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

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 333-130353-04

**Pregis Holding II Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
Incorporation or Organization)

**20-3321581**

(I.R.S. Employer Identification No.)

**1650 Lake Cook Road, Deerfield, IL**  
(Address of principal executive offices)

**60015**  
(Zip Code)

Registrant's telephone number, including area code: **(847) 597-2200**

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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  No

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

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

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

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

There were 149.0035 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of September 30, 2010.

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**PREGIS HOLDING II CORPORATION**  
**QUARTERLY REPORT ON FORM 10-Q**  
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**Item 1. Financial Statements**

**Pregis Holding II Corporation**  
**Consolidated Balance Sheets**  
*(dollars in thousands, except shares and per share data)*

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 44,587	\$ 80,435
Accounts receivable		
Trade, net of allowances of \$5,275 and \$6,015 respectively	136,785	120,812
Other	16,168	12,035
Inventories, net	91,551	81,024
Deferred income taxes	5,494	5,079
Due from Pactiv	1,178	1,169
Prepayments and other current assets	7,861	7,929
Total current assets	<u>303,624</u>	<u>308,483</u>
Property, plant and equipment, net	204,037	226,882
Other assets		
Goodwill	142,431	126,250
Intangible assets, net	54,313	38,054
Deferred financing costs, net	5,674	8,092
Due from Pactiv, long-term	8,305	8,429
Pension and related assets	14,411	13,953
Restricted cash	3,501	—
Other	533	404
Total other assets	<u>229,168</u>	<u>195,182</u>
<b>Total assets</b>	<u><u>\$ 736,829</u></u>	<u><u>\$ 730,547</u></u>
<b>Liabilities and stockholder's equity</b>		
Current liabilities		
Short-term debt	\$ 3,798	\$ —
Current portion of long-term debt	340	300
Accounts payable	97,900	78,708
Accrued income taxes	6,310	5,236
Accrued payroll and benefits	14,946	14,242
Accrued interest	12,238	7,722
Other	19,023	18,011
Total current liabilities	<u>154,555</u>	<u>124,219</u>
Long-term debt	490,453	502,534
Deferred income taxes	20,736	19,721
Long-term income tax liabilities	5,556	5,463
Pension and related liabilities	3,692	4,451
Other	22,337	15,367
<b>Stockholder's equity:</b>		
Common stock — \$0.01 par value; 1,000 shares authorized, 149,0035 shares issued and outstanding at September 30, 2010 and December 31, 2009	—	—
Additional paid-in capital	153,352	151,963
Accumulated deficit	(106,035)	(82,328)
Accumulated other comprehensive loss	(7,817)	(10,843)
Total stockholder's equity	<u>39,500</u>	<u>58,792</u>
<b>Total liabilities and stockholder's equity</b>	<u><u>\$ 736,829</u></u>	<u><u>\$ 730,547</u></u>

The accompanying notes are an integral part of these financial statements.

**Pregis Holding II Corporation**  
**Consolidated Statements of Operations**  
**(Unaudited)**  
*(dollars in thousands)*

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Net Sales</b>	\$223,681	\$207,047	\$651,518	\$588,594
<b>Operating costs and expenses:</b>				
Cost of sales, excluding depreciation and amortization	176,301	156,088	510,139	444,144
Selling, general and administrative	29,716	28,660	96,157	83,059
Depreciation and amortization	11,646	12,607	34,305	35,383
Other operating expense, net	3,953	2,267	5,519	13,602
<b>Total operating costs and expenses</b>	<u>221,616</u>	<u>199,622</u>	<u>646,120</u>	<u>576,188</u>
<b>Operating income</b>	2,065	7,425	5,398	12,406
Interest expense	11,724	9,192	35,320	28,072
Interest income	—	(54)	—	(176)
Foreign exchange (gain) loss, net	(526)	(886)	382	(5,817)
<b>Loss before income taxes</b>	<u>(9,133)</u>	<u>(827)</u>	<u>(30,304)</u>	<u>(9,673)</u>
Income tax expense (benefit)	(1,216)	2,514	(6,597)	1,013
<b>Net loss</b>	<u>\$ (7,917)</u>	<u>\$ (3,341)</u>	<u>\$ (23,707)</u>	<u>\$ (10,686)</u>

The accompanying notes are an integral part of these financial statements.

**Pregis Holding II Corporation**  
**Consolidated Statements of Cash Flows**  
**(Unaudited)**  
*(dollars in thousands)*

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating activities</b>		
Net loss	\$ (23,707)	\$ (10,686)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	34,305	35,383
Amortization of inventory step-up	406	—
Deferred income taxes	(8,303)	(1,483)
Unrealized foreign exchange loss (gain)	692	(5,552)
Amortization of deferred financing costs	2,615	1,781
Amortization of debt discount	2,174	238
Gain on disposal of property, plant and equipment	1,778	(249)
Stock compensation expense	1,389	1,061
Changes in operating assets and liabilities		
Accounts and other receivables, net	(21,635)	9,874
Due from Pactiv	(169)	3,792
Inventories, net	(12,005)	5,364
Prepayments and other current assets	65	1,961
Accounts payable	19,909	6,771
Accrued taxes	817	(5,637)
Accrued interest	4,469	3,547
Other current liabilities	611	856
Pension and related assets and liabilities, net	(1,428)	(2,931)
Other, net	(1,716)	(2,633)
<b>Cash provided by operating activities</b>	<b>267</b>	<b>41,457</b>
<b>Investing activities</b>		
Capital expenditures	(21,783)	(17,644)
Proceeds from sale of assets	499	692
Proceeds from sale leaseback, net of costs	17,875	—
Acquisition of business, net of cash acquired	(31,655)	—
Change in restricted cash	(3,501)	—
<b>Cash used in investing activities</b>	<b>(38,565)</b>	<b>(16,952)</b>
<b>Financing activities</b>		
Proceeds from revolving credit facility	500	38,700
Financing Fees	—	(1,284)
Repayment of debt	—	(4,312)
Proceeds from foreign lines of credit	3,670	—
Other, net	71	(125)
<b>Cash provided by financing activities</b>	<b>4,241</b>	<b>32,979</b>
Effect of exchange rate changes on cash and cash equivalents	(1,791)	1,539
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(35,848)</b>	<b>59,023</b>
Cash and cash equivalents, beginning of period	80,435	41,179
<b>Cash and cash equivalents, end of period</b>	<b>\$ 44,587</b>	<b>\$ 100,202</b>

The accompanying notes are an integral part of these financial statements.

**Pregis Holding II Corporation**  
**Notes to Unaudited Consolidated Financial Statements**  
*(Amounts in thousands of U.S. dollars, unless otherwise noted)*

**1. DESCRIPTION OF THE BUSINESS AND BASIS OF PRESENTATION**

***Description of the Business***

Pregis Corporation (“Pregis”) is an international manufacturer, marketer and supplier of protective packaging products and specialty packaging solutions. Pregis operates through two reportable segments — Protective Packaging and Specialty Packaging.

Pregis Corporation is 100%-owned by Pregis Holding II Corporation (“Pregis Holding II” or the “Company”) which is 100%-owned by Pregis Holding I Corporation (“Pregis Holding I”). AEA Investors LP and its affiliates (the “Sponsors” or “AEA”) own approximately 98% of the issued and outstanding equity of Pregis Holding I, with the remainder held by management. AEA Investors LP is a New York-based private equity investment firm.

***Basis of Presentation***

The consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States (“U.S. GAAP”) for complete financial statements. Management believes these financial statements include all normal recurring adjustments considered necessary for a fair presentation of the financial position and results of operations of the Company. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the operating results for the full year.

On February 19, 2010 the Company acquired all of the outstanding shares of IntelliPack (see Note 16). The results of operations of IntelliPack, Inc. (“IntelliPack”) are included in the consolidated results of the Company beginning February 20, 2010.

These unaudited interim financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K/A for the year ended December 31, 2009.

Separate financial statements of Pregis Corporation are not presented since the floating rate senior secured notes due April 2013 and the 12.375% senior subordinated notes due October 2013 issued by Pregis Corporation are fully and unconditionally guaranteed on a senior secured and senior subordinated basis, respectively, by Pregis Holding II and all existing domestic subsidiaries of Pregis Corporation and since Pregis Holding II has no operations or assets separate from its investment in Pregis Corporation (see Note 17).

## 2. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In January 2010, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2010-06, Fair Value Measurements and Disclosures (“ASU 2010-06”). ASU 2010-06 provides new and amended disclosure requirements related to fair value measurements. Specifically, this ASU requires new disclosures relating to activity within Level 3 fair value measurements, as well as transfers in and out of Level 1 and Level 2 fair value measurements. ASU 2010-06 also amends the existing disclosure requirements relating to valuation techniques used for fair value measurements and the level of disaggregation a reporting entity should include in fair value disclosures. This update is effective for interim and annual reporting periods beginning after December 15, 2009. The Company adopted this ASU as of January 1, 2010. The adaption did not have a material impact on the Company’s consolidated financial statements.

## 3. INVENTORIES

The major components of net inventories are as follows:

	September 30, 2010	December 31, 2009
Finished goods	\$ 42,682	\$ 40,941
Work-in-process	15,260	14,216
Raw materials	31,177	23,339
Other materials and supplies	2,432	2,528
	<u>\$ 91,551</u>	<u>\$ 81,024</u>

Inventories at September 30, 2010 and at December 31, 2009 were stated net of reserves totaling \$1,908 and \$1,881, respectively.

## 4. PROPERTY, PLANT AND EQUIPMENT

On July 19, 2010 Pregis completed a sales leaseback transaction involving land, building and related improvements at two of its U.S. manufacturing facilities. Sales proceeds, net of direct costs of the transaction, totaled approximately \$17.9 million.

The transaction qualified for sales leaseback accounting treatment under the provisions of ASC Topic 840.40, *Sale Leaseback Transactions*, and met the criteria for operating lease classification. As a result, the sold properties were removed from the Company’s consolidated balance sheet and gains and losses of the respective properties were measured as the difference between the net sales proceeds as allocated based on the relative fair values and the net book values of the sold assets. One of the properties resulted in a loss of \$1.9 million which is recorded in the Company’s consolidated statement of operations for the three and nine months ended September 30, 2010. The second property resulted in a gain of approximately \$1.8 million which has been recorded on the Company’s consolidated balance sheet in other non-current liabilities and will be amortized to income over the lease term.

The initial lease term for both properties is 20 years and the transaction result in increased annual rent expense of approximately \$2.4 million. Future minimum lease payments for the initial lease term total approximately \$49.0 million.

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in goodwill by reportable segment for the nine months ended September 30, 2010 are as follows:

Segment	December 31, 2009	Foreign Currency Translation	Business Acquisition	September 30, 2010
Protective Packaging	\$ 94,550	\$ 347	\$ 17,458	\$ 112,355
Specialty Packaging	31,700	(1,624)	—	30,076
Total	<u>\$ 126,250</u>	<u>\$ (1,277)</u>	<u>\$ 17,458</u>	<u>\$ 142,431</u>

In the first quarter of 2010, the Company acquired IntelliPack resulting in purchased goodwill of \$17.5 million. See Note 16 for acquisition related disclosures.

The Company's other intangible assets are summarized as follows:

	Average Life (Years)	September 30, 2010		December 31, 2009	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>					
Customer relationships	12	\$ 49,371	\$ 18,052	\$ 46,231	\$ 15,739
Patents	10	12,018	1,062	1,055	372
Non-compete agreements	2	4,912	3,234	3,041	3,041
Software	3	3,837	2,704	3,470	2,125
Land use rights and other	32	1,418	629	1,486	582
Trademarks and trade names	20	3,000	88	—	—
In-process research and development	10	1,100	65	—	—
<b>Intangible assets not subject to amortization:</b>					
Trademarks and trade names		4,491	—	4,630	—
Total		<u>\$ 80,147</u>	<u>\$ 25,834</u>	<u>\$ 59,913</u>	<u>\$ 21,859</u>

In the first quarter of 2010, Pregis acquired IntelliPack. Preliminary estimates of the acquired intangibles are valued at approximately \$21.3 million. See Note 16 for acquisition related disclosures.

Amortization expense related to intangible assets totaled \$1,597 and \$1,192 for the three months ended September 30, 2010 and 2009, respectively, and \$4,550 and \$3,433 for the nine months ended September 30, 2010 and 2009, respectively.

## 6. DEBT

The Company's long-term debt consists of the following:

	September 30, 2010	December 31, 2009
Revolving Credit Facility, due October 2011	\$ 42,500	\$ 42,000
Senior secured 2005 notes, due April 2013	136,340	143,160
Senior secured 2009 notes, due April 2013 net of discount of \$7,750 at September 30, 2010 and \$10,216 at December 31, 2009	162,675	168,734
Senior subordinated notes, due October 2013, net of discount of \$1,369 at September 30, 2010 and \$1,638 at December 31, 2009	148,631	148,362
Foreign lines of credit	3,798	—
Other	647	578
Total debt	<u>494,591</u>	<u>502,834</u>
Less: short term debt	(3,798)	—
Less: current portion	(340)	(300)
Long-term debt	<u>\$ 490,453</u>	<u>\$ 502,534</u>

For the nine months ended September 30, 2010 and 2009, the revaluation of the Company's euro-denominated senior secured notes, and additionally in 2009 the Term B-2 facility, resulted in unrealized foreign exchange gains/(losses) of \$14,789 and \$(10,790), respectively. These unrealized gains/(losses) have been offset by unrealized gains/(losses) of \$(14,089) and \$13,738 relating to the revaluation of the Company's euro-denominated inter-company notes receivable for the nine months ended September 30, 2010 and 2009, respectively. These amounts are included net within foreign exchange loss, net in the Company's consolidated statements of operations.

As a component of its senior secured credit facility, the Company is party to a revolving credit facility. The revolving credit facility matures in October 2011 and provides for borrowings of up to \$50.0 million, a portion of which may be made available to the Company's non-U.S. subsidiary borrowers in euros and/or pounds sterling. The revolving credit facility also includes a swing-line loan sub-facility and a letter of credit sub-facility. The revolving credit facility bears interest at a rate equal to, at the Company's option, (1) an alternate base rate or (2) LIBOR or EURIBOR, plus an applicable margin of 0.375% to 1.00% for base rate advances and 1.375% to 2.00% for LIBOR or EURIBOR advances, depending on the leverage ratio of the Company, as defined in the credit agreement.

As of September 30, 2010, the Company has drawn \$42.5 million under the revolving credit facility after reduction for amounts outstanding under letters of credit of \$6.2 million. Revolving credit facility interest expense totaled \$731 for the nine months ended September 30, 2010. It is the current intent of the Company to hold the debt until its maturity, resulting in the debt's classification as long-term as of September 30, 2010.

The senior secured credit facility contains customary financial and negative covenants, including, a first lien leverage covenant of 2.0x, and allows additional subordinate debt issuances subject to a 2.0x interest coverage ratio. The term loan portion of the senior secured credit facilities includes a \$200 million accordion feature which allows the Company to borrow up to \$200 million under the term loan

portion of the senior secured credit facilities, subject to certain conditions including receipt of commitments.

In 2010, the Company borrowed amounts available to its foreign subsidiaries under local lines of credit. One of the lines provides for borrowings up to €5.0 million and allows for issuances of letters of credit. Issued letters of credit reduce the amounts available for cash borrowings under such lines of credit. A second foreign subsidiary line of credit allows for borrowings up to a certain percentage of such subsidiary's specified accounts receivable. As of September 30, 2010 amounts outstanding under these foreign lines of credit totaled \$8.1 million.

On October 5, 2009, Pregis issued €125.0 million aggregate principal amount of additional second priority senior secured floating rate notes due 2013 (the "2009 notes"). The 2009 notes were exchanged for registered notes issued pursuant to an exchange offer which was consummated on March 5, 2010. The notes bear interest at a floating rate of EURIBOR plus 5.00% per year. Interest on the notes will be reset quarterly and is payable on January 15, April 15, July 15, and October 15 of each year. The notes mature on April 15, 2013. The notes are treated as a single class under the indenture with the €100.0 million principal amount of the Company's existing second priority senior secured floating rate notes due April 2013 (the "2005 notes" and, together with the notes, the "senior secured floating rate notes"), originally issued on October 12, 2005. However, the notes do not have the same Common Code or ISIN number as the 2005 notes, are not fungible with the 2005 notes and will not trade together as a single class with the 2005 notes. The notes are treated as issued with more than de minimis original issue discount for United States federal income tax purposes, whereas the 2005 notes were not issued with original issue discount for such purposes.

The notes and the related guarantees are second priority secured senior obligations. Accordingly, they are effectively junior to the Company's and the guarantors' obligations under the Company's senior secured credit facilities and any other obligations that are secured by first priority liens on the collateral securing the notes or that are secured by a lien on assets that are not part of the collateral securing the notes, in each case, to the extent of the value of such collateral or assets; structurally subordinated to all existing and future indebtedness and other liabilities (including trade payables) of the Company's subsidiaries that are not guarantors; equal in right of payment with the 2005 notes; equal in right of payment with all of the Company's and the guarantors' existing and future unsecured and unsubordinated indebtedness, and effectively senior to such indebtedness to the extent of the value of the collateral; and senior in right of payment to all of the Company's and the guarantors' existing and future subordinated indebtedness, including the senior subordinated notes issued by us in 2005 (the "senior subordinated notes") and the related guarantees.

The proceeds from the October 2009 offering were used to repay the Term B-1 and Term B-2 indebtedness under the Company's senior secured credit facilities.

## **7. FAIR VALUE MEASUREMENTS**

Under U.S. GAAP, certain assets and liabilities must be measured at fair value and ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC Topic 820"), details the disclosures that are required for items measured at fair value.

ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value, as follows:

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

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

In order to maintain its interest rate risk and to achieve a targeted ratio of variable-rate versus fixed-rate debt, the Company established an interest rate swap arrangement in the notional amount of 65 million euro from EURIBOR-based floating rates to a fixed rate over the period of October 1, 2008 to April 15, 2011. This swap arrangement was designated as a cash flow hedge and changes in the fair value of this instrument are expected to be highly effective in offsetting the fluctuations in the floating interest rate and are, therefore, being recorded in other comprehensive loss until the underlying transaction is recorded.

The accounting for the cash flow impact of the swap is recorded as an adjustment to interest expense. For the three and nine months ended September 30, 2010, the swap resulted in an increase to interest expense of \$852 and \$2,664, respectively. For the three and nine months ended September 30, 2009, the swap resulted in an increase of \$756 and \$1,088 to interest expense, respectively.

At September 30, 2010, this interest rate swap contract was the Company's only derivative instrument and only financial instrument requiring measurement at fair value on a recurring basis. The swap is an over-the-counter contract and the inputs utilized to determine its fair value are obtained in quoted public markets. Therefore, the Company has categorized this instrument as Level 2 within the fair value hierarchy. At September 30, 2010, the fair value of this instrument was estimated to be a liability of \$2,521, which is reported within other noncurrent liabilities in the Company's consolidated balance sheet.

The carrying values of other financial instruments included in current assets and current liabilities approximate fair values due to the short-term maturities of these instruments. The carrying value of amounts outstanding under the Company's senior secured credit facilities is considered to approximate fair value as interest rates vary, based on prevailing market rates. At September 30, 2010, the fair values of the Company's senior secured 2005 notes, senior secured 2009 notes, and senior subordinated notes were estimated to be \$111,284, \$139,105, and \$136,500 respectively, based on quoted market prices. Under ASC Topic 825, "*Financial Instruments*", entities are permitted to choose to measure many financial instruments and certain other items at fair value. The Company did not elect the fair value measurement option under this standard for any of its financial assets or liabilities.

## **8. PENSION PLANS**

The Company sponsors three defined benefit pension plans covering the majority of its employees located in the United Kingdom and the Netherlands.

The components of net periodic pension cost related to these plans for the three and nine months ended September 30, 2010 and 2009 are as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Service cost of benefits earned	\$ 506	\$ 707	\$ 1,503	\$ 1,234
Interest cost on benefit obligations	1,160	1,166	3,524	3,343
Expected return on plan assets	(1,621)	(2,132)	(4,825)	(5,315)
Amortization of unrecognized net gain	(9)	(61)	(29)	(173)
Net periodic pension cost (benefit)	<u>\$ 36</u>	<u>\$ (320)</u>	<u>\$ 173</u>	<u>\$ (911)</u>

## 9. OTHER OPERATING EXPENSE, NET

A summary of the items comprising other operating expense, net is as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Restructuring expense	\$ 2,064	\$ 2,050	\$ 3,645	\$ 13,921
Gain on disposal of property, plant and equipment	1,874	408	1,788	151
Royalty (income) expense	(18)	51	40	27
Rental income	(11)	(10)	(36)	(22)
Other expense, net	44	(232)	82	(475)
Other operating expense, net	<u>\$ 3,953</u>	<u>\$ 2,267</u>	<u>\$ 5,519</u>	<u>\$ 13,602</u>

Restructuring activities are discussed further in Note 10 below.

## 10. RESTRUCTURING ACTIVITY

In 2009, as part of the Company's efforts to reduce its overall cost structure, management implemented headcount reductions and engaged outside consultants to assist in further restructuring of its manufacturing operations.

Following is a reconciliation of the restructuring liability for the nine months ended September 30, 2010.

Segment	<u>December 31,</u>	<u>Restructuring Expenses</u>		<u>Cash</u>	<u>Foreign Currency</u>	<u>September 30,</u>
	<u>2009</u>	<u>Severance</u>	<u>Other</u>			
Protective Packaging	\$ 754	\$ 1,018	\$ 468	\$(1,663)	\$ (63)	\$ 514
Specialty Packaging	649	314	—	(715)	(65)	183
Corporate	—	—	1,845	(1,845)	—	—
Total	<u>\$ 1,403</u>	<u>\$ 1,332</u>	<u>\$2,313</u>	<u>\$(4,223)</u>	<u>\$ (128)</u>	<u>\$ 697</u>

Amounts recorded for restructuring liabilities are included in other current liabilities on the Company's consolidated balance sheets.

## 11. INCOME TAXES

The Company's effective tax rate was (21.77)% and 10.47% for the nine months ended September 30, 2010 and 2009, respectively. Reconciliation of the Company's effective tax rate to the U.S. federal statutory rate is shown in the following table:

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
U.S. federal income tax rate	(35.00)%	(35.00)%
Changes in income tax rate resulting from:		
Valuation allowances, net	8.43	21.35
State and local taxes on income, net of U.S. federal income tax benefit	(0.81)	6.94
Foreign rate differential	0.15	7.45
Non-deductible interest expense	—	2.79
Permanent differences	1.87	5.27
Other	3.59	1.67
Income tax expense (benefit)	<u>(21.77)%</u>	<u>10.47%</u>

## 12. RELATED PARTY TRANSACTIONS

The Company is party to a management agreement with its sponsors, AEA Investors LP and its affiliates, who provide various advisory and consulting services. Fees and expenses incurred under this agreement totaled \$537 and \$2,026 for the three and nine months ended September 30, 2010, which included a \$500 fee for services related to the acquisition of IntelliPack (see Note 16), and \$472 and \$1,563 for the same period of 2009.

The Company had sales to affiliates of AEA Investors LP totaling \$1,148 and \$1,963 for the three and nine months ended September 30, 2010 compared to \$280 and \$636 for the same periods of 2009, respectively. The Company made purchases from affiliates of AEA Investors LP totaling \$4,136 and \$11,885 for the three and nine months ended September 30, 2010 compared to \$3,153 and \$8,627 for the same periods of 2009, respectively.

## 13. SEGMENT AND GEOGRAPHIC INFORMATION

The Company's segments are determined on the basis of its organization and internal reporting to the chief operating decision maker. The Company's segments are as follows:

**Protective Packaging** — This segment manufactures, markets, sells and distributes protective packaging products in North America and Europe. Its protective mailers, air-encapsulated bubble products, sheet foam, engineered foam, inflatable airbag systems, honeycomb products, foam-in-place, and other protective packaging products are manufactured and sold for use in cushioning, void-fill, surface-protection, containment and blocking & bracing applications.

**Specialty Packaging** — This segment provides innovative packaging solutions for food, medical, and other specialty packaging applications, primarily in Europe.

Net sales by reportable segment for the three and nine months ended September 30, 2010 and 2009 are as follows:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Protective Packaging	\$ 141,814	\$ 128,930	\$ 414,925	\$ 363,107
Specialty Packaging	81,867	78,117	236,593	225,487
	<u>\$ 223,681</u>	<u>\$ 207,047</u>	<u>\$ 651,518</u>	<u>\$ 588,594</u>

The Company evaluates performance and allocates resources to its segments based on segment EBITDA, which is calculated internally as net income before interest, taxes, depreciation, amortization, restructuring expense and adjusted for other non-cash charges and benefits. Segment EBITDA is a measure of segment profit or loss which is reported to the Company's chief operating decision maker for purposes of making decisions about allocating resources to the Company's segments and evaluating segment performance. In addition, segment EBITDA is included herein in conformity with ASC Topic 280, "Disclosures about Segments of an Enterprise and Related Information." Management believes that segment EBITDA provides useful information for analyzing and evaluating the underlying operating results of each segment. However, segment EBITDA should not be considered in isolation or as a substitute for net income (loss) before income taxes or other measures of financial performance prepared in accordance with generally accepted accounting principles in the United States. Additionally, the Company's computation of segment EBITDA may not be comparable to other similarly titled measures computed by other companies.

The following table presents EBITDA by reportable segment and reconciles the total segment EBITDA to loss before income taxes:

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Segment EBITDA				
Protective Packaging	\$ 13,725	\$ 15,462	\$ 35,164	\$ 42,201
Specialty Packaging	7,674	11,363	27,075	30,792
Total segment EBITDA	21,399	26,825	62,239	72,993
Corporate expenses	(3,361)	(4,389)	(15,355)	(10,209)
Restructuring expense	(2,064)	(2,050)	(3,645)	(13,921)
Depreciation and amortization	(11,646)	(12,607)	(34,305)	(35,383)
Interest expense	(11,724)	(9,192)	(35,320)	(28,072)
Interest income	—	54	—	176
Unrealized foreign exchange loss, net	431	859	(692)	5,552
Non-cash stock compensation	(331)	(327)	(1,389)	(1,061)
Non-cash loss on sales leaseback	(1,914)	—	(1,914)	—
Other	77	—	77	252
Loss before income taxes	<u>\$ (9,133)</u>	<u>\$ (827)</u>	<u>\$ (30,304)</u>	<u>\$ (9,673)</u>

Corporate expenses include the costs of corporate support functions, such as information technology, finance, human resources, legal and executive management which have not been allocated to the segments. Additionally, corporate expenses may include other non-recurring or non-operational activity that the chief operating decision maker excludes in assessing business unit performance. These expenses, along with depreciation and amortization, other operating income/expense and other non-operating activity such as interest expense/income, restructuring, and foreign exchange gains/losses, are not considered in the measure

of the segments' operating performance, but are shown herein as reconciling items to the Company's consolidated loss before income taxes.

#### 14. COMPREHENSIVE LOSS

Total comprehensive loss and its components for the three and nine months ended September 30, 2010 and 2009 are as follows:

	<u>Three Months Ended September 30,</u> <u>2010</u>	<u>2009</u>	<u>Nine Months Ended September 30,</u> <u>2010</u>	<u>2009</u>
Net loss	\$ (7,917)	\$ (3,341)	\$ (23,707)	\$ (10,686)
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(4,737)	(971)	1,528	(982)
Net change in fair value of hedging instrument	348	(195)	1,498	(1,564)
Comprehensive loss	<u>\$ (12,306)</u>	<u>\$ (4,507)</u>	<u>\$ (20,681)</u>	<u>\$ (13,232)</u>

#### 15. COMMITMENTS AND CONTINGENCIES

##### Legal matters

The Company is party to legal proceedings arising from its operations. Related reserves are recorded when it is probable that liabilities exist and where reasonable estimates of such liabilities can be made. While it is not possible to predict the outcome of any of these proceedings, the Company's management, based on its assessment of the facts and circumstances now known, does not believe that any of these proceedings, individually or in the aggregate, will have a material adverse effect on the Company's financial position. The Company does not believe that, with respect to any pending legal matters, it is reasonably possible that a loss exceeding amounts already recognized may be material. However, actual outcomes may be different than expected and could have a material effect on the company's results of operations or cash flows in a particular period.

##### Environmental matters

The Company is subject to a variety of environmental and pollution-control laws and regulations in all jurisdictions in which it operates. Where it is probable that related liabilities exist and where reasonable estimates of such liabilities can be made, associated reserves are established. Estimated liabilities are subject to change as additional information becomes available regarding the magnitude of possible clean-up costs, the expense and effectiveness of alternative clean-up methods, and other possible liabilities associated with such situations. The Company does not believe that, with respect to any pending environmental matters, it is reasonably possible that a loss exceeding amounts already recognized may be material. However, actual outcomes may be different than expected and could have a material effect on the company's results of operations or cash flows in a particular period.

#### 16. ACQUISITION

On February 19, 2010, Pregis acquired all of the outstanding stock of IntelliPack, Inc. through one of its wholly owned subsidiaries, Pregis Management Corporation (the "IntelliPack Acquisition"). The initial purchase price of \$31.5 million was funded with cash-on-hand. In accordance with the terms of the

agreement, additional consideration may be payable by Pregis if certain future performance targets are achieved by IntelliPack. Based on preliminary estimates, the fair value of contingent purchase consideration was valued at approximately \$10.0 million. As of September 30, 2010 the liability for contingent consideration was \$9.7 million after reductions for payments of \$0.3 million. The classification of current and long-term was based on estimated timing of future payments.

The acquisition was accounted for under the purchase method of accounting. Accordingly, the Company has allocated the purchase price on the basis of estimated fair value of the underlying assets acquired and liabilities assumed. The Company is in the process of finalizing its valuation analysis, which may result in subsequent revisions to the allocation. The purchase price has been allocated on a preliminary basis as follows:

Current assets	\$ 3,100
Property plant & equipment	10,200
Intangible assets	21,300
Goodwill	17,500
Current liabilities	(1,500)
Deferred tax liabilities	<u>(9,100)</u>
<b>Total purchase price</b>	<b><u>\$ 41,500</u></b>

## 17. SUPPLEMENTAL GUARANTOR CONDENSED FINANCIAL INFORMATION

Pregis Holdings II (presented as Parent in the following schedules), through its 100%-owned subsidiary, Pregis Corporation (presented as Issuer in the following schedules), issued senior secured notes and senior subordinated notes in connection with its acquisition by AEA Investors LP and its affiliates. The senior notes are fully, unconditionally and jointly and severally guaranteed on a senior secured basis and the senior subordinated notes are fully, unconditionally and jointly and severally guaranteed on an unsecured senior subordinated basis, in each case, by Pregis Holdings II and substantially all existing and future 100%-owned domestic restricted subsidiaries of Pregis Corporation (collectively, the "Guarantors"). All other subsidiaries of Pregis Corporation, whether direct or indirect, do not guarantee the senior secured notes and senior subordinated notes (the "Non-Guarantors"). The Guarantors also unconditionally guarantee the Company's borrowings under its senior secured credit facilities on a senior secured basis.

Additionally, the senior secured notes are secured on a second priority basis by liens on all of the collateral (subject to certain exceptions) securing Pregis Corporation's senior secured credit facilities. In the event that secured creditors exercise remedies with respect to Pregis and its guarantors' pledged assets, the proceeds of the liquidation of those assets will first be applied to repay obligations secured by the first priority liens under the senior secured credit facilities and any other first priority obligations.

The following condensed consolidating financial statements present the results of operations, financial position and cash flows of (1) the Parent, (2) the Issuer, (3) the Guarantors, (4) the Non-Guarantors, and (5) eliminations to arrive at the information for Pregis Holding II on a consolidated basis. Separate financial statements and other disclosures concerning the Guarantors are not presented because management does not believe such information is material to investors. Therefore, each of the Guarantors is combined in the presentation below.

**Pregis Holding II Corporation**  
**Condensed Consolidating Balance Sheet**  
**September 30, 2010**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ —	\$ 15,621	\$ —	\$ 28,966	\$ —	\$ 44,587
Accounts receivable						
Trade, net of allowances	—	—	35,087	101,698	—	136,785
Affiliates	—	70,100	77,692	(1,556)	(146,236)	—
Other	—	—	112	16,056	—	16,168
Inventories, net	—	—	23,033	68,518	—	91,551
Deferred income taxes	—	134	2,507	2,853	—	5,494
Due from Pactiv	—	52	—	1,126	—	1,178
Prepayments and other current assets	—	3,962	779	3,120	—	7,861
Total current assets	—	89,869	139,210	220,781	(146,236)	303,624
Investment in subsidiaries / intercompany balances	39,500	482,578	—	—	(522,078)	—
Property, plant and equipment, net	—	1,015	57,012	146,010	—	204,037
<b>Other assets</b>						
Goodwill	—	—	102,633	39,798	—	142,431
Intangible assets, net	—	—	34,887	19,426	—	54,313
Restricted cash	—	3,501	—	—	—	3,501
Other	—	5,694	3,525	19,704	—	28,923
Total other assets	—	9,195	141,045	78,928	—	229,168
<b>Total assets</b>	<u>\$39,500</u>	<u>\$582,657</u>	<u>\$ 337,267</u>	<u>\$ 445,719</u>	<u>\$ (668,314)</u>	<u>\$ 736,829</u>
<b>Liabilities and stockholder's equity</b>						
<b>Current liabilities</b>						
Short-term debt	\$ —	\$ —	\$ —	\$ 3,798	\$ —	\$ 3,798
Current portion of long-term debt	—	—	—	340	—	340
Accounts payable	—	7,090	20,829	69,981	—	97,900
Accounts payable, affiliate	—	39,999	58,520	47,609	(146,128)	—
Accrued income taxes	—	(1,344)	1,607	6,047	—	6,310
Accrued payroll and benefits	—	14	3,570	11,362	—	14,946
Accrued interest	—	12,238	—	—	—	12,238
Other	—	2,033	6,407	10,583	—	19,023
Total current liabilities	—	60,030	90,933	149,720	(146,128)	154,555
Long-term debt	—	490,146	—	307	—	490,453
Intercompany balances	—	—	80,174	281,623	(361,797)	—
Deferred income taxes	—	(18,906)	32,238	7,404	—	20,736
Other	—	11,887	7,918	11,780	—	31,585
Total Stockholder's equity	39,500	39,500	126,004	(5,115)	(160,389)	39,500
<b>Total liabilities and stockholder's equity</b>	<u>\$39,500</u>	<u>\$582,657</u>	<u>\$ 337,267</u>	<u>\$ 445,719</u>	<u>\$ (668,314)</u>	<u>\$ 736,829</u>

**Pregis Holding II Corporation**  
**Condensed Consolidating Balance Sheet**  
**December 31, 2009**

	Parent	Issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	\$ —	\$ 40,883	\$ —	\$ 39,552	\$ —	\$ 80,435
Accounts receivable						
Trade, net of allowances	—	—	30,394	90,418	—	120,812
Affiliates	—	64,072	62,382	3,963	(130,417)	—
Other	—	—	10	12,025	—	12,035
Inventories, net	—	—	20,051	60,973	—	81,024
Deferred income taxes	—	134	2,507	2,438	—	5,079
Due from Pactiv	—	—	—	1,169	—	1,169
Prepayments and other current assets	—	3,492	1,063	3,374	—	7,929
Total current assets	—	108,581	116,407	213,912	(130,417)	308,483
Investment in subsidiaries / intercompany balances	58,792	484,778	—	—	(543,570)	—
Property, plant and equipment, net	—	1,239	66,525	159,118	—	226,882
<b>Other assets</b>						
Goodwill	—	—	85,176	41,074	—	126,250
Intangible assets, net	—	—	15,763	22,291	—	38,054
Other	—	8,092	3,381	19,405	—	30,878
Total other assets	—	8,092	104,320	82,770	—	195,182
<b>Total assets</b>	<u>\$58,792</u>	<u>\$602,690</u>	<u>\$ 287,252</u>	<u>\$ 455,800</u>	<u>\$ (673,987)</u>	<u>\$ 730,547</u>
<b>Liabilities and stockholder's equity</b>						
<b>Current liabilities</b>						
Current portion of long-term debt	\$ —	\$ —	\$ —	\$ 300	\$ —	\$ 300
Accounts payable	—	4,972	16,820	56,916	—	78,708
Accounts payable, affiliate	—	32,152	46,676	51,595	(130,423)	—
Accrued income taxes	—	(1,365)	1,188	5,413	—	5,236
Accrued payroll and benefits	—	16	4,148	10,078	—	14,242
Accrued interest	—	7,720	—	2	—	7,722
Other	—	1	6,297	11,713	—	18,011
Total current liabilities	—	43,496	75,129	136,017	(130,423)	124,219
Long-term debt	—	502,256	—	278	—	502,534
Intercompany balances	—	—	106,933	295,747	(402,680)	—
Deferred income taxes	—	(8,485)	20,287	7,919	—	19,721
Other	—	6,631	5,820	12,830	—	25,281
Total Stockholder's equity	58,792	58,792	79,083	3,009	(140,884)	58,792
<b>Total liabilities and stockholder's equity</b>	<u>\$58,792</u>	<u>\$602,690</u>	<u>\$ 287,252</u>	<u>\$ 455,800</u>	<u>\$ (673,987)</u>	<u>\$ 730,547</u>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Operations**  
**For the Three Months Ended September 30, 2010**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Net Sales</b>	\$ —	\$ —	\$ 87,300	\$ 139,234	\$ (2,853)	\$ 223,681
<b>Operating costs and expenses:</b>						
Cost of sales, excluding depreciation and amortization	—	—	64,453	114,701	(2,853)	176,301
Selling, general and administrative	—	3,837	10,041	15,838	—	29,716
Depreciation and amortization	—	132	4,336	7,178	—	11,646
Other operating expense, net	—	943	1,989	1,021	—	3,953
<b>Total operating costs and expenses</b>	<u>—</u>	<u>4,912</u>	<u>80,819</u>	<u>138,738</u>	<u>(2,853)</u>	<u>221,616</u>
<b>Operating income (loss)</b>	—	(4,912)	6,481	496	—	2,065
Interest expense	—	4,005	2,715	5,004	—	11,724
Interest income	—	—	—	—	—	—
Foreign exchange (gain) loss, net	—	(1,322)	—	796	—	(526)
Equity in loss of subsidiaries	7,917	2,981	—	—	(10,898)	—
<b>Income (loss) before income taxes</b>	<u>(7,917)</u>	<u>(10,576)</u>	<u>3,766</u>	<u>(5,304)</u>	<u>10,898</u>	<u>(9,133)</u>
Income tax expense (benefit)	—	(2,659)	1,422	21	—	(1,216)
<b>Net income (loss)</b>	<u><u>\$(7,917)</u></u>	<u><u>\$(7,917)</u></u>	<u><u>\$ 2,344</u></u>	<u><u>\$ (5,325)</u></u>	<u><u>\$ 10,898</u></u>	<u><u>\$ (7,917)</u></u>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Operations**  
**For the Three Months Ended September 30, 2009**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Net Sales</b>	\$ —	\$ —	\$ 74,543	\$ 134,480	\$ (1,976)	\$ 207,047
<b>Operating costs and expenses:</b>						
Cost of sales, excluding depreciation and amortization	—	—	52,172	105,892	(1,976)	156,088
Selling, general and administrative	—	4,262	8,776	15,622	—	28,660
Depreciation and amortization	—	157	3,540	8,910	—	12,607
Other operating expense, net	—	1,077	109	1,081	—	2,267
<b>Total operating costs and expenses</b>	<u>—</u>	<u>5,496</u>	<u>64,597</u>	<u>131,505</u>	<u>(1,976)</u>	<u>199,622</u>
<b>Operating income (loss)</b>	—	(5,496)	9,946	2,975	—	7,425
Interest expense	—	(140)	3,677	5,655	—	9,192
Interest income	—	(29)	—	(25)	—	(54)
Foreign exchange (gain) loss, net	—	(3,964)	(10)	3,088	—	(886)
Equity in loss of subsidiaries	3,341	2,093	—	—	(5,434)	—
<b>Income (loss) before income taxes</b>	<u>(3,341)</u>	<u>(3,456)</u>	<u>6,279</u>	<u>(5,743)</u>	<u>5,434</u>	<u>(827)</u>
Income tax expense	—	(115)	2,487	142	—	2,514
<b>Net income (loss)</b>	<u><u>\$(3,341)</u></u>	<u><u>\$(3,341)</u></u>	<u><u>\$ 3,792</u></u>	<u><u>\$ (5,885)</u></u>	<u><u>\$ 5,434</u></u>	<u><u>\$ (3,341)</u></u>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Operations**  
**For the Nine Months Ended September 30, 2010**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Net Sales</b>	\$ —	\$ —	\$ 247,342	\$ 412,718	\$ (8,542)	\$ 651,518
<b>Operating costs and expenses:</b>						
Cost of sales, excluding depreciation and amortization	—	—	184,343	334,338	(8,542)	510,139
Selling, general and administrative	—	16,708	30,325	49,124	—	96,157
Depreciation and amortization	—	394	12,718	21,193	—	34,305
Other operating expense, net	—	1,856	1,938	1,725	—	5,519
<b>Total operating costs and expenses</b>	<b>—</b>	<b>18,958</b>	<b>229,324</b>	<b>406,380</b>	<b>(8,542)</b>	<b>646,120</b>
<b>Operating income (loss)</b>	<b>—</b>	<b>(18,958)</b>	<b>18,018</b>	<b>6,338</b>	<b>—</b>	<b>5,398</b>
Interest expense	—	10,936	9,166	15,218	—	35,320
Interest income	—	—	—	—	—	—
Foreign exchange (gain) loss, net	—	678	—	(296)	—	382
Equity in loss of subsidiaries	23,707	4,374	—	—	(28,081)	—
<b>Income (loss) before income taxes</b>	<b>(23,707)</b>	<b>(34,946)</b>	<b>8,852</b>	<b>(8,584)</b>	<b>28,081</b>	<b>(30,304)</b>
Income tax expense (benefit)	—	(11,239)	3,575	1,067	—	(6,597)
<b>Net income (loss)</b>	<b><u>\$(23,707)</u></b>	<b><u>\$(23,707)</u></b>	<b><u>\$ 5,277</u></b>	<b><u>\$ (9,651)</u></b>	<b><u>\$ 28,081</u></b>	<b><u>\$ (23,707)</u></b>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Operations**  
**For the Nine Months Ended September 30, 2009**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Net Sales</b>	\$ —	\$ —	\$ 207,470	\$ 386,589	\$ (5,465)	\$ 588,594
<b>Operating costs and expenses:</b>						
Cost of sales, excluding depreciation and amortization	—	—	146,248	303,361	(5,465)	444,144
Selling, general and administrative	—	11,024	25,717	46,318	—	83,059
Depreciation and amortization	—	468	11,214	23,701	—	35,383
Other operating expense, net	—	5,002	2,882	5,718	—	13,602
<b>Total operating costs and expenses</b>	<b>—</b>	<b>16,494</b>	<b>186,061</b>	<b>379,098</b>	<b>(5,465)</b>	<b>576,188</b>
<b>Operating income (loss)</b>	<b>—</b>	<b>(16,494)</b>	<b>21,409</b>	<b>7,491</b>	<b>—</b>	<b>12,406</b>
Interest expense	—	(3,154)	11,924	19,302	—	28,072
Interest income	—	(70)	—	(106)	—	(176)
Foreign exchange (gain) loss, net	—	(4,519)	20	(1,318)	—	(5,817)
Equity in loss of subsidiaries	10,686	4,894	—	—	(15,580)	—
<b>Income (loss) before income taxes</b>	<b>(10,686)</b>	<b>(13,645)</b>	<b>9,465</b>	<b>(10,387)</b>	<b>15,580</b>	<b>(9,673)</b>
Income tax expense (benefit)	—	(2,959)	3,749	223	—	1,013
<b>Net income (loss)</b>	<b><u>\$(10,686)</u></b>	<b><u>\$(10,686)</u></b>	<b><u>\$ 5,716</u></b>	<b><u>\$ (10,610)</u></b>	<b><u>\$ 15,580</u></b>	<b><u>\$ (10,686)</u></b>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2010**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Operating activities</b>						
Net income (loss)	\$ (23,707)	\$ (23,707)	\$ 5,277	\$ (9,651)	\$ 28,081	\$ (23,707)
Non-cash adjustments	23,707	555	18,571	20,304	(28,081)	35,056
Changes in operating assets and liabilities, net of effects of acquisitions	—	6,068	(6,075)	(11,075)	—	(11,082)
<b>Cash provided by (used in) operating activities</b>	<u>—</u>	<u>(17,084)</u>	<u>17,773</u>	<u>(422)</u>	<u>—</u>	<u>267</u>
<b>Investing activities</b>						
Capital expenditures	—	(169)	(8,990)	(12,624)	—	(21,783)
Proceeds from sale of assets	—	—	(15)	514	—	499
Proceeds from sale leaseback	—	—	17,875	—	—	17,875
Acquisition of business, net of cash acquired	—	(31,770)	115	—	—	(31,655)
Change in restricted cash	—	(3,501)	—	—	—	(3,501)
<b>Cash provided by (used in) investing activities</b>	<u>—</u>	<u>(35,440)</u>	<u>8,985</u>	<u>(12,110)</u>	<u>—</u>	<u>(38,565)</u>
<b>Financing activities</b>						
Intercompany activity	—	26,758	(26,758)	—	—	—
Proceeds from local lines of credit	—	—	—	3,670	—	3,670
Proceeds from issuance of long-term debt	—	500	—	—	—	500
Repayment of long-term debt	—	—	—	—	—	—
Other, net	—	—	—	71	—	71
<b>Cash provided by (used in) financing activities</b>	<u>—</u>	<u>27,258</u>	<u>(26,758)</u>	<u>3,741</u>	<u>—</u>	<u>4,241</u>
Effect of exchange rate changes on cash and cash equivalents	—	4	—	(1,795)	—	(1,791)
Increase (decrease) in cash and cash equivalents	—	(25,262)	—	(10,586)	—	(35,848)
Cash and cash equivalents, beginning of period	—	40,883	—	39,552	—	80,435
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 15,621</u>	<u>\$ —</u>	<u>\$ 28,966</u>	<u>\$ —</u>	<u>\$ 44,587</u>

**Pregis Holding II Corporation**  
**Condensed Consolidating Statement of Cash Flows**  
**For the Nine Months Ended September 30, 2009**  
**(Unaudited)**

	<u>Parent</u>	<u>Issuer</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
<b>Operating activities</b>						
Net income (loss)	\$(10,686)	\$(10,686)	\$ 5,716	\$ (10,610)	\$ 15,580	\$ (10,686)
Non-cash adjustments	10,686	3,226	11,814	20,795	(15,580)	30,941
Changes in operating assets and liabilities, net of effects of acquisitions	—	12,044	(1,013)	10,171	—	21,202
<b>Cash provided by operating activities</b>	<u>—</u>	<u>4,584</u>	<u>16,517</u>	<u>20,356</u>	<u>—</u>	<u>41,457</u>
<b>Investing activities</b>						
Capital expenditures	—	(159)	(5,583)	(11,902)	—	(17,644)
Proceeds from sale of assets	—	—	969	(277)	—	692
<b>Cash used in investing activities</b>	<u>—</u>	<u>(159)</u>	<u>(4,614)</u>	<u>(12,179)</u>	<u>—</u>	<u>(16,952)</u>
<b>Financing activities</b>						
Intercompany activity	—	21,667	(21,667)	—	—	—
Proceeds from issuance of long-term debt	—	38,700	—	—	—	38,700
Repayment of long-term debt	—	(4,312)	—	—	—	(4,312)
Other, net	—	(1,284)	—	(125)	—	(1,409)
<b>Cash provided by (used in) financing activities</b>	<u>—</u>	<u>54,771</u>	<u>(21,667)</u>	<u>(125)</u>	<u>—</u>	<u>32,979</u>
Effect of exchange rate changes on cash and cash equivalents	—	(147)	—	1,686	—	1,539
Increase (decrease) in cash and cash equivalents	—	59,049	(9,764)	9,738	—	59,023
Cash and cash equivalents, beginning of period	—	—	9,764	31,415	—	41,179
Cash and cash equivalents, end of period	<u>\$ —</u>	<u>\$ 59,049</u>	<u>\$ —</u>	<u>\$ 41,153</u>	<u>\$ —</u>	<u>\$ 100,202</u>

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

*This following discussion and analysis should be read in conjunction with the consolidated financial statements and notes appearing elsewhere in this report and the Company's audited financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009.*

### Cautionary Note Regarding Forward-Looking Statements

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E in the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You can generally identify forward-looking statements by our use of forward-looking terminology such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "might," "plan," "potential," "predict," "seek," "should," or "will," or the negative thereof or other variations thereon or comparable terminology. All forward-looking statements, including, without limitation, management's examination of historical operating trends and data are based upon our current expectations and various assumptions. We have based these forward-looking statements on our current expectations, assumptions, estimates and projections. While we believe these expectations, assumptions, estimates and projections are reasonable, such forward-looking statements are only predictions and involve known and unknown risks and uncertainties, many of which are beyond our control. These and other important factors may cause our actual results, performance or achievements to differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements.

Some of the factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, among others:

- risks associated with our substantial indebtedness and debt service, including the requirement that we comply with various negative and financial covenants contained in our loan agreements;
- risks associated with our ability to access existing liquidity under our current debt arrangements and our ability to access the debt and equity markets;
- increases in prices and availability of resin and other raw materials, our ability to pass these increased costs on to our customers and our ability to raise our prices generally with respect to our products;
- risks of increasing competition in our existing and future markets, including competition from new products introduced by competitors;
- our ability to meet future capital requirements;
- general economic or business conditions, including the recession in the U.S. and the worldwide economic slowdown, as well as recent disruptions to the credit and financial markets in the U.S. and worldwide;
- risks related to our acquisition or divestiture strategy;
- our ability to retain management;
- our ability to protect our intellectual property rights;
- changes in governmental laws and regulations, including environmental laws and regulations;
- changes in foreign currency exchange rates; and
- other risks and uncertainties, including those described in the "Risk Factors" section of our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2009 filed with the SEC.

Given these risks and uncertainties, you are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements included in this report are made only as of the date hereof. We do not undertake and specifically decline any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments.

## OVERVIEW

We are an international manufacturer, marketer and supplier of protective packaging products and specialty packaging solutions. We currently operate 47 facilities in 18 countries, with approximately 4,000 employees world-wide. We sell our products to a wide array of customers, including retailers, distributors, packer processors, hospitals, fabricators and directly to the end-users. Approximately 66% of our 2009 net sales were generated outside of the U.S. As a result, we are sensitive to fluctuations in foreign currency exchange rates, primarily between the U.S. dollar and the euro and U.S. dollar and the pound sterling.

Our net sales for the three months and nine months ended September 30, 2010 increased 8.0% and 10.7%, respectively, over the comparable periods of 2009. The increase was driven primarily by increased volumes, driven by the impact of economic recovery as well as the Company's growth initiatives, and sales associated with the recently completed IntelliPack acquisition. This was partially offset by lower year-over-year selling prices, particularly in our protective packaging segment, and unfavorable foreign currency translation. Excluding the impact of unfavorable foreign currency translation and the IntelliPack acquisition, net sales for the three months and nine months ended September 30, 2010 increased 11.6% and 10.8%, respectively, compared to the same periods in 2009.

Gross margin (defined as net sales less cost of sales, excluding depreciation and amortization) as a percent of net sales decreased to 21.2% for the three months ended September 30, 2010, compared to 24.6% for the same period of 2009. This decline was driven primarily by higher key commodity and other key raw material costs and higher energy costs, partially offset by increased volumes, selling price increases, and the impact of the Company's cost reduction programs.

Gross margin (defined as net sales less cost of sales, excluding depreciation and amortization) as a percent of net sales decreased to 21.7% for the nine months ended September 30, 2010, compared to 24.5% for the same period of 2009. This decline was driven primarily by higher key commodity and other key raw material costs, higher energy costs and unfavorable price/mix, partially offset by increased volumes, and the impact of the Company's cost reduction programs.

The majority of the products we sell are plastic-resin based, and therefore our operations are highly sensitive to fluctuations in the costs of plastic resins. For the three months ended September 30, 2010 as compared to the same period of 2009, average resin costs increased approximately 20% in North America and 30% in Europe, as measured by the Chemical Market Associates, Inc. ("CMAI") index and ICIS index, their respective market indices. These increases in resin and other key raw material costs reduced the Company's gross margin as a percent of sales by 204 basis points. In the first nine months of 2010 as compared to the same period of 2009, average resin costs increased approximately 28% in North America and 42% in Europe. These increases in resin and other key raw material costs reduced the Company's gross margin as a percent of sales by 473 basis points.

In the first quarter of 2009, we implemented restructuring initiatives to further reduce our cost structure by optimizing our organizational structure and our operating processes. Although our major restructuring initiatives were completed in 2008 and 2009, we expect modest restructuring to continue in the fourth quarter of 2010 into the first quarter of 2011. In the third quarter of 2010, we incurred additional restructuring charges focused primarily in our European protective packaging and specialty businesses.

During the first nine months of 2010 we realized year-over-year cost savings of approximately \$11.3 million relating to our 2009 and 2010 cost reduction initiatives.

## RESULTS OF OPERATIONS

### Net Sales

Our net sales for the three and nine months ended September 30, 2010 compared to the same periods ended September 30, 2009 are summarized by segment as follows:

Segment:	Three Months Ended September 30,				Change Attributable to the Following Factors							
	2010		2009		Price / Mix	Volume	Acquisition	Currency Translation				
	(dollars in thousands)							\$ Change	% Change			
Protective Packaging	\$ 141,814	\$ 128,930	\$12,884	10.0%	\$1,592	1.2%	\$11,401	8.9%	\$5,631	4.4%	\$ (5,740)	(4.5)%
Specialty Packaging	81,867	78,117	3,750	4.8%	932	1.2%	10,189	13.0%	—	—%	(7,371)	(9.4)%
Total	\$ 223,681	\$ 207,047	\$16,634	8.0%	\$2,524	1.2%	\$21,590	10.4%	\$5,631	2.7%	\$(13,111)	(6.3)%

Segment:	Nine Months Ended September 30,				Change Attributable to the Following Factors							
	2010		2009		Price / Mix	Volume	Acquisition	Currency Translation				
	(dollars in thousands)							\$ Change	% Change			
Protective Packaging	\$ 414,925	\$ 363,107	\$51,818	14.3%	\$(3,111)	(0.9)%	\$47,773	13.2%	\$12,569	3.5%	\$ (5,413)	(1.5)%
Specialty Packaging	236,593	225,487	11,106	4.9%	1,236	0.5%	17,630	7.8%	—	—%	(7,760)	(3.4)%
Total	\$ 651,518	\$ 588,594	\$62,924	10.7%	\$(1,875)	(0.3)%	\$65,403	11.1%	\$12,569	2.1%	\$(13,173)	(2.2)%

### Segment Net Sales

Volume in the Company's protective packaging segment increased by 8.9% and 13.2% for the three and nine month periods ended September 30, 2010, respectively, compared to the same periods in 2009. The volume increase for these periods was driven primarily by improved economic conditions as well as the impact from growth initiatives in areas such as inflatable systems and sustainable products.

Price/mix for the Company's protective packaging segment increased net sales by 1.2% for the three month period ended September 30, 2010, respectively, but reduced net sales by 0.9% for the nine month period ended September 30, 2010 compared to the same period in 2009. The increase in price/mix for the three months ended September 30, 2010 was primarily due to selling price increases implemented the second quarter 2010.

Volume in the Company's specialty packaging segment increased by 13.0% and 7.8% for the three and nine month periods ended September 30, 2010, respectively, compared to the same periods of 2009, primarily due to the impact of growth initiatives in our fresh food packaging markets and thermoforming business.

### ***Gross Margin***

Gross margin, as a percentage of net sales, was 21.2% for the three months ended September 30, 2010 compared to 24.6% for the same period of 2009. This decrease of 340 basis points was driven by increased key raw material costs partially offset by the impact of selling price increases implemented in the second quarter of 2010. The increase in key raw material costs, higher energy costs, and other key raw material costs resulted in a negative 204 basis point impact and 206 basis point impact, respectively, on gross margin as a percentage of net sales. Savings from the Company's cost reduction program resulted in a 188 basis point improvement for the three months ended September 30, 2010 as compared to the equivalent period in 2009.

Gross margin (defined as net sales less cost of sales, excluding depreciation and amortization), as a percentage of net sales, was 21.7% for the nine months ended September 30, 2010 compared to 24.5% for the same period of 2009. This decrease of 280 basis points was driven by increased key raw material costs and negative price/mix, partially offset by the impact of selling price increases implemented in the second quarter of 2010. The increase in key raw material costs resulted in a negative 473 basis point impact on gross margin as percent of net sales. Savings from the Company's cost reduction program resulted in a 192 basis point improvement for the nine months ended September 30, 2010 as compared to the equivalent period in 2009.

Average resin costs in North America for the three and nine month periods ended September 30, 2010 were 20% and 28% higher than average resin costs for the same period in 2009 while average resin costs in Europe were 30% and 42% higher than average resin prices for the same periods of 2009, based on their respective market indices.

### ***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased by \$1.1 million for the three months ended September 30, 2010 compared to the same period of 2009. This increase was primarily driven by SG&A costs associated with the IntelliPack acquisition of \$0.9 million, legal expenses of \$0.3 million, and other volume related selling expenses partially offset by favorable foreign currency translation.

Selling, general and administrative expenses increased by \$13.1 million for the nine months ended September 30, 2010 compared to the same period of 2009. This increase was primarily driven by legal expenses of \$5.3 million, acquisition related costs of \$1.0 million, and SG&A costs associated with the IntelliPack acquisition of \$2.2 million. The increased legal expenses were the result of a patent dispute related to the Company's protective packaging segment, which was resolved successfully by the Company in March 2010. Excluding the impact of the legal expenses, acquisition related costs, and IntelliPack's SG&A expenses, selling, general and administrative expenses for the nine months ended September 30, 2010 increased by approximately \$4.6 million due primarily to increased pension, stock compensation, volume related selling expenses, and additional sales and marketing expenses incurred to help drive the Company's growth initiatives.

### ***Other Operating Expense, net***

For the three and nine months ended September 30, 2010, other operating expense, net totaled \$3.9 million and \$5.5 million, respectively, compared to \$2.3 million and \$13.6 million in the same periods of 2009. In 2009 other expense, net was driven by significant restructuring activity. Restructuring charges for the three and nine month periods ended September 30, 2009 were \$2.0 million and \$13.9 million, respectively (see Note 10).

### Depreciation and Amortization Expense

Depreciation and amortization expense decreased by \$1.0 million for the three months ended September 30, 2010 and decreased by \$1.1 million for the nine months ended September 30, 2010, compared to the respective periods of 2009.

### Segment Income

We measure our segments' operating performance on the basis of segment EBITDA, defined as net income (loss) before interest, taxes, depreciation, amortization, and restructuring expense and adjusted for other non-cash items. See Note 13 to the unaudited consolidated financial statements for a reconciliation of total segment EBITDA to consolidated net loss before income taxes. Segment EBITDA for the relevant periods is as follows:

	<u>Three Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>		
	<u>(dollars in thousands)</u>			
<b>Segment:</b>				
Protective Packaging	\$ 13,725	\$ 15,462	\$ (1,737)	(11.2)%
Specialty Packaging	7,674	11,363	(3,689)	(32.5)%
Total segment EBITDA	<u>\$ 21,399</u>	<u>\$ 26,825</u>	<u>\$ (5,426)</u>	<u>(20.2)%</u>
	<u>Nine Months Ended September 30,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>		
	<u>(dollars in thousands)</u>			
<b>Segment:</b>				
Protective Packaging	\$ 35,164	\$ 42,201	\$ (7,037)	(16.7)%
Specialty Packaging	27,075	30,792	(3,717)	(12.1)%
Total segment EBITDA	<u>\$ 62,239</u>	<u>\$ 72,993</u>	<u>\$ (10,754)</u>	<u>(14.7)%</u>

Segment EBITDA for the protective packaging segment declined \$1.7 million and \$7.0 million for the three and nine months ended September 30, 2010, respectively, compared to the same periods of 2009. These decreases were due primarily to the impact of increased key raw material costs which were partially offset by increased volumes, the IntelliPack acquisition, and the results of our cost reduction programs. Savings from our cost reduction programs totaled approximately \$3.1 million and \$8.6 million year-over-year for the three and nine month periods ended September 30, 2010, respectively.

Segment EBITDA for specialty packaging declined \$3.7 million for the three and nine months ended September 30, 2010 compared to the same periods of 2009. These decreases were due primarily to higher key raw material costs, higher energy costs, and unfavorable foreign currency translation, partially offset by increased volumes.

### Interest Expense

Interest expense for the three and nine months ended September 30, 2010 increased \$2.5 million and \$7.2 million, respectively, compared to the same periods of 2009. The increases were driven by higher debt balances and higher average interest rates, both resulting from the retirement of the Company's term debt in

the third quarter of 2009 and its replacement with new floating rate notes at a higher average interest rates. These increases are also reflective of higher amortization of discount and deferred financing fees, again resulting from the Company's 2009 debt refinancing.

### ***Foreign Exchange Loss (Gain), net***

A portion of our third-party debt is denominated in euro and revalued to U.S. dollars at month-end. We also maintain an intercompany debt structure, whereby Pregis Corporation has provided euro-denominated loans to certain of its foreign subsidiaries and these and other foreign subsidiaries have provided euro-denominated loans to certain U.K. based subsidiaries. At each month-end we recognize unrealized gains and losses on the revaluation of these instruments, resulting from the fluctuations between the U.S. dollar and euro exchange rate, as well as the pound sterling and euro exchange rate.

### ***Income Tax Expense***

Our effective income tax rate was approximately (21.77)% for the nine months ended September 30, 2010, which compares to approximately 10.47% for the nine months ended September 30, 2009. For the nine months ended September 30, 2010 and 2009, the Company's effective rate was increased from a benefit at the U.S. federal statutory rate of 35% primarily due to establishment of additional valuation allowances against losses in certain jurisdictions that are not expected to result in future tax benefits.

### ***Net Loss***

For the three and nine months ended September 30, 2010, we had a net loss of \$7.9 million and \$23.7 million, respectively, compared to net loss of \$3.3 million and net loss of \$10.7 million in the comparable periods of 2009. As discussed herein, the 2010 net loss is primarily the result of increased raw material costs, higher interest expense, and lower unrealized foreign currency gains, which more than offset lower restructuring charges.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following table shows our sources and uses of funds for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009:

	<b><u>Nine Months Ended September 30,</u></b>	
	<b><u>2010</u></b>	<b><u>2009</u></b>
	<b>(dollars in thousands)</b>	
Cash provided by operating activities	\$ 267	\$ 41,457
Cash used in investing activities	(38,565)	(16,952)
Cash provided by financing activities	4,241	32,979
Effect of foreign exchange rate changes	(1,791)	1,539
Increase (decrease) in cash and cash equivalents	<u>\$ (35,848)</u>	<u>\$ 59,023</u>

***Operating Activities.*** Cash provided by operating activities decreased by \$41.2 million during the nine months ended September 30, 2010 compared to the same period of 2009. This decrease was

primarily driven by increased working capital investments resulting from higher overall sales volumes as well as higher average raw material costs and decreased earnings.

Cash from operating activities is sensitive to raw material costs and the Company's ability to recover increases in these costs from its customers. Although price increases have typically trailed changes in raw material costs, the Company has historically been able to recover significant increases in underlying raw material costs from its customers over a 12 to 24 month period. Future cash from operations are dependent upon the Company's continued ability to recover increases in underlying raw material increases from its customers.

The Company has not experienced any significant changes in year-over-year days sales outstanding, days inventory on-hand or days payable outstanding. The Company has not identified any trends in key working capital investments that would have a material impact on its liquidity or ability to satisfy its debt obligations or fund capital expenditures. The Company does not currently expect that raw material price increases will have a material effect on liquidity in future periods, but significant shifts in key raw material costs could affect our cash generated from operating activities in future periods.

**Investing Activities.** Cash used in investing activities totaled \$38.6 million for the nine months ended September 30, 2010, \$21.6 million higher than the same period of 2009. This increase was primarily the result of the IntelliPack acquisition and, to a lesser extent, capital expenditures partially offset by proceeds from a sales leaseback transaction. On February 19, 2010, Pregis acquired all of the stock of IntelliPack for an initial purchase price of \$31.5 million and including certain escrowed amounts totaling \$3.5 million, which was funded with cash-on-hand. Capital expenditures totaled \$21.8 million in the 2010 period compared to \$17.6 million in the same period in 2009. On July 19, 2010 Pregis completed a sales leaseback transaction involving land, building and related improvements at two of its U.S. manufacturing facilities. Sales proceeds, net of direct costs of the transaction, totaled approximately \$17.9 million.

**Financing Activities.** Cash provided in financing activities for the nine months ended September 30, 2010 included proceeds from local lines of credit totaling \$3.7 million and the revolving credit facility draw of \$0.5 million.

Our liquidity requirements are significant, primarily due to debt service requirements and capital investment in our businesses. We expect our 2010 capital expenditures to total approximately \$25 to \$30 million and our 2010 debt service costs to total approximately \$42 million. At September 30, 2010, we had cash and cash equivalents of \$44.6 million. Our available cash and cash equivalents are held in bank deposits and money market funds. We actively monitor the third-party depository institutions that hold our cash and cash equivalents to ensure safety of principal while achieving a satisfactory yield on those funds. To date, we have not experienced material loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurances that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial markets.

Our primary source of liquidity will continue to be cash flows from operations, existing cash balances, and amounts available to the Company under its credit agreement.

**Senior Secured Credit Facilities.** In October 2005, Pregis entered into senior secured credit facilities which provided for a revolving credit facility and two term loans: an \$88.0 million term B-1 facility and a €68.0 million term loan B -2 facility. The term loans were repaid in full in October 2009. The revolving credit facility matures in October 2011 and provides for borrowings of up to \$50.0 million, a portion of which may be made available to the Company's non-U.S. subsidiary borrowers in euros and/or pounds sterling. The revolving credit facility also includes a swing-line loan sub-facility and a letter of credit sub-facility. The revolving credit facility bears interest at a rate equal to, at the Company's option, (1) an alternate base rate or (2) LIBOR or EURIBOR, plus an applicable margin of 0.375% to

1.00% for base rate advances and 1.375% to 2.00% for LIBOR or EURIBOR advances, depending on the leverage ratio of the Company, as defined in the credit agreement. In addition, the Company is required to pay an annual commitment fee of 0.375% to 0.50% on the revolving credit facility depending on the leverage ratio of the Company, as well as customary letter of credit fees. As of September 30, 2010, the Company had \$42.5 million drawn under the revolving credit facility and \$6.2 million of outstanding letters of credit.

Our senior secured credit facilities also permit us, subject to certain conditions, including the receipt of commitments from lenders, to incur up to \$200.0 million (or euro equivalent thereof) of additional term loans (originally \$100.0 million prior to the October 5, 2009 senior secured credit facility amendment).

Subject to exceptions and, in the case of asset sale proceeds, reinvestment options, Pregis's senior secured credit facilities require mandatory prepayments of the loans from excess cash flows, asset sales and dispositions (including insurance and condemnation proceeds), issuances of debt and issuances of equity. On October 5, 2009, the Company prepaid the term loans in full with proceeds of a €125.0 million note offering and cash on hand. Mandatory prepayments under our senior secured credit facilities do not result in the permanent reduction of the revolving credit commitments under such facilities, i.e., the prepaid revolving borrowings may be reborrowed immediately thereafter, so long as the conditions to the revolving borrowings have been met.

Pregis's senior secured credit facilities and related hedging arrangements are guaranteed by Pregis Holding II, the direct holding parent company of Pregis, all of Pregis's current and future domestic subsidiaries and, if no material tax consequences would result, Pregis's future foreign subsidiaries and, subject to certain exceptions, are secured by a first priority security interest in substantially all of Pregis's and its current and future domestic subsidiaries' existing and future assets (subject to certain exceptions), and a first priority pledge of the capital stock of Pregis and the guarantor subsidiaries and an aggregate of 66% of the capital stock of Pregis's first-tier foreign subsidiary.

Pregis's senior secured credit facilities require that it comply on a quarterly basis with a First Lien Leverage Ratio test. The First Lien Leverage Ratio cannot exceed 2.0x and is calculated as the ratio of (1) net debt that is secured by a first priority lien to (2) Consolidated EBITDA.

The following table sets forth the First Lien Leverage Ratio as of September 30, 2010 and 2009:

(unaudited) (dollars in thousands)	Covenant Measure	Ratios Calculated at September 30,	
		2010	2009
First Lien Leverage Ratio	Maximum of 2.0x	0.11	1.40
Consolidated EBITDA	—	\$68,458	\$ 86,443
Net Debt Secured by First Priority Lien	—	\$ 7,358	\$120,971

As used in the calculation of First Lien Leverage Ratio, Consolidated EBITDA is calculated by adding Consolidated Net Income (as defined by the facility), income taxes, interest expense, depreciation and amortization, other non-cash items reducing Consolidated Net Income that do not represent a reserve against a future cash charge, costs and expenses incurred with business acquisitions, issuance of equity interests permitted by the terms of the loan documents, the amount of management, consulting, monitoring, transaction, and advisory fees and related expenses paid to AEA, and unusual and non-

recurring charges (including, without limitation, expenses in connection with actual and proposed acquisitions, equity offerings, issuances and retirements of debt and divestitures of assets, whether or not any such acquisition, equity offering, issuance or retirement or divestiture is actually consummated during such period that do not exceed, in the aggregate, 5% of EBITDA for such period).

Consolidated EBITDA is calculated under the senior secured credit facility for the twelve months ended September 30, 2010 and 2009 as follows:

(unaudited) (dollars in thousands)	<u>Twelve Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>Net Loss</b>	\$ (31,031)	\$ (37,613)
<i>Senior Secured Credit Facility Consolidated Net Income definition add backs:</i>		
Non-cash compensation charges	1,681	1,344
Net after tax extraordinary gains or losses (incl. severance and restructuring charges)	5,751	13,251
Non-cash unrealized currency gains or losses	118	2,370
Any FAS 142, 144, 141 impairment charge or asset write off	194	20,101
<b>Consolidated Net (Loss) Income</b>	<u>\$ (23,287)</u>	<u>\$ (547)</u>
<i>Senior Secured Credit Facility Consolidated EBITDA definition add backs:</i>		
Interest expense	49,634	39,315
Income tax benefit	(10,609)	(3,881)
Depreciation expense and amortization	43,705	46,992
Other non-cash charges (including loss on sales leaseback)	1,837	—
Fees payable to AEA Investors LP	2,508	2,040
Unusual and non-recurring charges	11,418	2,524
Pro forma EBITDA of acquisitions	1,410	—
Adjustment for 5% EBITDA cap limitation of unusual and non-recurring items	(8,158)	—
<b>Consolidated EBITDA</b>	<u>\$ 68,458</u>	<u>\$ 86,443</u>

As of September 30, 2010, Pregis was in compliance with all covenants contained in its senior secured credit facilities.

In October 2009 we used the proceeds of an offering of senior secured floating rate notes, together with cash on hand, to repay in full amounts outstanding under the term loans under our senior secured credit facilities. However, following the issuance of the senior secured floating rate notes and the use of proceeds thereof and subject to compliance with our senior secured credit facilities, the indenture governing the senior secured floating rate notes will continue to allow us to incur at least \$220 million (less amounts then outstanding under the senior secured credit facilities) of debt, including new debt which replaces the term loans repaid with the proceeds of the offering of senior secured floating rate notes. If such debt is incurred under the \$220 million credit facility basket or in compliance with a 3:1 senior secured leverage ratio, plus an additional \$50 million, such debt would constitute first priority lien obligations and could be secured on a first priority basis.

**Senior Secured Floating Rate Notes and Senior Subordinated Notes.** On October 13, 2005, Pregis issued €100.0 million aggregate principal amount of second priority senior secured floating rate notes due 2013 (the “2005 senior secured notes”) and \$150 million aggregate principal amount of 12% senior subordinated notes due 2013 (the “senior subordinated notes”).

The 2005 senior secured notes mature on April 15, 2013. Interest accrues at a floating rate equal to EURIBOR plus 5.00% per year and is payable quarterly on January 15, April 15, July 15 and October 15 of each year. The 2005 senior secured notes are guaranteed on a senior secured basis by Pregis Holding II, Pregis's immediate parent, and each of Pregis's current and future domestic subsidiaries. At its option, Pregis may redeem some or all of the 2005 senior secured notes at 100% of their principal amount. Upon the occurrence of a change of control, Pregis will be required to make an offer to repurchase each holder's notes at a repurchase price equal to 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase.

The senior subordinated notes mature on October 15, 2013. Interest accrues at a rate of 12.375% and is payable semi-annually on April 15 and October 15 of each year. The notes are senior subordinated obligations and rank junior in right of payment to all of Pregis's senior indebtedness. The senior subordinated notes are guaranteed on a senior subordinated basis by Pregis Holding II and each of Pregis's current and future domestic subsidiaries. Pregis may redeem some or all of the notes at redemption prices equal to 103.094% of their principal amount (in the 12 months beginning October 15, 2010) and 100% of their principal amount (beginning October 15, 2011).

On October 5, 2009 Pregis issued €125.0 million aggregate principal amount of additional second priority senior secured floating rate notes due 2013 (the "unregistered 2009 senior secured notes"). On March 5, 2010, Pregis exchanged all of the outstanding unregistered 2009 senior secured notes for registered senior secured notes (the "2009 senior secured notes") pursuant to an exchange offer. The 2009 senior secured notes bear interest at a floating rate of EURIBOR plus 5.00% per year. Interest on the 2009 senior secured notes is reset quarterly and payable on January 15, April 15, July 15, and October 15 of each year. The 2009 senior secured notes mature on April 15, 2013.

The 2009 senior secured notes are treated as a single class under the indenture with the €100.0 million principal amount of 2005 second priority senior secured floating rate notes for purpose of voting and redemption. However, the 2009 senior secured notes do not have the same Common Code or ISIN numbers as the 2005 senior secured notes, are not fungible with the 2005 senior secured notes and will not trade together as a single class with the 2005 senior secured notes. The 2009 senior secured notes are treated as issued with more than de minimis original issue discount for United States federal income tax purposes, whereas the 2005 senior secured notes were not issued with original issue discount for such purposes. Together the 2005 senior secured notes and the 2009 senior secured notes are referred to herein as the senior secured notes.

The indentures governing the senior secured notes and the senior subordinated notes contain covenants that limit or prohibit Pregis's ability and the ability of its restricted subsidiaries, subject to certain exceptions, to incur additional indebtedness, pay dividends or make other equity distributions, make investments, create liens, incur obligations that restrict the ability of Pregis's restricted subsidiaries to make dividends or other payments to Pregis, sell assets, engage in transactions with affiliates, create unrestricted subsidiaries, and merge or consolidate with other companies or sell substantially all of Pregis's assets. The indentures also contain reporting covenants regarding delivery of annual and quarterly financial information. The indenture governing the senior secured notes limits Pregis's ability to incur first priority secured debt to an amount which results in its secured debt leverage ratio being equal to 3:1, plus \$50 million, and prohibits it from incurring additional second priority secured debt other than by issuing additional senior secured notes. The indenture governing the senior secured notes also limits Pregis's ability to enter into sale and leaseback transactions. The indenture governing the senior subordinated notes prohibits Pregis from incurring debt that is senior to such notes and subordinate to any other debt.

The senior secured notes and senior subordinated notes are not listed on any national securities exchange in the United States. The senior secured notes are listed on the Irish Stock Exchange. However, there can be no assurance that the senior secured notes will remain listed.

The proceeds from the sale of the notes in October 2009 were used to repay the Term B-1 and Term B-2 indebtedness under our senior secured credit facilities.

**Collateral for the Senior Secured Floating Rate Notes.** The senior secured floating rate notes are secured by a second priority lien, subject to permitted liens, on all of the following assets owned by Pregis or the guarantors, to the extent such assets secure Pregis's senior secured credit facilities on a first priority basis (subject to exceptions):

- (1) substantially all of Pregis's and each guarantor's existing and future property and assets, including, without limitation, real estate, receivables, contracts, inventory, cash and cash accounts, equipment, documents, instruments, intellectual property, chattel paper, investment property, supporting obligations and general intangibles, with minor exceptions; and
- (2) all of the capital stock or other securities of Pregis's and each guarantor's existing or future direct or indirect domestic subsidiaries and 66% of the capital stock or other securities of Pregis's and each guarantor's existing or future direct foreign subsidiaries, but only to the extent that the inclusion of such capital stock or other securities will mean that the par value, book value as carried by us, or market value (whichever is greatest) of such capital stock or other securities of any subsidiary is not equal to or greater than 20% of the aggregate principal amount of the senior secured floating rate notes outstanding.

As of December 31, 2009, the capital stock of the following subsidiaries of Pregis constituted collateral for the senior secured floating rate notes:

Name of Subsidiary	As of December 31, 2009		
	Amount of Collateral (Maximum of Book Value and Market Value, Subject to 20% Cap)	Book Value of Capital Stock	Market Value of Capital Stock
Pregis Innovative Packaging Inc.	\$64,422,000	\$38,900,000	\$138,100,000
Hexacomb Corporation	\$36,400,000	\$36,400,000	\$ 21,900,000
Pregis (Luxembourg) Holding S.à.r.l. (66%)	\$16,600,000	\$16,600,000	\$ —
Pregis Management Corporation*	\$ 100	\$ 100	\$ 100

\* Effective March 17, 2010 Pregis Management Corporation changed its name to Pregis IntelliPack Corporation.

As described above, under the collateral agreement, the capital stock pledged to the senior secured floating rate noteholders constitutes collateral only to the extent that the par value or market value or book value (whichever is greatest) of the capital stock does not exceed 20% of the aggregate principal amount of the senior secured floating rate notes. This threshold is €45,000,000, or, at the December 31, 2009 exchange rate of U.S. dollars to euro of 1.4316:1.00, approximately \$64.4 million. As of December 31, 2009, the book value and the market value of the shares of capital stock of Pregis Innovative Packaging Inc. were approximately \$38.9 million and \$138.1 million, respectively; the book value and the market value of the shares of capital stock of Hexacomb Corporation were approximately \$36.4 million and \$21.9 million respectively; and the book value and the market value of 66% of the shares of capital stock of Pregis (Luxembourg) Holding S.à r.l. were approximately \$16.6 million and \$ — million, respectively. Therefore, in accordance with the collateral agreement, the collateral pool for the senior secured floating rate notes includes only approximately \$64.4 million with respect to the shares of capital stock of Pregis Innovative Packaging Inc. Since the book value and market value of the shares of capital stock of our

other domestic subsidiaries and Pregis (Luxemburg) Holdings S.a r.l are each less than the \$64.4 million threshold, they are not affected by the 20% clause of the collateral agreement.

For the year ended December 31, 2009, certain historical equity relating to corporate expenses incurred by Pregis Management Corporation were allocated to each of the three entities, Pregis Innovative Packaging Inc., Hexacomb Corporation, and Pregis (Luxembourg) Holding S.à r.l, in order to better reflect their current book values for presentation herein on a fully-allocated basis.

The market value of the capital stock of the guarantors and subsidiaries constituting collateral for the senior secured floating rate notes has been estimated by us on an annual basis, using a market approach. At the time of the acquisition, the purchase price paid for these entities was determined based on a multiple of EBITDA, as was contractually agreed in the stock purchase agreement. Since that time, we have followed a similar methodology, using a multiple of EBITDA, based on that of recent transactions of comparable companies, to determine the enterprise value of these entities. To arrive at an estimate of the market value of the entities' capital stock, we have subtracted from the enterprise value the existing debt, net of cash on hand, and have also made adjustments for the businesses' relative portion of corporate expenses. We have determined that this methodology is a reasonable and appropriate means for determining the market value of the capital stock pledged as collateral. We intend to complete these estimates of value of the capital stock of these subsidiaries for so long as is necessary to determine our compliance with the collateral arrangement governing the notes.

The value of the collateral for the senior secured floating rate notes at any time will depend on market and other economic conditions, including the availability of suitable buyers for the collateral. As of December 31, 2009, the value of the collateral for the senior secured floating rate notes totaled approximately \$541.3 million, estimated as the sum of (1) the book value of the total assets of Pregis and each guarantor, excluding intercompany activity (which amount totaled \$423.9 million), and (2) the collateral value of the capital stock, as outlined above (which amount totaled \$117.4 million). As a result of the IntelliPack acquisition (see Note 16), the estimated value of the collateral for the senior secured floating rate notes has increased. Except for the increase in collateral value associated with the IntelliPack acquisition (see Note 16), the collateral value has not changed materially as of September 30, 2010. Any proceeds received upon the sale of collateral would be paid first to the lenders under our senior secured credit facilities, who have a first lien security interest in the collateral, before any payment could be made to holders of the senior secured floating rate notes. There is no assurance that any collateral value would remain for the holders of the senior secured floating rate notes after payment in full to the lenders under our senior secured credit facilities.

***Covenant Ratios Contained in the Senior Secured Floating Rate Notes and Senior Subordinated Notes.*** The indentures governing the senior secured floating rate notes and senior subordinated notes contain two material covenants which utilize financial ratios. Non-compliance with these covenants could result in an event of default under the indentures and, under certain circumstances, a requirement to immediately repay all amounts outstanding under the notes and could trigger a cross-default under Pregis's senior secured credit facilities or other indebtedness we may incur in the future. First, Pregis is permitted to incur indebtedness under the indentures if the ratio of Consolidated Cash Flow to Fixed Charges on a pro forma basis (referred to in the indentures as the "Fixed Charge Coverage Ratio") is greater than 2:1 or, if the ratio is less, only if the indebtedness falls into specified debt baskets, including, for example, a credit agreement debt basket, an existing debt basket, a capital lease and purchase money debt basket, an intercompany debt basket, a permitted guarantee debt basket, a hedging debt basket, a receivables transaction debt basket and a general debt basket. In addition, under the senior secured floating rate notes indenture, Pregis is permitted to incur first priority secured debt only if the ratio of Secured Indebtedness to Consolidated Cash Flow on a pro forma basis (referred to in the senior secured floating rate notes indenture as the "Secured Indebtedness Leverage Ratio") is equal to or less than 3:1, plus \$50 million. Second, the restricted payment covenant provides that Pregis may declare certain

dividends, or repurchase equity securities, in certain circumstances only if Pregis's Fixed Charge Coverage Ratio is greater than 2:1.

As used in the calculation of the Fixed Charge Coverage Ratio and the Secured Indebtedness Leverage Ratio, Consolidated Cash Flow, commonly referred to as Adjusted EBITDA, is calculated by adding Consolidated Net Income, income taxes, interest expense, depreciation and amortization and other non-cash expenses, amounts paid pursuant to the management agreement with AEA Investors LP, and the amount of any restructuring charge or reserve (including, without limitation, retention, severance, excess pension costs, contract termination costs and cost to consolidate facilities and relocate employees). In calculating the ratios, Consolidated Cash Flow is further adjusted by giving pro forma effect to acquisitions and dispositions that occurred in the prior four quarters, including certain cost savings and synergies expected to be obtained in the succeeding twelve months. In addition, the term Net Income is adjusted to exclude any gain or loss from the disposition of securities, and the term Consolidated Net Income is adjusted to exclude, among other things, the non-cash impact attributable to the application of the purchase method of accounting in accordance with GAAP, the cumulative effect of a change in accounting principles, and other extraordinary, unusual or nonrecurring gains or losses. While the determination of appropriate adjustments is subject to interpretation and requires judgment, we believe the adjustments listed below are in accordance with the covenants discussed above.

The following table sets forth the Fixed Charge Coverage Ratio, Consolidated Cash Flow ("Adjusted EBITDA"), Secured Indebtedness Leverage Ratio, Fixed Charges and Secured Indebtedness as of and for the twelve months ended September 30, 2010 and 2009:

(unaudited) (dollars in thousands)	Covenant Measure	Ratios Calculated at September 30,	
		2010	2009
Fixed Charge Coverage Ratio (after giving pro forma effect to acquisitions and/or dispositions occurring in the reporting period)	Minimum of 2.0x	1.88x	2.4x
Secured Indebtedness Leverage Ratio	Maximum of 3.0x	0.61x	2.0x
Consolidated Cash Flow ("Adjusted EBITDA")	—	\$76,616	\$ 86,443
Fixed Charges (after giving pro forma effect to acquisitions and/or dispositions occurring in the reporting period)	—	\$40,758	\$ 36,624
Secured Indebtedness	—	\$46,945	\$177,473

The Fixed Charge Coverage Ratio is primarily affected by increases or decreases in the Company's trailing twelve month Consolidated Cash Flow (Adjusted EBITDA) and increases or decreases in the Company's interest expense (interest expense net of interest income, excluding amortization of deferred financing fees and discount). Interest expense as used in this ratio is primarily affected by changes in interest rates (LIBOR and EURIBOR) and currency translation related to converting euro based interest expense into US dollars. The favorable impact resulting from lower interest rates, for the comparable twelve month periods ending September 30, 2010 and 2009, has been more than offset by the decrease in the Company's trailing twelve month Consolidated Cash Flow over the same period, resulting in narrowing of the cushion between the minimum covenant measure and the actual ratio. As of September 30, 2010, the Company's Fixed Charge Coverage Ratio was less than 2:1. As a result the Company's ability to borrow money was limited to its available debt baskets, including among others a \$220 million credit facility basket, a \$25 million general basket, and a \$15 million capital lease basket.

The Secured Indebtedness Leverage Ratio is primarily affected by increases or decreases in the Company's trailing twelve month Consolidated Cash Flow and increases or decreases in the Company's

secured indebtedness. In 2009 the secured indebtedness was comprised of the Company's term B-1 notes, term B-2 notes, and amounts outstanding under the Company's revolving credit facility. The term B-1 and term B-2 notes were retired in October 2009 as part of the Company's refinancing. This decrease in secured indebtedness is the primary driver in the year-over-year change of the Secured Indebtedness Leverage Ratio.

Adjusted EBITDA is calculated under the indentures governing our senior secured floating rate notes and senior subordinated notes for the twelve months ended September 30, 2010 and 2009 as follows:

(unaudited) (dollars in thousands)	Twelve Months Ended September 30,	
	2010	2009
Net loss of Pregis Holding II Corporation	\$ (31,031)	\$ (37,613)
Interest expense, net of interest income	49,634	39,315
Income tax (benefit) expense	(10,609)	(3,881)
Depreciation and amortization	43,705	46,992
EBITDA	51,699	44,813
Other non-cash charges (income): (1)		
Unrealized foreign currency transaction losses (gains), net	118	2,370
Non-cash stock based compensation expense	1,681	1,344
Non-cash asset impairment charge	194	20,101
Non-cash loss on sales leaseback and other	1,837	—
Net unusual or nonrecurring gains or losses: (2)		
Restructuring, severance and related expenses	5,751	13,251
Other unusual or nonrecurring gains or losses	11,418	2,524
Other adjustments: (3)		
Amounts paid pursuant to management agreement with Sponsor	2,508	2,040
Pro forma adjusted EBITDA of acquired business (4)	1,410	—
Adjusted EBITDA ("Consolidated Cash Flow")	\$ 76,616	\$ 86,443

- (1) Other non-cash charges (income) include (a) net unrealized foreign currency transaction losses and gains, arising principally from the revaluation of our euro-denominated third-party debt and intercompany notes receivable, (b) non-cash compensation expense arising from the grant of Pregis Holding I options, (c) a non-cash goodwill impairment charge of \$19.1 million recognized in 2008 and a trademark impairment charge of \$1.0 million pursuant to the Company's 2008 annual impairment tests, respectively and (d) other non-cash charges that will not result in future cash settlement, such as losses on fixed asset disposals.
- (2) As provided by our indentures, we adjusted for gains or losses deemed to be unusual or nonrecurring, including (a) restructuring, severance and related expenses due to our various cost reduction restructuring initiatives, (b) adjustments for costs and expenses related to acquisition, disposition or equity offering activities and (c) other unusual and nonrecurring charges.
- (3) Our indentures also require us to make adjustments for fees, and reasonable out-of-pocket expenses, paid under the management agreement with AEA Investors LP.
- (4) Our indentures also permit adjustments to net income on a pro forma basis which allow for the inclusion of earnings for acquired businesses as if the acquisition had occurred on the first day of the four-quarter measurement period. In the nine months ended September 30, 2010, we have adjusted for approximately \$1.4 million relating to pre-acquisition earnings relating to the acquisition of

IntelliPack. There can be no assurance that we will be able to achieve comparable earnings in the future.

**Foreign Lines of Credit.** From time to time, certain of our foreign businesses utilize various lines of credit in their operations. These lines of credit are generally used as overdraft facilities or for the issuance of trade letters of credit and are in effect until cancelled by one or both parties. As of September 30, 2010, outstanding trade letters of credit and guarantees totaled \$8.1 million. Availability under these lines of credit totaled \$7.5 million of which \$4.5 million amounts were available to be drawn in cash.

**Long-term Liquidity.** We believe that cash flow generated from operations, existing cash balances, our borrowing capacity and other sources of liquidity such as sales and leaseback transactions will be adequate to meet our obligations and business requirements for the next twelve months. There can be no assurance, however, that our business will generate sufficient cash flow from operations, that anticipated net sales growth and operating improvements will be realized or that future borrowings will be available under Pregis's senior secured credit facilities in an amount sufficient to enable us to service our indebtedness or to fund our other liquidity needs. Our ability to meet our debt service obligations and other capital requirements, including capital expenditures, and to continue to comply with the covenants contained in our debt instruments, will depend upon our future performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond our control. Some other risks that could materially adversely affect our ability to meet our debt service obligations and comply with our debt covenants include, but are not limited to, risks related to increases in the cost of resin, our ability to protect our intellectual property, rising interest rates, a decline in the overall U.S. and European economies, weakening in our end markets, the loss of key personnel, our ability to continue to invest in equipment, and a decline in relations with our key distributors and dealers. In addition, any of the other items discussed in the "Risk Factors," included in our Annual Report on Form 10-K/A for the year ended December 31, 2009 may also significantly impact our liquidity and covenant compliance.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

In accordance with ASC 350, the Company assesses the recoverability of goodwill and other indefinite lived intangibles assets annually as of October 1, or whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable.

The goodwill impairment test is performed at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (referred to as a "component"). A component is considered a reporting unit for purposes of goodwill testing if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. As such, we have tested for goodwill impairment at the component level within our Specialty Packaging reporting segment, represented by each of the businesses included within this segment. We also tested goodwill for impairment at each of the operating segments which have been aggregated to comprise our Protective Packaging reporting segment.

We use a two-step process to test goodwill for impairment. First, the reporting unit's fair value is compared to its carrying value. Fair value is estimated using primarily a combination of the income approach, based on the present value of expected future cash flows and the market approach. If a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired, and the second step of the impairment test would be performed. The second step of the goodwill impairment test is used to measure the amount of the impairment loss, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The

implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge would be recorded for the difference if the carrying value exceeds the implied fair value of the goodwill.

At interim periods, the Company assesses if potential indicators of impairment exists. Among the factors the Company considers as potential indicators of interim impairment are significant adverse changes in legal factors or business climate, an adverse action or assessment by a regulator, unanticipated competition, loss of key personnel, or a more-likely-than-not expectation that a reporting unit or a significant portion of a reporting unit will be sold or otherwise disposed of, recent operating losses at the reporting unit level, downward revisions to forecasts, restructuring actions or plans, and industry trends. The Company did not identify any interim indicators of impairment as of September 30, 2010.

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States, which require management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. While our estimates and assumptions are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. We have discussed those estimates that we believe are critical and require the use of complex judgment in their application in our 2009 Annual Report on Form 10-K/A. Since the date of our 2009 Form 10-K/A, there have been no material changes to our critical accounting policies or the methodologies or assumptions we apply under them.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our exposure to market risk has not materially changed since December 31, 2009. For a discussion of our exposure to market risk, see our 2009 Annual Report on Form 10-K/A.

### **Item 4. Controls and Procedures**

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer (its principal executive officer) and the Chief Financial Officer (its principal financial officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2010. Based upon that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that, as of September 30, 2010, the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended) were effective. In addition, there has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II — OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are party to various lawsuits, legal proceedings and administrative actions arising out of the normal course of our business. While it is not possible to predict the outcome of any of these lawsuits, proceedings and actions, management, based on its assessment of the facts and circumstances now known, does not believe that any of these lawsuits, proceedings and actions, individually or in the aggregate, will have a material adverse effect on our financial position or that it is reasonably possible that a loss exceeding amount already recognized may be material. However, actual outcomes may be different than expected and could have a material effect on our results of operations or cash flows in a particular period.

**Item 1A. Risk Factors**

There have been no material changes to the factors disclosed in Item 1A. Risk Factors in our Annual Report on Form 10-K/A for the year ended December 31, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Reserved****Item 5. Other Information**

None.

**Item 6. Exhibits**

<u>Exhibit No.</u>	<u>Description</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification of Pregis Holding II Corporation's Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Pregis Holding II Corporation's Chief Financial Officer.
32.1	Certification of Pregis Holding II Corporation's Chief Executive Officer pursuant to Section 906 of The Sarbanes Oxley Act of 2002.
32.2	Certification of Pregis Holding II Corporation's Chief Financial Officer pursuant to Section 906 of The Sarbanes Oxley Act of 2002.

**SIGNATURES**

Pursuant to the requirements 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.

PREGIS HOLDING II CORPORATION

Date: November 15, 2010

By: /s/ D. Keith LaVanway  
D. Keith LaVanway  
Chief Financial Officer (principal financial  
officer and principal accounting officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael T. McDonnell, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2010 of Pregis Holding II Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2010

/s/ Michael T. McDonnell

Name: Michael T. McDonnell

Title: President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, D. Keith LaVanway, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the period ended September 30, 2010 of Pregis Holding II Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 15, 2010

/s/ D. Keith LaVanway

Name: D. Keith LaVanway

Title: Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pregis Holding II Corporation (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2010

/s/ Michael T. McDonnell

Name: Michael T. McDonnell

Title: President and Chief Executive Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Pregis Holding II Corporation (the "Company") on Form 10-Q for the period ended September 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer of the Company certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 15, 2010

/s/ D. Keith LaVanway \_\_\_\_\_

Name: D. Keith LaVanway

Title: Chief Financial Officer

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. § 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.