individually

/s/ Joseph Coors, Jr.

Joseph Coors, Jr., Individually

/s/ William K. Coors

William K. Coors, Individually

/s/ Jeffrey H. Coors

Jeffrey H. Coors, Individually

/s/ Peter H. Coors

Peter H. Coors, Individually

/s/ Darden K. Coors

Darden K. Coors, Individually

Schedule A to
Voting Agreement

Ownership of Subject Shares

Stockholder	Shares of Common Stock	Shares of Series B Preferred Stock	
Adolph Coors, Jr. Trust dated September 12, 1969	2,800,000		
Augusta Coors Collbran Trust dated July 5, 1946	1,015,350		
Bertha Coors Munroe Trust dated July 5, 1946	1,140,490		
Grover C. Coors Trust dated August 7, 1952	2,727,016	1,000,000	(1)
Herman F. Coors Trust dated July 5, 1946	1,435,000		
Janet H. Coors Irrevocable Trust FBO Frances M. Baker dated July 27, 1976	59,356		
Janet H. Coors Irrevocable Trust FBO Frank E. Ferrin dated July 27, 1976	59,354		

Stockholder	Shares of Common Stock	Shares of Series B Preferred Stock
Janet H. Coors Irrevocable Trust FBO Joseph J. Ferrin dated July 27, 1976	59,354	
Joseph Coors Trust dated December 14, 1988	250,000	
Louise Coors Porter Trust dated July 5, 1946	920,220	
May Kistler Coors Trust dated September 24, 1965	1,726,652	
Darden K. Coors	4,830(2)	
Jeffrey H. Coors	288,227(3)	
John K. Coors	2,375	
Joseph Coors, Jr.	3,565(4)	
Peter H. Coors	9,074	
William K. Coors	153,691(5)	
Adolph Coors Foundation	857,744	

(1) Convertible into 48,484,848 shares of Common Stock.

(2) Includes 3,644 shares held in 401(k) Plan. Does not include 11,138 shares held in options.

(3) Includes 140,590 shares held in 401(k) Plan; 250 shares held in PAYSOP; and 86,885 shares that have been issued and will be fully vested by 12/10/06 over which Mr. Coors has voting rights. Does not include 226,321 unissued shares held in deferred compensation plan; 300,000 unissued shares held in long term incentive plan; 1,603,489 shares held in options; or 30,400 shares held indirectly by partner.

(4) Includes 194 shares held in PAYSOP.

(5) Does not include 6,184 shares held in options.

Annex C

[LETTERHEAD OF CREDIT SUISSE FIRST BOSTON LLC]

March 25, 2003

Board of Directors
Graphic Packaging International Corporation
4455 Table Mountain Drive
Golden, CO 80403

Members of the Board:

You have asked us to advise you with respect to the fairness, from a financial point of view, to the holders of common stock, par value $0.01 per share ("Company Common Stock"), of Graphic Packaging International Corporation (the "Company"), other than the Family Stockholders (as such term is defined in the Merger Agreement described below), of the Exchange Ratio (as defined below) set forth in the Agreement and Plan of Merger, dated as of March 25, 2003 (the "Merger Agreement"), among Riverwood Holding, Inc. ("Riverwood"), Riverwood Acquisition Sub LLC ("Merger Sub"), a wholly owned subsidiary of Riverwood, and the Company. The Merger Agreement provides for the merger (the "Merger") of the Company with and into the Merger Sub, pursuant to which each outstanding share of Company Common Stock will be converted into the right to receive one share (the "Exchange Ratio") of common stock, par value $0.01 per share (the "Riverwood Common Stock"), of Riverwood.

In arriving at our opinion, we have reviewed certain business and financial information relating to the Company and Riverwood, as well as the Merger Agreement. We have also reviewed certain other information, including financial forecasts, provided to or discussed with us by the Company and Riverwood, and have met with the managements of the Company and Riverwood to discuss the business and prospects of the Company and Riverwood. We have also relied upon the views of the managements of the Company and Riverwood concerning the business, financial, operational and strategic benefits and implications of the Merger, including financial forecasts provided to or discussed with us by the Company and Riverwood relating to the synergistic values, tax benefits and operating cost savings expected to be achieved through the combination of the operations of the Company and Riverwood. We have also considered certain financial and stock market data of the Company and certain financial data of Riverwood, and we have compared those data with similar data for other publicly held companies in businesses similar to the Company and Riverwood. We also considered such other information, financial studies, analyses and investigations and financial, economic and market criteria which we deemed relevant.

In connection with our review, we have not assumed any responsibility for independent verification of any of the foregoing information and have relied on its being complete and accurate in all material respects. With respect to the financial forecasts relating to the Company, we have assumed that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Company's management as to the future financial performance of the Company. With respect to the financial forecasts relating to Riverwood and the cost savings, tax benefits and other potential synergies anticipated to result from the Merger, we have assumed, that such forecasts (including adjustments thereto) represent reasonable estimates and judgments as to the future financial performance of Riverwood and as to such cost savings, tax benefits and other potential synergies (including the amount, timing and achievability thereof). We also have assumed, with your consent, that all necessary regulatory and third party approvals and consents for the Merger will be obtained without material delay or expense and without any limitation, restriction or condition being imposed that would have an adverse effect on the business of Company or Riverwood or the contemplated benefits of the

Merger and that the Merger will be consummated in accordance with the terms of the Merger Agreement, without waiver, modification or amendment of any material term, condition or agreement therein. In addition, we have assumed, with your consent, that each outstanding share of class A common stock, par value $0.01 per share, of Riverwood and class B common stock, par value $0.01 per share, of Riverwood will be reclassified into and become 15.21 shares of Riverwood Common Stock immediately prior to the Merger. You have also informed us, and we have assumed, that the Merger will be treated as a tax-free reorganization for federal income tax purposes. In addition, we have not been requested to make, and have not made, an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of the Company or Riverwood, nor have we been furnished with any such evaluations or appraisals. Our opinion is necessarily based upon the information available to us and financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. We are not expressing any opinion as to what the actual value of the shares of Riverwood Common Stock will be when issued to the holders of the Company Common Stock pursuant to the Merger or the prices at which such shares will trade at any time. Our opinion does not address any aspect or implication of the treatment of certain restricted shares of Company Common Stock held by executives of the Company provided for in the Merger Agreement. In addition, our opinion does not address the relative merits of the Merger as compared to other transactions or business strategies that might be available to the Company, nor does it address the Company's underlying business decision to proceed with the Merger.

We have acted as financial advisor to the Company in connection with the Merger and will receive a fee for our services, a significant portion of which is contingent upon the consummation of the Merger. We will also receive a fee for rendering this opinion. We have in the past provided, and may in the future provide, investment banking and financial services to the Company and Riverwood, for which we have received, and expect to receive, compensation. In addition, we or one or more of our affiliates may provide Riverwood, or otherwise assist Riverwood in obtaining financing in connection with the Merger, and we will receive compensation in connection therewith. In the ordinary course of our business, we and our affiliates may actively trade the debt or equity securities of both the Company and Riverwood for our and our affiliates' own accounts and for the accounts of customers and, accordingly, may at any time hold a long or short position in such securities.

It is understood that this letter is for the information of the Board of Directors of the Company in connection with its consideration of the Merger and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matter relating to the proposed Merger.

Based upon and subject to the foregoing, it is our opinion that, as of the date hereof, the Exchange Ratio is fair to the holders of Company Common Stock, other than the Family Stockholders, from a financial point of view.

Very truly yours,

CREDIT SUISSE FIRST BOSTON LLC

By: /s/ WILLIAM S. OGLESBY

Annex D

[LETTERHEAD OF MORGAN STANLEY & CO. INCORPORATED]

March 24, 2003

Independent Committee of the Board of Directors
Graphic Packaging International Corporation
4455 Table Mountain Drive
Golden, CO 80403

Members of the Committee:

We understand that Graphic Packaging International Corporation (the "Company") proposes to enter into an Agreement and Plan of Merger, substantially in the form of the draft dated March 23, 2003 (the "Merger Agreement"), with Riverwood Holding, Inc. ("Riverwood") and Riverwood Acquisition Sub LLC ("Merger Sub"), which provides, among other things, for the merger of the Company with and into Merger Sub. Pursuant to the Merger, the Company will become a wholly owned subsidiary of Riverwood, and each outstanding share of common stock, par value $0.01 per share (the "Company Common Stock"), of the Company, other than shares held in treasury or held by Riverwood or Merger Sub, will be converted into the right to receive a certain number of shares of common stock, par value $0.01 per share (the "Riverwood Common Stock"), of Riverwood, as set forth in the Merger Agreement.

We also understand that the Grover C. Coors Trust (the "Trust"), among other parties, proposes to enter into a Voting Agreement, substantially in the form of the draft dated March 22, 2003 (the "Voting Agreement"), with Riverwood, pursuant to which, among other things, the Trust will agree to convert shares of 10% Series B Convertible Preferred Stock, stated value $100.00 per share (the "Preferred Stock"), of the Company prior to the consummation of the Merger (the "Conversion"). Pursuant to the Conversion, the Trust will convert its shares of Preferred Stock for shares of Company Common Stock, in accordance with the conversion terms of such Preferred Stock, in exchange for an amount equal to the present value, calculated using a discount rate of 8.5%, of the dividend payments payable to the Series B Preferred Stock from the Effective Time of the Merger through the first date as of which the Company may redeem the Series B Preferred Stock (the "Consideration"). We understand that the Conversion is a condition precedent to the consummation of the Merger. The terms and conditions of the Merger and the Conversion are more fully set forth in the Merger Agreement and the Voting Agreement (collectively, the "Agreements"). You have asked for our opinion as to whether the Consideration to be paid pursuant to the Voting Agreement is fair from a financial point of view to the Company.

For purposes of the opinion set forth herein, we have:

(i) reviewed certain publicly available documents and other information related to the Preferred Stock;

(ii) reviewed certain publicly available financial statements and other financial and operating data concerning the Company;

(iii) reviewed the draft Agreements and certain related documents;

(iv) reviewed the cost of capital, and reviewed the potential terms of a comparable security being issued by the Company and the combined entity; and

(v) considered such other factors and performed such other analyses as we have deemed appropriate.

We have assumed and relied upon, without independent verification, the accuracy and completeness of the information reviewed by us for the purposes of this opinion. We have not made any independent valuation or appraisal of the assets and liabilities of the Company, nor have we

been furnished with any such appraisals. In addition, we have assumed that the Conversion will be consummated in accordance with the terms set forth in the Voting Agreement. Our opinion is necessarily based on financial, economic, market and other conditions as in effect on, and the information made available to us as of, the date hereof.

This opinion does not address the underlying decision by the Company to enter into the Merger Agreement. In addition, this opinion does not address the fairness, from a financial point of view, of the Exchange Ratio or any other element of the Merger. In arriving at our opinion, we were not authorized to and did not investigate any alternative transactions with respect to the Preferred Stock.

We have acted as financial advisor to the Company in connection with the Conversion and the Merger and will receive a fee for our services. In the past, Morgan Stanley & Co. Incorporated ("Morgan Stanley") and its affiliates have provided financial advisory and financing services for the Company and have received fees for the rendering of these services. As previously discussed, an affiliate of Morgan Stanley is a director of Riverwood and Morgan Stanley may provide or seek to provide financial advisory or financing services to the Company, the Trust or Riverwood in connection with financing arrangements for the Merger or in the future.

Morgan Stanley is a full service securities firm engaged in securities trading, asset management and brokerage activities, as well as providing investment banking, financing and financial advisory services. In the ordinary course of our trading, asset management, brokerage and financing activities, Morgan Stanley or its affiliates may at any time hold long or short positions and may trade or otherwise effect transactions, for our own account or the accounts of customers, in debt or equity securities or senior loans of the Company or Riverwood.

It is understood that this letter is for the information of the Independent Committee of the Board of Directors of the Company and may not be used for any other purpose without our prior written consent. In addition, we express no opinion as to the prices at which the Company Common Stock will trade at any time and we express no opinion or recommendation as to how the Trustees of the Trust should vote at the Trustees' meeting held in connection with the Conversion or how the holders of the Company Common Stock should vote at the shareholders' meeting held in connection with the Merger.

Based upon and subject to the foregoing, we are of the opinion on the date hereof that the Consideration to be paid in connection with the Conversion pursuant to the Voting Agreement is fair from a financial point of view to the Company.

Very truly yours,
MORGAN STANLEY & CO. INCORPORATED

By: /s/ LISA EYLES BEESON

Lisa E. Beeson
Managing Director

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law, or the DGCL, provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees)), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Section 145 further provides that a corporation similarly may indemnify any such person serving in any such capacity who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the corporation or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorney's fees) actually and reasonably incurred in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to

the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or such other court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The combined company's certificate of incorporation provides for the indemnification of directors, officers and employees to the fullest extent permitted by the DGCL. In addition, as permitted by the DGCL, the certificate of incorporation provides that the combined company's directors shall have no personal liability to the combined company or its stockholders for monetary damages for breach of fiduciary duty as a director, except (1) for any breach of the director's duty of loyalty to the combined company or its stockholders, (2) for acts or omissions not in good faith or which involve intentional misconduct or knowing violation of law, (3) under Section 174 of the DGCL or (4) for any transaction from which a director derived an improper personal benefit.

The combined company's by-laws provide for the indemnification of all current and former directors and all current or former officers to the fullest extent permitted by the DGCL.

The combined company will enter into indemnification agreements with its directors and executive officers and intends to enter into indemnification agreements with any new directors and executive officers in the future.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Exhibits.

The following exhibits are included as exhibits to this Registration Statement. Those exhibits below incorporated by reference herein are indicated as such by the information supplied after this exhibit. If no such information appears after an exhibit, such exhibit is filed herewith unless otherwise indicated.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of March 25, 2003, among Riverwood Holding, Inc., Riverwood Acquisition Sub LLC and Graphic Packaging International Corporation. Attached as Annex A to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
2.2	Voting Agreement, dated as of March 25, 2003, between Riverwood Holding, Inc. and the persons listed on the signature pages thereof. Attached as Annex B to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
3.1	Form of Restated Certificate of Incorporation of Riverwood Holding, Inc.[nc_cad,217]
3.2	Form of Amended and Restated By-Laws of Riverwood Holding, Inc.[nc_cad,217]
4.1	Form of Certificate for the Common Stock, par value $0.01 per share.
4.2	Form of Rights Agreement between Riverwood Holding, Inc. and Wells Fargo Bank Minnesota, N.A.
4.3	Amended and Restated Credit Agreement, dated as of August 10, 2001, among Riverwood International Corporation, the several banks and other financial institutions from time to time parties thereto, Deutsche Banc Alex Brown, Inc., as syndication agent, and Chase Manhattan Bank, as administrative agent. Filed as Exhibit 4.4 to Riverwood Holding, Inc.'s Quarterly Report on Form 10-Q filed August 14, 2001 (Commission File No. 1-11113), and incorporated herein by reference.

Exhibit Number	Description
4.4	Amendment No. 1 and Waiver, dated as of April 23, 2002, among Riverwood International Corporation, the several banks and other financial institutions from time to time parties thereto and JPMorgan Chase Bank, as administrative agent.
4.5	Indenture, dated March 27, 1996, among RIC Holding, Inc., Riverwood Holding, Inc., CDRO Acquisition Corporation and Fleet National Bank of Connecticut, as trustee, relating to the 10 1/4% Senior Notes due 2006 of Riverwood International Corporation, together with the First Supplemental Indenture and the Second Supplemental Indenture thereto. Filed as Exhibit 4.6 to RIC Holding, Inc.'s Annual Report on Form 10-K filed April 16, 1996 (Commission File No. 1-11113), and incorporated herein by reference.
4.6	Indenture, dated March 27, 1996, among RIC Holding, Inc., Riverwood Holding, Inc., CDRO Acquisition Corporation and Fleet National Bank of Massachusetts, as trustee, relating to the 10 7/8% Senior Subordinated Notes due 2008 of Riverwood International Corporation, together with the First Supplemental Indenture and the Second Supplemental Indenture thereto. Filed as Exhibit 4.7 to RIC Holding, Inc.'s Annual Report on Form 10-K filed April 16, 1996 (Commission File No. 1-11113), and incorporated herein by reference.

4.7	Indenture, dated as of July 28, 1997, among Riverwood International Corporation, RIC Holding, Inc., Riverwood Holding, Inc. and State Street Bank and Trust Company, as trustee, relating to the 10 5/8% Senior Notes due 2007 of Riverwood International Corporation. Filed as Exhibit 4.1 to the Registration Statement on Form S-4 (Registration No. 333-33499) of Riverwood International Corporation, Riverwood Holding, Inc. and RIC Holding, Inc. under the Securities Act of 1933, as amended, and incorporated herein by reference.
4.8	Indenture, dated June 21, 2001, among Riverwood International Corporation, RIC Holding Inc., Riverwood Holding, Inc. and State Street Bank and Trust Company, as trustee, relating to the 10 5/8% Senior Notes due 2007 of Riverwood International Corporation. Filed as Exhibit 4.1 to the Riverwood Holding, Inc.'s Quarterly Report on Form 10-Q filed August 14, 2001 (Commission File No. 1-11113), and incorporated herein by reference.
5.1	Opinion of Debevoise & Plimpton.*
8.1	Tax Opinion of Holme Roberts & Owen LLP.*
10.1	Amended and Restated Registration Rights Agreement, dated as of March 25, 2003, among Riverwood Holding, Inc. the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership, EXOR Group S.A., and the Other Riverwood Stockholders named therein.[nc_cad,217]
10.2	Stockholders Agreement, dated as of March 25, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership and EXOR Group S.A.[nc_cad,217]
10.3	Amendment No. 1 to Stockholders Agreement, dated as of April 29, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership and EXOR Group S.A.
10.4	Amendment No. 2 to Stockholders Agreement, dated as of June 12, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership and EXOR Group S.A.
10.5	Transfer Restrictions and Observation Rights Agreement, dated as of March 25, 2003, among Riverwood Holding, Inc. and the Other Riverwood Stockholders named therein.[nc_cad,217]

10.6	Wood Products Supply Agreement, dated as of October 18, 1996, between Plum Creek Timber Company, L.P. and Riverwood International Corporation, including annexes. Filed as Exhibit 10.1 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.7	Form of Investor Stock Subscription Agreement, between Riverwood Holding, Inc. (formerly named New River Holding, Inc.) and each of the investors named on the schedule thereto. Filed as Exhibit 10.6 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.

10.8	Form of Management Stock Subscription Agreement between New River Holding, Inc. (renamed Riverwood Holding, Inc.) and the purchasers named therein. Filed as Exhibit 10.4 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.9	Form of Management Stock Option Agreement between New River Holding, Inc. (renamed Riverwood Holding, Inc.) and the grantees named therein. Filed as Exhibit 10.5 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.10	Riverwood Holding, Inc. Stock Incentive Plan. Filed as Exhibit 10.10 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.11	Indemnification Agreement, dated as of March 27, 1996, among Riverwood Holding, Inc., RIC Holding, Inc., Riverwood International Corporation, Clayton, Dubilier & Rice, Inc. and Clayton, Dubilier & Rice Fund V Limited Partnership.[nc_cad, 217]
10.12	Consulting Agreement, dated as of March 27, 1996, among Riverwood Holding, Inc., RIC Holding, Inc., Riverwood International Corporation and Clayton, Dubilier & Rice, Inc.[nc_cad,217]
10.13	Management Stock Option Agreement, dated as of January 1, 2002, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.18 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.14	Management Stock Option Agreement, dated as of September 30, 2002, between Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.21 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.15	Form of Riverwood Holding, Inc. Supplemental Long-Term Incentive Plan. Filed as Exhibit 10.15 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.
10.16	2003 Riverwood Holding, Inc. Long-Term Incentive Plan.[nc_cad,217]
10.17	Form of 2003 Riverwood Holding, Inc. Directors Stock Incentive Plan.[nc_cad,217]
10.18	Riverwood Holding, Inc. 2002 Stock Incentive Plan. Filed as Exhibit 10.19 to Riverwood

Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.

10.19 Agreement, dated as of November 18, 1999, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.18 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.20 Second Amended and Restated Employment Agreement, dated March 25, 2003, among Riverwood International Corporation, Riverwood Holding, Inc. and Stephen M. Humphrey.[nc_cad,217]

10.21 Amended and Restated Employment Agreement, dated as of January 1, 2002, among Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.10 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.

10.22 Amendment No. 1, dated as of December 19, 2001, between Stephen M. Humphrey and Riverwood International Corporation, to the Promissory Note, dated November 18, 1999, by Stephen M. Humphrey. Filed as Exhibit 10.19 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 11, 2002 (Commission File No. 1-11113), and incorporated herein by reference.

10.23 Promissory Note, dated as of November 18, 1999, by Stephen M. Humphrey. Filed as Exhibit 10.19 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.24 Management Stock Option Agreement, dated as of March 31, 1997, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.2 to Riverwood Holding, Inc.'s Quarterly Report on Form 10-Q filed May 9, 1997 (Commission File No. 1-11113), and incorporated herein by reference.

10.25 Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and Jeffrey H. Coors.[nc_cad,217]

10.26 Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and David Scheible. [nc_cad,217]

10.27 Employment Agreement, dated as of September 1, 1998, among Riverwood International Corporation, Riverwood Holding, Inc and Daniel J. Blount. Filed as Exhibit 10.16 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.28 Employment Agreement, dated as of November 1, 1998, among Riverwood International Corporation, Riverwood Holding, Inc. and Steven D. Saucier. Filed as Exhibit 10.17 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.29 Amendment to Employment Agreement, dated as of March 18, 2003, between Riverwood Holding, Inc. Riverwood International Corporation, and Steven D. Saucier. Filed as Exhibit 10.22 to Riverwood Holding Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113) and incorporated herein by reference.

10.30 Employment Agreement, dated as of May 1, 2001, among Riverwood International Corporation, Riverwood Holding, Inc. and Wayne E. Juby. Filed as Exhibit 10.20 to

	Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 11, 2002 (Commission File No. 1-11113), and incorporated herein by reference.
10.31	Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and Donald W. Sturdivant.

10.32	Employment Agreement, dated as of September 30, 2002, among Riverwood International Corporation, Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.20 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.33	Management Stock Option Agreement, dated as of September 30, 2002, between Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.22 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
16.1	Letter from Deloitte & Touche LLP to the Securities and Exchange Commission dated June 11, 2003. Filed as Exhibit 16.1 to Riverwood Holding, Inc.'s Current Report on Form 8-K filed June 12, 2002 (Commission File No. 1-11113), and incorporated herein by reference.
18.1	Letter Re: Change in Accounting Principles. Filed as Exhibit 10.23 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
21.1	List of subsidiaries. Filed as Exhibit 21 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
23.1	Consent of PricewaterhouseCoopers LLP (for Riverwood Holding, Inc.).
23.2	Consent of PricewaterhouseCoopers LLP (for Graphic Packaging International Corporation).
23.3	Consent of Deloitte & Touche LLP.
23.4	Consent of Debevoise & Plimpton (included in Exhibit 5.1).*
23.5	Consent of Holme Roberts & Owen LLP (included in Exhibit 8.1).*
24.1	Power of Attorney (included on the signature page to this registration statement filed on May 2, 2003).
99.1	Opinion of Credit Suisse First Boston LLC. Attached as Annex C to the proxy statement/prospectus which forms a part of this registration statement and incorporated herein by reference.
99.2	Opinion of Morgan Stanley & Co. Incorporated. Attached as Annex D to the proxy statement/prospectus which forms a part of this registration statement and incorporated herein by reference.
99.3	Form of proxy card.*
99.4	Consent of Credit Suisse First Boston LLC.
99.5	Consent of Morgan Stanley & Co. Incorporated.

*

To be filed by amendment

Previously filed

(b) Financial Statement Schedules.

Financial schedules filed as part of this registration statement:

1. Riverwood Holding, Inc. Schedule II Valuation and Qualifying Accounts. 2. Graphic Packaging International Corporation Schedule II Valuation and Qualifying Accounts.

II-6

RIVERWOOD HOLDING, INC.

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(IN THOUSANDS OF DOLLARS)

(Classification)	Balance Beginning of Period	(Credits) Charges to Costs and Expenses	Deductions (a)	Balance at End of Period
Year ended December 31, 2002:				
Allowances Reducing the Assets in the Balance Sheet:				
Doubtful accounts receivable	$ 3,294	$ 2,234	$ (3,573)	$ 1,955
Deferred tax assets	219,747	357		220,104
Total	$ 223,041	$ $2,591	$ (3,573)	$ 222,059
Year ended December 31, 2001:				
Allowances Reducing the Assets in the Balance Sheet:				
Doubtful accounts receivable	$ 2,769	$ 2,276	$ (1,751)	$ 3,294
Deferred tax assets	174,859	44,888		219,747
Total	$ 177,628	$ 47,164	$ (1,751)	$ 223,041
Year ended December 31, 2000:				
Allowances Reducing the Assets in the Balance Sheet:				
Doubtful accounts receivable	$ 4,474	$ 404	$ (2,109)	$ 2,769
Deferred tax assets	214,911	(40,052)		174,859
Total	$ 219,385	$ (39,648)	$ (2,109)	$ 177,628

NOTE:

(a)
The reductions in the allowance for doubtful accounts receivable relate principally to charges for which reserves were provided, net of recoveries.

GRAPHIC PACKAGING INTERNATIONAL CORPORATION

SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS
(In thousands)

	Balance at beginning of year	Additions Charged to Costs and Expenses	Other	Deductions	Balance at end of year
Allowance for doubtful receivables					
Year Ended December 31,					
2000	$ 2,260	$ 1,425	$ (22)(1)	$ (693)(2)	$ 2,970
2001	$ 2,970	$ 728	$	$ (1,929)(2)	$ 1,769
2002	**$ 1,769**	**$ 901**	$	**$ (275)(2)**	**$ 2,395**
Deferred tax asset valuation allowance					
Year Ended December 31,					
2000	$ 123	$ 215(3)	$	$	$ 338
2001	$ 338	$	$	$ (82)(3)	$ 256
2002	**$ 256**	$ 51,043(3)	$	$	**$ 51,299**

(1)
The 2000 disposition of the Malvern, Pennsylvania plant.

(2)
Write off of uncollectible accounts.

(3)
Adjustments to the deferred tax asset valuation allowance relate to uncertainty surrounding the ultimate deductibility of the goodwill impairment charge in 2002 and a foreign net operating loss carryforward.

ITEM 22. UNDERTAKINGS

The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i)
To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(4) That, prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other Items of the applicable form.

(5) That every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of section 10(a)(3) of the Act and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(6) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to

a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(7) To respond to requests for information that is incorporated by reference into the prospectus pursuant to Items 4, 10(b), 11 or 13 of this Form, within one business day of receipt of such request, and to send the incorporated documents by first class mail or other equally prompt means. This includes information contained in documents filed subsequent to the effective date of the registration statement through the date of responding to the request.

(8) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Marietta, State of Georgia, on June 13, 2003.

RIVERWOOD HOLDING, INC.

By: /s/ STEPHEN M. HUMPHREY

NAME: STEPHEN M. HUMPHREY
TITLE: PRESIDENT AND CHIEF EXECUTIVE OFFICER

Pursuant to the requirements of this Securities Act of 1933, this registration statement has been signed on June 13, 2003 by the following persons in the capacities indicated.

Signature	Title
* B. Charles Ames	Chairman of the Board of Directors
/s/ STEPHEN M. HUMPHREY Stephen M. Humphrey	President, Chief Executive Officer and Director (Principal Executive Officer)
* Daniel J. Blount	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
* Kevin J. Conway	Director
* Leon J. Hendrix, Jr.	Director
* Hubbard C. Howe	Director
* Alberto Cribiore	Director
* Brian J. Richmand	Director

Signature	Title
* Lawrence C. Tucker	Director
*	Director

Samuel M. Mencoff

*

Director

John R. Miller

*

Director

G. Andrea Botta

*

Director

Gianluigi Gabetti

*

Director

Martin D. Walker

*By: /s/ EDWARD W. STROETZ, JR.

Edward W. Stroetz, Jr.
Attorney-In-Fact, pursuant to
Power of Attorney,
dated May 2, 2003

II-12

Exhibit Index

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of March 25, 2003, among Riverwood Holding, Inc., Riverwood Acquisition Sub LLC and Graphic Packaging International Corporation. Attached as Annex A to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
2.2	Voting Agreement, dated as of March 25, 2003, between Riverwood Holding, Inc. and the persons listed on the signature pages thereof. Attached as Annex B to the proxy statement/prospectus which forms a part of this registration statement, and incorporated herein by reference.
3.1	Form of Restated Certificate of Incorporation of Riverwood Holding, Inc.
3.2	Form of Amended and Restated By-Laws of Riverwood Holding, Inc.
4.1	Form of Certificate for the Common Stock, par value $0.01 per share.
4.2	Form of Rights Agreement between Riverwood Holding, Inc. and Wells Fargo Bank Minnesota, N.A.
4.3	Amended and Restated Credit Agreement, dated as of August 10, 2001, among Riverwood International Corporation, the several banks and other financial institutions from time to time parties thereto, Deutsche Banc Alex Brown, Inc., as syndication agent, and Chase Manhattan Bank, as administrative agent. Filed as Exhibit 4.4 to Riverwood Holding, Inc.'s Quarterly

Exhibit Number	Description
	Report on Form 10-Q filed August 14, 2001 (Commission File No. 1-11113), and incorporated herein by reference.
4.4	Amendment No. 1 and Waiver, dated as of April 23, 2002, among Riverwood International Corporation, the several banks and other financial institutions from time to time parties thereto and JPMorgan Chase Bank, as administrative agent.
4.5	Indenture, dated March 27, 1996, among RIC Holding, Inc., Riverwood Holding, Inc., CDRO Acquisition Corporation and Fleet National Bank of Connecticut, as trustee, relating to the 10$^{1}/_{4}$% Senior Notes due 2006 of Riverwood International Corporation, together with the First Supplemental Indenture and the Second Supplemental Indenture thereto. Filed as Exhibit 4.6 to RIC Holding, Inc.'s Annual Report on Form 10-K filed April 16, 1996 (Commission File No. 1-11113), and incorporated herein by reference.
4.6	Indenture, dated March 27, 1996, among RIC Holding, Inc., Riverwood Holding, Inc., CDRO Acquisition Corporation and Fleet National Bank of Massachusetts, as trustee, relating to the 10$^{7}/_{8}$% Senior Subordinated Notes due 2008 of Riverwood International Corporation, together with the First Supplemental Indenture and the Second Supplemental Indenture thereto. Filed as Exhibit 4.7 to RIC Holding, Inc.'s Annual Report on Form 10-K filed April 16, 1996 (Commission File No. 1-11113), and incorporated herein by reference.
4.7	Indenture, dated as of July 28, 1997, among Riverwood International Corporation, RIC Holding, Inc., Riverwood Holding, Inc. and State Street Bank and Trust Company, as trustee, relating to the 10$^{5}/_{8}$% Senior Notes due 2007 of Riverwood International Corporation. Filed as Exhibit 4.1 to the Registration Statement on Form S-4 (Registration No. 333-33499) of Riverwood International Corporation, Riverwood Holding, Inc. and RIC Holding, Inc. under the Securities Act of 1933, as amended, and incorporated herein by reference.

4.8	Indenture, dated June 21, 2001, among Riverwood International Corporation, RIC Holding Inc., Riverwood Holding, Inc. and State Street Bank and Trust Company, as trustee, relating to the 10$^{5}/_{8}$% Senior Notes due 2007 of Riverwood International Corporation. Filed as Exhibit 4.1 to the Riverwood Holding, Inc.'s Quarterly Report on Form 10-Q filed August 14, 2001 (Commission File No. 1-11113), and incorporated herein by reference.
5.1	Opinion of Debevoise & Plimpton.*
8.1	Tax Opinion of Holme Roberts & Owen LLP.*
10.1	Amended and Restated Registration Rights Agreement, dated as of March 25, 2003, among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership, EXOR Group S.A., and the Other Riverwood Stockholders named therein.
10.2	Stockholders Agreement, dated as of March 25, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership and EXOR Group S.A.
10.3	Amendment No. 1 to Stockholders Agreement, dated as of April 29, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice Fund V Limited Partnership and EXOR Group S.A.
10.4	Amendment No. 2 to Stockholders Agreement, dated as of June 12, 2003, by and among Riverwood Holding, Inc., the Family Stockholders named therein, Clayton Dubilier & Rice

Fund V Limited Partnership and EXOR Group S.A.

10.5	Transfer Restrictions and Observation Rights Agreement, dated as of March 25, 2003, among Riverwood Holding, Inc. and the Other Riverwood Stockholders named therein.
10.6	Wood Products Supply Agreement, dated as of October 18, 1996, between Plum Creek Timber Company, L.P. and Riverwood International Corporation, including annexes. Filed as Exhibit 10.1 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.7	Form of Investor Stock Subscription Agreement, between Riverwood Holding, Inc. (formerly named New River Holding, Inc.) and each of the investors named on the schedule thereto. Filed as Exhibit 10.6 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.8	Form of Management Stock Subscription Agreement between New River Holding, Inc. (renamed Riverwood Holding, Inc.) and the purchasers named therein. Filed as Exhibit 10.4 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.9	Form of Management Stock Option Agreement between New River Holding, Inc. (renamed Riverwood Holding, Inc.) and the grantees named therein. Filed as Exhibit 10.5 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.
10.10	Riverwood Holding, Inc. Stock Incentive Plan. Filed as Exhibit 10.10 to Registration Statement on Form S-1 (Registration No. 33-80475) of New River Holding, Inc. (renamed Riverwood Holding, Inc.) under the Securities Act of 1933, as amended, and incorporated herein by reference.

10.11	Indemnification Agreement, dated as of March 27, 1996, among Riverwood Holding, Inc., RIC Holding, Inc., Riverwood International Corporation, Clayton, Dubilier & Rice, Inc. and Clayton, Dubilier & Rice Fund V Limited Partnership.
10.12	Consulting Agreement, dated as of March 27, 1996, among Riverwood Holding, Inc., RIC Holding, Inc., Riverwood International Corporation and Clayton, Dubilier & Rice, Inc.
10.13	Management Stock Option Agreement, dated as of January 1, 2002, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.18 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.14	Management Stock Option Agreement, dated as of September 30, 2002, between Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.21 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.15	Form of Riverwood Holding, Inc. Supplemental Long-Term Incentive Plan. Filed as Exhibit 10.15 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.
10.16	2003 Riverwood Holding, Inc. Long-Term Incentive Plan.
10.17	Form of 2003 Riverwood Holding, Inc. Directors Stock Incentive Plan.
10.18	Riverwood Holding, Inc. 2002 Stock Incentive Plan. Filed as Exhibit 10.19 to Riverwood

Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.

10.19 Agreement, dated as of November 18, 1999, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.18 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.20 Second Amended and Restated Employment Agreement, dated March 25, 2003, among Riverwood International Corporation, Riverwood Holding, Inc. and Stephen M. Humphrey.

10.21 Amended and Restated Employment Agreement, dated as of January 1, 2002, among Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.10 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.

10.22 Amendment No. 1, dated as of December 19, 2001, between Stephen M. Humphrey and Riverwood International Corporation, to the Promissory Note, dated November 18, 1999, by Stephen M. Humphrey. Filed as Exhibit 10.19 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 11, 2002 (Commission File No. 1-11113), and incorporated herein by reference.

10.23 Promissory Note, dated as of November 18, 1999, by Stephen M. Humphrey. Filed as Exhibit 10.19 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.24 Management Stock Option Agreement, dated as of March 31, 1997, between Riverwood Holding, Inc. and Stephen M. Humphrey. Filed as Exhibit 10.2 to Riverwood Holding, Inc.'s Quarterly Report on Form 10-Q filed May 9, 1997 (Commission File No. 1-11113), and incorporated herein by reference.

10.25 Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and Jeffrey H. Coors.

10.26 Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and David Scheible.

10.27 Employment Agreement, dated as of September 1, 1998, among Riverwood International Corporation, Riverwood Holding, Inc. and Daniel J. Blount. Filed as Exhibit 10.16 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.28 Employment Agreement, dated as of November 1, 1998, among Riverwood International Corporation, Riverwood Holding, Inc. and Steven D. Saucier. Filed as Exhibit 10.17 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 17, 2000 (Commission File No. 1-11113), and incorporated herein by reference.

10.29 Amendment to Employment Agreement, dated as of March 18, 2003, between Riverwood Holding, Inc., Riverwood International Corporation, and Steven D. Saucier. Filed as Exhibit 10.22 to Riverwood Holding Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113) and incorporated herein by reference.

10.30 Employment Agreement, dated as of May 1, 2001, among Riverwood International Corporation, Riverwood Holding, Inc. and Wayne E. Juby. Filed as Exhibit 10.20 to

	Riverwood Holding, Inc.'s Annual Report on Form 10-K filed March 11, 2002 (Commission File No. 1-11113), and incorporated herein by reference.
10.31	Third Amended and Restated Graphic Packaging International Corporation Executive Employment Agreement, dated as of March 25, 2003, among Graphic Packaging International Corporation, the Affiliated Companies named therein, and Donald W. Sturdivant.
10.32	Employment Agreement, dated as of September 30, 2002, among Riverwood International Corporation, Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.20 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
10.33	Management Stock Option Agreement, dated as of September 30, 2002, between Riverwood Holding, Inc. and Robert W. Spiller. Filed as Exhibit 10.22 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
16.1	Letter from Deloitte & Touche LLP to the Securities and Exchange Commission dated June 11, 2003. Filed as Exhibit 16.1 to Riverwood Holding, Inc.'s Current Report on Form 8-K filed June 12, 2002 (Commission File No. 1-11113), and incorporated herein by reference.
18.1	Letter Re: Change in Accounting Principles. Filed as Exhibit 10.23 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
21.1	List of subsidiaries. Filed as Exhibit 21 to Riverwood Holding, Inc.'s Annual Report on Form 10-K filed April 15, 2003 (Commission File No. 1-11113), and incorporated herein by reference.
23.1	Consent of PricewaterhouseCoopers LLP (for Riverwood Holding, Inc.).

23.2	Consent of PricewaterhouseCoopers LLP (for Graphic Packaging International Corporation).
23.3	Consent of Deloitte & Touche LLP.
23.4	Consent of Debevoise & Plimpton (included in Exhibit 5.1).*
23.5	Consent of Holme Roberts & Owen LLP (included in Exhibit 8.1).*
24.1	Power of Attorney (included on the signature page to this registration statement filed on May 2, 2003).
99.1	Opinion of Credit Suisse First Boston LLC. Attached as Annex C to the proxy statement/prospectus which forms a part of this registration statement and incorporated herein by reference.
99.2	Opinion of Morgan Stanley & Co. Incorporated. Attached as Annex D to the proxy statement/prospectus which forms a part of this registration statement and incorporated herein by reference.
99.3	Form of proxy card.*
99.4	Consent of Credit Suisse First Boston LLC.
99.5	Consent of Morgan Stanley & Co. Incorporated.

*

To be filed by amendment.

Previously filed

II-17

QuickLinks

GRAPHIC PACKAGING INTERNATIONAL CORPORATION MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT
Table of Contents
QUESTIONS AND ANSWERS ABOUT THE MERGER
SUMMARY
Prior to the Merger
Upon Completion of The Merger
Combined Company Summary Unaudited Condensed Pro Forma Combined Financial Information (in thousands, except per share data)
RISK FACTORS
FORWARD-LOOKING STATEMENTS
INFORMATION ABOUT THE SPECIAL MEETING AND VOTING
THE PROPOSED MERGER
INTERESTS OF CERTAIN PERSONS IN THE MERGER
THE MERGER AGREEMENT
MATERIAL TERMS OF RELATED AGREEMENTS
INFORMATION ABOUT RIVERWOOD
INFORMATION ABOUT GRAPHIC
UNAUDITED CONDENSED PRO FORMA COMBINED FINANCIAL STATEMENTS
Combined Company Unaudited Condensed Pro Forma Combined Balance Sheet As of March 31, 2003 (in thousands)
Combined Company Unaudited Condensed Pro Forma Combined Statement of Operations For the Three Months Ended March 31, 2003 (in thousands, except per share data)
Combined Company Unaudited Condensed Pro Forma Combined Statement of Operations For the Year Ended December 31, 2002 (in thousands, except per share data)
Combined Company Notes to Unaudited Condensed Pro Forma Combined Financial Statements (Unaudited)
MANAGEMENT OF THE COMBINED COMPANY FOLLOWING THE MERGER AND OTHER INFORMATION
Pension Plan Table
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT
PRICE RANGE OF COMMON STOCK AND DIVIDENDS
COMPARISON OF STOCKHOLDER RIGHTS
DESCRIPTION OF THE COMBINED COMPANY'S CAPITAL STOCK
LEGAL MATTERS
EXPERTS
INDEPENDENT ACCOUNTANTS
FUTURE STOCKHOLDER PROPOSALS
WHERE YOU CAN FIND MORE INFORMATION
INDEX TO FINANCIAL STATEMENTS
RIVERWOOD HOLDING, INC. CONSOLIDATED BALANCE SHEETS (In thousands of dollars)
RIVERWOOD HOLDING, INC. CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME (In thousands of dollars)

RIVERWOOD HOLDING, INC. CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands of dollars)
RIVERWOOD HOLDING, INC. CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (In thousands of dollars)
RIVERWOOD HOLDING, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
RIVERWOOD HOLDING, INC. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)
Report of Independent Accountants
INDEPENDENT AUDITORS' REPORT
RIVERWOOD HOLDING, INC. CONDENSED CONSOLIDATED BALANCE SHEETS (In thousands of dollars) (unaudited)
RIVERWOOD HOLDING, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) (In thousands of dollars) (unaudited)
RIVERWOOD HOLDING, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands of dollars) (unaudited)
RIVERWOOD HOLDING, INC. NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
REPORT OF INDEPENDENT ACCOUNTANTS
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share data)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS) (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONSOLIDATED BALANCE SHEET (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
GRAPHIC PACKAGING INTERNATIONAL CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Year Ended December 31, 2002 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Year Ended December 31, 2001 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Year Ended December 31, 2000 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING BALANCE SHEET At December 31, 2002 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING BALANCE SHEET At December 31, 2001 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Year Ended December 31, 2002 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Year Ended December 31, 2001 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Year Ended December 31, 2000 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS (in thousands, except per share data) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATED BALANCE SHEET (in thousands, except share data)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Three Months Ended March 31, 2003 (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS Three

Months Ended March 31, 2002 (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING BALANCE SHEET At March 31, 2003 (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING BALANCE SHEET At December 31, 2002 (in thousands)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Three Months Ended March 31, 2003 (in thousands) (unaudited)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS Three Months Ended March 31, 2002 (in thousands) (unaudited)
Table of Contents
LIST OF EXHIBITS
Index
Schedule A to Voting Agreement
Ownership of Subject Shares
PART II INFORMATION NOT REQUIRED IN PROSPECTUS
RIVERWOOD HOLDING, INC. SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS (IN THOUSANDS OF DOLLARS)
GRAPHIC PACKAGING INTERNATIONAL CORPORATION SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS (In thousands)
SIGNATURES
Exhibit Index